

STATE OF NEW YORK
PUBLIC HEALTH AND HEALTH PLANNING COUNCIL
SPECIAL ESTABLISHMENT AND PROJECT REVIEW COMMITTEE

AGENDA

October 22, 2013

10:00 a.m.

- New York State Department of Health Offices at 90 Church Street, 4th Floor, Rooms 4A & 4B, NYC
- New York State Department of Health Offices at 584 Delaware Avenue, 2nd Floor Training Video Conference Room, Buffalo, NY 14202
- New York State Department of Health Offices, Corning Tower, 14th Floor, CR#1, Albany, NY 12237
- New York State Department of Health Offices, Triangle Building, 335 East Main Street, Rochester 4th Floor, NY 14604

I. SPECIAL COMMITTEE ON ESTABLISHMENT AND PROJECT REVIEW

Jeffrey Kraut, Chair

APPLICATIONS FOR ESTABLISHMENT AND CONSTRUCTION OF HEALTH CARE FACILITIES

Acute Care Services

	<u>Number</u>	<u>Applicant/Facility</u>
1.	132101 E	Montefiore New Rochelle Hospital, Inc. (Westchester County)
2.	132102 E	Montefiore Mount Vernon Hospital, Inc. (Westchester County)

Residential Health Care Facility

	<u>Number</u>	<u>Applicant/Facility</u>
1.	132103 E	Schaffer Extended Care Center, Inc. (Westchester County)



Public Health and Health Planning Council

Project #132101-E

Montefiore New Rochelle Hospital, Inc.

County: Westchester County
Purpose: Establishment

Program: Hospital
Submitted: August 13, 2013

Executive Summary

Description

Montefiore New Rochelle Hospital, Inc. requests approval to be established as the new operator of Sound Shore Medical Center, a 242 bed community based teaching hospital offering primary, acute, emergency (including trauma care) and long term health care to the residents of southern Westchester County. The facility is licensed for 183 medical/surgical beds, 8 coronary care beds, 12 intensive care beds, 24 maternity beds, 10 neonatal intermediate care beds, and 5 pediatric beds. In addition, Montefiore Health System, Inc. (MHS), a not-for-profit corporation which is currently the active parent of Montefiore Medical Center and Wakefield Ambulatory Care Center, both not-for-profit health care operators with facilities located in the Bronx, is seeking approval to become the active parent and co-operator of three newly formed MHS operating affiliates: Montefiore New Rochelle Hospital, Inc., Montefiore Mount Vernon Hospital, Inc., and Schaffer Extended Care Center, Inc. MHS will also be the sole corporate member of three newly formed real estate affiliates: Montefiore SS Holdings, LLC, Montefiore MV Holdings, LLC and Montefiore HA Holdings, LLC.

These new entities were formed in order to take over the operations and real estate ownership of Sound Shore Health Systems, Inc. (SSHS) through an asset purchase agreement between the six above listed entities and SSHS. SSHS includes Sound Shore Medical Center of Westchester, Mount Vernon Hospital, Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center, NRHMC Services Corporation, The M.V.H. Corporation, and New Rochelle Sound Shore Housing, LLC.

Affiliates of the applicant are also requesting approval to be established as the operators of the following health care facilities:

- Montefiore Mount Vernon Hospital, Inc. will be the new operator of Mount Vernon Hospital (132102)
- Schaffer Extended Care Center, Inc. will be the new operator of Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center (132103)

The three applications are being processed concurrently.

On May 29th, 2013, SSHS filed for Chapter 11 Bankruptcy protection in U.S. Bankruptcy Court. On the same day, SSHS and Montefiore New Rochelle Hospital, Inc. (Montefiore New Rochelle), Montefiore Mount Vernon Hospital, Inc. (Montefiore Mount Vernon), Schaffer Extended Care Center, Inc. (Schaffer Extended Care Center), Montefiore SS Holdings, LLC, Montefiore MV Holdings, LLC, and Montefiore HA Holdings, LLC entered into an asset purchase agreement to acquire the assets of SSHS, which includes Sound Shore Medical Center of Westchester, Mount Vernon Hospital, Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center, NRHMC Services Corporation, The M.V.H. Corporation and New Rochelle Sound Shore Housing, LLC.

On August 2, 2013 the court issued an order approving the sale of SSHS assets to the applicant on the terms described herein.

MHS states that this project offers the following efficiencies and opportunities:

- Improved financial condition of the current facilities
- Population health management
- Growth of additional services best suited to the communities
- Improved strategic planning
- Resource allocation
- Governance oversight
- Centralization, sharing and coordination of operational management

Ownership of the operation of Sound Shore Medical Center, before and after the requested change, is as follows:

Operation			
Before		After	
Sound Shore Medical Center of Westchester		Montefiore New Rochelle Hospital	
Name	Percent Owned	Name	Percent Owned
Sound Shore Medical Center of Westchester	100%	Montefiore New Rochelle Hospital, Inc.	100%

Ownership of the Real Estate, before and after the requested change, is as follows:

Real Estate			
Before		After	
Name	Percent Owned	Name	Percent Owned
Sound Shore Health Systems, Inc.	100%	Montefiore SS Holdings, LLC	100%

BFA Attachment A is the organizational chart for MHS under the active parent structure. As active parent and co-operator, MHS will have the power and authority to make decisions for its affiliates, as stated in its certificate of incorporation and bylaws, and will have the active parent powers described in 10 NYCRR 405.1(c) as follows:

- (1) appointment or dismissal of hospital management level employees and medical staff, except the election or removal of corporate officers by the members of a not-for-profit corporation;
- (2) approval of hospital operating and capital budgets;
- (3) adoption or approval of hospital operating policies and procedures;
- (4) approval of certificate of need applications filed by or on behalf of the hospital;
- (5) approval of hospital debt necessary to finance the cost of compliance with operational or physical plant standards required by law;
- (6) approval of hospital contracts for management or for clinical services; and

- (7) approval of settlements of administrative proceedings or litigation to which the hospital is party, except approval by the members of a not-for-profit corporation of settlements of litigation that exceed insurance coverage or any applicable self-insurance fund.

DOH Recommendation
Contingent Approval

Need Summary

This project will establish Montefiore Health System, Inc. as the active parent and co-operator of the newly established entity, Montefiore New Rochelle. The proposed project does not result in any immediate changes in existing beds or services that are currently provided at Sound Shore Medical Center. The establishment of MHS as its corporate parent will enable Montefiore New Rochelle to improve efficiency as a participant in the centralized, shared and coordinated operations of the Montefiore Health System.

Program Summary

Based on the information reviewed, staff found nothing that would reflect adversely upon the applicants' character and competence or standing in the community.

Financial Summary

There are no project costs associated with this project. The purchase price of \$32,796,167 will be met via a loan from Montefiore Medical Center to Montefiore Health Systems, Inc. and then from Montefiore Health Systems Inc. to Montefiore SS Holdings, LLC for the real estate portion of the purchase price, which is \$28,568,628 at a 5% interest rate for a 20 year term. The remaining amount will be given by Montefiore Health System to Montefiore New Rochelle Hospital, Inc. for the capital portion of the purchase price, which is \$4,227,539 at a 4% interest rate for a 5 year term.

Budget:	Revenues:	\$ 208,808,000
	Expenses:	<u>\$ 205,170,000</u>
	Gain/ (Loss)	\$3,638,000

Subject to the noted contingencies and the condition, the applicant has demonstrated the capability to proceed in a financially feasible manner based on both the Year 4 and 5 submitted budgets.

Recommendations

Health Systems Agency

There will be no HSA review for this project.

Office of Health Systems Management

Approval contingent upon:

1. Submission of approval by the Office of Mental Health. [PMU]
2. Submission of approval by the Office of Alcohol and Substance Abuse Services. [PMU]
3. Submission of executed building leases acceptable to the Department of Health. [BFA]
4. Submission of an original affidavit from the applicant, which is acceptable to the Department, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding between the applicant and the transferor to the contrary, to be liable and responsible for any Medicaid overpayments made to the facility and/or surcharges, assessments or fees due from the transferor pursuant to Article 28 of the Public Health Law with respect to the period of time prior to the applicant acquiring its interest, without releasing the transferor of its liability and responsibility. [BFA]
5. Submission of a Letter of Commitment from Montefiore Medical Center to enter into long term loan to Montefiore Health System in principal amount of up to \$106,890,469 as well as provide funds anticipated to be up to \$65,000,000 during the first three years of operation to Montefiore Health System. Included with the submitted loan commitment must be a sources and uses statement and debt amortization schedule, acceptable to the Department of Health. [BFA]
6. Submission of a Letter of Commitment from Montefiore Health System to enter into subvention agreement and / or loans in the form of available lines of credit of up to \$65,000,000. Included with the submitted permanent mortgage commitment must be a sources and uses statement and debt amortization schedule, acceptable to the Department of Health. [BFA]
7. Submission of an executed Certificate of Amendment of the Certificate of Incorporation that is acceptable to the Department. [CSL]
8. Submission of the Certificate of Incorporation and all amendments thereto of Montefiore Health Systems, Inc. that is acceptable to the Department. [CSL]
9. Submission of an Amended and Restated Bylaw for Montefiore Health System, Inc. that is acceptable to the Department. [CSL]
10. Submission of an Asset Purchase Agreement that is acceptable to the Department. [CSL]
11. Submission of site control that is acceptable to the Department. [CSL]

Approval conditional upon:

1. The project must be completed within one year from the Public Health and Health Planning Council recommendation letter. Failure to complete the project within the prescribed time shall constitute an abandonment of the application by the applicant and an expiration of the approval. [PMU]
2. Submission of annual reports, acceptable to the Department of Health, detailing progress made in achieving breakeven or profitable operations of the facility. [BFA]

Council Action Date

October 22, 2013.

Need Analysis

Background

Montefiore Health System, Inc. (MHS) seeks approval to purchase the assets of Sound Shore Health System, Inc. (SSHS), including Sound Shore Medical Center (SSMC). In addition, MHS seeks to establish Montefiore New Rochelle Hospital, Inc. as the operator of Sound Shore Medical Center, a 242-bed acute care hospital located at 16 Guion Place New Rochelle, 10802, in Westchester County. MHS will become the active parent of Montefiore New Rochelle. This site will be known as Montefiore New Rochelle and will continue to provide its current licensed Article 28 services.

Montefiore Health System operates three acute care hospitals with inpatient beds in Bronx County. Currently, the three hospitals have 1,491 total inpatient beds. Over the last three years, the hospitals in the system averaged 88,697 total inpatient discharges and 286,903 emergency department visits.

Sound Shore Medical Center of Westchester has the following certified beds and services:

Table 1: Certified Beds: Sound Shore Medical Center. Source: HFIS, August 2013.	
Bed Category	Certified Capacity
Coronary Care	8
Intensive Care	12
Maternity	24
Medical / Surgical	183
Neonatal Intermediate Care	10
Pediatric	5
Total	242

Table 2: Certified Services: Sound Shore Medical Center. Source: HFIS, August 2013.	
Ambulatory Surgery - Multi Specialty	Audiology O/P
Cardiac Catheterization - Adult Diagnostic	Certified Mental Health Services O/P
Chemical Dependence - Rehabilitation O/P	Clinic Part Time Services
Clinical Laboratory Service	Coronary Care
Dental O/P	Emergency Department
Family Planning O/P	Health Fairs O/P
Intensive Care	Maternity
Medical Social Services	Medical/Surgical
Neonatal Intermediate Care	Nuclear Medicine - Diagnostic
Nuclear Medicine - Therapeutic	Pediatric
Pharmaceutical Service	Physical Medicine and Rehabilitation O/P
Primary Medical Care O/P	Radiology - Diagnostic
Renal Dialysis - Acute	Therapy - Occupational O/P
Therapy - Physical O/P	Therapy - Speech Language Pathology

SSMC is authorized to operate one (1) extension clinic providing radiology - diagnostic O/P services. SSMC has the following New York State designations:

- Area Trauma Center;
- Level 3 Perinatal Center; and
- Stroke Center.

Sound Shore Medical Center is 242-bed acute care hospital located in the lower section of Eastern Westchester County. Approximately 92.0 percent of the hospital's discharges are allocated to the major service categories medical/surgical, obstetrics and newborns. In 2010, the hospital recorded 9,755 total inpatient discharges, including newborns. By 2011, these discharges increased by 2.0 percent, to 9,911 and were 9,545 in 2012. In 2010, SSMC's patients excluding newborns generated an average daily

census of 114 patients. By 2011, the average daily census increased by 17.0 percent to 134 patients on any given day and was 102 in 2012. During the period, the related overall occupancy rates were 47.3 percent, 55.5 percent and 42.2 percent, respectively.

Based on the SSMC's SPARCS inpatient discharges for the years 2010 through 2012, the majority of the hospital's patients resided in Westchester and Bronx Counties. During the period, patients from the aforementioned counties accounted for an average of 84.2 percent and 10.0 percent of the hospital's total inpatient discharges, respectively.

SPARCS Emergency Department (ED) data for 2008 through 2012 show that Sound Shore Medical Center recorded an average of 34,233 ED visits a year. Of these, approximately 15 percent were admitted into the hospital. The remaining 85 percent were treated and released.

Year	Total	% Resulting in an Inpatient admission
2008	32,904	17.6
2009	35,210	15.4
2010	36,217	16.1
2011	33,371	13.1
2012	33,462	14.6

In 2007, SSMC recorded 8,255 ambulatory surgery procedures. By 2008, these procedures declined by 5.5 percent to 7,813. In 2009, the number of ambulatory surgery procedures performed at the hospital increased to 8,427. There were 8,251 procedures in 2010 and 2011.

Year	Ambulatory Surgery Procedures
2007	8,255
2008	7,813
2009	8,427
2010	8,251
2011	8,251

Discussion

SSMC is an existing inpatient facility. This project will allow the hospital to continue to operate. MHS indicates that the new operator will develop a new Community Service Plan for the new entity Montefiore New Rochelle; thereby allowing the population that was currently served by SSMC to be continue to be served by the new entity.

Montefiore Health System anticipates that this arrangement will enable MHS to employ its programmatic, management and financial strength and its innovative models of care to:

- strengthen the health care services in the community;
- enhance the program scope and quality of care provided by the former SSMC; and
- improve the financial viability of the former SSMC services in an integrated health care delivery system.

Conclusion

MHS has an established history of providing programs and services to address the health care needs of the residents in its service area. By acquiring the assets of Sound Shore Medical Center, MHS will ensure that the residents of SSMC's service area will continue to receive the health care services that they need.

Recommendation

From a need perspective, approval is recommended.

Programmatic Analysis

Program Description

Establish Montefiore New Rochelle Hospital, Inc. as the operator of Sound Shore Medical Center and establish Montefiore Health System as the active parent of Montefiore New Rochelle Hospital, Inc.

Character and Competence

The members of the Board of Trustees Montefiore Health System, Inc. are:

Steven M. Safyer, MD

Oded Aboodi

Joseph W. Bartlett

Robert A. Bernhard

Lewis Henkind

Edwin H. Stern, III

David A. Tanner

The members of the Board of Montefiore Montefiore New Rochelle Hospital, Inc. are:

Steven Safyer, MD – President

Philip O. Ozuah, MD, PhD – Treasurer

Christopher Panczner, JD - Secretary

Two of the board members of Montefiore New Rochelle Hospital, Inc. are physicians. Dr. Safyer is the President and Dr. Ozuah is the Executive Vice President and Chief Operating Officer of Montefiore Medical Center (MMC). Mr. Panczner is an attorney with over 15 years of experience, the last five years of which he has served at MMC as the Senior Vice President and General Counsel.

Staff from the Division of Certification & Surveillance reviewed the disclosure information submitted regarding licenses held, formal education, training in pertinent health and/or related areas, employment history, a record of legal actions, and a disclosure of the applicant's ownership interest in other health care facilities. Licensed individuals were checked against the Office of Medicaid Management, the Office of Professional Medical Conduct, and the Education Department databases as well as the US Department of Health and Human Services Office of the Inspector General Medicare exclusion database.

Additionally, the staff from the Division of Certification & Surveillance reviewed the ten-year surveillance history of all associated facilities. Sources of information included the files, records, and reports found in the Department of Health. Included in the review were the results of any incident and/or complaint investigations, independent professional reviews, and/or comprehensive/focused inspections. The review found that any citations were properly corrected with appropriate remedial action.

Montefiore Medical Center was assessed a fine of \$14,000 for violations identified during a January 2007 complaint investigation survey relating to the discharge of a pediatric patient to an unsafe home environment. The hospital implemented corrective actions that were monitored by Department staff to ensure compliance.

Recommendation

From a programmatic perspective, approval is recommended.

Financial Analysis

Financing

The applicant's financing plan appears as follows:

Real Estate Loan @ 20 yrs. for 5% interest	\$28,568,628
Equipment Loan @ 5 years for 4 % interest rate	<u>\$ 4,227,539</u>
Total Purchase Price	<u>\$32,796,167</u>

Asset Purchase Agreement

The transfer of assets, liabilities, beds and services will be effectuated in accordance with an executed asset purchase agreement dated May 29th, 2013, the terms of which are summarized below:

Seller:	Sound Shore Health Systems, Inc. (SSHS) which includes Sound Shore Medical Center of Westchester (SSMC), Mount Vernon Hospital (MVH), Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center (SECC), NRHMC Services Corporation, The M.V.H. Corporation and New Rochelle Sound Shore Housing, LLC.
Buyer:	Montefiore New Rochelle Hospital, Inc., Montefiore Mount Vernon Hospital, Inc., and Schaffer Extended Care Center, Inc., each New York not for profit corporations and Montefiore SS Holdings, LLC, Montefiore MV Holdings, LLC, and Montefiore HA Holdings, LLC, each a New York limited liability company.
Assets Transferred:	All rights, title and interests in All owned Real Property of the Seller including without limitation the owned real property listed on Schedule 4.8(a-1), the interests of the Sellers, whether as landlord or tenant, under the Real Property leases for the leased real property listed on Schedule 4.8(a-2), sellers' furniture and equipment and inventory other than the furniture, equipment and inventory identified by the buyer on schedule 2.1 (C), no later than 60 days following the effective date, All assigned contracts listed on schedule 2.1 (d), including all of sellers' rights of set-off under such assigned contracts, which schedule shall be delivered by buyer to sellers no later than 35 days following the effective date, provided that buyer shall be permitted to remove any contract from schedule 2.1 (d) by written notice to the sellers any time before the 30 th day prior to closing date and to add any contract not previously included on schedule 2.1(d) but as to which the buyer notifies the sellers, any time on or before the 30 th day prior to closing date, , All intellectual property of sellers including without limitation the intellectual property listed on schedule 4.9 related to the acquired assets or used in the business, subject to section 2.6, all books, records and data of the sellers of every kind, whether in hard copy, electronic or digital format and however maintained or stored, excepting only the corporate minute books of the sellers; provided, however, with respect to sellers' medical records, only those medical records for (1) in-patients of SSMC, MVH and/or SECC as of the closing date and (2) outpatients undergoing an active course of treatment during the 3 month period prior to the closing date shall constitute acquired assets; any prepaid deposits; subject to sellers' right to remediate any such damage with insurance proceeds, all proceeds or proceeds receivable of sellers' insurance and unliquidated or unsatisfied claims that relate to property damage with respect to owned real property or leased real property of the sellers occurring prior to closing and all other insurance proceeds and insurance proceeds receivable (including applicable deductibles, co-payments or self-insured requirements) arising from any claim made under the sellers insurance policies with respect to the acquired assets but excluding insurance proceeds and insurance proceeds receivable in respect of tort liabilities such as medical malpractice claims and other excluded liabilities; all rights of sellers under or pursuant to all warranties, representations and guarantees made by suppliers, manufactures and

	contractors to the extent relating to services provided to the sellers after the closing or to the extent affecting any acquired assets, other than any warranties, representations and guarantees pertaining to any excluded assets; the going concern value and goodwill of the business of each of the sellers; and donor restricted assets and endowment funds held by, or for the benefit of the sellers, the income and/or corpus of which has been designated for use in support of, for the benefit of, or otherwise relating to, any of the sellers' missions, operations, programs, services, assets and/or facilities (collectively, the "restricted assets") to the extent transferable and subject to any approvals required by applicable law.
Excluded Assets:	Notwithstanding anything in section 2.1 to the contrary, the seller shall only be obligated to sell, and the buyer shall only be obligated to purchase, the acquired assets, and the sellers shall not have any obligation to sell to buyer, not shall buyer have any purchase rights with respect to, any assets of the sellers not described in section 2.1 (all such assets not described in section 2.1, collectively, the "excluded assets") including but not limited to the furniture and equipment and/or inventory listed on schedule 2.1 (C) .
Liabilities Assumed:	Cure amounts as required by section 2.5 hereto up to a maximum of \$3,000,000. All liabilities accruing from and after the closing with respect to the assigned contracts, the debt of the sellers listed on schedule 2.3(ii) and subject to the satisfaction of the conditions in section 10.1, liabilities incurred on or after the closing date by buyer, certain liabilities accruing to eligible former employees of sellers as set forth in section 2.3 (b).
Excluded Liabilities:	Except for assumed liabilities, purchaser shall not assume or become liable for the payment or performance of any liability of seller of any nature.
Accounts Receivable	Buyer agrees that it will pay over or cause to be paid over to the sellers, insofar as practicable with 5 business days of receipt and until so paid and shall hold in trust for sellers all sums received by it or any of its affiliates in respect of or on account of its pre-closing accounts receivable.
Total Purchase Price of SSHS:	\$ 58,750,000 for Real Property Plus \$6,140,469 for movable equipment for a total of \$64,890,469
Purchase Price of Sound Shore Medical Center	\$28,568,628 Real Property purchased by Montefiore SS Holdings, LLC and \$4,227,539 Movable equipment purchased by Montefiore New Rochelle Hospital, Inc. for a total of \$32,796,167
Payment of Purchase Price:	\$32,796,167 paid at closing

Montefiore New Rochelle Hospital, Inc. will assume the Sound Shore Medical Center of Westchester portion of the existing debt of SSHS. As a contingency of approval, the applicant must submit an affidavit, which is acceptable to the Department of Health, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding between the applicant and the transferor, to the contrary, to be liable and responsible for any Medicaid overpayments made to the facility and/or surcharges, assessments or due from the transferor pursuant to Article 28 of the Public Health Law with respect to the period of time prior to the applicant acquiring its interest, without releasing the transferor of its liability and responsibility.

