



STATE OF RHODE ISLAND  
OFFICE OF THE ATTORNEY GENERAL

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*Peter F. Neronha*  
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November 14, 2024

**VIA FIRST CLASS MAIL AND EMAIL**

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**Re: Prospect Medical Holdings, Inc., Prospect East Holdings, Inc., Prospect CharterCARE, LLC, Prospect CharterCARE RWMC, LLC, Prospect CharterCARE SJHSRI, LLC, The Centurion Foundation, Inc., CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., and CharterCARE Our Lady of Fatima Hospital, Inc.**

Dear Attorney Rocha,

Please find enclosed the Attorney General's Amended Decision to the above-referenced Hospital Conversions Act application, originally issued June 20, 2024.

This Amended Decision includes clarifications and amendments to four of the forty total Conditions issued by this Office, based on new facts of which our Office became aware following the issuance of the initial Decision. These changes are intended to provide clarity and promote efficiency in the execution of these Conditions as part of the completion of this transaction. Importantly, this Amended Decision does not change the core findings or conclusions of this Office's initial review of the Hospital Conversion Act application, nor does it make any changes to the majority of the conditions initially imposed by this Office, including Condition 12—requiring the Transacting Parties to ensure that \$80 million of Initial Hospital Funding is available to the Rhode Island Hospitals at closing—or Condition 13—requiring the creation of an additional Hospital Fund in the amount of \$66.8 million, for the benefit of the Rhode Island Hospitals.

The clarifications and changes are as follows:

1. **Condition 5 (Post-Closing Contracts):** Condition 5 requires that no post-closing contracts may be amended, terminated, or entered into without at least thirty (30) days' notice to the Attorney General. The RIAG did not intend for the terms of this provision to impede the Hospitals from making and acting upon personnel decisions in an appropriately expeditious manner. Condition 5 has been amended to clarify that intent, specifically allowing terminations for cause and/or promotions to be executed without prior notice but requires notification to this Office within fourteen days following such actions.
2. **Condition 6 (Pre-Closing Obligations):** Condition 6 requires the Transacting Parties to provide funds sufficient to complete any repairs necessary according to plans of correction approved by CMS, relating to deficiencies noted on form CMS-2567 and issued on April 2, 2024. This amendment offers explicit clarification that the funds required to complete plans of correction may come from the existing pre-closing PACE escrow amount.
3. **Condition 17 (Turnaround Consultant):** Condition 17 articulates several requirements related to a Turnaround Consultant who must be retained to evaluate the financial condition, strategic planning, governance materials and current operations of the New CharterCARE System. This Office learned, in discussion with the Transacting Parties following the issuance of the Decision, that the Transacting Parties had already begun a search for an appropriate consultant. The submission of a Request for Proposals (RFP), as initially required by Condition 17, would create inefficiencies for the Parties. Therefore, this Office has removed that requirement and replaced it with a requirement that the New CharterCARE System shall share the scope of the role and potential candidates with the Office no later than fourteen days prior to final selection. The Attorney General retains the authority to approve the final selection of the Turnaround Consultant and the Strategic Plan and Governance Review developed by the Turnaround Consultant prior to implementation.

Further, the decision from the Rhode Island Department of Health (RIDOH), issued simultaneously with the Attorney General's Decision on June 20, 2024, contains a condition requiring the hiring of a Chief Restructuring Officer (CRO), whose function intersects with the responsibilities of the Turnaround Consultant required by the Attorney General. It is required by the RIDOH's condition that the CRO be employed (and hence paid for) by the New CharterCARE System. Following the issuance of its June 20<sup>th</sup> Decision, this Office continued to be apprised of updates regarding the nature of Prospect's financial condition. This Office determined, through its analysis of this additional information, that Prospect's financial condition has continued to deteriorate. Given the intersection of roles and responsibilities of the Turnaround Consultant and the CRO envisioned by RIDOH, the Attorney General

amends the requirement in Condition 17 to eliminate the funding of an escrow in the amount of \$1 million to pay for the Turnaround Consultant.

Additional amendments are included to provide clarity on the timing of this process.

4. **Condition 35 (Annual Reporting):** Condition 35 requires annual financial reporting from the Rhode Island Hospitals as well as the Centurion Foundation. The Attorney General learned after issuing its Decision that the Centurion Foundation does not produce audited financial statements as part of the normal course of business and will not be in a position to do so at the closing of this transaction. Therefore, Condition 35 is amended to allow an alternative mechanism of compliance that is sufficient to allow for appropriate oversight of Centurion's financial condition by this Office. Specifically, in the event that Centurion does not produce audited financial statements in a given year, Centurion shall produce unaudited financial statements prepared by an independent third-party certified public accountant in a compilation form, along with an attestation from the Chief Financial Officer of the Centurion Foundation, Inc., that the financial statements fairly and accurately represent the financial condition and operations of the Centurion Foundation, Inc. in all material respects for the time period covered by the unaudited financial statements.

In issuing this Amended Decision, the Office of the Attorney General understands and expects that the Transacting Parties will satisfy in full all Conditions contained in the Decision. Specifically, we understand that the Transacting Parties commit to fully funding the Hospital Fund in the amount of \$66.8 million, established pursuant to Condition 13, which will include all of the remainder of the escrow funds established pursuant to this Office's 2021 Hospital Conversions Act Decision, totaling approximately \$45 million as well as any and all accrued interest.

Sincerely,



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PRODUCT PRIVILEGES**

**STATE OF RHODE ISLAND  
OFFICE OF ATTORNEY GENERAL**

**November 14, 2024**

**DECISION**

**RE: Prospect Medical Holdings, Inc., Prospect East Holdings, Inc., Prospect CharterCARE, LLC, Prospect CharterCARE RWMC, LLC, Prospect CharterCARE SJHSRI, LLC, The Centurion Foundation, Inc., CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., and CharterCARE Our Lady of Fatima Hospital, Inc.**

The Office of Attorney General has considered the above-referenced application pursuant to the Hospital Conversions Act, R.I. Gen. Laws Section 23-17.14-1 *et seq.* In accordance with the reasons outlined herein, the application is **APPROVED WITH CONDITIONS.**

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## I. Executive Summary

Before this Office for decision is an application under “The Hospital Conversions Act” as set forth in R.I. Gen. Laws §§ 23-17.14-1 *et seq.* (the “HCA”), that would allow Prospect Medical Holdings to sell Prospect CharterCARE, LLC and its affiliates, a health care system that includes two community hospitals: Roger Williams Medical Center and Our Lady of Fatima Hospital (collectively herein the “CharterCARE System” or the “Rhode Island Hospitals”), to the Centurion Foundation (“Centurion”), a private non-profit foundation which specializes in real estate financing and development.

In addition to being Rhode Island’s third largest health care system and a critical component of the health care delivery infrastructure of this state, the Attorney General recognizes the unique import of the CharterCARE System to so many Rhode Islanders who receive their health care from the Rhode Island Hospitals, as well as those who have built their careers upon and who devote their professional lives to providing care to patients of the Rhode Island Hospitals. The well-being of every hospital in our state is interdependent, and an irredeemable crisis for these Rhode Island Hospitals means destabilization and crisis for the state at large.

The Attorney General’s obligations under the HCA require recognizing and responding to this risk by rendering a Decision that protects these Rhode Island Hospitals to the greatest extent possible. This Office renders this Decision against a backdrop of difficult choices—deny this application and leave critical Rhode Island health care assets such as Roger Williams and Fatima in the hands of a for-profit owner that may very well be on the brink of bankruptcy, or approve a transaction with significant shortcomings that give this regulator great cause for concern.

At the same time, the Attorney General recognizes the opportunity presented by this application: to extricate this vital Rhode Island system from the for-profit management of PMH, return it to non-profit status, and allow these Rhode Island Hospitals a chance to thrive in service to the communities of Rhode Island. After an extensive review, the Attorney General has determined that approval with the conditions imposed by this Decision is warranted in order to support this system and secure access to safe, quality health care for its communities. Although the Attorney General found that there were sufficient grounds to deny this application, the Attorney General also found that with robust conditions carefully calculated to address the most troubling deficiencies in this application, it was appropriate to approve the application subject to such conditions. As set forth more fully in this Executive Summary and ensuing Decision, **the Attorney General approves this application only with significant conditions, to provide the protections and accountability necessary to address the shortcomings of this application and to protect the viability of these hospitals.**

### *CharterCARE’s Experience and Condition under Prospect Medical Holdings*

The justification for this Decision begins with an understanding of the more recent history that brought the CharterCARE System and these hospitals to their current state. Prospect Medical Holdings, Inc. (hereinafter, “Prospect” or “PMH”), a for-profit national corporation, owns hospitals and physician services in four states, including the two hospitals and related

health care services here in Rhode Island. PMH first entered Rhode Island in 2014, when it was permitted to acquire the Rhode Island Hospitals by representing first that “the financial status of Prospect permit[ted] it to fund the closing of the transaction and also meet the ongoing capital commitments” of the Hospitals and second, that a 2013 dividend made to its principal investor “was a one-time event and that there [were] no plans to make a similar distribution in the foreseeable future.” (2014 Decision, at 48).

As we know now, it is an understatement to say that reliance on these representations was misplaced. By 2021, when this Office reviewed PMH’s proposed buyout of partial owner Leonard Green’s stake in the CharterCARE System, the Attorney General’s investigation of PMH revealed a company whose principals and investors had extracted hundreds of millions of dollars in dividends in 2018 from a business responsible for operating Rhode Island safety-net hospitals and other health care services, with liabilities that exceeded assets by \$1 billion in 2021. And it is evident from public reporting and the Attorney General’s review of this Proposed Transaction that the financial condition of PMH has, at the risk of understatement, deteriorated significantly since that time. The Attorney General was only willing to approve the 2021 transaction involving Leonard Green’s exit after imposing an unprecedented and stringent set of conditions, including requiring PMH to furnish \$80 million in escrow funds, which has provided significant leverage to ensure both compliance with the conditions of the 2021 approval, as well as continued operation at these two community hospitals. Apart from the escrow, a number of other conditions from the 2021 Decision have been impactful and have put Rhode Island’s hospitals on stronger footing than PMH hospitals in other states: (1) the requirement that PMH provide for a full financial commitment to cover operational and capital expenses, with a requirement to make at least \$72 million in capital investments; (2) a prohibition on PMH’s management fees; and (3) that PMH cannot meaningfully transfer or encumber any assets of the Rhode Island Hospitals without the Attorney General’s approval. Earlier this year, the Attorney General took PMH to court to enforce these conditions.