Lease Agreement

Montefiore New Rochelle Hospital, Inc. will occupy the following premises under the terms of lease agreements, summarized as follows:

Lessor: Montefiore SS Holdings, LLC
 Lessee: Montefiore New Rochelle Hospital, Inc.
 Premises: 11 total premises: (1) 16 Guion Place, New Rochelle, NY (Sound Shore Medical Center), (2) Glover Johnson Place, New Rochelle, NY, (3) 23 Washington Avenue, New Rochelle, NY, (4) Glover Johnson & Warren St, New Rochelle, NY, (5) Glover Johnson, New Rochelle, NY, (6) 87 Lockwood Avenue, New Rochelle, NY, (7) Guion Place, New Rochelle, NY, (8) Washington Avenue, New Rochelle, NY, (9) 111 Warren Street, New Rochelle, NY, (10) 84 Washington Avenue & Warren Street, New Rochelle, NY and (11) 9-29 Glover Johnson Place, New Rochelle, NY
 Term: 40 Year

Annual Rental:	Years (1-10)	Years (11-20)	Years (21-30)	Years (31-40)
	\$2,320,156	\$2,662,091	\$3,245,074	\$3,955,727
	\$2,319,318	\$2,715,333	\$3,309,976	\$4,034,842
	\$2,318,438	\$2,769,640	\$3,376,175	\$4,115,539
	\$2,317,511	\$2,825,032	\$3,443,699	\$4,197,850
	\$2,363,861	\$2,881,533	\$3,512,573	\$4,281,807
	\$2,411,138	\$2,939,164	\$3,582,824	\$4,367,443
	\$2,459,361	\$2,997,947	\$3,654,481	\$4,454,792
	\$2,508,548	\$3,057,906	\$3,727,570	\$4,543,887
	\$2,558,719	\$3,119,064	\$3,802,122	\$4,634,765
	\$2,609,893	\$3,181,445	\$3,878,164	\$4,727,461

Other: Tenant pays insurance, taxes, repairs & maintenance and utilities
 Type: Net, between related parties

Operating Budget

The applicant has submitted an operating budget for the acquired operation, for the first and third years of operation summarized below:

<u>Inpatient</u>	<u>Current Year</u>	<u>Year One Incremental</u>	<u>Year One Total</u>	<u>Year Three Incremental</u>	<u>Year Three Total</u>
Revenues:	\$94,022,090	\$5,353,678	\$99,375,768	\$15,917,967	\$109,940,057
Expenses:					
Operating:	99,503,000	\$1,287,000	\$100,790,000	\$6,066,000	\$105,569,000
Capital:	5,116,000	\$80,000	\$ 5,196,000	883,000	\$5,999,000
Total Expenses:	\$104,619,000	\$1,367,000	\$105,986,000	\$6,949,000	\$111,568,000
Excess Revenues/(Loss):	(\$10,596,910)	\$3,986,678	(\$6,610,232)	\$8,968,967	(\$1,627,943)
Utilization: (Discharges)	8,816	0	8,816	705	9,521
Cost Per Discharge	\$11,866.95	\$155.06	\$12,022.01	\$9,856.74	\$11,718.10

Utilization by payor source for inpatient services is as follows:

	<u>Historical</u>	<u>Years One and Three</u>
Commercial Fee-for-Service	4.51%	4.52%
Commercial Managed Care	15.40%	15.41%
Medicare Fee-for-Service	35.93%	35.93%
Medicare Managed Care	9.07%	9.07%
Medicaid Fee-for-Service	8.78%	8.78%
Medicaid Managed Care	21.98%	21.98%
Private Pay/Other	1.91%	1.91%
Charity Care	2.40%	2.40%

Outpatient/ Non-Physician Op

<u>Revenue</u>	<u>Current Year</u>	<u>Year One Incremental</u>	<u>Year One Total</u>	<u>Year Three Incremental</u>	<u>Year Three Total</u>
Revenues:	\$32,149,917	\$2,608,803	\$34,758,720	\$6,275,275	\$38,425,192
Expenses:					
Operating:	54,536,000	\$705,000	\$55,241,000	3,325,000	57,861,000
Capital:	<u>2,804,000</u>	<u>\$44,000</u>	<u>\$2,848,000</u>	<u>483,000</u>	<u>3,287,000</u>
Total Expenses:	57,340,000	\$749,000	\$58,089,000	\$3,808,000	\$61,148,000
Excess Revenues/(Loss):	(25,190,083)	\$1,859,803	(\$23,330,280)	2,467,275	(\$22,722,808)
Utilization: (Visits)	107,390	0	107,390	8,590	115,980
Cost Per Visit:	\$533.94	\$6.97	\$540.92	\$443.31	\$527.23

- Note: Outpatient visits and Revenue only include Hospital Outpatient visits/revenue and not Physician visits/Revenue. Physician Outpatient revenue is however, included in the Total Revenue as shown below. The amount of this revenue in the current year is \$7,418,083, the incremental for year 1 is \$209,517 for a total year 1 of \$7,627,600, the incremental for year 3 is \$209,757 for a total year 3 of \$7,627,840

Utilization by payor source for outpatient services is as follows:

	<u>Historical</u>	<u>Years One and Three</u>
Commercial Fee-for-Service	1.43%	1.43%
Commercial Managed Care	18.05%	18.05%
Medicare Fee-for-Service	25.62%	25.62%
Medicare Managed Care	2.38%	2.38%
Medicaid Fee-for-Service	4.85%	4.85%
Medicaid Managed Care	32.95%	32.95%
Private Pay/Other	2.50%	2.50%
Charity Care	12.22%	12.22%

Expense and utilization assumptions are based on the experience of the present and proposed operators. Revenues reflect the current operator's rates.

	<u>Current Year</u>	<u>Year One Incremental</u>	<u>Year One Total</u>	<u>Year Three Incremental</u>	<u>Year Three Total</u>
Total Net Inpatient Revenues	\$94,022,090	\$5,353,678	\$99,375,768	\$15,917,967	\$109,940,057
Total Net Outpatient Revenues (Including Physician Op Revenue)	39,568,000	2,818,320	42,386,320	6,485,032	46,053,032
Total Other Operating Revenues (Grants/Other)	<u>5,281,000</u>		<u>5,281,000</u>		<u>5,281,000</u>
Total Non-Operating Revenues					
Total Revenues	\$138,871,090	\$8,171,998	\$147,043,088	\$22,402,999	\$161,274,089
Operating Expenses	\$154,039,000	\$1,992,000	\$156,031,000	\$9,390,000	\$163,429,000
Capital	<u>7,920,000</u>	<u>124,000</u>	<u>8,044,000</u>	<u>1,367,000</u>	<u>9,287,000</u>
Total Expenses	\$161,959,000	\$2,116,000	\$164,075,000	\$10,757,000	\$172,716,000
Total Net Income/(Loss)	(\$23,087,910)	\$6,055,998	(\$17,031,912)	\$11,646,999	(\$11,440,911)

Other operating revenue includes Grants. The largest grant is WIC, but there are other grants like HIV prevention and case management. Other non-operating category includes such items as rental income and parking income and School of Nursing tuition income.

The Year 4 and 5 budgets have been provided in a general format. Montefiore has presented Department with managerial cost efficiencies, presented in detail below.

	<u>Year 4</u>	<u>Year 5</u>
Total Revenues	\$201,925,000	208,808,00
Operating Expenses	199,789,000	205,291,000
Contributions	<u>121,000</u>	<u>121,000</u>
Total Expenses	<u>199,668,000</u>	\$205,170,000
Total Net Income/(Loss)	2,257,000	\$3,638,000

Capability and Feasibility

The issue of capability centers on the applicant's ability to meet the purchase price and working capital requirements for this application. The proposed operator will provide the amount of the purchase price of \$32,796,167 from two loans. The loans are originally from Montefiore Medical Center to Montefiore Health Systems, Inc. and then to both Montefiore New Rochelle Hospital, Inc. and Montefiore SS Holdings, LLC, for the above listed amounts and terms. Working capital requirements are estimated at \$27,345,833 which appears reasonable based on two months of first year expenses. BFA Attachment E is the Financial Summary of the proposed lender, Montefiore Medical Center, which indicates the availability of sufficient resources to meet requirements.

BFA Attachments B and C are the pro forma balance sheets for Montefiore New Rochelle Hospital, Inc. (the operator) and Montefiore SS Holdings, LLC (real property owner and landlord) which shows the entities will begin with Year 1 negative equity in the amounts of \$16,296,000 and \$1,693,000; Year 2 negative equity in the amounts of \$33,747,000 and \$3,342,000; and Year 3 negative equity in the amounts of \$44,453,000 & \$4,946,000, respectively. The new operators will be experiencing these issues due to previous operations, which included such items as underfunded malpractice insurance and

pension benefits, as well as investment into neglected repair and maintenance at the facility. MHS has provided a detailed explanation of the main issues they face in taking over the operations and real estate and the reasons for such high negative equity, as well as losses for the first three years of operations. MHS has provided the Department with ideas on what will be done to address these issues and turn operations around and has committed to funding interim operating deficits.

BFA Attachment D is the 2010-2011 certified financial statement for Sound Shore Medical Center of Westchester and Affiliates. The statement shows that the facility was operating with a negative average working capital and a negative average net asset position and generated an average net loss of \$4,211,500 for the period 2010-2011. The explanation for the loss is detailed below.

BFA Attachment E is the 2010-2012 certified financial statement for Montefiore Medical Center. The statement shows that the facility was operating with a positive average working capital and a positive average net asset position and generated an average net income of \$101,338,666 for the period 2010-2012.

BFA Attachment F is the June 30, 2013 internal financial statement for Montefiore Medical Center. The statement shows that the facility was operating with a positive average working capital and a positive average net asset position and generated a net income of \$72,329,000 for the first six months of 2013.

The issue of feasibility is centered on the applicant's ability to meet expenses with revenues and maintain a viable operating entity. The submitted inpatient specific budget indicates an excess of expenses over revenues of \$6,610,232 and \$1,627,943 during the first and third years of operation, respectively. The submitted outpatient specific budget indicates an excess of expenses over revenues of \$23,330,280 and \$22,722,808 during the first and third years of operation, respectively. The submitted budget indicates an excess of expenses over revenues of \$17,031,912 and \$11,440,911 during the first and third years of operation. Losses during this period will be supported by the active parent. By Years 4 and 5, the facility is expecting to be at a positive net income of \$2,257,000 and \$3,638,000, respectively, based on the implementation of the overall turn around plan. The budget appears reasonable.

The financial results presented in the CON application are based on existing operations which are running at significant losses. Sound Shore and Mount Vernon both have a high mix of government pay. Mount Vernon, in particular, serves one of the lowest income areas within Westchester and cares for a significant number of uninsured patients. The current scale of volume at Sound Shore and Mount Vernon is not sufficient to operate the facilities efficiently. Presently the hospitals operate at 105 and 60 average daily census, respectively. Operating at around 40% of capacity is far below utilization levels needed to efficiently operate/maintain two sizable acute care campuses.

CON projections have operating losses partially mitigated by MHS actions, including revenue enhancements, cost savings, and performance improvements. However, these changes are insufficient to reverse the significant operating losses in the coming years. The initial financial analysis for the consolidation of the SSHS entities into the Montefiore Health System shows the SSHS current \$40 million loss may be reduced to a \$33 million loss in Year 1, with the implementation of MHS initiatives, and may possibly be reduced to a \$25 million loss in Year 3, assuming some volume is regained.

It is important to note that the content of these CON applications is limited to the services that are operating at the Sound Shore, Mount Vernon, and Schaffer sites on the day the assets are acquired. At this point it would be inappropriate to project the results of any service reconfiguration or turnaround plan as they would be the topic of future discussions with the Department, the SSHS community and community physicians, and would be the subject of future CON applications.

Ultimately, this CON application is merely a first step towards a turnaround plan that MHS is committed to developing to ensure ongoing feasibility of these facilities. Initiatives which build on the Montefiore Health System's model for delivering high quality care on a regional integrated basis will be the basis for a transformation over time. The Montefiore approach to regional population health is consistent with the Department's reform agenda and the Triple Aim and is expected to focus on high impact initiatives that may include:

- Optimization of the use of the facilities and enhancement of services on the two campuses to grow patient services and make more efficient and effective use of the space.
- Implementation of population health care management and care coordination activities as part of a Regional, Accountable Highly Integrated Delivery System.
- Investment of capital to support enhanced programs, including IT.
- Improved utilization of acute care capacity.
- Engagement of community physicians in furthering relationships with the SSHS programs and facilities.
- Expansion of patient centered medical home primary care and other ambulatory services to address needs and existing deficits in the SSHS communities.
- Investment in Care Management systems and infrastructure.
- Transition to performance-based (non-fee for service) arrangements with selected health plans.
- Implementation of new and enhanced clinical programs, across the care continuum.
- Strong partnerships with community-based physicians.

The successful transformation of the SSHS will require a period of time and significant engagement by the State, the community, and private practicing physicians.

Some of the turnaround initiatives that have been proposed by Montefiore include Revenue Cycle Improvements. Montefiore has reviewed the current Sound Shore Health system revenue cycle operations and determined significant opportunities exist once they are converted to the Montefiore billing system. These include:

- Implementation of eligibility and insurance verification processes to reduce insurance denials and conduct outreach to assist self-pay patients with insurance enrollment. This could allow the facilities to increase revenues as well as patient's access to care. This process is expected to generate an additional \$5 million annually within the first two years of implementation.
- Improve charge capture, documentation and coding in order to reduce coding and billing issues. This is intended to generate \$2 million annually within the first 2 years of implementation.
- For a total of \$7 million annually in revenue cycle improvements.

Some of the turnaround initiatives that have been proposed by Montefiore include Population Health and Care Management Improvements. These include:

- Montefiore New Rochelle and Montefiore Mount Vernon seeking to enter into capitation and shared savings arrangements with private and government health plans through its existing IPA structure. The current savings projections Montefiore is using are based on their recent experience with newly managed lives. Both Mount Vernon and New Rochelle have low ratios of Primary Care Physicians (PCPs) to the population. Currently Mount Vernon has 1 PCP per 2,100 residents and New Rochelle has 1 PCP per 1,475 residents, which is low in comparison to the Westchester county wide average of 1 PCP per 1,250 residents. In order to rectify this Montefiore is seeking to partner with the existing primary care base, including private practicing physicians, large physician groups and FQHCs. If needed, Montefiore will invest in building the PCP base by adding additional primary care practices.
- Strengthening quality incentives by extending Montefiore quality initiatives, including credentialing, quality and safety assurance and performance improvement plans and processes, which include care guidance program and the ED navigator program. These programs usually result in lower lengths of stay, fewer readmissions and increased patient satisfaction.
- The expected annual benefit of these programs in 5 years is \$10 million dollars or 4% of revenue.

Some of the turnaround initiatives that have been proposed by Montefiore include Operating Efficiencies Improvements. These include:

- Montefiore purchase management can reduce the supply contract by between 5 to 10 % by using Montefiore's standard products and purchasing contracts for medical and surgical supplies. This is expected to be approximately \$2.2 million.
- Administrative savings can be generated in the amount of \$2 million due to the immediate restructuring of senior leadership and other corporate services such as HR, legal, corporate compliance and planning.

- Montefiore will also terminate the current biomedical engineering contract and will replace it with staff under MHS management. They will integrate other support services such as food services and laundry. This is expected to be approximately \$750,000 dollars.
- The facilities will be consolidated into smaller physical plants and the unused space that is developed due to this will be repurposed in order to bring efficiencies and opportunities for additional revenues. For example, an assisted living facility may be developed on the Mount Vernon campus, which could provide a valuable community service as well as additional revenue to the hospital. This is expected to be \$1.6 million.
- In the long term, additional operating efficiencies are expected as Montefiore management practices are adopted. This is expected to be \$8.5 million.
- By Year 5 it is expected that \$15 million of annual operating efficiencies will be realized.

The final turnaround initiatives that have been proposed by Montefiore include Program Initiatives Improvements:

- Rebuilding the relationships with community physicians and increasing access to ambulatory care.
- Addressing the specialty care needs of the community by improving access to locally-provided specialty care provided by Montefiore Health System entities.
- Expansion of mental health programs.
- Currently Mount Vernon and New Rochelle provide less than half of the inpatient admissions from their respective markets. This is due to a lack of confidence of the local providers and the local community. Montefiore is attempting to restore the confidence of the community and rebuild clinical programs. In order to do this Montefiore will be focusing on specific areas of the hospitals. Which include:
 - Emergency room: Improve efficiency, clinical care, and physical plant of EDs at both Mount Vernon and New Rochelle
 - Women's Health: Strengthen relationships with OBs and leverage Montefiore's existing OB/GYN location in Larchmont in order to increase deliveries
 - Geriatric medicine: Develop relationships with local nursing homes
 - Cardiac Programs: Strengthen programs and evaluate reopening Cath Lab
 - Cancer programs: Develop diagnostic and therapeutic capabilities.
 - Surgical programs (e.g. bariatric, orthopedic, thoracic, vascular, urological) improve access and reduce outmigration.
- By Year 5 the investments in the clinical program initiatives will contribute \$15 million annually to the facilities.

The overall impact of the turnaround initiatives appears to be an increase by Year 5 of 2,500 admissions, including newborns. It is expected that the overall revenue growth that will be generated by these initiatives is approximately \$50 million.

Subject to the noted contingencies and condition, with the continued support of the active parent, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner; and approval is recommended.

Recommendation

From a financial perspective, contingent and conditional approval is recommended.

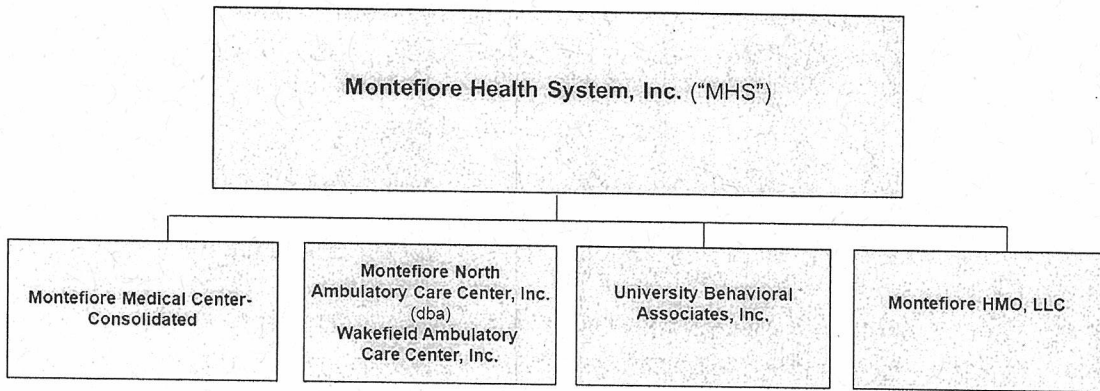
Attachments

BFA Attachment A	Organization Chart, Current and Proposed for Montefiore Health System
BFA Attachment B	Pro Forma Balance Sheet (Operator) Montefiore New Rochelle Hospital, Inc.
BFA Attachment C	Pro Forma Balance Sheet (Real Estate) Montefiore SS Holdings, LLC
BFA Attachment D	2010-2011 Certified Financial Statements for Sound Shore Medical Center of Westchester and Affiliates
BFA Attachment E	2010-2012 Certified Financial Statements for Montefiore Medical Center
BFA Attachment F	Internal Financial Statements for Montefiore Medical Center through June 30, 2013

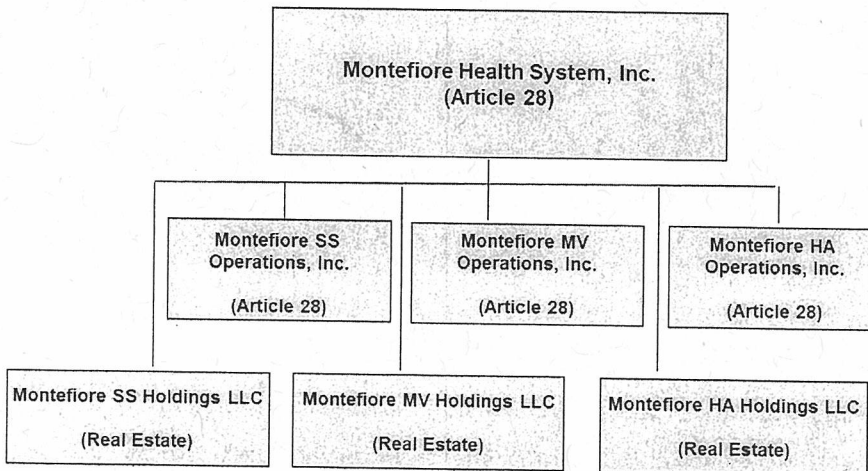
Schedule 1 – Project Narrative/Executive Summary

Establishing MHS as the active parent of Montefiore New Rochelle, Montefiore Mount Vernon, and Montefiore Howe Avenue will be accomplished through the amendment of the Articles of Incorporation and Bylaws of MHS, Montefiore SS Operations, Inc., Montefiore MV Operations, Inc., and Montefiore HA Operations, Inc. and result in the organizational structure below:

Current Corporate Structure



Post-Closing Structure
New Entities (additive to the chart above)



Proforma Balance Sheet
in \$000

Montefiore SS Operations, Inc. (Consolidated)

	2014 Projected	2015 Projected	2016 Projected
Sound Shore			
Assets			
Current assets:			
Cash and cash equivalents	(41,049)	(56,386)	(66,683)
Marketable and other securities, at market	-	-	-
Assets limited as to use - Marketable Securities	8,400	8,400	8,400
Receivables for patient care less allow. Doubtful	19,420	19,420	21,369
Other receivables	-	-	-
Estimated Insurance Claim Receivable, current portion	-	-	-
Other current assets	-	-	-
Total current assets	(13,229)	(28,566)	(36,913)
Non-Current Assets:			
Assets limited as to use:			
Marketable and other securities:			
Sinking-funds	-	-	-
Employee deferred compensation plan	-	-	-
Marketable and other securities externally designated, at market	-	-	-
Malpractice Insurance Programs	-	-	-
Total Non Current Assets Limited as to Use:	-	-	-
Marketable securities held as collateral, at market	-	-	-
Property, building and equipment	52,506	55,187	57,869
Less: accumulated depreciation	(6,093)	(13,241)	(20,581)
Estimated Insurance Claim Receivable, net of current portion	-	-	-
Deferred financing costs and other noncurrent assets	-	-	-
Total Assets:	33,184	13,381	375
Liabilities and net assets			
Current liabilities:			
Trade accounts payable	1,680	1,680	1,716
Other payables and accrued expenses	5,000	5,000	5,000
Accrued salaries, wages and related items	2,031	2,031	2,153
Estimated Insurance Claims Liability, current portion	-	-	-
Current portion of long-term debt	2,352	2,458	2,569
Total current liabilities:	11,063	11,169	11,438
Non-Current liabilities:			
Long Term Debt, less current portion	38,416	35,958	33,390
Non-current defined benefit and postretirement health plan and insurance liabilities	-	-	-
Estimated Insurance Claims Liability, net of current portion	-	-	-
Employee deferred compensation	-	-	-
Other non-current liabilities	-	-	-
Total Liabilities (Current+Non):	49,479	47,128	44,827
Net assets:			
Unrestricted	(16,296)	(33,747)	(44,453)
Temporarily restricted	-	-	-
Permanently restricted	-	-	-
Total Net Assets:	(16,296)	(33,747)	(44,453)
Total Liabilities and Net Assets:	33,184	13,380	374

Proforma Balance Sheet
in \$000

Montefiore SS Holdings, Inc.