It is fair to say that, without those escrow funds, the doors to Roger Williams and Fatima may have already been closed. While this may seem like a bald assertion, it is supported by the experience in other states. Not surprisingly, the entire East Coast complement of hospitals owned by PMH are in various stages of crisis, sale and/or closure as a cascading result of PMH’s conduct pre-2021 in Rhode Island, post-2021 elsewhere, and its more recent decisions to violate the 2021 Rhode Island conditions. Underlying its current financial peril is PMH’s sale of the underlying real estate for its health care entities in other states to Medical Properties Trust, Inc. (“MPT”), a real-estate investment trust, which in turn charged rent to these entities. When the non-Rhode Island entities could no longer afford to pay these rents, PMH was forced to seek relief in the form of additional financing from MPT. PMH’s operations have become unstable and unsustainable, creating an uneasy backdrop for the Attorney General’s review of this proposed transaction.

### ***The Attorney General’s Review and Decision***

All Rhode Islanders deserve access to safe, affordable and high-quality health care. In service to this fundamental principle, and consistent with his statutory obligations, the Attorney General has devoted substantial resources to the careful review of this HCA application for the

betterment of all Rhode Islanders. To effectuate this review, this Office performed a necessarily exhaustive inquiry, collecting more than 1,800 documents, taking eight statements under oath, retaining two outside experts or firms, and reviewing over 120 public comments.

The Attorney General's in-depth review of Centurion's application to become the owner of the Rhode Island Hospitals has surfaced the following overarching and significant concerns about the proposed transaction: *(1) Centurion, as prospective owner, lacks the requisite expertise and experience necessary to operate an acute care center; (2) Centurion, as prospective owner, is not contributing capital, instead relying on debt financing; (3) the procurement of bond financing is at-risk; (4) Centurion's plan to turnaround the hospitals is inadequate; and (5) the application demonstrates an insufficient commitment to community need.* Full discussion of these and other material concerns follows, along with conditions designed to avoid any negative impact to the patients and providers of the New CharterCARE System and the state of Rhode Island, as a result of the approval of this transaction.

Having concluded this extensive review, and with the bases and justification set forth more fully throughout this Decision, the Parties' application is **APPROVED WITH CONDITIONS**. This Executive Summary will briefly set forth each major area of concern, followed by the primary conditions imposed in the Decision to address them.

*(1) Centurion, as prospective owner, lacks the requisite expertise and experience necessary to operate an acute care center.*

Centurion is a Georgia-based, tax-exempt, 501(c)(3) corporation with a charitable mission to increase access to and lower the cost of health care. It is undisputed that Centurion has no prior experience owning and operating a licensed, acute care hospital, and it, to date, has worked with third-party managers to operate its facilities. To overcome its lack of experience owning and operating an acute care facility, Centurion initially planned to partner with QHR Health, LLC d/b/a Ovation Healthcare ("QHR"), proposing an owner-operator model. QHR is a provider of management and consulting services, working with community health systems to improve operations, with over 40 years of experience and approximately 225 clients in 44 states. After moving forward under this model with its First HCA Application in July 2023, Centurion later changed its mind, indicating to the Attorney General in its Second HCA Application that it no longer felt that the services of a consultant would be needed. Instead, Centurion would plan to rely only on current CharterCARE leadership (principally current CEO Jeffrey Liebman and his team) to achieve the objectives of the turnaround plan and management of the Rhode Island Hospitals.

In response to Centurion's abandonment of a management firm in favor of total reliance on the ability of the existing management team to shepherd these Hospitals into a complete financial turnaround, paired with Centurion's lack of experience or ability to competently manage this system on its own, the Attorney General's Decision imposes conditions on the Transacting Parties to ensure the New CharterCARE System is appropriately resourced with the managerial expertise and skill required to enable it to thrive.



***(2) Centurion, as prospective owner, is not contributing capital, instead relying on debt financing.***

The CharterCARE System is financially distressed and has been for at least the last five fiscal years. PMH has been funding these operational losses: this is support that will disappear following the transaction. Without significant ongoing financial support, the CharterCARE System will very quickly fall into serious financial jeopardy.

According to the application under review, and unlike most if not all transactions approved in Rhode Island in the past, the application proposes that the transaction will be entirely bond-financed, with no capital investment made by any party. Centurion will not make any capital investments in connection with the purchase of the CharterCARE System, nor does it plan to fund losses if the New CharterCARE System is unable to financially sustain its operations (as PMH has done routinely throughout their ownership of the CharterCARE System). In fact, information provided by Centurion as part of this Office's review suggests that Centurion's plan is to seek help from the State if necessary, thereby shifting the risk of failure of these hospitals from Centurion to the State and its taxpayers.

Further, Centurion is planning a fully leveraged acquisition of the assets of the CharterCARE System. The sale will be achieved by having the new CharterCARE entities borrow approximately \$160 million, of which \$80 million of this debt-financed capital will be placed directly on the books of the New CharterCARE System. The remainder will be paid to PMH in the form of their purchase price, together with other costs related to the transaction. However, any amount PMH receives as a purchase price will be reduced according to a number of factors related to the Rhode Island Hospitals' fiscal health at the date of closing.

Centurion has flatly rejected any possibility that Centurion would serve as a backstop to the new CharterCARE System indicating that "Centurion is not willing to leverage its existing assets in order to obtain financing for the acquisition. Additional debt will be evaluated as needed and will be obtained based on the New CharterCARE System's ability to sustain additional debt." (Supp. Response I.C.5). Centurion justifies its lack of capital investment and its refusal to fund losses or guarantee debt in the New CharterCARE System by reasoning that they are not "deriving any profit" from the New CharterCARE System. Yet, and despite their lack of expertise and experience, they will be extracting a significant management fee from the System.

History shows that the System has been unable to survive financially, without funding from a parent company or other resource. And the recent history is clear—Prospect still has significant outstanding debts and liabilities, and the system was just recently cited by state and federal regulators for life safety and physical plant violations.

Therefore, the Attorney General finds that Centurion's unwillingness to make capital investments or fund losses of the New CharterCARE System will require a substantial condition to ensure the viability of the System, especially while the System continues to operate at a loss. In response to Centurion's reliance on debt financing and unwillingness to contribute capital, the Attorney General's Decision imposes conditions requiring additional funding and guarantees to ensure that the New CharterCARE System will have adequate capital to invest in the system

sufficient to course-correct and return to a sustainable operational state. Further, the Attorney General requires that PMH come into compliance with all Conditions of the 2021 Decision, including its obligation to pay outstanding payments to vendors of the Hospitals.

***(3) The procurement of bond financing is at-risk.***

Considering the ongoing operating losses of the CharterCARE System and Centurion’s unwillingness to invest capital in the New CharterCARE System, securing the bond financing described above is critical to the consummation of the proposed transaction. Yet, the feasibility of successful bond financing is rife with risk and uncertainty for a number of reasons, including: (i) it depends on obtaining federal tax-exempt status for the New CharterCARE System; and (ii) New CharterCARE System’s ability to obtain the financing relies entirely on the credibility of the current leadership team to successfully turnaround the same health care system they have been leading through continued losses for many years.

The first barrier is significant. The CharterCARE System has not yet been granted a federal tax-exempt determination, and, as this Office understands, this determination is unlikely to be granted imminently. Centurion filed for tax-exempt status for the New CharterCARE System in December 2023 on a non-expedited basis. While the tax-exempt applications have yet to be assigned to an IRS agent for review, Centurion has represented to this Office that it believes it will receive tax-exempt status determinations by June 2024. A June date for a tax-exempt determination is unrealistic, as the average IRS determination period is approximately 190 days (assuming there are no complications or issues with the tax-exempt filing that would cause further delays). This tax-exempt designation is necessary for the New CharterCARE System to begin the process of issuing bonds. If Centurion were theoretically to obtain tax-exempt status for the New CharterCARE System in June, Centurion states that there will then be a 90 to 120-day period to obtain bond financing. Centurion has stated that it will not close the transaction until it receives \$160 million of bond financing. Taken together, this places the earliest forecasted closing of the transaction in September or October. Any delay in a tax-exempt designation will further delay this timeline. A denial of tax-exempt status would halt the transaction completely. All the while, the Hospitals would remain in limbo and under PMH ownership.

Moreover, the conduit bond issuer—the pass-through entity that handles the issuance of the bonds to bond holders—will require an independent feasibility study with respect to the proposed “turnaround plan” of the hospitals to ensure that they will become profitable and ultimately be able to meet their repayment obligations. While the outcome of the feasibility study is unknown, there are reasons for skepticism, including: the proposed future leadership team remains the same as the current leadership team (currently operating the hospitals at a loss), the insufficiency of the proposed turnaround plan, and the rapid timing of the turnaround plan as submitted by the Transacting Parties. Certain regulatory findings from November 2023 regarding hospital leadership would likely be viewed unfavorably by the conduit bond issuers. Because the Attorney General finds the ultimate success of the bond financing to be a matter of at least some doubt, financial guarantees are necessary as a condition of approval.

*(4) Centurion’s plan to turnaround the hospitals is inadequate.*

It is incontrovertible that the CharterCARE System’s “fiscal status quo is not sustainable.” (Second HCA Application Submission, Q. 10.b). Centurion has proposed a transition and turnaround plan, describing certain operational initiatives that will purportedly allow the New CharterCARE System to stand independently of their former owner, PMH, stem operating losses, and turnaround operations to profitable status. The fulcrum of Centurion’s plan is the conversion of the CharterCARE System from for-profit status to tax-exempt status coupled with a handful of operational reforms. As part of their application, the Parties submitted a financial analysis claiming to quantify the positive impact of the plan on the New CharterCARE System’s earnings before interest, taxes, depreciation, and amortization, which Centurion refers to, collectively, as the “EBITDA Bridge.” However, based on our review, Centurion has overstated the savings it can achieve, largely (1) by failing to sufficiently consider the up-front capital costs necessary to implement the stated initiatives, (2) by failing to appropriately identify the time it will take for the initiatives to be fully implemented and producing positive results, and, most significantly, (3) by virtue of using invalidated – and in certain instances, faulty – assumptions. Moreover, Centurion proposes that the same executive leadership team responsible for the current financial, physical, and reputational condition of the CharterCARE System can successfully lead the New CharterCARE System from a baseline state of continued operating losses to, as explained further below, a projected state of nearly instantaneous profitability.

Further, Centurion expects Mr. Liebman and his team to accomplish this feat with a one-time infusion of \$80 million cash on the operational balance sheet, no additional funding commitment, and only limited support from Centurion in the form of certain administrative services, for which Centurion will be compensated pursuant to a Corporate Services Agreement. Notably, most of the \$80 million (approximately \$50-\$75 million under industry-standard bond covenants) will be required to be maintained in reserve so as not to violate bond financing debt covenants, and will therefore be unavailable for any investments needed to achieve the operational reforms identified in the EBITDA Bridge. Even if they execute perfectly and every assumption bears out in performance under the EBITDA Bridge, the System will be profitable but they will still be lacking in cash, because they had to take out so much debt to finance the turnaround. Put simply, the numbers do not add up.

For the New CharterCARE System’s operations to succeed under this application, Centurion will need to immediately execute a meaningful and realistic plan to stem financial losses on day one. To accomplish any sort of transition, the New CharterCARE System will also need an infusion of sufficient operating capital to cover its losses until operations can be financially stabilized. For reasons more fully described in this Decision, the \$80 million debt-financed infusion is not sufficient to meet that need. The CharterCARE System does not have prolonged capacity to withstand any delay of financial support. Accordingly, this Decision imposes as a condition of approval, the formation and funding of a new fund, restricted for the use of these Rhode Island Hospitals, as well as conditions related to the engagement of a turnaround consultant to ensure the best possible outcome for these Hospitals.

*(5) The application demonstrates an insufficient commitment to community need.*

The CharterCARE System serves a community that has many individuals who are uninsured and underinsured. If these resources were to disappear, it would burden those who already face some of the steepest barriers to care—reducing access and straining the resources of other hospitals in northern Rhode Island, especially with regard to emergency room capacity. A closure of the Rhode Island Hospitals’ emergency rooms or reduction in ability to provide behavioral health treatment will have a ripple effect throughout a system where emergency rooms already experience long wait times and behavioral health treatment beds are generally all filled. The recent historical experience of the closure of Memorial Hospital’s emergency department reflects the unexpected impacts such closures can create. Rhode Island needs all of its health systems to work together to prioritize community needs at the most efficient cost possible—if one system abdicates this responsibility, it could result in instability in the greater health system. Hence, the ability of the CharterCARE System to address the health care needs of its community is of vital importance to all Rhode Islanders. Given the current financial challenges faced by the CharterCARE System, the future ability of the new CharterCARE System to address the needs of the community—including providing community-based services, implementing robust charity care policies, designing programs to meet the needs of individuals with complex health needs, and addressing the social determinants of health—appears imperiled. It is of paramount importance that Centurion’s acquisition of these Hospitals include a robust Community Health Needs Assessment identifying the unmet needs of the community and a plan to immediately respond to and address those needs. Centurion has not made any firm commitment in its application to address community needs, instead stating that resources would only be dedicated to such efforts as they became available. Considering the current financial state of the Hospitals, it is not clear if or when that commitment would come to fruition.

One of the greatest opportunities presented by this transaction is a return of these vital community resources to local control. But, Centurion has not yet identified any board members for the new CharterCARE System that represent lived community and patient experience. The “community members” identified for the boards of the Hospitals and the system as a whole are comprised exclusively of health care and other business executives. Without sufficient community representation on the boards of the new CharterCARE entities, the Hospitals are not positioned to respond timely or adequately to needs of community members. It is community members who are best suited to identify and articulate the health and health care challenges they are experiencing, and these perspectives must be prioritized and elevated by leadership.

For these reasons, the Attorney General conditions approval of this application upon engagement with a turnaround consultant/team with the expertise to perform a full review of the new System’s governance materials, policies and procedures, and to create a plan for implementation of best practices. Local governance and community input is therefore also a necessary condition of any approved transaction.

***Approval of this transaction is conditioned for the protection of the System and the people of Rhode Island.***

All five of these major areas of shortfall must be mitigated to meet the statutory criteria for approval. Because PMH has demonstrated that it cannot meet its commitments to the hospitals, Rhode Island, or the Attorney General, the status quo is not a viable alternative—maintaining it would not “[a]ssure the viability of a safe, accessible and affordable health care system that is available to all of the citizens of the state.” R.I. Gen. Laws § 23-17.14-3(1). These hurdles are significant. In response to these concerns, this approval imposes 40 unique conditions across seven areas. While they are set forth fully and exhaustively in the Decision, the Attorney General highlights the following conditions as particularly critical to ensure the viability of the system and its hospitals:

- To address the currently precarious status quo and to address the application’s failure to present an adequate level of funding for the hospitals to meet their operating and capital needs:
  - Prospect must cure all of the life safety and physical plant violations cited by state and federal regulators, including but not limited to, repair of the roof and inadequate life safety equipment;
  - Prospect must come into compliance with the 2021 Decision, including ensuring payment of outstanding accounts payable owed to vendors of the Rhode Island Hospitals;
  - Prospect and Centurion must commit to guarantee \$80 million in cash financing to add to the books of the New CharterCARE System, regardless of any failure to secure that amount through the bond transaction;
  - Prospect and Centurion must contribute an *additional* \$66.8 million to a dedicated fund, toward which Prospect may apply the outstanding escrow funds (~\$47 million) from the 2021 Decision, to support the newly non-profit New CharterCARE System—funds which will not be available for Centurion’s management fee or for executive compensation; and
  - Centurion’s management fee will be paid only to the extent that the Transacting Parties remain in compliance with all Conditions of this Decision;
- To mitigate poor management practices in the past by distant and self-interested owners, the board of the New CharterCARE System must adopt specific best governance practices, include local and community input, and may not alienate, encumber, or pledge New CharterCARE System’s assets without notice to and approval by the Attorney General;
- To address the application’s lack of a credible plan to turn CharterCARE System’s long history of operating losses into New CharterCARE System’s ongoing state of sustainable

operations, Prospect and Centurion must engage a turnaround consultant to be approved by the Attorney General;

- To address the application’s reliance on future, contingent events like IRS approval of non-profit status for any chance of success, conditions specifically mandating the timing, level of effort, and manner in which these steps must be completed;
- To ensure that the community’s needs are adequately served, New CharterCARE System must adhere to industry standards for charity care and adequately fund identified community health needs.
- To ensure continuity of quality care, the New CharterCARE System must notify the Attorney General of any reductions in workforce that meet a certain threshold, and must maintain the current level of employee benefits during the initial period following the closing of the Proposed Transaction.

Further, the Conditions put in place by the 2021 Decision, including the obligations of Prospect to continue to fund the operating losses of the Rhode Island Hospitals, ensure the payment of outstanding accounts payable, fund capital expenditures, and all other obligations, will remain in full force and effect until closing.

These are the substantial protections and accountability that must be introduced for these Hospitals to experience a realistic turnaround, given their significant financial distress and the gaping shortcomings of this application. The Attorney General has determined that the Conditions imposed by this Decision represent the best chance for the New CharterCARE System to exist and remain a viable place for Rhode Islanders to access quality, safe, affordable health care.

While the path is neither straightforward nor certain, with the modifications contemplated here, the New CharterCARE System can become a self-sustaining, locally-governed non-profit with an opportunity to demonstrate long-term success.

### ***A Note of Acknowledgement and Thanks***

Before delving into the Decision, the Attorney General pauses to recognize the public’s significant interest in this proposed transaction. There is no question that this review has greatly benefited from careful consideration of the more than 120 public comments received during two public hearings and through written submissions over the course of the review. Plainly, there are some who strongly advocate in favor of this transaction, and some who strongly advocate against it. The Attorney General thanks all those who took the time out of their busy lives to participate in this process by expressing their thoughts and concerns.

The Attorney General also recognizes the United Nurses and Allied Professionals and their leadership for their extraordinary efforts to negotiate for the best possible deal and to ensure the viability of these critical health care services and assets. Even though the Attorney General concludes, based on this review and notwithstanding their continued concerns, that it is in the

best interests of these hospitals and of health care in Rhode Island to approve this transaction with conditions, it is clear that the union and its members were well-represented.

Similarly, the Attorney General recognizes the municipal leadership in both Providence and North Providence—communities that will be significantly and directly impacted by this Decision in myriad ways—and thanks them for their participation and engagement in this process. As set forth more fully in the ensuing Decision, we recognize and appreciate the potential fiscal impacts that this proposed transaction, which would involve returning these hospitals to non-profit status, would have on the hospitals' host communities.

Finally, the Attorney General takes this opportunity to acknowledge and thank the dedicated health care workers at Roger Williams Medical Center and Our Lady of Fatima Hospital, and all health care workers throughout Rhode Island, who actually make possible the delivery of health care in this state. These nurses, doctors, technicians, and operational and administrative staff care for all of us. The Attorney General's recognition of and gratitude for their contributions to health care in Rhode Island are an inherent part of what drives this Decision.

#### ***A Note about Redactions in this Decision***

As part of this Office's role as regulator under the HCA, the Attorney General takes seriously the Office's obligation to the public to ensure the greatest degree of public access and transparency possible—both with respect to the application and materials that were before the Attorney General, as well as the bases for this Decision. When the Office considers a proposed transaction with the potential to impact healthcare access for all Rhode Islanders, it is imperative that the public understands what the parties were proposing to do, and why the Attorney General reached his Decision.