Sound Shore

Assets

Current assets:

Cash and cash equivalents
Marketable and other securities, at market
Assets limited as to use - Marketable Securities
Receivables for patient care less allow. Doubtful accts
Other receivables
Estimated Insurance Claim Receivable, current portion
Other current assets

Total current assets

Non-Current Assets:

Assets limited as to use:

Marketable and other securities:

Sinking-funds
Employee deferred compensation plan
Marketable and other securities externally
designated, at market
Malpractice Insurance Programs

Total Non Current Assets Limited as to Use:

Marketable securities held as collateral, at market
Property, building and equipment
Less: accumulated depreciation
Estimated Insurance Claim Receivable, net
of current portion
Deferred financing costs and other
noncurrent assets

Total Assets:

	2014 Projected	2015 Projected	2016 Projected
Total current assets			
Total Non Current Assets Limited as to Use:			
Marketable securities held as collateral, at market			
Property, building and equipment	28,569	28,569	28,569
Less: accumulated depreciation	(2,557)	(5,113)	(7,670)
Estimated Insurance Claim Receivable, net of current portion			
Deferred financing costs and other noncurrent assets			
Total Assets:	26,012	23,455	20,899

Liabilities and net assets

Current liabilities:

Trade accounts payable
Other payables and accrued expenses
Accrued salaries, wages and related items
Estimated Insurance Claims Liability, current
portion
Current portion of long-term debt

Total current liabilities:

Non-Current liabilities:

Long Term Debt, less current portion
Non-current defined benefit and
postretirement health plan and insurance
liabilities
Estimated Insurance Claims Liability, net of
current portion
Employee deferred compensation
Other non-current liabilities

Total Liabilities(Current+Non):

Net assets:

Unrestricted
Temporarily restricted
Permanently restricted

Total Net Assets:

Total Liabilities and Net Assets:

	2014 Projected	2015 Projected	2016 Projected
Trade accounts payable			
Other payables and accrued expenses			
Accrued salaries, wages and related items			
Estimated Insurance Claims Liability, current portion			
Current portion of long-term debt	907	953	1,000
Total current liabilities:	907	953	1,000
Non-Current liabilities:			
Long Term Debt, less current portion	26,797	25,845	24,845
Non-current defined benefit and postretirement health plan and insurance liabilities			
Estimated Insurance Claims Liability, net of current portion			
Employee deferred compensation			
Other non-current liabilities			
Total Liabilities(Current+Non):	27,705	28,797	25,845
Net assets:			
Unrestricted	(1,693)	(3,342)	(4,946)
Temporarily restricted			
Permanently restricted			
Total Net Assets:	(1,693)	(3,342)	(4,946)
Total Liabilities and Net Assets:	26,012	23,455	20,899

Sound Shore Medical Center of Westchester and Affiliates
Consolidated Balance Sheets
December 31, 2011 and 2010

<i>(in thousands of dollars)</i>	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 1,817	\$ 1,828
Investments	98	108
Accounts receivable for services to patients, less allowance for uncollectible accounts of \$41,476 and \$36,687 in 2011 and 2010, respectively	23,077	26,376
Supplies, other receivables, and prepaid expenses	11,049	9,013
Due from third-party payors	5,098	5,770
Assets limited as to use	1,449	1,691
Total current assets	42,588	44,786
Assets limited as to use	1,803	1,124
Due from related entities	689	1,018
Deferred financing costs, net	719	791
Property, plant, and equipment, net	42,498	41,313
Beneficial interest in endowment trusts	14,087	13,548
Other long-term assets	11,906	474
Total assets	\$ 114,290	\$ 103,054
Liabilities and Net Assets (Deficit)		
Current liabilities		
Current portion of long term debt	\$ 41,929	\$ 14,403
Trade accounts payable	34,317	26,446
Accrued salaries, wages, and related items	4,832	4,633
Accrued postretirement benefits and profit-sharing plan	1,518	241
Accrued expenses and sundry liabilities	2,843	2,708
Current portion of estimated liability for self-insured losses	382	748
Due to third-party payors	3,931	1,635
Total current liabilities	89,752	50,814
Due to third-party payors	3,996	3,382
Accrued postretirement benefits - less current portion	4,434	4,228
Estimated liability for self-insured losses - less current portion	18,268	6,822
Long term debt, net of current portion	26,823	43,044
Other long - term liabilities	398	2,795
Total liabilities	143,671	111,085
Net assets (deficit)		
Unrestricted deficit	(43,830)	(23,156)
Temporarily restricted	362	1,577
Permanently restricted	14,087	13,548
Total net assets (deficit)	(29,381)	(8,031)
Total liabilities and net assets (deficit)	\$ 114,290	\$ 103,054

Sound Shore Medical Center of Westchester and Affiliates
Consolidated Statements of Operations
Years Ended December 31, 2011 and 2010

<i>(in thousands of dollars)</i>	2011	2010
Operating revenue		
Net patient service revenue, net of bad debt expense of \$11,237 and \$10,720 for 2011 and 2010, respectively	\$ 152,379	\$ 168,639
Other revenue	15,616	15,294
Heal NY Award	344	-
Net assets released from restrictions for operations	-	143
Total operating revenue	168,339	184,076
Operating expenses		
Salaries and wages	90,540	84,478
Employee benefits	25,260	17,421
Supplies and other	57,328	56,617
Insurance	5,309	4,780
Interest	4,247	3,184
Depreciation and amortization	6,422	6,479
Total operating expenses	189,106	172,959
(Deficiency) excess of revenues over expenses	(20,767)	11,117
Other changes in unrestricted net assets (deficit)		
Change in postretirement benefits	93	503
Net assets released from restrictions for capital	-	631
(Decrease) increase in unrestricted net assets	\$ (20,674)	\$ 12,251

Montefiore Medical Center
Consolidated Statements of Financial Position

	December 31	
	2012	2011
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,779	\$ 26,855
Marketable and other securities	914,410	775,680
Assets limited as to use – marketable securities	48,867	49,440
Receivables for patient care, less allowances for doubtful accounts (2012 – \$23,141; 2011 – \$20,850)	159,831	161,779
Other receivables	52,456	49,784
Estimated insurance claims receivable, current portion	73,189	73,115
Other current assets	29,548	31,157
Total current assets	1,309,080	1,167,810
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	68,706	64,257
Employee deferred compensation plan	15,220	12,154
Marketable and other securities externally designated	111,929	94,766
Malpractice insurance programs	–	19,421
Total non-current assets limited as to use	195,855	190,598
Marketable securities held as collateral	5,880	6,040
Property, buildings and equipment, at cost, net	775,882	738,541
Estimated insurance claims receivable, net of current portion	414,740	414,320
Deferred financing costs and other non-current assets	139,965	114,049
Total assets	\$ 2,841,402	\$ 2,631,358
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 93,992	\$ 81,057
Other payables and accrued expenses	208,159	202,388
Accrued salaries, wages and related items	203,927	183,435
Estimated insurance claims liabilities, current portion	73,189	73,115
Current portion of long-term debt	41,742	39,356
Total current liabilities	621,009	579,351
Long-term debt, less current portion	537,025	550,610
Non-current defined benefit and postretirement health plan and insurance liabilities	257,537	236,114
Employee deferred compensation	15,220	12,154
Estimated insurance claims liabilities, net of current portion	414,740	414,320
Other non-current liabilities	303,834	285,457
Total liabilities	2,149,365	2,078,006
Commitments and contingencies		
Net assets:		
Unrestricted	592,387	455,208
Temporarily restricted	74,300	72,794
Permanently restricted	25,350	25,350
Total net assets	692,037	553,352
Total liabilities and net assets	\$ 2,841,402	\$ 2,631,358

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Operations

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 2,903,751	\$ 2,769,846
Grants and contracts	73,650	72,656
Contributions	4,627	4,594
Other revenue	102,429	102,604
Total operating revenue	<u>3,084,457</u>	<u>2,949,700</u>
Operating expenses		
Salaries and wages	1,384,336	1,336,865
Employee benefits	418,609	392,516
Supplies and other expenses	1,044,221	1,020,587
Depreciation and amortization	110,268	100,824
Interest	26,817	28,010
Total operating expenses	<u>2,984,251</u>	<u>2,878,802</u>
Income from operations before certain items	100,206	70,898
Net realized and changes in unrealized gains (losses) on marketable and other securities	35,254	(11,558)
Malpractice insurance program adjustments associated with investment gains (losses)	16,958	(25,894)
Medical resident tax recovery	10,342	-
Income from operations	<u>162,760</u>	<u>33,446</u>
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(26,495)	(4,509)
Net assets released from restrictions used for purchases of property, buildings, and equipment	914	3,861
Increase in unrestricted net assets	<u>\$ 137,179</u>	<u>\$ 32,798</u>

See accompanying notes.

Montefiore Medical Center
Consolidated Statements of Financial Position

	December 31	
	2011	2010
	<i>(In Thousands)</i>	
		As Adjusted <i>(Note 1)</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,855	\$ 12,517
Marketable and other securities	775,680	767,311
Assets limited as to use – marketable securities	49,440	47,018
Receivables for patient care, less allowances for doubtful accounts (2011 – \$132,170; 2010 – \$120,026)	161,779	163,594
Other receivables	49,784	57,765
Estimated insurance claims receivable, current portion	73,115	77,189
Other current assets	31,157	27,896
Total current assets	1,167,810	1,153,290
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	64,257	60,032
Employee deferred compensation plan	12,154	10,114
Marketable and other securities externally designated	94,766	92,243
Malpractice insurance programs	19,421	—
Total non-current assets limited as to use	190,598	162,389
Marketable securities held as collateral	6,040	6,464
Property, buildings and equipment, at cost, net	738,541	717,418
Estimated insurance claims receivable, net of current portion	414,320	437,404
Deferred financing costs and other non-current assets	114,049	100,651
Total assets	\$ 2,631,358	\$ 2,577,616
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 81,057	\$ 77,052
Other payables and accrued expenses	202,388	215,773
Accrued salaries, wages and related items	183,435	175,651
Estimated insurance claims liabilities, current portion	73,115	77,189
Current portion of long-term debt	39,356	36,624
Total current liabilities	579,351	582,289
Long-term debt, less current portion	550,610	573,519
Non-current defined benefit and postretirement health plan and insurance liabilities	236,114	199,596
Employee deferred compensation	12,154	10,114
Estimated insurance claims liabilities, net of current portion	414,320	437,404
Other non-current liabilities	285,457	254,490
Total liabilities	2,078,006	2,057,412
Commitments and contingencies		
Net assets:		
Unrestricted	455,208	422,410
Temporarily restricted	72,794	72,444
Permanently restricted	25,350	25,350
Total net assets	553,352	520,204
Total liabilities and net assets	\$ 2,631,358	\$ 2,577,616

See accompanying notes.

Montefiore Medical Center
 Consolidated Statements of Operations

	Year Ended December 31	
	2011	2010
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 2,798,093	\$ 2,726,531
Grants and contracts	72,656	68,317
Contributions	4,594	5,140
Other	102,604	87,145
Total operating revenue	<u>2,977,947</u>	<u>2,887,133</u>
Operating expenses		
Salaries and wages	1,336,865	1,271,976
Employee benefits	392,516	372,709
Supplies and other expenses	1,048,834	1,034,260
Depreciation and amortization	100,824	99,378
Interest	28,010	31,786
Total operating expenses	<u>2,907,049</u>	<u>2,810,109</u>
Income from operations before certain items	70,898	77,024
Net realized and changes in unrealized (losses) gains on marketable and other securities	(11,558)	34,534
Malpractice insurance program adjustments associated with investment losses	(25,894)	—
Medical resident tax recovery	—	21,500
Income from operations	<u>33,446</u>	<u>133,058</u>
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(4,509)	(1,286)
Net assets released from restrictions used for purchases of property, buildings and equipment	3,861	2,267
Increase in unrestricted net assets	<u>\$ 32,798</u>	<u>\$ 134,039</u>

See accompanying notes.

MONTEFIORE MEDICAL CENTER
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30 2013	December 31 2012
<i>(In Thousands)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,063	\$ 30,779
Assets limited as to use - marketable securities	43,815	48,867
Receivables for patient care less allowances for doubtful accounts	173,357	159,831
Other receivables	71,312	52,456
Marketable and other securities, at market	947,794	914,410
Estimated insurance claims receivable	73,189	73,189
Other current assets	35,612	29,548
Total current assets	1,386,142	1,309,080
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	72,388	68,706
Employee deferred compensation plan	18,291	15,220
Marketable and other securities externally designated	115,946	111,929
Total assets limited as to use	206,625	195,855
Estimated insurance claims receivable - non current	414,740	414,740
Marketable securities held as collateral	5,884	5,880
Property, buildings and equipment at cost, net	849,986	775,882
Deferred financing costs and other non-current assets	143,870	139,965
Total assets	\$ 3,007,247	\$ 2,841,402
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 83,335	\$ 93,992
Other payables and accrued expenses	160,435	141,521
Accrued salaries, wages and related items	214,625	203,927
Current malpractice insurance premiums payable	70,810	66,638
Estimated insurance claims liabilities	73,189	73,189
Current portion of long-term debt	40,954	41,742
Total current liabilities	643,348	621,009
Long-term debt, less current portion	561,869	537,025
Non-current defined benefit and postretirement health plan and insurance liabilities	263,897	257,537
Estimated insurance claims liabilities - non current	414,740	414,740
Employee deferred compensation	18,291	15,220
Other non-current liabilities	340,089	303,834
Total liabilities	1,598,886	1,528,356
Net assets:		
Unrestricted	664,716	592,387
Temporarily restricted	74,947	74,300
Permanently restricted	25,350	25,350
Total net assets	765,013	692,037
Total liabilities and net assets	\$ 3,007,247	\$ 2,841,402

MONTEFIORE MEDICAL CENTER
CONSOLIDATED STATEMENTS OF OPERATIONS
ACTUAL AND BUDGET COMPARED
YEAR-END FINANCIAL STATEMENT FORMAT
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(In Thousands)

	YEAR TO DATE			
	ACTUAL	BUDGET	VARIANCE	%
Operating Revenue				
Inpatient	\$ 774,246	\$ 757,205	\$ 17,041	2.3%
Outpatient	472,840	490,649	(17,809)	-3.6%
Premium Revenue	279,196	282,917	(3,721)	-1.3%
Net patient service revenue	1,526,282	1,530,771	(4,489)	-0.3%
Grants and contracts	40,485	40,283	202	0.5%
Contributions	1,365	1,213	152	12.5%
Other	63,667	60,820	2,847	4.7%
Total operating revenue	1,631,799	1,633,087	(1,288)	-0.1%
Operating Expenses				
Salaries and wages	727,525	734,341	6,816	0.9%
Employee benefits	232,369	237,107	4,738	2.0%
Supplies and other expenses	552,812	543,903	(8,909)	-1.6%
Depreciation and amortization	57,948	56,970	(978)	-1.7%
Interest	13,671	13,873	202	1.5%
Total operating expenses	1,584,325	1,586,194	1,869	0.1%
Income from operations before certain items	47,474	46,893	581	1.2%
Net realized and changes in unrealized gains on marketable and other securities	23,830	-	23,830	100.0%
Malpractice insurance program adjustments associated with investment gains	1,025	-	1,025	100.0%
Increase in unrestricted net assets	\$ 72,329	\$ 46,893	\$ 25,436	54.2%



Public Health and Health Planning Council

Project #132102-E

Montefiore Mount Vernon Hospital, Inc.

County: Westchester County
Purpose: Establishment

Program: Hospital
Submitted: August 13, 2013

Executive Summary

Description

Montefiore Mount Vernon Hospital, Inc. requests to be established as the new operator of Mount Vernon Hospital, a 176 bed Community based teaching hospital offering primary, acute, emergency (including trauma care) and long term health care to the residents of Westchester County. The facility is licensed for 176 acute inpatient beds comprised of 124 medical/surgical beds, 8 coronary care beds, 12 intensive care beds, 22 Psychiatry beds and 10 AIDS beds. In addition, Montefiore Health System, Inc. (MHS), a not-for-profit corporation which is currently the active parent of Montefiore Medical Center and Wakefield Ambulatory Care Center, both not-for-profit health care operators with facilities located in the Bronx, is seeking approval to become the active parent and co-operator of three newly formed MHS operating affiliates: Montefiore New Rochelle Hospital, Inc., Montefiore Mount Vernon Hospital, Inc., and Schaffer Extended Care Center, Inc. MHS will also be the sole corporate member of three newly formed real estate affiliates: Montefiore SS Holdings, LLC, Montefiore MV Holdings, LLC and Montefiore HA Holdings, LLC.

These new entities were formed in order to take over the operations and real estate ownership of Sound Shore Health Systems, Inc. (SSHS) through an asset purchase agreement between the six above listed entities and SSHS. SSHS includes Sound Shore Medical Center of Westchester, Mount Vernon Hospital, Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center, NRHMC Services Corporation, The M.V.H. Corporation, and New Rochelle Sound Shore Housing, LLC.

Affiliates of the applicant are also requesting approval to be established as the operators of the following health care facilities:

- Montefiore New Rochelle Hospital, Inc. will be the new operator of Sound Shore Medical Center of Westchester (132101)
- Schaffer Extended Care Center, Inc. will be the new operator of Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center (132103)

The three applications are being processed concurrently.

On May 29th, 2013, SSHS filed for Chapter 11 Bankruptcy protection in U.S. Bankruptcy Court. On the same day, SSHS and Montefiore New Rochelle Hospital, Inc. (Montefiore New Rochelle), Montefiore Mount Vernon Hospital, Inc. (Montefiore Mount Vernon), Schaffer Extended Care Center, Inc. (Schaffer Extended Care Center), Montefiore SS Holdings, LLC, Montefiore MV holdings, LLC, and Montefiore HA Holdings, LLC entered into an asset purchase agreement to acquire the assets of SSHS, which includes Sound Shore Medical Center of Westchester, Mount Vernon Hospital, Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center, NRHMC Services Corporation, The M.V.H. Corporation and New Rochelle Sound Shore Housing, LLC.

On August 2, 2013 the court issued an order approving the sale of SSHS assets to the applicant on the terms described herein.

MHS states that this project offers the following efficiencies and opportunities:

- Improved financial condition of the current facilities
- Population health management
- Growth of additional services best suited to the communities
- Improved strategic planning
- Resource allocation
- Governance oversight
- Centralization, sharing and coordination of operational management

Ownership of the operation of Mount Vernon Hospital, before and after the requested change, is as follows:

Operation			
Before		After	
.Mount Vernon Hospital		Montefiore Mount Vernon Hospital	
Name	Percent Owned	Name	Percent Owned
Mount Vernon Hospital, Inc.	100%	Montefiore Mount Vernon Hospital, Inc.	100%

Ownership of the Real Estate before and after the requested change is as follows:

Real Estate			
Before		After	
Name	Percent Owned	Name	Percent Owned
Sound Shore Health Systems, Inc.	100%	Montefiore MV Holdings, LLC	100%

BFA Attachment A is the organizational chart for MHS under the active parent structure. As active parent and co-operator, MHS will have the power and authority to make decisions for its affiliates as stated in its certificate of incorporation and bylaws, and will have the active parent powers described in 10 NYCRR 405.1(c) as follows:

- (1) appointment or dismissal of hospital management level employees and medical staff, except the election or removal of corporate officers by the members of a not-for-profit corporation;
- (2) approval of hospital operating and capital budgets;
- (3) adoption or approval of hospital operating policies and procedures;
- (4) approval of certificate of need applications filed by or on behalf of the hospital;
- (5) approval of hospital debt necessary to finance the cost of compliance with operational or physical plant standards required by law;
- (6) approval of hospital contracts for management or for clinical services; and

- (7) approval of settlements of administrative proceedings or litigation to which the hospital is party, except approval by the members of a not-for-profit corporation of settlements of litigation that exceed insurance coverage or any applicable self-insurance fund.

DOH Recommendation
Contingent Approval

Need Summary

This project will establish Montefiore Health System, Inc. as the active parent and co-operator of the newly established entity, Montefiore Mount Vernon. The proposed project does not result in any immediate changes in existing beds or services that are currently provided at Mount Vernon Hospital. The establishment of MHS as its corporate parent will enable Montefiore Mount Vernon to improve efficiency as a participant in the centralized, shared and coordinated operations of the Montefiore Health System.

Program Summary

Based on the information reviewed, staff found nothing that would reflect adversely upon the applicants' character and competence or standing in the community.

Financial Summary

There are no project costs associated with this project. The purchase price of \$21,806,845 will be met via a loan from Montefiore Medical Center to Montefiore Health Systems, Inc. and then from Montefiore Health Systems Inc. to Montefiore MV Holdings, LLC for the real estate portion of the purchase price, which is \$20,120,915 at a 5% interest rate for a 20 year term. The remaining amount will be given by Montefiore Health System to Montefiore Mount Vernon Hospital, Inc. for the capital portion of the purchase price, which is \$1,685,930 at a 4% interest rate for a 5 year term.

Budget:	Revenues:	\$ 55,018,000
	Expenses:	\$ 56,732,000
	Gain/ (Loss)	(\$1,714,000)

Subject to the noted contingencies and the condition, with active parent support, the applicant has demonstrated the capability to proceed in a financially feasible manner.

Recommendations

Health Systems Agency

There will be no HSA review for this project.

Office of Health Systems Management

Approval contingent upon:

1. Submission of approval by the Office of Mental Health. [PMU]
2. Submission of approval by the Office of Alcohol and Substance Abuse Services. [PMU]
3. Submission of executed building lease acceptable to the Department of Health. [BFA]
4. Submission of an original affidavit from the applicant, which is acceptable to the Department, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding between the applicant and the transferor to the contrary, to be liable and responsible for any Medicaid overpayments made to the facility and/or surcharges, assessments or fees due from the transferor pursuant to Article 28 of the Public Health Law with respect to the period of time prior to the applicant acquiring its interest, without releasing the transferor of its liability and responsibility. [BFA]
5. Submission of a Letter of Commitment from Montefiore Medical Center to enter into long term loan to Montefiore Health System in principal amount of up to \$106,890,469 as well as provide funds anticipated to be up to \$65,000,000 during the first three years of operation to Montefiore Health System. Included with the submitted loan commitment must be a sources and uses statement and debt amortization schedule, acceptable to the Department of Health. [BFA]
6. Submission of a Letter of Commitment from Montefiore Health System to enter into subvention agreement and / or loans in the form of available lines of credit of up to \$65,000,000. Included with the submitted permanent mortgage commitment must be a sources and uses statement and debt amortization schedule, acceptable to the Department of Health. [BFA]
7. Submission of an executed Certificate of Amendment of the Certificate of Incorporation that is acceptable to the Department. [CSL]
8. Submission of the Certificate of Incorporation and all amendments thereto of Montefiore Health Systems, Inc. that is acceptable to the Department. [CSL]
9. Submission of an Amended and Restated Bylaw for Montefiore Health System, Inc. that is acceptable to the Department. [CSL]
10. Submission of an Asset Purchase Agreement that is acceptable to the Department. [CSL]
11. Submission of site control that is acceptable to the Department. [CSL]

Approval conditional upon:

1. The project must be completed within one year from the Public Health and Health Planning Council recommendation letter. Failure to complete the project within the prescribed time shall constitute an abandonment of the application by the applicant and an expiration of the approval. [PMU]
2. Submission of annual reports, acceptable to the Department of Health, detailing progress made in achieving breakeven or profitable operations of the facility. [BFA]

Council Action Date

October 22, 2013.

Need Analysis

Background/Analysis

Montefiore Health System, Inc. (MHS) seeks approval to purchase the assets of Sound Shore Health System, Inc. (SSHS), including Mount Vernon Hospital (MVH). In addition, MHS seeks to establish Montefiore Mount Vernon Hospital, Inc. as the operator of Mount Vernon Hospital, a 176- bed acute care hospital located at 12 North 7th Avenue Mount Vernon, 10550, in Westchester County. MHS will become the active parent of Montefiore Mount Vernon. This site will continue to provide its currently licensed Article 28 services.

Montefiore Health System operates three (3) acute care hospitals with inpatient beds in Bronx County. Currently, the three hospitals have 1,491 total inpatient beds. Over the last three years, the hospitals in the system averaged 88,697 total inpatient discharges and 286,903 emergency department visits.

Mount Vernon Hospital has the following certified beds and services:

Table 1: Certified Beds: Mount Vernon Hospital. Source: HFIS, August 2013.	
Bed Category	Certified Capacity
AIDS	10
Coronary Care	8
Intensive Care	12
Medical / Surgical	124
Psychiatric	22
Total	176

Table 2: Certified Services: Mount Vernon Hospital. Source: HFIS, August 2013.	
AIDS	AIDS Center
Ambulatory Surgery - Multi Specialty	CT Scanner
Clinic Part Time Services	Clinical Laboratory Service
Coronary Care	Dental O/P
Emergency Department	Family Planning O/P
Health Fairs O/P	Intensive Care
Magnetic Resonance Imaging	Medical Social Services
Medical/Surgical	Methadone Maintenance O/P
Nuclear Medicine – Diagnostic	Nuclear Medicine - Therapeutic
Pharmaceutical Service	Physical Medicine and Rehabilitation O/P
Primary Medical Care O/P	Psychiatric
Psychology O/P	Radiology - Diagnostic
Therapy - Physical O/P	

MVH is authorized to operate three (3) extension clinics providing the following services: primary medical care O/P; methadone maintenance O/P; and certified mental health services. MVH has the following New York State designations:

- AIDS Center; and
- Stroke Center.

Mount Vernon Hospital is a 176-bed acute care hospital located in lower section of Central Westchester County. Approximately 99.0 percent of the hospital's discharges are allocated to the major service categories medical/surgical (85%) and psychiatric (14%). In 2010, the hospital recorded 3,922 total inpatient discharges. By 2011, these discharges decreased by 16.4 percent to 3,279 and were 3,331 in 2012. In 2010, MVH's patients generated an average daily census of 69 patients. By 2011, the average daily census decreased by 10.0 percent to 63 patients on any given day and was 60 in 2012. During the period, the related overall occupancy rates were 39.4 percent, 35.5 percent and 34.1 percent, respectively.

Based on the Mount Vernon Hospital's SPARCS inpatient discharges for the years 2010 through 2012, the majority of the hospital's patients resided in Dutchess, Bronx and Westchester Counties. During the period, patients from the aforementioned counties accounted for an average of 4.7 percent, 5.4 percent and 85.9 percent of the of the hospital's total inpatient discharges, respectively.

SPARCS Emergency Department (ED) data for 2008 through 2012 show that Mount Vernon Hospital recorded an average of 18,853 ED visits a year. Of these, approximately 16 percent were admitted into the hospital. The remaining 84 percent were treated and released.

Year	Total	% Resulting in an Inpatient Admission
2008	19,812	16.5
2009	20,013	16.9
2010	19,566	15.6
2011	18,209	13.3
2012	16,663	15.4

In 2007, MVH recorded 2,657 ambulatory surgery procedures. By 2008, these procedures declined by 8.4 percent to 2,433. By 2009, the number of ambulatory surgery procedures performed at the hospital increased to 2,514. The upward trend in ambulatory surgery procedures performed at the hospital continued in 2010 to 2,633. However, by 2011, the trend reversed, and the hospital experienced a marked decline in said procedures to 2,053.

Year	Ambulatory Surgery Procedures
2007	2,657
2008	2,433
2009	2,514
2010	2,633
2011	2,053

Discussion

Mount Vernon Hospital is an existing inpatient facility. This project will allow the hospital to continue to operate. MHS indicates that a new Community Service Plan will be developed for Montefiore Mount Vernon that will allow the population that was currently served by MVH to be continued to be served by the new entity.

Montefiore Health System anticipates that this arrangement will enable MHS to employ its programmatic, management and financial strength and its innovative models of care to:

- strengthen the health care services in the community;
- enhance the program scope and quality of care provided by the former MVH; and
- improve the financial viability of the former MVH services in an integrated health care delivery system.

Conclusion

MHS has an established history of providing programs and services to address the health care needs of the residents in its service area. By acquiring the assets of Mount Vernon, MHS will ensure that the residents of MVH's service area will continue to receive the health care services that they need.

Recommendation

From a need perspective, approval is recommended.

Programmatic Analysis

Program Description

Establish Montefiore Mount Vernon Hospital, Inc. as the operator of Mount Vernon Hospital and establish Montefiore Health System as the active parent of Montefiore Mount Vernon Hospital.

Character and Competence

The members of the Board of Trustees Montefiore Health System, Inc. are:

Steven M. Safyer, MD
Oded Aboodi
Joseph W. Bartlett
Robert A. Bernhard
Lewis Henkind
Edwin H. Stern, III
David A. Tanner

The members of the Board of Montefiore Mount Vernon Hospital, Inc. are:

Steven Safyer, MD – President
Philip O. Ozuah, MD, PhD – Treasurer
Christopher Panczner, JD - Secretary

Two of the board members of Montefiore Mount Vernon Hospital, Inc. are physicians. Dr. Safyer is the President and Dr. Ozuah is the Executive Vice President and Chief Operating Officer of Montefiore Medical Center (MMC). Mr. Panczner is an attorney with over 15 years of experience, the last five years of which he has served at MMC as the Senior Vice President and General Counsel.

Staff from the Division of Certification & Surveillance reviewed the disclosure information submitted regarding licenses held, formal education, training in pertinent health and/or related areas, employment history, a record of legal actions, and a disclosure of the applicant's ownership interest in other health care facilities. Licensed individuals were checked against the Office of Medicaid Management, the Office of Professional Medical Conduct, and the Education Department databases as well as the US Department of Health and Human Services Office of the Inspector General Medicare exclusion database.

Additionally, the staff from the Division of Certification & Surveillance reviewed the ten-year surveillance history of all associated facilities. Sources of information included the files, records, and reports found in the Department of Health. Included in the review were the results of any incident and/or complaint investigations, independent professional reviews, and/or comprehensive/focused inspections. The review found that any citations were properly corrected with appropriate remedial action.

Montefiore Medical Center was assessed a fine of \$14,000 for violations identified during a January 2007 complaint investigation survey relating to the discharge of a pediatric patient to an unsafe home environment. The hospital implemented corrective actions that were monitored by Department staff to ensure compliance.

Recommendation

From a programmatic perspective, approval is recommended.

Financial Analysis

Financing

The applicant's financing plan appears as follows:

Real Estate Loan @ 20 yrs. for 5% interest	\$20,120,915
Equipment Loan @ 5 years for 4 % interest rate	<u>\$1,685,930</u>
Total Purchase Price	\$21,806,845

Asset Purchase Agreement

The transfer of assets, liabilities, beds and services will be effectuated in accordance with an executed asset purchase agreement dated May 29th, 2013, the terms of which are summarized below:

Seller:	Sound Shore Health Systems, Inc. (SSHS) which includes Sound Shore Medical Center of Westchester (SSMC), Mount Vernon Hospital (MVH), Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center (SECC), NRHMC Services Corporation, The M.V.H. Corporation and New Rochelle Sound Shore Housing, LLC.
Buyer:	Montefiore New Rochelle Hospital, Inc., Montefiore Mount Vernon Hospital, Inc., and Schaffer Extended Care Center, Inc., each New York not for profit corporations and Montefiore SS Holdings, LLC, Montefiore MV Holdings, LLC, and Montefiore HA Holdings, LLC, each a New York limited liability company.
Assets Transferred:	All rights, title and interests in All owned Real Property of the Seller including without limitation the owned real property listed on Schedule 4.8(a-1), the interests of the Sellers, whether as landlord or tenant, under the Real Property leases for the leased real property listed on Schedule 4.8(a-2), sellers' furniture and equipment and inventory other than the furniture, equipment and inventory identified by the buyer on schedule 2.1 (C), no later than 60 days following the effective date, All assigned contracts listed on schedule 2.1 (d), including all of sellers' rights of set-off under such assigned contracts, which schedule shall be delivered by buyer to sellers no later than 35 days following the effective date, provided that buyer shall be permitted to remove any contract from schedule 2.1 (d) by written notice to the sellers any time before the 30 th day prior to closing date and to add any contract not previously included on schedule 2.1(d) but as to which the buyer notifies the sellers, any time on or before the 30 th day prior to closing date, , All intellectual property of sellers including without limitation the intellectual property listed on schedule 4.9 related to the acquired assets or used in the business, subject to section 2.6, all books, records and data of the sellers of every kind, whether in hard copy, electronic or digital format and however maintained or stored, excepting only the corporate minute books of the sellers; provided, however, with respect to sellers' medical records, only those medical records for (1) in-patients of SSMC, MVH and/or SECC as of the closing date and (2) outpatients undergoing an active course of treatment during the 3 month period prior to the closing date shall constitute acquired assets; any prepaid deposits; subject to sellers' right to remediate any such damage with insurance proceeds, all proceeds or proceeds receivable of sellers' insurance and unliquidated or unsatisfied claims that relate to property damage with respect to owned real property or leased real property of the sellers occurring prior to closing and all other insurance proceeds and insurance proceeds receivable (including applicable deductibles, co-payments or self-insured requirements) arising from any claim made under the sellers insurance policies with respect to the acquired assets but excluding insurance proceeds and insurance proceeds receivable in respect of tort liabilities such as medical malpractice claims and other excluded liabilities; all rights of sellers under or pursuant to all warranties,

	representations and guarantees made by suppliers, manufactures and contractors to the extent relating to services provided to the sellers after the closing or to the extent affecting any acquired assets, other than any warranties, representations and guarantees pertaining to any excluded assets; the going concern value and goodwill of the business of each of the sellers; and donor restricted assets and endowment funds held by, or for the benefit of the sellers, the income and/or corpus of which has been designated for use in support of, for the benefit of, or otherwise relating to, any of the sellers' missions, operations, programs, services, assets and/or facilities (collectively, the "restricted assets") to the extent transferable and subject to any approvals required by applicable law.
Excluded Assets:	Notwithstanding anything in section 2.1 to the contrary, the seller shall only be obligated to sell, and the buyer shall only be obligated to purchase, the acquired assets, and the sellers shall not have any obligation to sell to buyer, not shall buyer have any purchase rights with respect to, any assets of the sellers not described in section 2.1 (all such assets not described in section 2.1, collectively, the "excluded assets") including but not limited to the furniture and equipment and/or inventory listed on schedule 2.1 (C) .
Liabilities Assumed:	Cure amounts as required by section 2.5 hereto up to a maximum of \$3,000,000. All liabilities accruing from and after the closing with respect to the assigned contracts, the debt of the sellers listed on schedule 2.3(ii) and subject to the satisfaction of the conditions in section 10.1, liabilities incurred on or after the closing date by buyer, certain liabilities accruing to eligible former employees of sellers as set forth in section 2.3 (b).
Excluded Liabilities:	Except for assumed liabilities, purchaser shall not assume or become liable for the payment or performance of any liability of seller of any nature.
Accounts Receivable	Buyer agrees that it will pay over or cause to be paid over to the sellers, insofar as practicable with 5 business days of receipt and until so paid and shall hold in trust for sellers all sums received by it or any of its affiliates in respect of or on account of its pre-closing accounts receivable.
Total Purchase Price of SSHS:	\$ 58,750,000 for Real Property Plus \$6,140,469 for movable equipment for a total of \$64,890,469
Purchase Price of Mount Vernon Hospital	\$20,120,915 Real Property purchased by Montefiore MV Holdings, LLC and \$1,685,930 Movable equipment purchased by Montefiore Mount Vernon Hospital, Inc. for a total of \$21,806,845
Payment of Purchase Price:	\$21,806,845 paid at closing

Montefiore Mount Vernon Hospital, Inc. will assume the Mount Vernon Hospital portion of the existing debt of SSHS. As a contingency of approval, the applicant must submit an affidavit, which is acceptable to the Department of Health, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding between the applicant and the transferor, to the contrary, to be liable and responsible for any Medicaid overpayments made to the facility and/or surcharges, assessments or due from the transferor pursuant to Article 28 of the Public Health Law with respect to the period of time prior to the applicant acquiring its interest, without releasing the transferor of its liability and responsibility. Currently, there are no outstanding liabilities.

Lease Agreement

Montefiore Mount Vernon Hospital, Inc. will occupy the following premises under the terms of lease agreements, summarized as follows:

Lessor: Montefiore MV Holdings, LLC
 Lessee: Montefiore Mount Vernon Hospital, Inc.
 Premises: 9 total Premises: (1) 12 North Seventh Avenue, Mount Vernon, NY(Mount Vernon Hospital), (2) 12-24 Seventh Avenue, Mount Vernon, NY, (3) 28 Seventh Avenue, Mount Vernon, NY, (4) 26 Seventh Avenue, Mount Vernon, NY, (5) 12 Eighth Avenue, Mount Vernon, NY, (6) 15 Seventh Avenue, Mount Vernon, NY, (7) 19 Seventh Avenue, Mount Vernon, NY, (8) 38 First Street, Mount Vernon, NY and (9) 1 Sixth Avenue, Mount Vernon, NY

Term: 40 Year

Annual Rental:	Years (1-10)	Years (11-20)	Years (21-30)	Years (31-40)
	\$1,634,089	\$1,874,914	\$2,285,074	\$2,786,023
	\$1,633,498	\$1,912,412	\$2,331,220	\$2,841,744
	\$1,632,878	\$1,950,660	\$2,377,844	\$2,898,578
	\$1,632,225	\$1,989,673	\$2,425,401	\$2,956,550
	\$1,664,870	\$2,029,467	\$2,473,909	\$3,015,681
	\$1,698,167	\$2,070,056	\$2,523,387	\$3,075,995
	\$1,732,130	\$2,111,457	\$2,573,855	\$3,137,515
	\$1,766,773	\$2,153,686	\$2,625,332	\$3,200,265
	\$1,802,109	\$2,196,760	\$2,677,838	\$3,264,270
	\$1,838,151	\$2,240,695	\$2,731,395	\$3,329,556

Other: Tenant pays insurance, taxes, repairs & maintenance and utilities
 Type: Net, between related parties

Operating Budget

The applicant has submitted an operating budget for the acquired operation, for the first and third years of operation summarized below:

	Current Year	Year One Incremental	Year One Total	Year Three Incremental	Year Three Total
<u>Inpatient Revenues:</u>	42,602,415	\$1,988,176	\$44,590,591	\$6,751,570	\$49,353,985
Expenses:					
Operating:	\$36,344,000	\$725,000	\$37,069,000	\$2,310,000	\$38,654,000
Capital:	<u>\$2,994,000</u>	<u>(\$321,000)</u>	<u>\$2,673,000</u>	<u>(\$51,000)</u>	<u>\$2,943,000</u>
Total Expenses:	\$39,338,000	\$404,000	\$39,742,000	\$2,259,000	\$41,579,000
Excess Revenues/ (Loss):	\$3,264,415	\$1,584,176	\$4,848,591	\$4,492,570	\$7,774,985
Utilization: (Discharges)	2,830	0	2,830	0	2,830
Cost Per Discharge:	\$13,900.35	\$142.76	\$14,043.11	\$798.23	\$14,692.23

Utilization by payor source for inpatient services is as follows:

	<u>Historical</u>	<u>Years One and Three</u>
Commercial Fee-for-Service	1.91%	1.91%
Commercial Managed Care	6.57%	6.57%
Medicare Fee-for-Service	35.83%	35.83%
Medicare Managed Care	11.10%	11.10%
Medicaid Fee-for-Service	26.29%	26.29%
Medicaid Managed Care	14.77%	14.77%
Private Pay/Other	.14%	.14%
Charity Care	3.39%	3.39%

<u>Outpatient</u>	<u>Current Year</u>	<u>Year One</u>	<u>Year One</u>	<u>Year Three</u>	<u>Year Three</u>
Revenues:		<u>Incremental</u>	<u>Total</u>	<u>Incremental</u>	<u>Total</u>
	\$11,206,327	\$754,123	\$11,960,450	\$2,014,813	\$13,221,140
Expenses:					
Operating:	\$33,995,000	\$678,000	\$34,673,000	\$2,161,000	\$36,156,000
Capital:	\$2,800,000	(\$300,000)	\$2,500,000	(\$48,000)	2,752,000
Total Expenses:	\$36,795,000	\$378,000	\$37,173,000	\$2,113,000	\$38,908,000
Excess					
Revenues/(Loss):	(\$25,588,673)	\$376,123	(\$25,212,550)	(\$98,187)	(\$25,686,860)
Utilization:					
(Visits)	118,590	0	118,590	9,489	128,079
Cost Per Visit:	\$310.27	\$3.19	\$313.46	\$222.68	\$303.78

- Note: outpatient visits and revenue only include Hospital outpatient visits/revenue and not Physician visits/revenue. Physician outpatient revenue is however, included in the Total Revenue as shown below. The amount of this revenue in the current year is \$1,905,673, the incremental for year 1 is \$0 for a total year 1 of \$1,905,673, the incremental for year 3 is \$0 for a total year 3 of \$1,905,673
- Note: Total revenues also include \$4,188,000 in other operating revenue for the current year which is comprised of grants and other.