The Attorney General has an equally important obligation under state and federal law to responsibly manage and safeguard certain highly sensitive and confidential information that the Parties provide to the Office in good faith in order to facilitate the review. In the normal course, under the HCA, the release of the Decision is followed by a thorough review of all records and information that the parties deem confidential so that the Office can independently make or revise its own confidentiality determinations.

The Parties have strongly maintained that the redacted information in documents and testimony is confidential, sensitive and competitive business information that, in the hands of others, could do harm to their respective organizations. Accordingly, the redactions in today's Decision reflect the Attorney General's legal obligation to respect the determinations of the parties at this time and out of an abundance of caution. They do not reflect this Office's determinations as to whether or not the underlying information is or will remain confidential.

## II. Introduction

### A. Background

The Hospital Conversions Act (“HCA”) requires the Attorney General to review a proposed hospital conversion to “[a]ssure the viability of a safe, accessible and affordable health care system that is available to all.”<sup>1</sup> An HCA review begins when the “Transacting Parties” (or “Parties”) file a hospital conversion application.<sup>2</sup> In the instant matter, the Attorney General and the Rhode Island Department of Health (“RIDOH”) (together, the “Agencies”) conducted concurrent reviews of the HCA application submitted by the Parties.

In the application, which was submitted in the normal course and not as a distressed hospital application, the Parties summarized and described the transaction for which they are seeking approval as follows:<sup>3</sup>

- Prospect CharterCARE RWMC, LLC d/b/a Roger Williams Medical Center (“RWMC”) is currently a for-profit licensed acute care hospital located in Providence, Rhode Island. Prospect CharterCARE SJHSRI, LLC d/b/a Our Lady of Fatima Hospital (“OLF”) is currently a for-profit licensed acute care hospital located in North Providence, Rhode Island. (RWMC and OLF are collectively referred to as at times the “Rhode Island Hospitals” or “Hospitals”).
- Since 2014, the Hospitals and their affiliates have been owned and operated by PMH, a California-based for-profit health care company.
- Pursuant to an Asset Purchase Agreement by and between Centurion, PMH and each of the following entities: Prospect CharterCARE RWMC, LLC d/b/a Roger Williams

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<sup>1</sup> R.I. Gen. Laws § 23-17.14-3(1).

<sup>2</sup> “Transacting parties” is defined at R.I. Gen. Laws § 23-17.14-4(18).

<sup>3</sup> Second HCA Application Submission, Q.1.



Medical Center, Prospect CharterCARE SJHSRI, LLC d/b/a Our Lady of Fatima Hospital, Prospect CharterCARE, LLC, Prospect RI Home Health and Hospice, LLC, Prospect CharterCARE Home Health and Hospice, LLC, Prospect Blackstone Valley Surgicare, LLC, New University Medical Group, Prospect CharterCARE Physicians, LLC d/b/a CharterCARE Medical Associates, and Prospect CharterCARE Ancillary Services, LLC (collectively at times the “CharterCARE System”), Centurion proposes to purchase substantially all of the assets of the CharterCARE System, including the Rhode Island Hospitals. Prospect is party to the APA for the purpose of providing certain representations, warranties, and indemnities (collectively, the transaction is referred to as the “Proposed Transaction”).

- To facilitate the acquisition and continued operations of the existing Hospitals and the related affiliates (the post-closing existing Hospitals and related affiliates, under new corporate formation, are collectively referred to at times as the “New CharterCARE System” and include: CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, CharterCARE Our lady of Fatima Hospital, CharterCARE Blackstone Surgery Center, LLC, CharterCARE Physicians, LLC, CharterCARE Health of Rhode Island Foundation, Inc., CharterCARE Home Health and Hospice, LLC, and CharterCARE Associates in Primary Care Medicine, LLC), the New CharterCARE System will issue bonds to finance the purchase price, working capital for the New CharterCARE System, and certain transaction-related costs.
- As a result of the Proposed Transaction, the Hospitals will be owned and operated by CharterCARE Roger Williams Medical Center, Inc. (“CharterCARE RWMC”) and

CharterCARE Our Lady of Fatima, Inc. (“CharterCARE OLF”), respectively.

Centurion is the sole member of CharterCARE Health of Rhode Island, which is in turn the sole member of the CharterCARE RWMC and CharterCARE OLF and the ultimate parent entity of the other affiliated entities.

- The Parties state that “[w]orking in concert, Centurion and the New CharterCARE System will leverage their respective experience and strengths to re-establish the New Hospitals’ non-profit status, ensuring the Rhode Island community is provided with quality care.... All of CharterCARE Health of Rhode Island’s activities and those of the New CharterCARE System will be focused on serving their local, Rhode Island communities.”

### **1. The History of the CharterCARE System**

In 2014, PMH purchased the entities now comprising the CharterCARE System for a cash price of \$45 million, taking the formerly non-profit system for-profit.<sup>4</sup> The two hospitals at the center of the transaction had a long history, dating back to at least 2008, of operating losses, and while a prior approval to combine Roger Williams Medical Center with Our Lady of Fatima, retaining the non-profit status of each, had improved the losses, the system had not and could not maintain profitability.<sup>5</sup>

In Fiscal Year 2018, PMH took on \$1.12 billion in debt obligations, and, in the very same year, authorized \$457 million to be distributed as a dividend to shareholders Leonard Green, David

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<sup>4</sup> Rhode Island Office of the Attorney General, Decision re: Initial Application of Chamber Inc.; Ivy Holdings Inc.; Ivy Intermediate Holdings, Inc.; Prospect Medical Holdings, Inc.; Prospect East Holdings, Inc.; Prospect East Hospital Advisory Services, LLC; Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; Prospect CharterCARE RWMC, LLC, June 1, 2021 (“2021 Decision”) at 21.

<sup>5</sup> *Id.* at 7-8.

Topper, and Sam Lee.<sup>6</sup> At the time, this decimated PMH’s cash on hand—taking it from approximately 60 days of operating expenses to 1 day of operating expenses.<sup>7</sup> This dividend was not the end of PMH’s campaign to extend leverage, and in 2019, PMH sold certain of its hospital real estate in California, Pennsylvania and Connecticut and then leased it back.<sup>8</sup> Last in this trio of leverage was a debt obligation that put the real estate of the Rhode Island hospitals at risk—a risk that was mitigated by the terms of the 2021 approval with conditions, discussed below.

In 2021, the Attorney General approved with conditions a transaction allowing a majority owner of PMH, Leonard Green, to exit its ownership stake after imposing unprecedented conditions including placing \$80 million in escrow, requiring a minimum level of capital expenditures, and placing specific restrictions on PMH’s ability to encumber or alienate the real property of the hospital or to enter into certain debt arrangements that would unduly place the Rhode Island Hospitals at risk (“2021 Decision”).<sup>9</sup>

Now, PMH at the parent level, is facing financial challenges and is no longer willing to sustain the losses of the CharterCARE System.<sup>10</sup> Statements made under oath by PMH officials indicate that the [REDACTED].<sup>11</sup> A review of the financials for the CharterCARE System shows that the CharterCARE System has consistently sustained significant financial losses, and continual declining operating revenue is

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<sup>6</sup> *Id.* at 4-5.

<sup>7</sup> *Id.* at 5.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> In May 2023, PMH restructured its debt with its real estate investment trust to obtain financing to fund hospital operations with liquidity. *See*

<https://www.businesswire.com/news/home/20230523006095/en/Medical-Properties-Trust-Announces-Prospect-Recapitalization-Transactions>.

<sup>11</sup> Sabillo May 9, 2024 Tr. 25:22-25.

unsustainable.<sup>12</sup> In addition to the aforementioned financial losses, the CharterCARE System’s Blackstone Valley Surgery Center is completely shuttered, and its [REDACTED]

[REDACTED]. PMH’s Chief Integration Officer, George Pillari, stated in his statement under oath that PMH considers the CharterCARE System to be financially distressed.<sup>13</sup>

In the fall of 2023, nineteen scheduled surgical procedures were cancelled by the Rhode Island Hospitals because supplies and/or equipment necessary to perform the procedures were unavailable due to significant and outstanding amounts owed to the suppliers by the CharterCARE System.<sup>14</sup> These cancellations were detrimental for the patients, the medical providers and the Hospitals.<sup>15</sup> In addition to the patient care and regulatory challenges brought about by the outstanding accounts payable and resulting supply chain issues, the CharterCARE System was recently cited by state and federal hospital regulators for life safety and physical plant violations relating to actively leaking roofs in patient care areas and inadequate equipment to properly maintain life safety equipment.<sup>16</sup>

The CharterCARE System remains financially reliant upon PMH. Based upon the most recent financials, PMH’s balance sheet reflects an intercompany receivable related to the CharterCARE System equal to [REDACTED], which indicates the recent significant financial needs of the CharterCARE System that are currently being funded by PMH.<sup>17</sup> This

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<sup>12</sup> Pillari May 8, 2024 Tr. 27:25-28:14.

<sup>13</sup> Pillari May 8, 2024 Tr. 127:23-128:1.

<sup>14</sup> C-CNT-PMH-015295; C-CNT-PMH-015278.

<sup>15</sup> C-CNT-PMH-015290; C-CNT-PMH-015273.

<sup>16</sup> C-CNT-PMH-021899 to C-CNT-PMH-021908; C-CNT-PMH-0218889 to C-CNT-PMH-021898.