Utilization by payor source for outpatient services is as follows:

	<u>Historical</u>	<u>Years One and Three</u>
Commercial Fee-for-Service	.62%	.62%
Commercial Managed Care	5.87%	5.87%
Medicare Fee-for-Service	6.51%	6.51%
Medicare Managed Care	2.10%	2.10%
Medicaid Fee-for-Service	47.74%	47.74%
Medicaid Managed Care	13.41%	13.41%
Private Pay/Other	.72%	.72%
Charity Care	23.02%	23.02%

Expense and utilization assumptions are based on the experience of the present and proposed operators. Revenues reflect the current operator's rates.

	<u>Current Year</u>	<u>Year One Incremental</u>	<u>Year One Total</u>	<u>Year Three Incremental</u>	<u>Year Three Total</u>
Total Net Inpatient Revenues	\$42,602,415	\$1,988,176	\$44,590,591	\$6,751,570	\$49,353,985
Total Net Outpatient Revenues	13,112,000	754,123	13,866,123	2,014,813	15,126,813
Total Other Operating Revenues*	4,188,000		4,188,000		4,188,000
Total Non-Operating Revenues*					
Total Revenues	\$59,902,415	\$2,742,299	\$62,644,714	\$8,766,383	\$68,668,798
Expenses					
Operating	\$70,339,000	1,403,000	\$71,742,000	\$4,471,000	74,810,000
Capital	5,794,000	(621,000)	5,173,000	(99,000)	5,695,000
Total Expenses	\$76,133,000	\$782,000	\$76,915,000	4,372,000	\$80,505,000
Total Net Income/(Loss)	(\$16,230,585)	\$1,960,299	(\$14,270,286)	\$4,394,383	(\$11,836,202)

Other operating revenue includes Grants. The largest grant is WIC, but there are other grants like HIV prevention and case management. Other non-operating category includes such items as rental income and parking income and School of Nursing tuition income.

The Year 4 and 5 budgets have been provided in a general format. Montefiore has not taken over the operations of the facility, and therefore, is only working on the bigger picture of turning the operations around to being profitable. The applicant will work with the Department on initiatives to bring the facility to financial stability and the active parent has pledged its financial support.

	<u>Year 4</u>	<u>Year 5</u>
Total Revenues	\$53,855,000	\$55,018,000
Expenses		
Operating	\$55,250,000	\$56,732,000
Contributions		
Total Expenses	<u>\$55,250,000</u>	<u>\$56,732,000</u>
Total Net Income/(Loss)	(\$1,395,000)	(1,714,000)

Capability and Feasibility

The issue of capability centers on the applicant's ability to meet the purchase price and working capital requirements for this application. The proposed operator will provide the amount of the purchase price of \$21,806,845 from two loans. The loans are originally from Montefiore Medical Center to Montefiore Health Systems, Inc. and then to both Montefiore Mount Vernon Hospital, Inc. and Montefiore MV Holdings, LLC, for the above listed amounts and terms. Working capital requirements are estimated at \$12,819,000, which appears reasonable based on two months of first year expenses. BFA Attachment E is the Financial Summary of the proposed lender, Montefiore Medical Center, which indicates the availability of sufficient resources to meet requirements.

BFA Attachments B and C are the pro forma balance sheets for Montefiore Mount Vernon Hospital, Inc. (the operator) and Montefiore MV Holdings, LLC (real property owner and landlord), which show the entities will start off with Year 1 negative equity in the amounts of \$14,267,000 and \$1,499,000; Year 2 negative equity in the amounts of \$29,032,000 and \$2,967,000; and Year 3 negative equity in the amounts of \$40,894,000 and \$4,404,000, respectively. The new operators will be experiencing these

issues due to historical legacies which include such items as underfunded malpractice insurance and pension benefits, as well as investment into neglected repair and maintenance at the facility. MHS has provided a detailed explanation of the main issues they face in taking over the operations and real estate and the reasons for such high negative equity, as well losses for the first three years of operations. MHS has provided the Department with ideas on what will be done to address these issues and turn operations around and has committed to funding interim operating deficits.

BFA Attachment D is the 2010-2011 certified financial statement for The Mount Vernon Hospital. The statement shows that the facility was operating with a negative average working capital and a negative average net asset position and generated an average net income of \$1,013,271 for the period 2010-2011. In 2011 the facility had a net loss of \$3,095,551. The explanation for the loss is detailed below.

BFA Attachment E is the 2010-2012 certified financial statement for Montefiore Medical Center. The statement shows that the facility was operating with a positive average working capital and a positive average net asset position and generated an average net income of \$101,338,666 for the period 2010-2012.

BFA Attachment F is the June 30, 2013 internal financial statement for Montefiore Medical Center. The statement shows that the facility was operating with a positive average working capital and a positive average net asset position and generated a net income of \$72,329,000 for the first six months of 2013.

The issue of feasibility is centered on the applicant's ability to meet expenses with revenues and maintain a viable operating entity. The submitted inpatient specific budget indicates an excess of revenues over expenses of \$4,848,591 and \$7,774,985 during the first and third years of operation, respectively. The submitted outpatient specific budget indicates an excess of expenses over revenues of \$25,212,550 and \$25,686,860 during the first and third years of operation, respectively. The submitted budget indicates an excess of expenses over revenues of \$14,270,286 and \$11,836,202 during the first and third years of operation. The Year 5 budget continues to show a loss of \$1,714,000, based on the implementation of the overall turn around plan. Losses during this period will be supported by the active parent. The budget appears reasonable.

The financial results presented in the CON application are based on existing operations which are running at significant losses. Sound Shore and Mount Vernon both have a high mix of government pay. Mount Vernon, in particular, serves one of the lowest income areas within Westchester and cares for a significant number of uninsured patients. The current scale of volume at Sound Shore and Mount Vernon is not sufficient to operate the facilities efficiently. Presently the hospitals operate at 105 and 60 average daily census, respectively. Operating at around 40% of capacity is far below utilization levels needed to efficiently operate/maintain two sizable acute care campuses.

CON projections have operating losses partially mitigated by MHS actions, including revenue enhancements, cost savings, and performance improvements. However, these changes are insufficient to reverse the significant operating losses in the coming years. The initial financial analysis for the consolidation of the SSHS entities into the Montefiore Health System shows the SSHS current \$40 million loss may be reduced to a \$33 million loss in Year 1, with the implementation of MHS initiatives, and may possibly be reduced to a \$25 million loss in Year 3, assuming some volume is regained.

It is important to note that the content of these CON applications is limited to the services that are operating at the Sound Shore, Mount Vernon, and Schaffer sites on the day the assets are acquired. At this point it would be inappropriate to project the results of any service reconfiguration or turnaround plan as they would be the topic of future discussions with the Department, the SSHS community and community physicians, and would be the subject of future CON applications.

Ultimately, this CON application is merely a first step towards a turnaround plan that MHS is committed to developing to ensure ongoing feasibility of these facilities. Initiatives which build on the Montefiore Health System's model for delivering high quality care on a regional integrated basis will be the basis for a transformation over time. The Montefiore approach to regional population health is consistent with the Department's reform agenda and the Triple Aim and is expected to focus on high impact initiatives that may include:

- Optimization of the use of the facilities and enhancement of services on the two campuses to grow patient services and make more efficient and effective use of the space.
- Implementation of population health care management and care coordination activities as part of a Regional, Accountable Highly Integrated Delivery System.
- Investment of capital to support enhanced programs, including IT.
- Improved utilization of acute care capacity.
- Engagement of community physicians in furthering relationships with the SSHS programs and facilities.
- Expansion of patient centered medical home primary care and other ambulatory services to address needs and existing deficits in the SSHS communities.
- Investment in Care Management systems and infrastructure.
- Transition to performance-based (non-fee for service) arrangements with selected health plans.
- Implementation of new and enhanced clinical programs, across the care continuum.
- Strong partnerships with community-based physicians.

The successful transformation of the SSHS will require a period of time and significant engagement by the State, the community, and private practicing physicians.

Some of the turnaround initiatives that have been proposed by Montefiore include Revenue Cycle Improvements. Montefiore has reviewed the current Sound Shore Health system revenue cycle operations and determined significant opportunities exist once they are converted to the Montefiore billing system, as well as implementing Montefiore's proven revenue cycle management process. This includes:

- Implementation of eligibility and insurance verification processes to reduce insurance denials and conduct outreach to assist self-pay patients with insurance enrollment. This could allow the facilities to increase revenues as well as patient's access to care. This process is expected to generate an additional \$5 million annually within the first two years of implementation.
- Improve charge capture, documentation and coding in order to reduce coding and billing issues. This is intended to generate \$2 million annually within the first 2 years of implementation.
- For a total of \$7 million annually in revenue cycle improvements.

Some of the turnaround initiatives that have been proposed by Montefiore include Population Health and Care Management Improvements. They include:

- Montefiore New Rochelle and Montefiore Mount Vernon seeking to enter into capitation and shared savings arrangements with private and government health plans through its existing IPA structure. The current savings projections Montefiore is using are based on their recent experience with newly managed lives. Both Mount Vernon and New Rochelle have low ratios of Primary Care Physicians (PCPs) to the population. Currently Mount Vernon has 1 PCP per 2,100 residents and New Rochelle has 1 PCP per 1,475 residents, which is low in comparison to the Westchester county wide average of 1 PCP per 1,250 residents. In order to rectify this Montefiore is seeking to partner with the existing primary care base, including private practicing physicians, large physician groups and FQHCs. If needed Montefiore will invest in building the PCP base by adding additional primary care practices.
- Strengthening quality incentives by extending Montefiore quality initiatives, including credentialing, quality and safety assurance and performance improvement plans and processes, which include Care guidance program and the ED navigator program. These programs usually result in lower lengths of stay, fewer readmissions and increased patient satisfaction.
- The expected annual benefit of these programs in 5 years is \$10 million dollars or 4% of revenue.

Some of the turnaround initiatives that have been proposed by Montefiore include Operating Efficiencies Improvements. They include:

- Montefiore purchase management can reduce the supply contract by between 5 to 10 % by using Montefiore's standard products and purchasing contracts for medical and surgical supplies. This is expected to be approximately \$2.2 million.
- Administrative savings can be generated in the amount of \$2 million due to the immediate restructuring of senior leadership and other corporate services such as HR, legal, corporate compliance and planning.

- Montefiore will also terminate the current biomedical engineering contract and will replace it with staff under MHS management. They will integrate other support services such as food services and laundry. This is expected to be approximately \$750,000 dollars.
- The facilities will be consolidated into smaller physical plants and the unused space that is developed due to this will be repurposed in order to bring efficiencies and opportunities for additional revenues. For example an assisted living facility may be developed on the Mount Vernon campus, which could provide a valuable community service as well as additional revenue to the hospital. This is expected to be \$1.6 million.
- In the long term, additional operating efficiencies are expected as Montefiore management practices are adopted. This is expected to be \$8.5 million.
- By Year 5 it is expected that \$15 million of annual operating efficiencies will be realized.

The final turnaround initiatives that have been proposed by Montefiore include Program Initiatives Improvements:

- Rebuilding the relationships with community physicians and increasing access to ambulatory care.
- Addressing the specialty care needs of the community by improving access to locally-provided specialty care provided by Montefiore Health System entities.
- Expansion of mental health programs.
- Currently Mount Vernon and New Rochelle provide less than half of the inpatient admissions from their respective markets. This is due to a lack of confidence of the local providers and the local community. Montefiore is attempting to restore the confidence of the community and rebuild clinical programs. In order to do this Montefiore will be focusing on specific areas of the hospitals. Which include:
 - Emergency room: Improve efficiency, clinical care, and physical plant of EDs at both Mount Vernon and Sound Shore
 - Women's Health: Strengthen relationships with OBs and leverage Montefiore's existing OB/GYN location in Larchmont in order to increase deliveries
 - Geriatric medicine: Develop relationships with local nursing homes
 - Cardiac Programs: Strengthen programs and evaluate reopening Cath Lab
 - Cancer programs: Develop diagnostic and therapeutic capabilities.
 - Surgical programs (e.g. bariatric, orthopedic, thoracic, vascular, urological) improve access and reduce outmigration.
- It is expected that by Year 5 the investments in the clinical program initiatives will contribute \$15 million annually to the facilities.

The overall impact of the turnaround initiatives appears to be an increase by Year 5 of 2,500 admissions, including newborns. It is expected that the overall revenue growth that will be generated by these initiatives is approximately \$50 million.

Subject to the noted contingencies and condition, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner; and approval is recommended.

Recommendation

From a financial perspective, contingent and conditional approval is recommended.

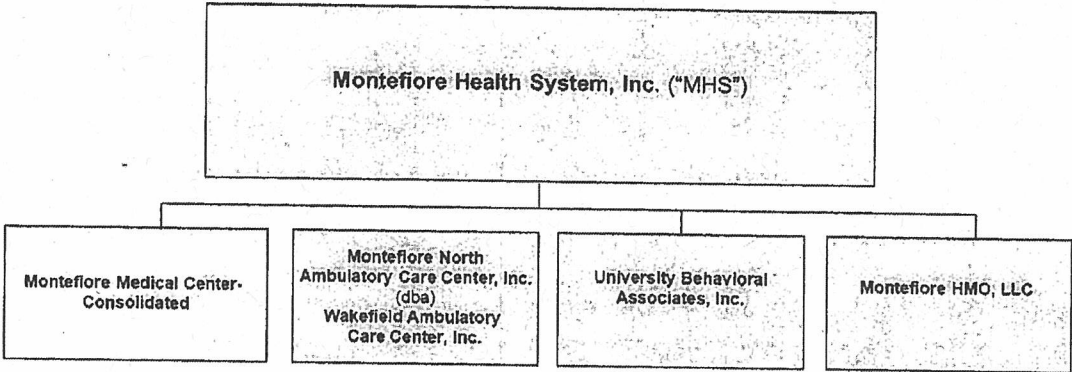
Attachments

BFA Attachment A	Organization Chart, Current and Proposed for Montefiore Health System
BFA Attachment B	Pro Forma Balance Sheet (Operator) Montefiore Mount Vernon Hospital, Inc.
BFA Attachment C	Pro Forma Balance Sheet (Real Estate) Montefiore MV Holdings, LLC
BFA Attachment D	2010-2011 Certified Financial Statements for Mount Vernon Hospital
BFA Attachment E	2010-2012 Certified Financial Statements for Montefiore Medical Center
BFA Attachment F	Internal Financial Statements for Montefiore Medical Center through June 30, 2013

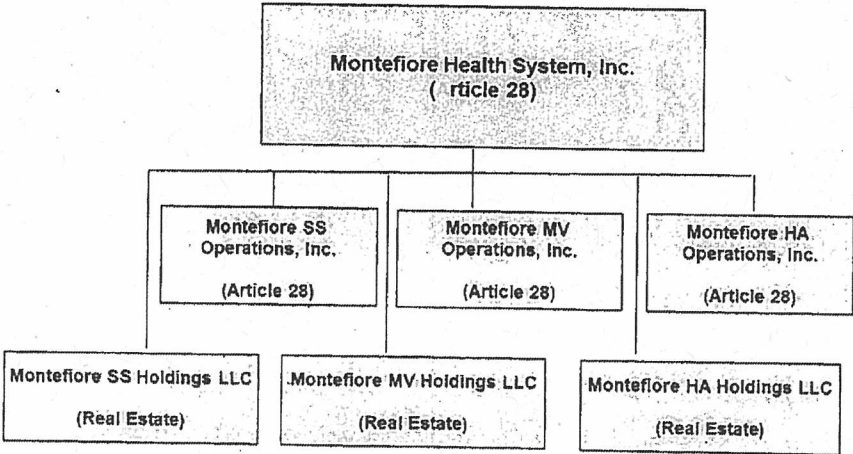
Schedule 1 – Project Narrative/Executive Summary

Establishing MHS as the active parent of Montefiore New Rochelle, Montefiore Mount Vernon, and Montefiore Howe Avenue will be accomplished through the amendment of the Articles of Incorporation and Bylaws of MHS, Montefiore SS Operations, Inc., Montefiore MV Operations, Inc., and Montefiore HA Operations, Inc. and result in the organizational structure below:

Current Corporate Structure



Post-Closing Structure
New Entities (additive to the chart above)



Proforma Balance Sheet
in \$000

Montefiore MV Operations, Inc. (Consolidated)

At Vernon

Assets

Current assets:

	2014 Projected	2015 Projected	2016 Projected
Cash and cash equivalents	(23,930)	(37,075)	(48,053)
Marketable and other securities, at market	-	-	-
Assets limited as to use - Marketable Securities	3,648	3,648	3,648
Receivables for patient care less allow. Doubtful	8,008	8,008	8,833
Other receivables	-	-	-
Estimated Insurance Claim Receivable, current portion	-	-	-
Other current assets	-	-	-

Total current assets

(12,276) (25,420) (35,672)

Non-Current Assets:

Assets limited as to use:

Marketable and other securities:

Sinking-funds	-	-	-
Employee deferred compensation plan	-	-	-
Marketable and other securities externally designated, at market	-	-	-
Malpractice Insurance Programs	-	-	-

Total Non Current Assets Limited as to Use:

- - -

Marketable securities held as collateral, at market

Property, building and equipment	33,592	34,892	36,191
Less: accumulated depreciation	(3,785)	(8,036)	(12,372)
Estimated Insurance Claim Receivable, net of current portion	-	-	-
Deferred financing costs and other noncurrent assets	-	-	-

Total Assets:

17,533 1,436 (11,754)

Liabilities and net assets

Current liabilities:

	2014 Projected	2015 Projected	2016 Projected
Trade accounts payable	730	730	743
Other payables and accrued expenses	-	-	-
Accrued salaries, wages and related items	959	959	1,010
Estimated Insurance Claims Liability, current portion	-	-	-
Current portion of long-term debt	1,331	1,393	1,458

Total current liabilities:

3,019 3,081 3,211

Non-Current liabilities:

Long Term Debt, less current portion	28,780	27,387	25,929
Non-current defined benefit and postretirement health plan and insurance liabilities	-	-	-
Estimated Insurance Claims Liability, net of current portion	-	-	-
Employee deferred compensation	-	-	-
Other non-current liabilities	-	-	-

Total Liabilities (Current+Non):

31,800 30,469 29,140

Net assets:

Unrestricted	(14,267)	(29,032)	(40,894)
Temporarily restricted	-	-	-
Permanently restricted	-	-	-

Total Net Assets:

(14,267) (29,032) (40,894)

Total Liabilities and Net Assets:

17,533 1,436 (11,754)

Proforma Balance Sheet
In \$000

Montefiore MV Holdings, Inc.