<sup>17</sup> Veralon, “Review of the Financial Aspects of the Proposed Transaction Between Prospect Medical Holdings, Inc. and The Centurion Foundation, Inc., Prepared for the Rhode Island Attorney General” (June 9, 2024) at 35-36, attached as Exhibit A. (“Veralon Report”).

amount would have been owed by the CharterCARE System to PMH, if not for the conditions imposed by the Attorney General in the 2021 Decision.<sup>18</sup>

In November 2023, the Attorney General brought a lawsuit against PMH. The Attorney General asserted that PMH had failed to comply with certain conditions under the 2021 Decision, including failure to pay outstanding accounts payable greater than 90 days overdue.<sup>19</sup> At the time of the filing, Prospect was in violation of its obligation to pay outstanding accounts payable amounts totaling more than \$24 million.<sup>20</sup> On June 12, 2024, Associate Justice Brian P. Stern of the Rhode Island Superior Court granted the Attorney General’s request for preliminary injunction and required Prospect to pay \$17,326,526 toward their outstanding accounts payable within ten (10) days.<sup>21</sup>

## **2. Procedural History**

### **(a) The Parties’ HCA Application**

The Parties initially filed a submission under the HCA on May 26, 2023. The submission was rejected as failing to use the appropriate application forms. The Parties resubmitted on June 30, 2023. On July 7, 2023, the Attorney General again required that the Parties resubmit because the Parties’ submission was not in technical compliance with the application requirements.<sup>22</sup> The Parties submitted a revised Application on July 12, 2023 (“First HCA Application Submission”). After review, the Attorney General and RIDOH issued a joint deficiency letter dated August 11, 2023, stating that the application, as received, was incomplete and “non-

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<sup>18</sup> 2021 Decision at 74, Condition 5.2.

<sup>19</sup> Petition to Enforce, *Neronha v. Prospect Medical Holdings*, C.A. No. PC-2023-05832 (R.I. Sup. Ct.).

<sup>20</sup> *Id.*

<sup>21</sup> Decision, *Neronha v. Prospect Medical Holdings*, C.A. No. PC-2023-05832 (R.I. Sup. Ct. June 12, 2024).

<sup>22</sup> Letter from Julia Harvey and Fernanda Lopes to P. Rocha (July 7, 2023).

responsive to many of the questions with respect to all the Parties and Affiliates”.<sup>23</sup> “To address the inadequacy of the ... Parties’ Initial Application,” ... the Attorney General and RIDOH requested that the Parties provide “complete, accurate, and forthright responses” to 288 deficiency questions (the “Deficiency Questions”).<sup>24</sup> The Deficiency Questions requested *inter alia* additional financial data, governance information, Centurion’s financial commitments to the Hospitals, and Centurion’s history of assisting non-profit health systems in the development, acquisition, and financing of health care facilities.

Pursuant to the HCA, responses to deficiency questions are due to regulators within thirty (30) working days after being requested.<sup>25</sup> Following submission of the initial deficiency Questions, the Parties requested an extension of time to respond to the Deficiency Questions and the Agencies granted a 30-day extension of the deadline, from the original deadline of September 26, 2023, to October 26, 2023 “conditional on the provision of certain information by October 6, 2023.... to evaluate whether Prospect Medical Holdings, Inc. and its affiliates ... have the requisite financial strength and stability to maintain services through the delay in the application evaluation caused by the extension.”<sup>26</sup> The Parties submitted additional financial information with respect to PMH on October 6, 2023.<sup>27</sup>

On October 16, 2023, the Parties notified the Attorney General and RIDOH of a significant, material change to the fundamental structure of the proposed transaction presented in their application, by abandoning an initial proposal for Centurion to work with a third-party manager to operate the facilities:

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<sup>23</sup> Letter from Julia Harvey and Fernanda Lopes to P. Rocha (August 11, 2023).

<sup>24</sup> Letter from Julia Harvey and Fernanda Lopes to P. Rocha (August 11, 2023).

<sup>25</sup> R.I. Gen. Laws § 23-17.14-10(a)(2).

<sup>26</sup> Letter from Julia Harvey and Fernanda Lopes to P. Rocha (September 22, 2023).

<sup>27</sup> Letter from P. Rocha to Julia Harvey and Fernanda Lopes (October 6, 2023).

“Based on Centurion’s extensive work with the current leadership at Prospect CharterCARE, Centurion has determined that QHR’s services under a management agreement will not be necessary for the New Hospital’s clinical and financial success in the future. As a result, on October 13, 2023, Centurion notified QHR that Centurion will not be engaging QHR’s services for the New Hospitals. QHR will no longer have any involvement with the New Hospitals.”<sup>28</sup>

Further:

“Following the closing of the Proposed Transaction, Centurion will rely on the local leadership team and their proven expertise in both the health care industry and specifically the operation of OLF and RWMC. Centurion anticipates entering into a transition services agreement with Prospect for a temporary period following closing. Centurion will also engage appropriate consultants to support the local management team as necessary. Centurion does not plan to engage any party for any management services.”<sup>29</sup>

In Centurion’s First HCA Application Submission, QHR was responsible for overseeing the management and operations of the New CharterCARE System because of Centurion’s self-admitted lack of experience in operating hospitals. Accordingly, many of the responses in the First HCA Application Submission included and related to the role of QHR in the management of the New Hospitals post-closing. On October 18, 2023, the Attorney General, RIDOH, and the Parties met to discuss QHR’s removal and its impact on the application. The Attorney General, RIDOH, and the Parties agreed that the Parties would submit a revised application with updated responses that would account for QHR’s removal. The Parties submitted a revised application on November 14, 2023 (“Second HCA Application Submission” or “Application”).<sup>30</sup>

On December 14, 2023, the Attorney General and RIDOH jointly deemed the Parties’ Second HCA Application Submission that was filed on November 14, 2023, and supplemented on

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<sup>28</sup> Letter from P. Rocha to Julia Harvey and Fernanda Lopes (October 16, 2023).

<sup>29</sup> Letter from P. Rocha to Julia Harvey and Fernanda Lopes (October 16, 2023).

<sup>30</sup> Letter from P. Rocha to Julia Harvey and Fernanda Lopes (November 14, 2023).

December 12, 2023, “to be complete and accepted for review” and determined that [t]he review period under the HCA will commence [on], December 15, 2023.”<sup>31</sup>

**(b) Post-Completeness Review of HCA Application**

On December 15, 2023, the Attorney General sent the Parties the first set of Supplemental Questions (“First Set of Supplemental Questions”).<sup>32</sup> The Parties provided their initial responses to the First Set of Supplemental Questions on January 23, 2024<sup>33</sup> and supplemented the same on February 6, 2024.<sup>34</sup> On February 16, 2024, the Attorney General sent the Parties the second set of Supplemental Questions (“Second Set of Supplemental Questions”).<sup>35</sup> The Parties provided their responses to the Second Set of Supplemental Questions on March 1, 2024.<sup>36</sup> On March 15, 2024, the Attorney General sent the Parties the third set of Supplemental Questions (“Third Set of Supplemental Questions”).<sup>37</sup> The Parties commenced providing their responses to the Third Set of Supplemental Questions on March 29, 2024.<sup>38</sup> On April 26, 2024, the Attorney General sent the Parties the fourth set of Supplemental Questions (“Fourth Set of Supplemental Questions”).<sup>39</sup> The Parties provided their responses to the Fourth Set of Supplemental Questions on May 1, 2024.<sup>40</sup> On May 1, 2024, the Attorney General sent the Parties the fifth set of Supplemental Questions (“Fifth Set of Supplemental

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<sup>31</sup> Letter from Julia Harvey and Fernanda Lopes to P. Rocha (December 14, 2023).

<sup>32</sup> Letter from Julia Harvey to P. Rocha (December 15, 2023).

<sup>33</sup> Letter from P. Rocha to Sarah Rice and Fernanda Lopes (January 23, 2024).

<sup>34</sup> Letter from P. Rocha to Sarah Rice and Fernanda Lopes (February 6, 2024).

<sup>35</sup> Letter from Julia Harvey to P. Rocha (February 16, 2024).

<sup>36</sup> Letter from P. Rocha to Julia Harvey (March 1, 2024).

<sup>37</sup> Letter from Julia Harvey to P. Rocha (March 15, 2024).

<sup>38</sup> Letter from P. Rocha to Julia Harvey (March 29, 2024).

<sup>39</sup> Letter from Julia Harvey to P. Rocha (April 26, 2024).

<sup>40</sup> Letter from P. Rocha to Julia Harvey (May 1, 2024).



Questions”).<sup>41</sup> The Parties commenced providing their responses to the Fifth Set of Supplemental Questions on May 2, 2024.<sup>42</sup>

The Attorney General is permitted under the HCA to take sworn testimony of witnesses as part of the review of a transaction.<sup>43</sup> From Monday, May 6th, 2024 through Wednesday, May 15, 2024, the Attorney General obtained statements under oath related to the Proposed Transaction from many individuals, including:

- Ben Mingle, President of the Centurion Foundation;
- Jeffrey Liebman, CEO of CharterCARE;
- Dan Ison, CFO of CharterCARE;
- George Pillari, Corporate Chief of Integration and Operations Improvement at Prospect Medical Holdings; and
- Alfredo Sabillo, CFO of Prospect Medical Holdings.

The Attorney General also took Statements Under Oath of key consultants that the Parties engaged specifically for the Proposed Transaction, including:

- Cecilia Arriera, Director at Alvarez & Marsal (in her capacity as Interim CFO for the CharterCARE System);
- William Hanlon, CEO of H2C Securities Inc. (firm responsible for marketing the sale of the CharterCARE System); and
- Joseph Hegner, Managing Director at Barclays Investment Bank (underwriter for the bond financing initiative included as part of the Proposed Transaction).

The Attorney General also considered public comments received during the course of its review. The Attorney General and RIDOH jointly held two hybrid (in-person and virtual) public meetings on March 19, 2024, and March 26, 2024. Public notices were published regarding these meetings. Written comments regarding the Proposed Transaction were also solicited through those public notices and accepted through March 29, 2024. At the beginning of each public meeting, the Parties were provided an opportunity to give comments regarding the Proposed

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<sup>41</sup> Letter from Dorothea Lindquist to P. Rocha (May 1, 2024).

<sup>42</sup> Letter from P. Rocha to Dorothea Lindquist (May 2, 2024).

<sup>43</sup> R.I. Gen. Laws § 23-17.14-14(a).