MI Vernon

Assets

Current assets:

Cash and cash equivalents
Marketable and other securities, at market
Assets limited as to use - Marketable Securities
Receivables for patient care less allow. Doubtful accts
Other receivables
Estimated Insurance Claim Receivable, current portion
Other current assets

Total current assets

Non-Current Assets:

Assets limited as to use:

Marketable and other securities:

Sinking-funds
Employee deferred compensation plan
Marketable and other securities externally
designated, at market
Malpractice Insurance Programs

Total Non Current Assets Limited as to Use:

Marketable securities held as collateral, at market
Property, building and equipment
Less: accumulated depreciation
Estimated Insurance Claim Receivable, net
of current portion
Deferred financing costs and other
noncurrent assets

Total Assets:

	2014 Projected	2015 Projected	2016 Projected
<u>Total current assets</u>	.	.	.
<u>Total Non Current Assets Limited as to Use:</u>	.	.	.
Marketable securities held as collateral, at market			
Property, building and equipment	20,121	20,121	20,121
Less: accumulated depreciation	(2,107)	(4,215)	(6,322)
Estimated Insurance Claim Receivable, net of current portion			
Deferred financing costs and other noncurrent assets			
<u>Total Assets:</u>	<u>18,013</u>	<u>15,906</u>	<u>13,799</u>

Liabilities and net assets

Current liabilities:

Trade accounts payable
Other payables and accrued expenses
Accrued salaries, wages and related items
Estimated Insurance Claims Liability, current
portion
Current portion of long-term debt

Total current liabilities:

Non-Current liabilities:

Long Term Debt, less current portion
Non-current defined benefit and
postretirement health plan and insurance
liabilities
Estimated Insurance Claims Liability, net of
current portion
Employee deferred compensation
Other non-current liabilities

Total Liabilities (Current+Non):

Net assets:

Unrestricted
Temporarily restricted
Permanently restricted

Total Net Assets:

Total Liabilities and Net Assets:

	2014 Projected	2015 Projected	2016 Projected
Trade accounts payable			
Other payables and accrued expenses			
Accrued salaries, wages and related items			
Estimated Insurance Claims Liability, current portion			
Current portion of long-term debt	639	671	704
<u>Total current liabilities:</u>	<u>639</u>	<u>671</u>	<u>704</u>
Long Term Debt, less current portion	18,873	18,203	17,498
Non-current defined benefit and postretirement health plan and insurance liabilities			
Estimated Insurance Claims Liability, net of current portion			
Employee deferred compensation			
Other non-current liabilities			
<u>Total Liabilities (Current+Non):</u>	<u>19,512</u>	<u>18,873</u>	<u>18,203</u>
Unrestricted	(1,499)	(2,967)	(4,404)
Temporarily restricted			
Permanently restricted			
<u>Total Net Assets:</u>	<u>(1,499)</u>	<u>(2,967)</u>	<u>(4,404)</u>
<u>Total Liabilities and Net Assets:</u>	<u>18,013</u>	<u>15,906</u>	<u>13,799</u>

The Mount Vernon Hospital
Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash	\$ 2,147,044	\$ 922,592
Assets limited as to use	4,996	188,783
Patient accounts receivable - less estimated uncollectible of \$29.9 million in 2011 and \$20.5 million in 2010	9,232,509	9,898,388
Due from third-party payors	3,194,340	3,705,529
Due from affiliates	427,535	179,369
Supplies and other current assets	1,665,961	1,211,027
Total current assets	16,672,385	16,105,688
Other non current assets	202,644	211,620
Assets limited as to use - less current portion	855,969	642,163
Property, buildings, and equipment - net	14,997,983	13,763,204
	\$ 32,728,981	\$ 30,722,675
Liabilities and net deficit		
Current liabilities		
Accounts payable and accrued expenses	\$ 16,612,006	\$ 12,933,327
Current portion of due to third-party payors	2,092,178	2,978,701
Due to affiliates	1,647,687	1,017,353
Accrued salaries, wages, and related items	1,589,244	1,375,417
Current installments of long-term debt	3,831,298	3,060,980
Current portion of accrued pension liability	656,000	634,000
Current portion of estimated liability for self-insured losses	1,400,000	911,000
Total current liabilities	27,828,413	22,910,778
Due to third-party payors	3,903,726	4,417,060
Long-term debt - less current portion	299,237	1,302,513
Accrued pension liability	6,428,310	5,235,005
Estimated liability for self-insured losses - less current portion	8,252,370	7,856,181
Asset retirement obligation	563,482	505,017
Total liabilities	47,275,538	42,226,554
Net assets (deficit)		
Unrestricted deficit	(15,407,492)	(12,311,941)
Temporarily restricted	165,899	165,899
Permanently restricted	695,036	642,163
Net deficit	(14,546,557)	(11,503,879)
Total liabilities and net deficit	\$ 32,728,981	\$ 30,722,675

The accompanying notes are an integral part of these financial statements.

The Mount Vernon Hospital
Statements of Operations
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of bad debt expense of \$8,188,159 and \$7,400,024 for 2011 and 2010, respectively	\$ 62,329,498	\$ 73,876,582
Other revenue	6,651,071	5,810,896
Grant received for repayment of debt	5,938,457	6,003,240
Net assets released from restriction for operations	-	27,243
Total operating revenues	<u>74,919,026</u>	<u>85,717,961</u>
Operating expenses		
Salaries and wages	38,569,485	41,205,007
Employee benefits	10,755,541	8,919,175
Supplies and other	24,992,100	26,934,601
Depreciation and amortization	2,549,387	2,276,419
Interest	458,893	635,198
Total operating expenses	<u>77,325,406</u>	<u>79,970,400</u>
Deficiency of revenue over expenses	(2,406,380)	5,747,561
Other changes		
Change in pension benefits	(689,171)	(635,705)
Net assets released from restrictions for capital	-	10,237
(Increase) decrease in unrestricted net deficit	<u>\$ (3,095,551)</u>	<u>\$ 5,122,093</u>

The accompanying notes are an integral part of these financial statements.

Montefiore Medical Center
Consolidated Statements of Financial Position

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,779	\$ 26,855
Marketable and other securities	914,410	775,680
Assets limited as to use – marketable securities	48,867	49,440
Receivables for patient care, less allowances for doubtful accounts (2012 – \$23,141; 2011 – \$20,850)	159,831	161,779
Other receivables	52,456	49,784
Estimated insurance claims receivable, current portion	73,189	73,115
Other current assets	29,548	31,157
Total current assets	1,309,080	1,167,810
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	68,706	64,257
Employee deferred compensation plan	15,220	12,154
Marketable and other securities externally designated	111,929	94,766
Malpractice insurance programs	–	19,421
Total non-current assets limited as to use	195,855	190,598
Marketable securities held as collateral	5,880	6,040
Property, buildings and equipment, at cost, net	775,882	738,541
Estimated insurance claims receivable, net of current portion	414,740	414,320
Deferred financing costs and other non-current assets	139,965	114,049
Total assets	\$ 2,841,402	\$ 2,631,358
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 93,992	\$ 81,057
Other payables and accrued expenses	208,159	202,388
Accrued salaries, wages and related items	203,927	183,435
Estimated insurance claims liabilities, current portion	73,189	73,115
Current portion of long-term debt	41,742	39,356
Total current liabilities	621,009	579,351
Long-term debt, less current portion	537,025	550,610
Non-current defined benefit and postretirement health plan and insurance liabilities	257,537	236,114
Employee deferred compensation	15,220	12,154
Estimated insurance claims liabilities, net of current portion	414,740	414,320
Other non-current liabilities	303,834	285,457
Total liabilities	2,149,365	2,078,006
Commitments and contingencies		
Net assets:		
Unrestricted	592,387	455,208
Temporarily restricted	74,300	72,794
Permanently restricted	25,350	25,350
Total net assets	692,037	553,352
Total liabilities and net assets	\$ 2,841,402	\$ 2,631,358

See accompanying notes.

Montefiore Medical Center
Consolidated Statements of Operations

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 2,903,751	\$ 2,769,846
Grants and contracts	73,650	72,656
Contributions	4,627	4,594
Other revenue	102,429	102,604
Total operating revenue	<u>3,084,457</u>	<u>2,949,700</u>
Operating expenses		
Salaries and wages	1,384,336	1,336,865
Employee benefits	418,609	392,516
Supplies and other expenses	1,044,221	1,020,587
Depreciation and amortization	110,268	100,824
Interest	26,817	28,010
Total operating expenses	<u>2,984,251</u>	<u>2,878,802</u>
Income from operations before certain items	100,206	70,898
Net realized and changes in unrealized gains (losses) on marketable and other securities	35,254	(11,558)
Malpractice insurance program adjustments associated with investment gains (losses)	16,958	(25,894)
Medical resident tax recovery	10,342	-
Income from operations	<u>162,760</u>	<u>33,446</u>
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(26,495)	(4,509)
Net assets released from restrictions used for purchases of property, buildings, and equipment	914	3,861
Increase in unrestricted net assets	<u>\$ 137,179</u>	<u>\$ 32,798</u>

See accompanying notes.

Montefiore Medical Center
Consolidated Statements of Financial Position

	December 31	
	2011	2010
	<i>(In Thousands)</i>	
		As Adjusted <i>(Note 1)</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,855	\$ 12,517
Marketable and other securities	775,680	767,311
Assets limited as to use – marketable securities	49,440	47,018
Receivables for patient care, less allowances for doubtful accounts (2011 – \$132,170; 2010 – \$120,026)	161,779	163,594
Other receivables	49,784	57,765
Estimated insurance claims receivable, current portion	73,115	77,189
Other current assets	31,157	27,896
Total current assets	1,167,810	1,153,290
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	64,257	60,032
Employee deferred compensation plan	12,154	10,114
Marketable and other securities externally designated	94,766	92,243
Malpractice insurance programs	19,421	—
Total non-current assets limited as to use	190,598	162,389
Marketable securities held as collateral	6,040	6,464
Property, buildings and equipment, at cost, net	738,541	717,418
Estimated insurance claims receivable, net of current portion	414,320	437,404
Deferred financing costs and other non-current assets	114,049	100,651
Total assets	\$ 2,631,358	\$ 2,577,616
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 81,057	\$ 77,052
Other payables and accrued expenses	202,388	215,773
Accrued salaries, wages and related items	183,435	175,651
Estimated insurance claims liabilities, current portion	73,115	77,189
Current portion of long-term debt	39,356	36,624
Total current liabilities	579,351	582,289
Long-term debt, less current portion	550,610	573,519
Non-current defined benefit and postretirement health plan and insurance liabilities	236,114	199,596
Employee deferred compensation	12,154	10,114
Estimated insurance claims liabilities, net of current portion	414,320	437,404
Other non-current liabilities	285,457	254,490
Total liabilities	2,078,006	2,057,412
Commitments and contingencies		
Net assets:		
Unrestricted	455,208	422,410
Temporarily restricted	72,794	72,444
Permanently restricted	25,350	25,350
Total net assets	553,352	520,204
Total liabilities and net assets	\$ 2,631,358	\$ 2,577,616

See accompanying notes.

Montefiore Medical Center
 Consolidated Statements of Operations

	Year Ended December 31	
	2011	2010
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 2,798,093	\$ 2,726,531
Grants and contracts	72,656	68,317
Contributions	4,594	5,140
Other	102,604	87,145
Total operating revenue	<u>2,977,947</u>	<u>2,887,133</u>
Operating expenses		
Salaries and wages	1,336,865	1,271,976
Employee benefits	392,516	372,709
Supplies and other expenses	1,048,834	1,034,260
Depreciation and amortization	100,824	99,378
Interest	28,010	31,786
Total operating expenses	<u>2,907,049</u>	<u>2,810,109</u>
Income from operations before certain items	70,898	77,024
Net realized and changes in unrealized (losses) gains on marketable and other securities	(11,558)	34,534
Malpractice insurance program adjustments associated with investment losses	(25,894)	-
Medical resident tax recovery	-	21,500
Income from operations	<u>33,446</u>	<u>133,058</u>
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(4,509)	(1,286)
Net assets released from restrictions used for purchases of property, buildings and equipment	3,861	2,267
Increase in unrestricted net assets	<u>\$ 32,798</u>	<u>\$ 134,039</u>

See accompanying notes.

MONTEFIORE MEDICAL CENTER

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30 2013	December 31 2012
<i>(In Thousands)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,063	\$ 30,779
Assets limited as to use - marketable securities	43,815	48,867
Receivables for patient care less allowances for doubtful accounts	173,357	159,831
Other receivables	71,312	52,456
Marketable and other securities, at market	947,794	914,410
Estimated insurance claims receivable	73,189	73,189
Other current assets	35,612	29,548
Total current assets	1,386,142	1,309,080
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	72,388	68,706
Employee deferred compensation plan	18,291	15,220
Marketable and other securities externally designated	115,946	111,929
Total assets limited as to use	206,625	195,855
Estimated insurance claims receivable - non current	414,740	414,740
Marketable securities held as collateral	5,884	5,880
Property, buildings and equipment at cost, net	849,986	775,882
Deferred financing costs and other non-current assets	143,870	139,965
Total assets	\$ 3,007,247	\$ 2,841,402
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 83,335	\$ 93,992
Other payables and accrued expenses	160,435	141,521
Accrued salaries, wages and related items	214,625	203,927
Current malpractice insurance premiums payable	70,810	66,638
Estimated insurance claims liabilities	73,189	73,189
Current portion of long-term debt	40,954	41,742
Total current liabilities	643,348	621,009
Long-term debt, less current portion	561,869	537,025
Non-current defined benefit and postretirement health plan and insurance liabilities	263,897	257,537
Estimated insurance claims liabilities - non current	414,740	414,740
Employee deferred compensation	18,291	15,220
Other non-current liabilities	340,089	303,834
Total liabilities	1,598,886	1,528,356
Net assets:		
Unrestricted	664,716	592,387
Temporarily restricted	74,947	74,300
Permanently restricted	25,350	25,350
Total net assets	765,013	692,037
Total liabilities and net assets	\$ 3,007,247	\$ 2,841,402

MONTEFIORE MEDICAL CENTER
CONSOLIDATED STATEMENTS OF OPERATIONS
ACTUAL AND BUDGET COMPARED
YEAR-END FINANCIAL STATEMENT FORMAT
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(In Thousands)

	YEAR TO DATE			
	ACTUAL	BUDGET	VARIANCE	%
Operating Revenue				
Inpatient	\$ 774,246	\$ 757,205	\$ 17,041	2.3%
Outpatient	472,840	490,649	(17,809)	-3.6%
Premium Revenue	279,196	282,917	(3,721)	-1.3%
Net patient service revenue	1,526,282	1,530,771	(4,489)	-0.3%
Grants and contracts	40,485	40,283	202	0.5%
Contributions	1,365	1,213	152	12.5%
Other	63,667	60,820	2,847	4.7%
Total operating revenue	1,631,799	1,633,087	(1,288)	-0.1%
Operating Expenses				
Salaries and wages	727,525	734,341	6,816	0.9%
Employee benefits	232,369	237,107	4,738	2.0%
Supplies and other expenses	552,812	543,903	(8,909)	-1.6%
Depreciation and amortization	57,948	56,970	(978)	-1.7%
Interest	13,671	13,873	202	1.5%
Total operating expenses	1,584,325	1,586,194	1,869	0.1%
Income from operations before certain items	47,474	46,893	581	1.2%
Net realized and changes in unrealized gains on marketable and other securities	23,830	-	23,830	100.0%
Malpractice insurance program adjustments associated with investment gains	1,025	-	1,025	100.0%
Increase in unrestricted net assets	\$ 72,329	\$ 46,893	\$ 25,436	54.2%



Public Health and Health Planning Council

Project #132103-E

Schaffer Extended Care Center, Inc.

County: Westchester County
Purpose: Establishment

Program: Residential Health Care Facility
Submitted: August 13, 2013

Executive Summary

Description

Schaffer Extended Care Center, Inc. requests to be established as the new operator of Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center, a 150 bed Nursing home. In addition, Montefiore Health System, Inc. (MHS), a not-for-profit corporation which is currently the active parent of Montefiore Medical Center and Wakefield Ambulatory Care Center, both not-for-profit health care operators with facilities located in the Bronx, is seeking approval to become the active parent and co-operator of three newly formed MHS operating affiliates: Montefiore New Rochelle Hospital, Inc., Montefiore Mount Vernon Hospital, Inc., and Schaffer Extended Care Center, Inc. MHS will also be the sole corporate member of three newly formed real estate affiliates: Montefiore SS Holdings, LLC, Montefiore MV Holdings, LLC and Montefiore HA Holdings, LLC.

These new entities were formed in order to take over the operations and real estate ownership of Sound Shore Health Systems, Inc. (SSHS) through an asset purchase agreement between the six above listed entities and SSHS. SSHS includes Sound Shore Medical Center of Westchester, Mount Vernon Hospital, Howe Avenue Nursing home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center, NRHMC Services Corporation, The M.V.H. Corporation, and New Rochelle Sound Shore Housing, LLC.

Affiliates of the applicant are also requesting approval to be established as the operators of the following health care facilities:

- Montefiore New Rochelle Hospital, Inc. will be the new operator of Sound Shore Medical Center of Westchester (132101)

- Montefiore Mount Vernon Hospital, Inc. will be the new operator of Mount Vernon Hospital (132102)

The three applications are being processed concurrently.

On May 29th, 2013, SSHS filed for Chapter 11 Bankruptcy protection in U.S. Bankruptcy Court. On the same day, SSHS and Montefiore New Rochelle Hospital, Inc. (Montefiore New Rochelle), Montefiore Mount Vernon Hospital, Inc. (Montefiore Mount Vernon), Schaffer Extended Care Center, Inc. (Schaffer Extended Care Center), Montefiore SS Holdings, LLC, Montefiore MV Holdings, LLC, and Montefiore HA Holdings, LLC entered into an asset purchase agreement to acquire the assets of SSHS, which includes Sound Shore Medical Center of Westchester, Mount Vernon Hospital, Howe Avenue Nursing home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center, NRHMC Services Corporation, The M.V.H. Corporation and New Rochelle Sound Shore Housing, LLC.

On August 2, 2013 the court issued an order approving the sale of SSHS assets to the applicant on the terms described herein.

MHS states that this project offers the following efficiencies and opportunities:

- Improved financial condition of the current facilities
- Population health management
- Growth of additional services best suited to the communities
- Improved strategic planning
- Resource allocation

- Governance oversight
- Centralization, sharing and coordination of operational management

Ownership of the operation of Schaffer Extended Care Center, before and after the requested change, is as follows:

Operation			
Before		After	
Howe Avenue Nursing home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center		Schaffer Extended Care Center	
Name	Percent Owned	Name	Percent Owned
Howe Avenue Nursing home, Inc.	100%	Schaffer Extended Care Center, Inc.	100%

Ownership of the Real Estate before and after the requested change is as follows:

Real Estate			
Before		After	
Name	Percent Owned	Name	Percent Owned
Sound Shore Health Systems, Inc.	100%	Montefiore HA Holdings, LLC.	100%

BFA Attachment A is the organizational chart for MHS providers under the active parent structure.

As active parent and co-operator MHS, will have the power and authority to make decisions for its affiliates as stated in its certificate of incorporation and bylaws, as follows:

- (1) appointment or dismissal of hospital management level employees and medical staff, except the election or removal of corporate officers by the members of a not-for-profit corporation;
- (2) approval of hospital operating and capital budgets;
- (3) adoption or approval of hospital operating policies and procedures;
- (4) approval of certificate of need applications filed by or on behalf of the hospital;
- (5) approval of hospital debt necessary to finance the cost of compliance with operational or physical plant standards required by law;

- (6) approval of hospital contracts for management or for clinical services; and
- (7) approval of settlements of administrative proceedings or litigation to which the hospital is party, except approval by the members of a not-for-profit corporation of settlements of litigation that exceed insurance coverage or any applicable self-insurance fund.

DOH Recommendation
Contingent Approval

Need Summary

There will be no change in the nursing home's beds or services as a result of this application. Schaffer Extended Care's occupancy was 88.9% in 2010.

Program Summary

No negative information has been received concerning the character and competence of the proposed applicants identified as new members. No changes in the program or physical environment are proposed in this application. No administrative services or consulting agreements are proposed in this application.

Financial Summary

There are no project costs associated with this project. The purchase price of \$10,287,458 will be met via a loan from Montefiore Medical Center to Montefiore Health Systems, Inc. and then from Montefiore Health Systems Inc. to Montefiore HA Holdings, LLC for the real estate portion of the purchase price, which is \$10,060,458 at a 5% interest rate for a 20 year term. The remaining amount will be given by Montefiore Health System to Schaffer Extended Care Center, Inc. for the capital portion of the purchase price, which is \$227,000 at a 4% interest rate for a 5 year term.

Budget:	Revenues:	\$22,415,000
	Expenses:	<u>\$22,459,000</u>
	Gain/ (Loss)	(\$44,000)

Subject to the noted contingencies and the condition, and continued support of the active parent, the applicant has demonstrated the capability to proceed in a financially feasible manner.

Recommendations

Health Systems Agency

There will be no HSA review for this project.

Office of Health Systems Management

Approval contingent upon:

1. The submission of a commitment signed by the applicant which indicates that, within two years from the date of the council approval, the percentage of all admissions who are Medicaid and Medicare/Medicaid eligible at the time of admission will be at least 75 percent of the planning area average of all Medicaid and Medicare/Medicaid admissions, subject to possible adjustment based on factors such as the number of Medicaid patient days, the facility's case mix, the length of time before private paying patients became Medicaid eligible, and the financial impact on the facility due to an increase in Medicaid admissions. [RNR]
2. Submission of a plan to continue to enhance access to Medicaid residents. At a minimum, the plan should include, but not necessarily limited to, ways in which the facility will:
 - a) Reach out to hospital discharge planners to make them aware of the facility's Medicaid Access Program;
 - b) Communicate with local hospital discharge planners on a regular basis regarding bed availability at the nursing facility;
 - c) Identify community resources that serve the low-income and frail elderly population who may eventually use the nursing facility, and inform them about the facility's Medicaid Access policy; and
 - d) Submit an annual report for two years to the DOH, which demonstrates substantial progress with the implement of the plan. The plan should include but not be limited to:
 - Information on activities relating to a-c above; and
 - Documentation pertaining to the number of referrals and the number of Medicaid admissions; and
 - Other factors as determined by the applicant to be pertinent.The DOH reserves the right to require continued reporting beyond the two year period. [RNR]
3. Submission of a project timeline detailing the installation of sprinkler system, with 100% coverage, and subsequent CMS certification of compliance. [LTC]
4. Submission of executed building lease acceptable to the Department of Health. [BFA]
5. Submission of an original affidavit from the applicant, which is acceptable to the Department, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding between the applicant and the transferor to the contrary, to be liable and responsible for any Medicaid overpayments made to the facility and/or surcharges, assessments or fees due from the transferor pursuant to Article 28 of the Public Health Law with respect to the period of time prior to the applicant acquiring its interest, without releasing the transferor of its liability and responsibility. [BFA]
6. Submission of a Letter of Commitment from Montefiore Medical Center to enter into long term loan to Montefiore Health System in principal amount of up to \$106,890,469 as well as provide funds anticipated to be up to \$65,000,000 during the first three years of operation to Montefiore Health System. Included with the submitted loan commitment must be a sources and uses statement and debt amortization schedule, acceptable to the Department of Health. [BFA]
7. Submission of a Letter of Commitment from Montefiore Health System to enter into subvention agreement and / or loans in the form of available lines of credit of up to \$65,000,000. Included with the submitted permanent mortgage commitment must be a sources and uses statement and debt amortization schedule, acceptable to the Department of Health. [BFA]
8. Submission of an executed Certificate of Amendment of the Certificate of Incorporation that is acceptable to the Department. [CSL]
9. Submission of the Certificate of Incorporation and all amendments thereto of Montefiore Health Systems, Inc. that is acceptable to the Department. [CSL]
10. Submission of an Amended and Restated Bylaw for Montefiore Health System, Inc. that is acceptable to the Department. [CSL]
11. Submission of an Asset Purchase Agreement that is acceptable to the Department. [CSL]
12. Submission of site control that is acceptable to the Department. [CSL]

Approval conditional upon:

1. The project must be completed within one year from the Public Health and Health Planning Council recommendation letter. Failure to complete the project within the prescribed time shall constitute an abandonment of the application by the applicant and an expiration of the approval. [PMU]
2. Submission of annual reports, acceptable to the Department of Health, detailing progress made in achieving breakeven or profitable operations of the facility. [BFA]

Council Action Date

October 22, 2013.