Transaction before comments from the public were taken. Over the course of the two meetings, 63 speakers provided public comment. In addition to the public comments provided at each public meeting, approximately 61 written comments were received by the Attorney General and RIDOH and are publicly available on the agencies' respective websites, as are the transcripts and audio recordings of each public meeting.<sup>44</sup> The Attorney General is grateful for the public's interest in and comments on the Proposed Transaction and has read, listened to, and considered each of them.

In issuing this Decision, the Attorney General has had the advantage of accessing thousands of documents, health care data, and expert analyses that were unavailable to the public – some of which may continue to be unavailable because it is confidential closely held business information that must be held as confidential under the HCA and, if made public, could prejudice this or future transactions involving the Rhode Island hospitals – to members of the public and key community partners. The Attorney General is uniquely positioned to reach the conclusions that it did because of its thorough review of all of the information accessible to its Office, both public and confidential, under its HCA authority.

Acknowledging the complexity and far-reaching impacts of hospital conversion matters, the HCA permits the Attorney General, at the expense of the Parties, to “engage experts or consultants including, but not limited to, actuaries, investment bankers, accountants, attorneys, or industry analysts.”<sup>45</sup> In addition to the Attorney General's internal team of attorneys, the Attorney General engaged the following experts to assist in this review:

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<sup>44</sup> See <http://health.ri.gov/programs/hospitalsconversionsmerger/>; see also <http://riag.ri.gov/healthcare>.

<sup>45</sup> R.I. Gen. Laws § 23-17.14-13.

**Shipman & Goodwin, LLP, outside legal counsel (Hartford, Connecticut)**

Shipman & Goodwin, LLP has over 75 years of experience representing hospitals, academic medical centers, hospital systems, integrated health networks, community-based providers, behavioral health and substance-use disorder providers, federally qualified health centers, home health agencies, skilled nursing facilities, life-science companies, and insurers. More specifically, Shipman regularly advises its health care clients on regulatory matters and corporate transactions, including corporate affiliations, mergers, joint ventures, and other business combinations. The Shipman team of attorneys, led by Joan Feldman, and including Marc Lombardi, Vincenzo Carannante, Mark Ostrowski, Patrick Fahey, Melissa Mack, and Christopher Cahill, provided consultative advice and legal services to the Attorney General.

**Veralon Partners, health care finance experts (Bala Cynwyd, Pennsylvania)**

Veralon Partners is a health care consulting firm with over 25 years of experience and has served over 1,300 health care clients including: health systems, community hospitals, teaching hospitals, academic medical centers, physician groups, ACOs/PHOs/CINs and health plans. For example, Veralon assisted the Massachusetts Health Policy Commission in their review of Partners Health care System's proposed acquisition of Hallmark Health Corporation. Similarly, Veralon assisted Massachusetts-based Beth Israel Deaconess Medical Center, Lahey Health, and other affiliates in responding to regulatory review of their proposed merger by the Massachusetts Department of Health, Health Policy Commission, and Office of Attorney General. The Veralon team of consultants, led by Danielle Bangs and Dave Robeson, conducted financial feasibility analyses for the Attorney General.<sup>46</sup>

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<sup>46</sup> Veralon Report.

**(c) Confidentiality Review**

The Attorney General “has the power to decide whether any information required by the HCA of an applicant is confidential and/or proprietary.”<sup>47</sup> Due diligence documents must remain confidential under the HCA.<sup>48</sup> Due diligence documents aside, information is considered for redaction or, in some instances, wholesale withholding only if the Parties request that material be considered confidential and withheld from public view. While the HCA gives the Attorney General sole authority and discretion to make confidentiality determinations, the Attorney General must consider legal precedent and statutes in its confidentiality determinations.

Such precedents include Exemption 4 of the Freedom of Information Act and Rhode Island’s Access to Public Records Act at R.I. Gen. Laws § 38-2-2(4)(B), which require that commercial, financial, and/or trade secret information remain confidential. Confidentiality determinations were made with respect to the Application and generally fell into three categories: due diligence, confidential business/proprietary information (*i.e.* information of a highly sensitive competitive nature, the disclosure of which could harm the Parties), and personally identifiable information. Confidentiality determinations as to testimony transcripts and responses to the supplemental questions are ongoing, and the results of those determinations will be made public once complete.

As part of its role as regulator under the HCA, the Attorney General’s Office takes seriously its obligation to the public to ensure the greatest degree of public access and transparency possible – both with respect to the Application and materials that come before it, as well as with respect to the bases for its Decision. When the Attorney General considers how a

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<sup>47</sup> R.I. Gen. Laws § 23-17.14-32.

<sup>48</sup> R.I. Gen. Laws § 23-17.14-6(a)(31).

proposed acquisition could impact health care in Rhode Island for years to come, it is imperative that the public understands what the parties are proposing to do, and the reasoning supporting the Attorney General's Decision.

The Attorney General's Office has an equally important legal obligation to responsibly manage and safeguard certain highly sensitive and confidential information that the Parties provide in good faith in order to facilitate its review. Because at present there are outstanding confidentiality determinations that have not yet been resolved, the release of a redacted Decision will be followed by a thorough review of the records and information that the parties have asserted is confidential so that the Attorney General can independently make or revise its own confidentiality determinations. Accordingly, the redactions in today's Decision reflect the Attorney General's legal obligation to respect the determinations of the Parties at this time and out of an abundance of caution. **They do not reflect the Attorney General's final determinations as to whether or not the underlying information is or will remain confidential.**

#### **B. Review Criteria**

The Attorney General has the statutory duty and authority under the HCA, R.I. Gen. Laws § 23-17.14-1, *et seq.* to:

- Review a conversion as defined by the HCA and as proposed by the Transacting Parties; and
- Issue a Decision that shall
- Approve, Disapprove, or Approve with Conditions.

The application of this statutory duty and authority directs a review pursuant to an established process<sup>49</sup> and a development of Conditions that relate to the purpose of the HCA,<sup>50</sup> as discussed below.

The HCA states that the Attorney General shall review any transaction as defined in the HCA in which “one or more of the transacting parties involves a for-profit corporation and/or a not-for-profit corporation.”<sup>51</sup> With respect to this review, the Attorney General must “[a]ssure the viability of a safe, accessible and affordable healthcare system that is available to all.”<sup>52</sup> As a result of the review, the Attorney General shall “approve, approve with conditions directly related to the proposed conversion, or disapprove the application” within 180 days of completeness.<sup>53</sup> In reaching this Decision, the Attorney General “shall consider” thirty-seven (37) enumerated criteria.<sup>54</sup>

The purpose of the HCA is, *inter alia*, to:<sup>55</sup>

- (1) Assure the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state;
- (2) To establish a process to review whether for-profit hospitals will maintain, enhance, or disrupt the delivery of healthcare in the state and to monitor hospital performance to assure that standards for community benefits continue to be met;
- (3) To establish a review process and criteria for review of hospital conversions  
.....
- (5) To provide for independent foundations to hold and distribute proceeds of hospital conversions . . . for the support and promotion of health care and social needs in the affected community.

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<sup>49</sup> R.I. Gen. Laws § 23-17.14-7(b); *see also* R.I. Gen. Laws § 23-17.14-3.

<sup>50</sup> R.I. Gen. Laws § 23-17.14-28(b)(4).

<sup>51</sup> R.I. Gen. Laws § 23-17.14-7(a).

<sup>52</sup> R.I. Gen. Laws § 23-17.14-3(1)

<sup>53</sup> R.I. Gen. Laws § 23-17.14-7(b)(4)

<sup>54</sup> R.I. Gen. Laws § 23-17.14-7(c)

<sup>55</sup> R.I. Gen. Laws § 23-17.14-3.

It is with these purposes in mind that the Attorney General has assessed the application and crafted appropriate conditions “directly related to the proposed conversion.”<sup>56</sup>

The criteria for review must be considered with that background. While not all thirty-seven (37) criteria are applicable to every transaction, each must be considered, at least to determine their applicability. Based on the shape of any given application, particular criteria will require more in-depth review. After consideration, the criteria applicable to this transaction include:<sup>57</sup>

- (3) Whether the board established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and purposes;
- (4) Whether the board formulated and issued appropriate requests for proposals in pursuing a conversion;
- (5) Whether the board considered the proposed conversion as the only alternative or as the best alternative in carrying out its mission and purposes;
- (6) Whether any conflict of interest exists concerning the proposed conversion relative to members of the board, officers, directors, senior management, experts or consultants engaged in connection with the proposed conversion including, but not limited to, attorneys, accountants, investment bankers, actuaries, health care experts, or industry analysts;
- (7) Whether individuals described in subdivision (c)(6) were provided with contracts or consulting agreements or arrangements which included pecuniary rewards based in whole, or in part on the contingency of the completion of the conversion;
- (8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions;
- (9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion;

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<sup>56</sup> R.I. Gen. Laws § 23-17.14-7(b)(4).

<sup>57</sup> R.I. Gen. Laws § 23-17.14-7(c). Subsections (1), (2), (14), (16), (19), (26), (29), and (31) are not applicable to this Proposed Transaction.

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

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

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

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

...

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

...

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

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

...

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

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

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

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

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



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

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

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

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

(iv) Whether any conflicts of interest arise in the proposed handling of the conversion's proceeds;

(v) Whether the bylaws and articles of incorporation have been prepared for the new entity;

(vi) Whether the board of any new or continuing entity will be independent from the new hospital;

(vii) Whether the method for selecting board members, staff, and consultants is appropriate;

(viii) Whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making, and public members representing diverse ethnic populations and the interests of the affected community; and

(ix) Whether the size of the board and proposed length of board terms are sufficient;

...

(27) Whether a right of first refusal to repurchase the assets has been retained;

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

... and

(30) Whether the value of assets factored in the conversion is based on past performance or future potential performance.

...

(32) Whether the board established appropriate criteria for staffing levels post conversion, including any reduction in staffing, relocation of staffing, or additional staffing affecting the new hospital(s) and the existing hospital(s);

(33) Whether the board exercised due care concerning staffing levels post conversion to comply with federal employment and labor laws, including the National Labor Relations Act (NLRA), 29 U.S.C. §§ 151-169, Age Discrimination in Employment Act of 1967, Pub. L. No. 90-202, 29 U.S.C. §§ 621-634, Civil Rights Act of 1964, Pub. L. No. 88-352 (78 Stat. 241), 42 U.S.C. § 2000d et seq. (Title VI);

(34) Whether the board exercised due care concerning staffing levels post conversion to comply with state employment and labor laws, including chapter 5 of title 28 (“fair employment practices”);

(35) Whether the board exercised due care in funding employee and retirement plans and pensions, including developing plans to fund unfunded liabilities for retirement plans and pensions for all employees, full-time or part-time;

(36) Whether the retirement and pensions plans are in compliance with the Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. § 1001 et seq.; and

(37) Whether the board established appropriate criteria for any impact analysis for the affected communities both before conversion and after proposed conversion, including benefits to the community, economic impact, and staffing.

The identified criteria provided the Attorney General the requisite lens with which to view the record and make a determination whether to approve, approve with conditions, or deny the Proposed Transaction.

The Attorney General’s authority under the HCA includes the authority to “adopt rules and regulations to accomplish the purpose of this chapter.”<sup>58</sup> This authority is relevant to the Attorney General’s construction of the HCA provisions discussed above and elsewhere in this Decision. The construction of various HCA provisions is also provided with an awareness that Rhode Island law “accord[s] great deference to an agency’s interpretation of its rules and

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<sup>58</sup> R.I. Gen. Laws § 23-17.14-32(b).

regulations and its governing statutes, provided that the agency’s construction is neither clearly erroneous nor unauthorized.”<sup>59</sup>

All of these criteria were considered by the Attorney General. Certain of these criteria required a more in-depth review than others, in order to ensure that the Proposed Transaction is in the interest of Rhode Islanders and in compliance with the HCA. The evaluation of such criteria is discussed more thoroughly below.

### **III. Discussion**

#### **A. Centurion, as prospective owner, lacks the requisite expertise and experience necessary to operate an acute care center.**

##### **1. Criteria under the Hospital Conversions Act**

Central to any review of a HCA application is an examination of the buyer. The HCA expressly requires an examination of the Transacting Parties across four elements: “character, commitment, competence, and standing in the community.”<sup>60</sup> These elements indicate a need to examine a buyer’s background and experience, expertise, and willingness and ability to meet the needs of the patients they intend to serve as future owner of an acute care system in the State of Rhode Island.

Other criteria under the HCA further speak to this requirement to examine the buyer, including thorough consideration of the efforts by the board(s) of directors of the entities engaging in the transaction to appropriately vet the buyer as an appropriate fit for the hospital system. The HCA requires an examination of the process by which requests for proposals from

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<sup>59</sup> *Endoscopy Assocs., Inc. v. R.I. Dep’t of Health*, 183 A.3d 528, 533 (R.I. 2018). As the Office of Health Care Advocate, the Attorney General also has the power “[t]o take all necessary and appropriate action . . . to secure and insure compliance with the provisions of title[] 23,” which includes the HCA. R.I. Gen. Laws § 42-9.1-2(a)(5).

<sup>60</sup> R.I. Gen. Laws § 23-17.14-7(c)(28).

prospective buyers were formulated and issued,<sup>61</sup> a review of the criteria established to examine a potential sale, inclusive of its buyer, in relation to carrying out its mission and purposes,<sup>62</sup> an examination of the qualifications of any retained consultants,<sup>63</sup> and consideration of whether the proposed conversion, inclusive of its buyer, was considered “as the only alternative or as the best alternative in carrying out its mission and purposes.”<sup>64</sup>

Examination of the entity to which the Hospitals will be entrusted is fundamental to any effort to carry out the purpose of the HCA, to “[a]ssure the viability of a safe, accessible and affordable health care system that is available to all.”<sup>65</sup> Taken together, the purpose and criteria of the HCA direct the Attorney General to review whether Centurion is appropriately positioned, and has taken the appropriate steps, to take ownership of the Hospitals and lead them into the future.

## **2. Analysis**

Centurion was the only entity to express interest in purchasing the Rhode Island Hospitals in response to the request for proposals (“RFP”) that was issued.<sup>66</sup> The RFP was sent by H2C, a strategic advisory and investment banking firm hired by PMH for purposes of marketing the hospitals, to twenty-four (24) hospitals and health systems for the purpose of generating interest in the purchase of the CharterCARE System.<sup>67</sup> None of the solicited hospital and health systems conveyed sustained interest in purchasing the CharterCARE System.<sup>68</sup> In a

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<sup>61</sup> R.I. Gen. Laws § 23-17.14-7(c)(4).

<sup>62</sup> R.I. Gen. Laws § 23-17.14-7(c)(3).

<sup>63</sup> R.I. Gen. Laws § 23-17.14-7(c)(8).

<sup>64</sup> R.I. Gen. Laws § 23-17.14-7(c)(5).

<sup>65</sup> R.I. Gen. Laws § 23-17.14-3(1).

<sup>66</sup> 06-R-C-CNT-PMH-003440 (“After executing the NDA, and a review of the data room only Centurion Foundation remained interested in pursuing a transaction...”).

<sup>67</sup> 06-C-CNT-PMH-002685.

<sup>68</sup> *Id.*

final effort to generate interest, H2C contacted Centurion about purchasing the CharterCARE System. Centurion was ultimately presented by PMH to the CharterCARE System Board as the only potential buyer on [REDACTED].<sup>69</sup>

Centurion is a private foundation that specializes in real estate financing and development. While Centurion has applied this expertise to other health care entities, Centurion has never *operated* a hospital, health system, or any health care facility.<sup>70</sup> Centurion is a firm with approximately three employees, all of whom are experienced in real estate finance and development, but not health care operations.<sup>71</sup> In his statement under oath, Mr. Mingle referred to Centurion as having health care experience. When questioned about whether the firm’s “health care” experience was with respect to operations versus real estate financing and development, he confirmed it was the latter.<sup>72</sup> To compensate for Centurion’s lack of experience, Mr. Mingle indicated that [REDACTED]

[REDACTED].<sup>73</sup> As further explained during his statement under oath, [REDACTED]

[REDACTED].<sup>74</sup> The [REDACTED] was not referenced in any part of the written application materials submitted to this Office.

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<sup>69</sup> 06-R-C-CNT-PMH-003379.

<sup>70</sup> See 06-R-C-CNT-PMH-003434 (“Ben Mingle explained that [REDACTED]

[REDACTED]”).

<sup>71</sup> See Mingle May 6, 2024 Tr. 295:2 – 298:8.

<sup>72</sup> Mingle May 10, 2024 Tr. 482:24 – 484:1; See also 06-R-C-CNT-PMH 003383 (Centurion representing to Prospect CharterCARE LLC Board that Centurion had “[REDACTED]” and “[REDACTED]”).

<sup>73</sup> Mingle May 6, 2024 Tr. 178:9-17.

<sup>74</sup> Mingle May 6, 2024 Tr. 178:22 – 179:20.

In an effort to demonstrate the value that Centurion will bring to the CharterCARE System, Centurion’s Application boasts that the firm will use its financial experience in real estate to lower costs for the newly acquired health system, but the Application lacks a clear connection between Centurion’s real estate experience and lowering costs and management of a health system. Currently, the Rhode Island Hospitals own the real estate they occupy and are prohibited by the 2021 Decision from selling or encumbering those real property assets.<sup>75</sup>

Despite Centurion’s limitations with respect to hospital and health care operations, it proposes to enter into a “Corporate Services Agreement” with the New CharterCARE System to provide certain administrative services. Pursuant to the Corporate Services Agreement, Centurion will provide the following services:

- “Coordinate the implementation of Board of Directors or Managers procedures, policies and protocols for the Members of the System;”
- “Coordination and formulation of strategic plans and goals of the System;”
- “Periodically meeting with the executive leadership of the System for the purposes of reviewing and improving the performance of the System;”
- “Review of all operating and capital budgets proposed by the System;”
- “Review of any manager, consultant or service provider (non-clinical) recommendations with respect to the operations of the System;”
- “As requested by the System, provide advice and oversight with regard to such other services and functions as may be necessary or desirable to further the System’s charitable purposes and preserve its status as an organization which is described in Section 501(c)(3) of the Code;” and
- “Such other and additional services to be provided as may be mutually agreed upon.”<sup>76</sup>

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<sup>75</sup> 2021 Decision at 82 (“19. During the Conditions and Monitoring Period, real or personal property, including any lines of service, owned by PCC with a value in excess of \$100,000 shall not be sold, transferred or encumbered without prior notice of at least sixty (60) days and approval by the Attorney General. This condition shall not be construed to limit the authority of the Attorney General under R.I. Gen. Laws §§ 23-17.14-1, *et seq.*”).

<sup>76</sup> 20-R-C-CNT-PMH-004671 to 20-R-C-CNT-PMH-004677.

The expertise or value-add that Centurion brings with respect to advising the New CharterCARE System in connection with any of the above-mentioned aspects is not aligned with Centurion’s past experience or the qualifications of its current staff. Moreover, the Application contains no proposed staff or new job descriptions. Yet, Centurion will be charging the New CharterCARE System \$62,500 per month for these services,<sup>77</sup> regardless of the paucity of experience Centurion can bring to bear on the ongoing issues facing the hospitals.