Need Analysis

Background

Schaffer Extended Care Center, Inc. is seeking approval to become the operator of Howe Avenue Nursing Home d/b/a Schaffer Extended Care Center and Montefiore Health System, Inc., the active parent of Montefiore Medical Center, is seeking approval to become the active parent and co-operator Howe Avenue Nursing Home d/b/a Schaffer Extended Care Center, a 150-bed Nursing Home located at 16 Guion Place, New Rochelle, 10802, in Westchester County.

There is currently an unmet need of 43 beds in Westchester County as shown in Table 1.

Table 1: RHCF Need – Westchester County

2016 Projected Need	6716
Current Beds	6720
Beds Under Construction	-47
Total Resources	6673
Unmet Need	43

Table 2 shows the occupancy of Shaffer Extended Care compared to Westchester County. Shaffer Extended Care's occupancy was significantly lower than that of Westchester County in 2009 and 2010. The facility did not report occupancy in 2011.

Facility/County	Occupancy 2009	Occupancy 2010	Occupancy 2011
Helen and Michael Schaffer Extended Care	89.2%	88.9%	Did not Report
Westchester County	91.9%	95.7%	95.4%

Access

Regulations indicate that the Medicaid patient admissions standard shall be 75% of the annual percentage of all Medicaid admissions for Westchester County. In calculating such percentages, the Department will use the most current data which have been received and analyzed by the Department. Helen and Michael Schaffer Extended Care will be required to make appropriate adjustments in its admission policies and practices so that the proportion of its own annual Medicaid patients admissions is at least 75% of the planning area percentage of Health Systems Agency percentage, whichever is applicable.

Medicaid admissions at Helen and Michael Schaffer Extended Care:

2010 – 30.95%

2011 – Did Not Report

Westchester County Medicaid Admissions

2010– 21.42%

2011 - 23.8%

Conclusion

Approval of this application will give Montefiore Health System the ability to exercise active powers over Shaffer Extended Care and to gain oversight of day-to-day operations so that the facility will continue to meet community needs.

Recommendation

From a need perspective, contingent approval is recommended.

Programmatic Analysis

Background

No changes in the program or physical environment are proposed in this application. No administrative services or consulting agreements are proposed in this application.

Howe Avenue Nursing Home, Inc. did not install the CMS mandated sprinkler system by the August 13, 2013 deadline. In order to proceed with the change of ownership, the applicant must submit a plan of compliance to obtain CMS certification.

Facility Information

	Existing	Proposed
Facility Name	Helen and Michael Schaffer Extended Care Facility	Schaffer Extended Care Center, Inc.
Address	16 Guion Place New Rochelle, NY. 10802	Same
RHCF Capacity	150	Same
ADHC Program Capacity	35	Same
Type of Operator	Voluntary	Voluntary
Class of Operator	Not-for-profit Corporation	Not-for-profit Corporation
Operator	Howe Avenue Nursing Home Inc.	<p><u>Schaffer Extended Care Center, Inc.</u> Steven M. Safyer, MD, President Christopher S. Panczner, Secretary Philip O. Ozuah, MD, Treasurer</p> <p><u>Sole Corporate member/Active Parent - Montefiore Health Systems, Inc.</u> <u>Board of Trustees:</u> Oded Aboodi Joseph W. Bartlett Robert A. Bernhard Lewis Henkind Steven M. Safyer, MD Edwin Stern, III David A. Tanner</p>

Character and Competence - Background

Facilities Reviewed

Hospitals

Montefiore Medical Center – Henry & Lucy Moses Division	09/2003 to present
Montefiore Medical Center – Weiler Hospital	09/2003 to present
Montefiore Medical Center – Wakefield Hospital	01/2008 to present
Montefiore Medical Center – Montefiore Westchester Square	09/2003 to present

Diagnostic and Treatment Center

Wakefield Ambulatory Care Center, Inc.	09/2003 to present
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Adult Care Facility

The Bristol of North Woodmere	09/2003 to 12/2008
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Long Term Home Health Care Program

Montefiore Medical Center Long Term Home Health Care Program	09/2003 to present
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Certified Home Health Agency

Montefiore Medical Center Home Care and Extended Services 09/2003 to present

Individual Background Review

Steven Safyer, MD is the President and Chief Executive Officer of Montefiore Medical Center and has been in this role since 2008. He was previously the Senior Vice President and Chief Medical Officer for Montefiore Medical Center. He is a registered physician and is considered to be in good standing. Dr. Safyer discloses that he is a board member for Montefiore Health System, Inc., which includes the following health facilities:

Montefiore Medical Center – Henry & Lucy Moses Division	01/2008 to present
Montefiore Medical Center – Weiler Hospital	01/2008 to present
Montefiore Medical Center – Wakefield Hospital	01/2008 to present
Montefiore Medical Center – Montefiore Westchester Square	01/2008 to present
Wakefield Ambulatory Care Center	01/2008 to present
Montefiore Medical Center Long Term Home Health Care Program	01/2008 to present
Montefiore Medical Center Home Care and Extended Services	01/2008 to present

Christopher Panczner is a licensed attorney in New York and Illinois and is considered to be in good standing. He is currently employed as the Senior Vice President and General Counsel for Montefiore Medical Center, and has held that position since 2008. He was previously employed as the Senior Vice President at Saint Vincent Catholic Medical Centers. Mr. Panczner discloses that he is a board member of the following health facility:

Wakefield Ambulatory Care Center	01/2008 to present
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Philip Ozuah, MD is the Executive Vice President and Chief Operating Officer of Montefiore Medical Center and has been in this role since January 2012. He was previously the Chairman of Pediatrics at Montefiore Medical Center from 2006 through 2012. He is a registered physician and is considered to be in good standing. Dr. Ozuah discloses that he is a board member of the following health facility:

Wakefield Ambulatory Care Center	01/2012 to present
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Oded Aboodi is an Executive at Alpine Resources, LLC, an investment bank located in New York, New York. Mr. Aboodi discloses that he is a board member for Montefiore Health System, Inc., which includes the following health facilities:

Montefiore Medical Center – Henry & Lucy Moses Division	01/2008 to present
Montefiore Medical Center – Weiler Hospital	01/2008 to present
Montefiore Medical Center – Wakefield Hospital	01/2008 to present
Montefiore Medical Center – Montefiore Westchester Square	01/2008 to present
Wakefield Ambulatory Care Center	01/2008 to present
Montefiore Medical Center Long Term Home Health Care Program	01/2008 to present
Montefiore Medical Center Home Care and Extended Services	01/2008 to present

Joseph Bartlett is an attorney in good standing and is licensed to practice in New York, Massachusetts, the Washington D.C Court of Appeals, and the U.S. District Court (Southern District NY). He is currently special counsel at McCarter and English LLP, a law firm located in New York, New York. He has been in this position since May 2013. Prior to this, Mr. Bartlett was of counsel at the law firm Sullivan and Worcester LLP from 2009 through May 2013 and at Fish and Richardson, PC from 2003 to 2009, both located in New York, New York. Mr. Bartlett discloses that he is a board member for Montefiore Health Systems, Inc., which includes the following health facilities:

Montefiore Medical Center – Henry & Lucy Moses Division	1987 to present
Montefiore Medical Center – Weiler Hospital	1987 to present
Montefiore Medical Center – Wakefield Hospital	1987 to present
Montefiore Medical Center – Montefiore Westchester Square	1987 to present
Wakefield Ambulatory Care Center	1987 to present
Montefiore Medical Center Long Term Home Health Care Program	1987 to present
Montefiore Medical Center Home Care and Extended Services	1987 to present

Robert Bernhard has been a partner for over 10 years at both the investment bank McFarland Dewey Securities Co., LLC and the investment firm Munn, Bernhard, and Associates, both located in New York, New York. Mr. Bernhard discloses that he is a board member for Montefiore Health Systems, Inc., which includes the following health facilities:

Montefiore Medical Center – Henry & Lucy Moses Division	1959 to present
Montefiore Medical Center – Weiler Hospital	1959 to present
Montefiore Medical Center – Wakefield Hospital	1959 to present
Montefiore Medical Center – Montefiore Westchester Square	1959 to present
Wakefield Ambulatory Care Center	1959 to present
Montefiore Medical Center Long Term Home Health Care Program	1959 to present
Montefiore Medical Center Home Care and Extended Services	1959 to present

Lewis Henkind is a licensed attorney in New York and is considered to be in good standing. He has been the President of the Real Estate Development Company, Lewis Henkind Company, located in White Plains, New York for the past 33 years. Mr. Henkind discloses that he is a board member for Montefiore Health Systems, Inc., which includes the following health facilities:

Montefiore Medical Center – Henry & Lucy Moses Division	1996 to present
Montefiore Medical Center – Weiler Hospital	1996 to present
Montefiore Medical Center – Wakefield Hospital	1996 to present
Montefiore Medical Center – Montefiore Westchester Square	1996 to present
Wakefield Ambulatory Care Center	1996 to present
Montefiore Medical Center Long Term Home Health Care Program	1996 to present
Montefiore Medical Center Home Care and Extended Services	1996 to present
The Bristol of North Woodmere	08/2003 to 12/2008

Edwin Stern, III has been the Executive Vice President of Seiden Kreiger Associates, a consulting agency located in New York, New York for the past 10 years. Mr. Stern discloses that he is a board member for Montefiore Health Systems, Inc., which includes the following health facilities:

Montefiore Medical Center – Henry & Lucy Moses Division	1968 to present
Montefiore Medical Center – Weiler Hospital	1968 to present
Montefiore Medical Center – Wakefield Hospital	1968 to present
Montefiore Medical Center – Montefiore Westchester Square	1968 to present
Wakefield Ambulatory Care Center	1968 to present
Montefiore Medical Center Long Term Home Health Care Program	1968 to present
Montefiore Medical Center Home Care and Extended Services	1968 to present

David Tanner is a licensed attorney in New York and is considered to be in good standing. He is currently the Executive Vice President of Continental Grain Company, an investment firm located in New York, New York. He has been in this position for the past 7 years. Prior to this, Mr. Tanner was a Managing Principal in the private equity firm Quadrangle Group LLC located in New York, New York. Mr. Tanner discloses that he is a board member for Montefiore Health Systems, Inc., which includes the following health facilities:

Montefiore Medical Center – Henry & Lucy Moses Division	1998 to present
Montefiore Medical Center – Weiler Hospital	1998 to present
Montefiore Medical Center – Wakefield Hospital	1998 to present
Montefiore Medical Center – Montefiore Westchester Square	1998 to present
Wakefield Ambulatory Care Center	1998 to present
Montefiore Medical Center Long Term Home Health Care Program	1998 to present
Montefiore Medical Center Home Care and Extended Services	1998 to present

Character and Competence - Analysis

No negative information has been received concerning the character and competence of the applicants.

Montefiore Medical Center – Henry & Lucy Moses Division was assessed a fine of \$14,000 for violations identified during a January 2007 complaint investigation survey relating to the discharge of a pediatric patient to an unsafe home environment. The hospital implemented corrective actions that were monitored by Department staff to ensure compliance.

A review of Montefiore Medical Center – Henry & Lucy Moses Division results in a conclusion of a substantially consistent high level of care since there were no repeat enforcements.

A review of the operations at Montefiore Medical Center – Weiler Hospital, Wakefield Hospital, Montefiore Westchester Square, Wakefield Ambulatory Care Center Inc., Montefiore Medical Center Long Term Home Health Care Program, and the Montefiore Medical Center Home Care and Extended Services for the time periods identified above reveals that a substantially consistent high level of care has been provided since there were no enforcements.

Conclusion

No negative information has been received concerning the character and competence of the proposed board members.

Recommendation

From a programmatic perspective, contingent approval is recommended.

<h2>Financial Analysis</h2>

Financing

The applicant's financing plan appears as follows:

Real Estate Loan @ 20 yrs. for 5% interest	\$10,060,458
Equipment Loan @ 5 years for 4 % interest rate	<u>\$227,000</u>
Total Purchase Price	\$10,287,458

Asset Purchase Agreement

The transfer of assets, liabilities, beds and services will be effectuated in accordance with an executed asset purchase agreement dated May 29th, 2013, the terms of which are summarized below:

Seller:	Sound Shore Health Systems, Inc. (SSHS) which includes Sound Shore Medical Center of Westchester (SSMC), Mount Vernon Hospital (MVH), Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center (SECC), NRHMC Services Corporation, The M.V.H. Corporation and New Rochelle Sound Shore Housing, LLC.
Buyer:	Montefiore New Rochelle Hospital, Inc., Montefiore Mount Vernon Hospital, Inc., and Schaffer Extended Care Center, Inc., each New York not for profit corporations and Montefiore SS Holdings, LLC, Montefiore MV Holdings, LLC, and Montefiore HA Holdings, LLC, each a New York limited liability company.
Assets Transferred:	All rights, title and interests in All owned Real Property of the Seller including without limitation the owned real property listed on Schedule 4.8(a-1), the interests of the Sellers, whether as landlord or tenant, under the Real Property leases for the leased real property listed on Schedule 4.8(a-2), sellers' furniture and equipment and inventory other than the furniture, equipment and inventory identified by the buyer on schedule 2.1 (C), no later than 60 days following the effective date, All assigned contracts listed on schedule 2.1 (d), including all of sellers' rights of set-off under such assigned contracts, which schedule shall be delivered by buyer to sellers no later than 35 days following the effective date, provided that buyer shall be permitted to remove any contract from schedule 2.1 (d) by written notice to the sellers any time before the 30 th day prior to closing date and to add any contract not previously included on schedule 2.1(d) but as to which the buyer notifies the sellers, any time on or before the 30 th day prior to closing date, , All intellectual property of sellers including without limitation the intellectual

	<p>property listed on schedule 4.9 related to the acquired assets or used in the business, subject to section 2.6, all books, records and data of the sellers of every kind, whether in hard copy, electronic or digital format and however maintained or stored, excepting only the corporate minute books of the sellers; provided, however, with respect to sellers' medical records, only those medical records for (1) in-patients of SSMC, MVH and/or SECC as of the closing date and (2) outpatients undergoing an active course of treatment during the 3 month period prior to the closing date shall constitute acquired assets; any prepaid deposits; subject to sellers' right to remediate any such damage with insurance proceeds, all proceeds or proceeds receivable of sellers' insurance and unliquidated or unsatisfied claims that relate to property damage with respect to owned real property or leased real property of the sellers occurring prior to closing and all other insurance proceeds and insurance proceeds receivable (including applicable deductibles, co-payments or self-insured requirements) arising from any claim made under the sellers insurance policies with respect to the acquired assets but excluding insurance proceeds and insurance proceeds receivable in respect of tort liabilities such as medical malpractice claims and other excluded liabilities; all rights of sellers under or pursuant to all warranties, representations and guarantees made by suppliers, manufactures and contractors to the extent relating to services provided to the sellers after the closing or to the extent affecting any acquired assets, other than any warranties, representations and guarantees pertaining to any excluded assets; the going concern value and goodwill of the business of each of the sellers; and donor restricted assets and endowment funds held by, or for the benefit of the sellers, the income and/or corpus of which has been designated for use in support of, for the benefit of, or otherwise relating to, any of the sellers' missions, operations, programs, services, assets and/or facilities (collectively, the "restricted assets") to the extent transferable and subject to any approvals required by applicable law.</p>
Excluded Assets:	<p>Notwithstanding anything in section 2.1 to the contrary, the seller shall only be obligated to sell, and the buyer shall only be obligated to purchase, the acquired assets, and the sellers shall not have any obligation to sell to buyer, not shall buyer have any purchase rights with respect to, any assets of the sellers not described in section 2.1 (all such assets not described in section 2.1, collectively, the "excluded assets") including but not limited to the furniture and equipment and/or inventory listed on schedule 2.1 (C) .</p>
Liabilities Assumed:	<p>Cure amounts as required by section 2.5 hereto up to a maximum of \$3,000,000. All liabilities accruing from and after the closing with respect to the assigned contracts, the debt of the sellers listed on schedule 2.3(ii) and subject to the satisfaction of the conditions in section 10.1, liabilities incurred on or after the closing date by buyer, certain liabilities accruing to eligible former employees of sellers as set forth in section 2.3 (b).</p>
Excluded Liabilities:	<p>Except for assumed liabilities, purchaser shall not assume or become liable for the payment or performance of any liability of seller of any nature.</p>
Accounts Receivable	<p>Buyer agrees that it will pay over or cause to be paid over to the sellers, insofar as practicable with 5 business days of receipt and until so paid and shall hold in trust for sellers all sums received by it or any of its affiliates in respect of or on account of its pre-closing accounts receivable.</p>
Total Purchase Price of SSHA:	<p>\$ 58,750,000 for Real Property Plus \$6,140,469 for movable equipment for a total of \$64,890,469</p>
Purchase Price of Schaffer Extended	<p>\$10,060,458 Real Property purchased by Montefiore HA Holdings, LLC \$227,000 Movable equipment purchased by Schaffer Extended Care Center, Inc. for a total purchase price of \$10,287,458</p>

Care Facility	
Payment of Purchase Price:	\$10,287,458 paid at closing

Schaffer Extended Care Center, Inc. will assume the Howe Avenue Nursing Home, Inc. d/b/a Helen and Michael Schaffer Extended Care Center portion of the existing debt of SSHS. As a contingency of approval, the applicant must submit an affidavit, which is acceptable to the Department of Health, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding between the applicant and the transferor, to the contrary, to be liable and responsible for any Medicaid overpayments made to the facility and/or surcharges, assessments or due from the transferor pursuant to Article 28 of the Public Health Law with respect to the period of time prior to the applicant acquiring its interest, without releasing the transferor of its liability and responsibility. Currently, there are no outstanding liabilities.

Lease Agreement

Schaffer Extended Care Center, Inc. will occupy the following premises under the terms of lease agreements, summarized as follows:

Lessor: Montefiore HA Holdings, LLC
 Lessee: Schaffer Extended Care Center, Inc.
 Premises: 75 Glover Johnson Place, New Rochelle, NY
 Term: 40 Year

Annual Rental:	Years (1-10)	Years (11-20)	Years (21-30)	Years (31-40)
	\$817,044	\$937,457	\$1,142,755	\$1,393,012
	\$816,749	\$956,206	\$1,165,610	\$1,420,872
	\$816,439	\$975,330	\$1,188,922	\$1,449,289
	\$816,113	\$994,837	\$1,212,700	\$1,478,275
	\$832,435	\$1,014,733	\$1,236,954	\$1,507,841
	\$849,084	\$1,035,028	\$1,261,693	\$1,537,997
	\$866,065	\$1,055,729	\$1,286,927	\$1,568,757
	\$883,387	\$1,076,843	\$1,312,666	\$1,600,132
	\$901,054	\$1,098,380	\$1,338,919	\$1,632,135
	\$919,075	\$1,120,348	\$1,365,698	\$1,664,778

Other: Tenant pays insurance, taxes, repairs & maintenance and utilities
 Type: Net, between related parties

Operating Budget

The applicant has provided an operating budget, in 2013 dollars, for the first year subsequent to change in ownership. The budget is summarized below:

	<u>Per Diem</u>	<u>Total</u>
Revenues:		
Commercial	\$433.63	\$1,014,693
Medicaid	332.32	11,803,278
Medicare	573.23	5,008,898
Private Pay	482.59	981,598
Other Revenue		<u>166,000</u>
Total Revenues:		\$18,974,467
Expenses:		
Operating		\$19,489,000
Capital		<u>1,638,000</u>
Total Expenses:		21,127,000
Net Income/(Loss):		<u>(\$2,152,533)</u>
RHFC Utilization (patient days)		48,630
RHFC Occupancy		88.82%

The following is noted with respect to the submitted RHCF operating budget:

- RHCF expenses include lease rental:
- RHCF Medicaid revenues are based on the 2013 rates.
- RHCF Medicare revenues were based upon actual rates trended to 2013;
- RHCF private pay revenues are based upon actual rates trended to 2013;
- RHCF projected utilization is 88.82%. Utilization for the 2013 rate year was 88.82% and for the periods from 2009-2012 utilization 88.96% averaged
- Breakeven utilization is projected at 99.46%.

Utilization by payor source for historical operations and the first and third years is as follows:

	<u>Historical</u>	<u>Years One and Three</u>
Commercial Managed Care	4.81%	4.81%
Medicare Fee-for-Service	17.96%	17.96%
Medicaid Fee-for-Service	73.04%	73.04%
Private Pay/Other	4.18%	4.18%

Expense and utilization assumptions are based on the experience of the present and proposed operators. Revenues reflect the current operator's rates.

Other operating revenue consists of rental income for space rented to other operations of the hospital.

The Year 4 and 5 budgets have been provided in a general format. Montefiore has not taken over the operations of the facility, and therefore, is only working on the bigger picture of turning the operations around to being profitable.

	<u>Year 4</u>	<u>Year 5</u>
Total Revenues	\$21,817,000	\$22,415,000
Operating Expenses	\$21,821,000	\$22,459,000
Contributions		
Total Expenses	<u>\$21,821,000</u>	<u>\$22,459,000</u>
Total Net Income/(Loss)	(\$4,000)	(\$44,000)

Capability and Feasibility

The issue of capability centers on the applicant's ability to meet the purchase price and working capital requirements for this application. The proposed operator will provide the amount of the purchase price of \$10,287,458 from two loans. The loans are originally from Montefiore Medical Center to Montefiore Health Systems, Inc. and then to both Schaffer Extended Care Center, Inc. and Montefiore HA Holdings, LLC, for the above listed amounts and terms. Working capital requirements are estimated at \$3,521,167, which appears reasonable based on two months of first year expenses. BFA Attachment D is the Financial Summary of the proposed lender, Montefiore Medical Center, which indicates the availability of sufficient resources to meet requirements.

BFA Attachments B and C are the pro forma balance sheets for Schaffer Extended Care Center, Inc. (the operator) and Montefiore HA Holdings, LLC (real property owner and landlord) which shows the entities will start off with Year 1 negative equity in the amounts of \$2,153,000 and \$296,000; Year 2 negative equity in the amounts of \$4,479,000 and \$577,000; and Year 3 negative equity in the amounts of \$6,796,000 and \$841,000, respectively. The new operators will be experiencing these issues due to historical legacies which included such items as underfunded malpractice insurance and pension benefits, as well as investment into neglected repair and maintenance at the facility. MHS has provided a detailed explanation of the main issues they face in taking over the operations and real estate and the reasons for such high negative equity, as well as losses for the first three years of operations. MHS has provided the Department with ideas on what will be done to address these issues and turn operations around and has committed to funding interim operational deficits.

BFA Attachment D is the 2010-2012 certified financial statement for Montefiore Medical Center. The statement shows that the facility was operating with a positive average working capital and a positive average net asset position and generated an average net income of \$101,338,666 for the period 2010-2012.

BFA Attachment E is the June 30, 2013 internal financial statement for Montefiore Medical Center. The statement shows that the facility was operating with a positive average working capital and a positive average net asset position and generated a net income of \$72,329,000 for the first six months of 2013.

The issue of feasibility is centered on the applicant's ability to meet expenses with revenues and maintain a viable operating entity. The submitted budget indicates an excess of expenses over revenues of approximately \$2,153,000 and \$2,318,000 during the first and third years of operation. By Year 5 the facility is expecting to be at only a \$44,000 loss. Losses during this period will be supported by the active parent. The budget appears reasonable.

The financial results presented in the CON application are based on existing operations which are running at losses. Schaffer offers short-term rehabilitation/sub-acute as well as skilled long term care. For the last several years, Schaffer has maintained an average occupancy of 90% with a high volume turnover on its rehabilitation unit and its long term care units maintaining occupancy close to 100%.

CON projections have operating losses partially mitigated by MHS actions, including revenue enhancements, cost savings, and performance improvements. Once operations commence by Schaffer Extended Care Center, Inc. expenses will be fully evaluated and plans to improve operating efficiencies will be developed. In addition, an evaluation of the enhancement of the sub-acute/rehabilitation services, which could positively impact the revenue projections, will be undertaken.

Subject to the noted contingencies and condition, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner, and approval is recommended.

Recommendation

From a financial perspective, contingent and conditional approval is recommended.

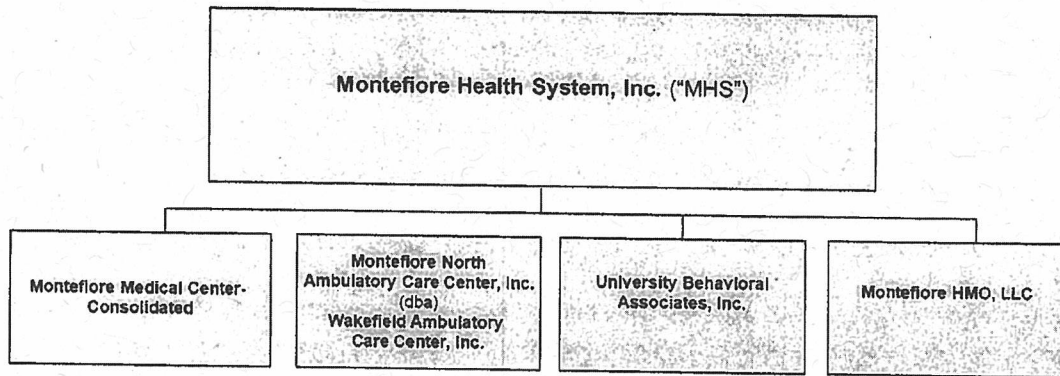
Attachments

BFA Attachment A	Organization Chart, Current and Proposed Montefiore Health System
BFA Attachment B	Pro Forma Balance Sheet (Operator) Schaffer Extended Care Center, Inc.
BFA Attachment C	Pro Forma Balance Sheet (Real Estate) Montefiore HA Holdings, LLC
BFA Attachment D	2010-2012 Certified Financial Statements for Montefiore Medical Center
BFA Attachment E	Internal Financial Statements for Montefiore Medical Center through June 30, 2013

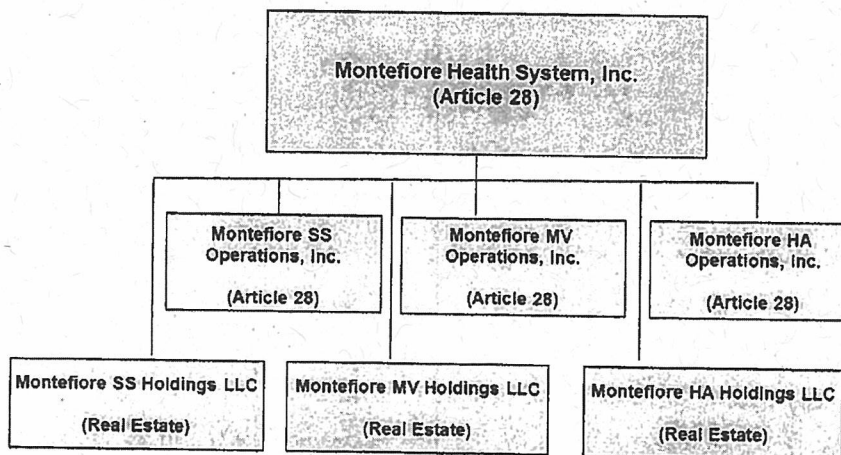
Schedule 1 – Project Narrative/Executive Summary

Establishing MHS as the active parent of Montefiore New Rochelle, Montefiore Mount Vernon, and Montefiore Howe Avenue will be accomplished through the amendment of the Articles of Incorporation and Bylaws of MHS, Montefiore SS Operations, Inc., Montefiore MV Operations, Inc., and Montefiore HA Operations, Inc. and result in the organizational structure below:

Current Corporate Structure



Post-Closing Structure
New Entities (additive to the chart above)



Proforma Balance Sheet
in \$000

Montefiore HA operations, Inc. (Consolidated)

Nursing Home

	2014 Projected	2015 Projected	2016 Projected
Assets			
Current assets:			
Cash and cash equivalents	(5,956)	(7,879)	(9,801)
Marketable and other securities, at market	-	-	-
Assets limited as to use - Marketable Securities	871	871	871
Receivables for patient care less allow. Doubtful	2,577	2,577	2,577
Other receivables	-	-	-
Estimated Insurance Claim Receivable, current pt	-	-	-
Other current assets	-	-	-
Total current assets	(2,509)	(4,432)	(9,364)
Non-Current Assets:			
Assets limited as to use:			
Marketable and other securities:			
Sinking-funds	-	-	-
Employee deferred compensation plan	-	-	-
Marketable and other securities externally designated, at market	-	-	-
Malpractice Insurance Programs	-	-	-
Total Non Current Assets Limited as to Use:	-	-	-
Marketable securities held as collateral, at market	-	-	-
Property, building and equipment	15,015	15,284	15,553
Less: accumulated depreciation	(999)	(2,154)	(3,324)
Estimated Insurance Claim Receivable, net of current portion	-	-	-
Deferred financing costs and other noncurrent assets	-	-	-
Total Assets:	11,606	8,698	6,876
Liabilities and net assets			
	2014 Projected	2015 Projected	2016 Projected
Current liabilities:			
Trade accounts payable	174	174	174
Other payables and accrued expenses	-	-	-
Accrued salaries, wages and related items	274	274	274
Estimated Insurance Claims Liability, current portion	-	-	-
Current portion of long-term debt	482	506	531
Total current liabilities:	931	964	979
Non-Current liabilities:			
Long Term Debt, less current portion	12,729	12,223	11,692
Non-current defined benefit and postretirement health plan and insurance liabilities	-	-	-
Estimated Insurance Claims Liability, net of current portion	-	-	-
Employee deferred compensation	-	-	-
Other non-current liabilities	-	-	-
Total Liabilities (Current+Non):	13,659	13,177	12,671
Net assets:			
Unrestricted	(2,153)	(4,479)	(6,796)
Temporarily restricted	-	-	-
Permanently restricted	-	-	-
Total Net Assets:	(2,153)	(4,479)	(6,796)
Total Liabilities and Net Assets:	11,606	8,698	6,876

Proforma Balance Sheet
in \$000

Montefiore HA Holdings, Inc.
Nursing Home

	2014 Projected	2015 Projected	2016 Projected
Assets			
Current assets:			
Cash and cash equivalents			
Marketable and other securities, at market			
Assets limited as to use - Marketable Securities			
Receivables for patient care less allow. Doubtful accts			
Other receivables			
Estimated Insurance Claim Receivable, current portion			
Other current assets			
Total current assets			
Non-Current Assets:			
Assets limited as to use:			
Marketable and other securities:			
Sinking-funds			
Employee deferred compensation plan			
Marketable and other securities externally designated, at market			
Malpractice Insurance Programs			
Total Non Current Assets Limited as to Use:			
Marketable securities held as collateral, at market	-	-	-
Property, building and equipment	10,060	10,060	10,060
Less: accumulated depreciation	(600)	(1,200)	(1,801)
Estimated Insurance Claim Receivable, net of current portion			
Deferred financing costs and other noncurrent assets			
Total Assets:	9,460	8,860	8,260
Liabilities and net assets			
Current liabilities:			
Trade accounts payable			
Other payables and accrued expenses			
Accrued salaries, wages and related items			
Estimated Insurance Claims Liability, current portion			
Current portion of long-term debt	319	335	352
Total current liabilities:	319	335	362
Non-Current liabilities:			
Long Term Debt, less current portion	9,437	9,101	8,749
Non-current defined benefit and postretirement health plan and insurance liabilities			
Estimated Insurance Claims Liability, net of current portion			
Employee deferred compensation			
Other non-current liabilities			
Total Liabilities (Current+Non):	9,756	9,437	9,101
Net assets:			
Unrestricted	(298)	(577)	(841)
Temporarily restricted			
Permanently restricted			
Total Net Assets:	(298)	(577)	(841)
Total Liabilities and Net Assets:	9,460	8,860	8,260

Montefiore Medical Center
Consolidated Statements of Financial Position

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,779	\$ 26,855
Marketable and other securities	914,410	775,680
Assets limited as to use – marketable securities	48,867	49,440
Receivables for patient care, less allowances for doubtful accounts (2012 – \$23,141; 2011 – \$20,850)	159,831	161,779
Other receivables	52,456	49,784
Estimated insurance claims receivable, current portion	73,189	73,115
Other current assets	29,548	31,157
Total current assets	1,309,080	1,167,810
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	68,706	64,257
Employee deferred compensation plan	15,220	12,154
Marketable and other securities externally designated	111,929	94,766
Malpractice insurance programs	–	19,421
Total non-current assets limited as to use	195,855	190,598
Marketable securities held as collateral	5,880	6,040
Property, buildings and equipment, at cost, net	775,882	738,541
Estimated insurance claims receivable, net of current portion	414,740	414,320
Deferred financing costs and other non-current assets	139,965	114,049
Total assets	\$ 2,841,402	\$ 2,631,358
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 93,992	\$ 81,057
Other payables and accrued expenses	208,159	202,388
Accrued salaries, wages and related items	203,927	183,435
Estimated insurance claims liabilities, current portion	73,189	73,115
Current portion of long-term debt	41,742	39,356
Total current liabilities	621,009	579,351
Long-term debt, less current portion	537,025	550,610
Non-current defined benefit and postretirement health plan and insurance liabilities	257,537	236,114
Employee deferred compensation	15,220	12,154
Estimated insurance claims liabilities, net of current portion	414,740	414,320
Other non-current liabilities	303,834	285,457
Total liabilities	2,149,365	2,078,006
Commitments and contingencies		
Net assets:		
Unrestricted	592,387	455,208
Temporarily restricted	74,300	72,794
Permanently restricted	25,350	25,350
Total net assets	692,037	553,352
Total liabilities and net assets	\$ 2,841,402	\$ 2,631,358

See accompanying notes.

Montefiore Medical Center
Consolidated Statements of Operations

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 2,903,751	\$ 2,769,846
Grants and contracts	73,650	72,656
Contributions	4,627	4,594
Other revenue	102,429	102,604
Total operating revenue	<u>3,084,457</u>	<u>2,949,700</u>
Operating expenses		
Salaries and wages	1,384,336	1,336,865
Employee benefits	418,609	392,516
Supplies and other expenses	1,044,221	1,020,587
Depreciation and amortization	110,268	100,824
Interest	26,817	28,010
Total operating expenses	<u>2,984,251</u>	<u>2,878,802</u>
Income from operations before certain items	100,206	70,898
Net realized and changes in unrealized gains (losses) on marketable and other securities	35,254	(11,558)
Malpractice insurance program adjustments associated with investment gains (losses)	16,958	(25,894)
Medical resident tax recovery	10,342	-
Income from operations	<u>162,760</u>	<u>33,446</u>
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(26,495)	(4,509)
Net assets released from restrictions used for purchases of property, buildings, and equipment	914	3,861
Increase in unrestricted net assets	<u>\$ 137,179</u>	<u>\$ 32,798</u>

See accompanying notes.

Montefiore Medical Center
Consolidated Statements of Financial Position

	December 31	
	2011	2010
	<i>(In Thousands)</i>	
	As Adjusted	
	<i>(Note 1)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,855	\$ 12,517
Marketable and other securities	775,680	767,311
Assets limited as to use – marketable securities	49,440	47,018
Receivables for patient care, less allowances for doubtful accounts (2011 – \$132,170; 2010 – \$120,026)	161,779	163,594
Other receivables	49,784	57,765
Estimated insurance claims receivable, current portion	73,115	77,189
Other current assets	31,157	27,896
Total current assets	1,167,810	1,153,290
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	64,257	60,032
Employee deferred compensation plan	12,154	10,114
Marketable and other securities externally designated	94,766	92,243
Malpractice insurance programs	19,421	–
Total non-current assets limited as to use	190,598	162,389
Marketable securities held as collateral	6,040	6,464
Property, buildings and equipment, at cost, net	738,541	717,418
Estimated insurance claims receivable, net of current portion	414,320	437,404
Deferred financing costs and other non-current assets	114,049	100,651
Total assets	\$ 2,631,358	\$ 2,577,616
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 81,057	\$ 77,052
Other payables and accrued expenses	202,388	215,773
Accrued salaries, wages and related items	183,435	175,651
Estimated insurance claims liabilities, current portion	73,115	77,189
Current portion of long-term debt	39,356	36,624
Total current liabilities	579,351	582,289
Long-term debt, less current portion	550,610	573,519
Non-current defined benefit and postretirement health plan and insurance liabilities	236,114	199,596
Employee deferred compensation	12,154	10,114
Estimated insurance claims liabilities, net of current portion	414,320	437,404
Other non-current liabilities	285,457	254,490
Total liabilities	2,078,006	2,057,412
Commitments and contingencies		
Net assets:		
Unrestricted	455,208	422,410
Temporarily restricted	72,794	72,444
Permanently restricted	25,350	25,350
Total net assets	553,352	520,204
Total liabilities and net assets	\$ 2,631,358	\$ 2,577,616

See accompanying notes.

Montefiore Medical Center
 Consolidated Statements of Operations

	Year Ended December 31	
	2011	2010
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 2,798,093	\$ 2,726,531
Grants and contracts	72,656	68,317
Contributions	4,594	5,140
Other	102,604	87,145
Total operating revenue	<u>2,977,947</u>	<u>2,887,133</u>
Operating expenses		
Salaries and wages	1,336,865	1,271,976
Employee benefits	392,516	372,709
Supplies and other expenses	1,048,834	1,034,260
Depreciation and amortization	100,824	99,378
Interest	28,010	31,786
Total operating expenses	<u>2,907,049</u>	<u>2,810,109</u>
Income from operations before certain items	70,898	77,024
Net realized and changes in unrealized (losses) gains on marketable and other securities	(11,558)	34,534
Malpractice insurance program adjustments associated with investment losses	(25,894)	-
Medical resident tax recovery	-	21,500
Income from operations	<u>33,446</u>	<u>133,058</u>
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(4,509)	(1,286)
Net assets released from restrictions used for purchases of property, buildings and equipment	3,861	2,267
Increase in unrestricted net assets	<u>\$ 32,798</u>	<u>\$ 134,039</u>

See accompanying notes.

MONTEFIORE MEDICAL CENTER

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30 2013	December 31 2012
<i>(In Thousands)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,063	\$ 30,779
Assets limited as to use - marketable securities	43,815	48,867
Receivables for patient care less allowances for doubtful accounts	173,357	159,831
Other receivables	71,312	52,456
Marketable and other securities, at market	947,794	914,410
Estimated insurance claims receivable	73,189	73,189
Other current assets	35,612	29,548
Total current assets	<u>1,386,142</u>	<u>1,309,080</u>
Assets limited as to use:		
Marketable and other securities:		
Sinking funds	72,388	68,706
Employee deferred compensation plan	18,291	15,220
Marketable and other securities externally designated	115,946	111,929
Total assets limited as to use	<u>206,625</u>	<u>195,855</u>
Estimated insurance claims receivable - non current	414,740	414,740
Marketable securities held as collateral	5,884	5,880
Property, buildings and equipment at cost, net	849,986	775,882
Deferred financing costs and other non-current assets	143,870	139,965
Total assets	<u>\$ 3,007,247</u>	<u>\$ 2,841,402</u>
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 83,335	\$ 93,992
Other payables and accrued expenses	160,435	141,521
Accrued salaries, wages and related items	214,625	203,927
Current malpractice insurance premiums payable	70,810	66,638
Estimated insurance claims liabilities	73,189	73,189
Current portion of long-term debt	40,954	41,742
Total current liabilities	<u>643,348</u>	<u>621,009</u>
Long-term debt, less current portion	561,869	537,025
Non-current defined benefit and postretirement health plan and insurance liabilities	263,897	257,537
Estimated insurance claims liabilities - non current	414,740	414,740
Employee deferred compensation	18,291	15,220
Other non-current liabilities	340,089	303,834
Total liabilities	<u>1,598,886</u>	<u>1,528,356</u>
Net assets:		
Unrestricted	664,716	592,387
Temporarily restricted	74,947	74,300
Permanently restricted	25,350	25,350
Total net assets	<u>765,013</u>	<u>692,037</u>
Total liabilities and net assets	<u>\$ 3,007,247</u>	<u>\$ 2,841,402</u>

MONTEFIORE MEDICAL CENTER
CONSOLIDATED STATEMENTS OF OPERATIONS
ACTUAL AND BUDGET COMPARED
YEAR-END FINANCIAL STATEMENT FORMAT
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(In Thousands)

	YEAR TO DATE			
	ACTUAL	BUDGET	VARIANCE	%
Operating Revenue				
Inpatient	\$ 774,246	\$ 757,205	\$ 17,041	2.3%
Outpatient	472,840	490,649	(17,809)	-3.6%
Premium Revenue	279,196	282,917	(3,721)	-1.3%
Net patient service revenue	1,526,282	1,530,771	(4,489)	-0.3%
Grants and contracts	40,485	40,283	202	0.5%
Contributions	1,365	1,213	152	12.5%
Other	63,667	60,820	2,847	4.7%
Total operating revenue	1,631,799	1,633,087	(1,288)	-0.1%
Operating Expenses				
Salaries and wages	727,525	734,341	6,816	0.9%
Employee benefits	232,369	237,107	4,738	2.0%
Supplies and other expenses	552,812	543,903	(8,909)	-1.6%
Depreciation and amortization	57,948	56,970	(978)	-1.7%
Interest	13,671	13,873	202	1.5%
Total operating expenses	1,584,325	1,586,194	1,869	0.1%
Income from operations before certain items	47,474	46,893	581	1.2%
Net realized and changes in unrealized gains on marketable and other securities	23,830	-	23,830	100.0%
Malpractice insurance program adjustments associated with investment gains	1,025	-	1,025	100.0%
Increase in unrestricted net assets	\$ 72,329	\$ 46,893	\$ 25,436	54.2%