An examination of the evolution of the terms of the Proposed Transaction reveals that even the parties have not always believed Centurion alone was fully qualified as a buyer of the hospitals. As the transaction was initially conceived by the Transacting Parties, Centurion was to partner with QHR Health, LLC d/b/a Ovation Health care (“QHR”), a national health care management consultant with over 40 years of experience, in pursuit of an “owner operator model.”<sup>78</sup> Prior to the submission of an application, Centurion and QHR presented to the CharterCARE System Board, describing their experience and their planned joint approach to the New CharterCARE System turnaround. As represented to the CharterCARE System Board,

“ [REDACTED] ”<sup>79</sup> [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]<sup>80</sup> [REDACTED]  
[REDACTED]  
[REDACTED]

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<sup>77</sup> *Id.*  
<sup>78</sup> Mingle May 6, 2024 Tr. 23:4-21.  
<sup>79</sup> 06-R-C-CNT-PMH-003434.  
<sup>80</sup> 20-R-C-CNT-PMH-004628 to 20-R-C-CNT-PMH-004667

[REDACTED].<sup>81</sup> [REDACTED]

[REDACTED]

[REDACTED].<sup>82</sup> On November 17, 2022, Centurion entered into an Asset Purchase Agreement with PMH for the purchase of the CharterCARE System, naming QHR as the entity that would be “responsible for managing the operation of the Facilities.”<sup>83</sup> On July 12, 2023, the Transacting Parties submitted their First HCA Application Submission. In it, Centurion represented to the Attorney General that it was planning to partner with QHR to mitigate its own lack of experience in hospital management.<sup>84</sup>

In October of 2023, Centurion notified the Attorney General that QHR would no longer be providing management services for Centurion in connection with the proposed operation of the New CharterCARE System.<sup>85</sup> On November 14, 2023, PMH, the CharterCARE System and Centurion submitted their Second HCA Application Submission as approved by the CharterCARE System Board, reflecting an about-face with respect to QHR by stating that QHR would not be providing management services to the New CharterCARE System.<sup>86</sup> [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED].<sup>87</sup> According to this new submission, Centurion proposes to be the sole

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<sup>81</sup> 06-R-C-CNT-PMH-003436 to 06-R-C-CNT-PMH-003437.

<sup>82</sup> 20-R-C-CNT-PMH-004614 to 20-R-C-CNT-PMH-004626.

<sup>83</sup> 16-R-CNT-PMH-000706 to 16-R-CNT-PMH-001197.

<sup>84</sup> See First HCA Application Submission, Q.1.

<sup>85</sup> See Letter from P. Rocha to Julia Harvey and Fernanda Lopes (October 16, 2023); see also 06-R-C-CNT-PMH-003525 (Von Crockett [REDACTED])

[REDACTED]).

<sup>86</sup> See Second HCA Application Submission, Q.12.

<sup>87</sup> 06-R-C-CNT-PMH-003525.



owner and operator of the New CharterCARE System, relying upon the same management team—led by Mr. Liebman, CEO of the CharterCARE System—which operates the CharterCARE System today. Centurion articulates its reasoning for this change in approach:

“Centurion is confident the management team will achieve different outcomes under the New CharterCARE System because [it] has the requisite expertise needed to run independently and intends to allow the management team to have opportunity to operate without the tight restrictions it has been under with [Prospect]. Furthermore, Centurion looks forward to aligning the New CharterCARE System with its existing nonprofit mission and believes this will assist the New CharterCARE System [with] obtaining better outcomes.”<sup>88</sup>

During his Statement Under Oath, Mr. Mingle stated that he has been very impressed with Mr. Liebman, and therefore, he would not be engaging another health care management firm, as none was needed.<sup>89</sup> Mr. Mingle believes that Mr. Liebman had vast experience implementing restructurings at a number of health systems prior to his arrival at the CharterCARE System.<sup>90</sup> The foundation for Mr. Mingle’s confidence in Mr. Liebman [REDACTED]

[REDACTED]. Mr. Liebman, in his Statement Under Oath, [REDACTED]

[REDACTED].<sup>91, 92</sup> PMH’s Chief Integration & Operations Improvement Officer, Mr. George Pillari, [REDACTED]

[REDACTED]

[REDACTED]<sup>93, 94</sup>

<sup>88</sup> See Supp. Response to I.A.8.

<sup>89</sup> Mingle May 6, 2024 Tr. 39:22 – 40:7, See Also Mingle May 6, 2024 Tr. 128:12 – 129:1.

<sup>90</sup> Mingle May 6, 2024 Tr. 129:2 – 130:19.

<sup>91</sup> Liebman May 14, 2024 Tr. 135:17 –136:4.

<sup>92</sup> Mingle May 6, 2024 Tr. 133:4 – 134:12.

<sup>93</sup> Pillari May 8, 2024 Tr. 57:2-15.

<sup>94</sup> Liebman May 14, 2024 Tr. 135:17 – 136:4.

### 3. Findings

Based upon Centurion's lack of experience operating health care facilities, the Attorney General finds that Centurion has not provided evidence that it can successfully deliver on its promises to turnaround the financial condition of the Rhode Island Hospitals and support the continued provision of high-quality care, without expert support. By Centurion's own admissions, it does not have the expertise to manage ongoing operations. The initial decision by Centurion to retain an expert to fill this knowledge and resource gap further underscores the fact that external expert leadership is necessary to achieve success under this model. The subsequent removal of QHR from the Proposed Transaction creates a significant deficit in the Proposed Transaction. The Attorney General further finds that Centurion's confidence in the local management team is not backed by sufficient evidence because the current leadership team has for a number of years been unable to remedy the financial challenges facing the Hospitals, and when, in fact, under current leadership, financial conditions have deteriorated.<sup>95</sup> Furthermore, relevant to the discussion here but discussed and evaluated in greater length and detail in subsequent sections of this Decision, the Attorney General does not find that the plan proposed by the current team to turnaround the hospitals is sufficient to address the needs of the system, further undercutting confidence in the plan as proposed by Centurion (*see* Section III.D), and the Attorney General also finds that without a financial stake in the success of the New CharterCARE System, it is not evident that Centurion will be sufficiently committed to ensuring the success of the Hospitals (*see* Section III.B).

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<sup>95</sup> *See* 24-R-CNT-PMH-001584 (Financial Statements of Rhode Island CharterCARE System showing losses of \$9.6M in FYE 2019 and \$14.6M in FYE 2020); *see also* 24-R-CNT-PMH-001651 (Financial Statements of Rhode Island CharterCARE System showing losses of \$16.8M in FYE 2021 and \$29.3M in FYE 2022); *see also* C-CNT-PMH-012888 (Financial Statements of Rhode Island CharterCARE System showing losses of [REDACTED] in FYE 2023).

For these reasons, the Attorney General finds that the buyer in this Proposed Transaction is unable to demonstrate adequate “commitment” and “competence” to continue the operations of the Rhode Island Hospitals without additional adequate expert support.<sup>96</sup> The Attorney General further finds that the CharterCARE System Board, and the PMH Board as the selling entity, failed to sufficiently interrogate this Proposed Transaction as part of the procurement and approval process, with respect to the ability of the Centurion to meet the needs of the Rhode Island Hospitals and continue to carry out their missions.<sup>97</sup> This was particularly true of the decision to proceed with the Proposed Transaction following the exit of QHR. To address this gap in current expertise, the Attorney General is requiring as one condition of the approval of the Proposed Transaction the retention of an expert Turnaround Consultant, to be approved by the Attorney General, to provide an in-depth analysis of the challenges facing the CharterCARE System and develop and implement a roadmap to success for the Hospitals moving forward. The Attorney General will require that fees owed to Centurion under the terms of the Corporate Services Agreement shall be contingent on the Rhode Island Hospitals’ compliance with the Conditions. For the reasons described here and in other sections throughout this Decision, the Attorney General will impose additional conditions to strengthen the board governance structure of the Rhode Island Hospitals and the New CharterCARE System as a whole.

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<sup>96</sup> R.I. Gen. Laws § 23-17.14-7(c)(28).

<sup>97</sup> R.I. Gen. Laws §§ 23-17.14-7(c)(3)-(4). As stated on the CharterCARE System website: “The mission of CharterCARE Health Partners is to ensure that residents of Rhode Island receive exceptional quality care at the right time, in the right setting, with the utmost compassion and efficiency.” <https://www.chartercare.org/about-us/mission-and-vision/>. The ongoing ability of the CharterCARE System to provide quality care in a manner that meets patient needs is contingent on the financial health and successful operation of the system, which Centurion appears unprepared to do alone.

**B. Centurion, as prospective owner, is not contributing capital, instead relying on debt financing.**

**1. Criteria under the Hospital Conversions Act**

The funding of a hospital sale is a fundamental component of the transaction, as terms of funding, including whether financing is required and who will bear the repayment burden of the debt, bring about material consequences for the hospital(s) involved. The HCA relies upon and requires scrutiny of the board’s execution of their fiduciary responsibilities in vetting the transaction and ensuring an appropriate value proposition to the hospitals, in all respects. The HCA requires an inquiry into whether the board “established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and purposes;”<sup>98</sup> whether the board and officers acted appropriately as fiduciaries;<sup>99</sup> and “whether the board exercised due care in assigning a value to the existing hospital...in proceeding to negotiate the proposed conversion.”

<sup>100</sup> Furthermore, the HCA requires an investigation into “whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital.”<sup>101</sup>

In short, the HCA requires that the board, which is in the best position to examine and identify the potential pitfalls and impacts of a transaction on the Hospitals, exercise due care to ensure that any proposed transaction meets the mission and purpose of the Hospitals while rendering a beneficial financial outcome, such that the Hospitals are able to continue providing quality care in the communities they serve.

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<sup>98</sup> R.I. Gen. Laws § 23-17.14-7(c)(3).

<sup>99</sup> R.I. Gen. Laws § 23-17.14-7(c)(15).

<sup>100</sup> R.I. Gen. Laws § 23-17.14-7(c)(10).

<sup>101</sup> R.I. Gen. Laws § 23-17.14-7(c)(11).

## 2. Analysis

The analysis of these criteria rightfully requires first an understanding of CharterCARE’s financial picture at the time of the CharterCARE System Board’s decision. For the last five consecutive years, the CharterCARE System has been losing millions of dollars each year. And with each subsequent year, the losses have become progressively greater and greater: in FY 2019 the CharterCARE System lost \$9.6 million; in FY 2020, it lost \$14.6 million; in FY 2021, it lost \$16.8 million; in FY 2022, it lost \$29.3 million; and in FY 2023, it lost [REDACTED].<sup>102</sup> PMH has been funding these operational losses during the entire tenure of their ownership of the CharterCARE System. In November, 2022, PMH decided to sell the CharterCARE System and conveyed that decision to the CharterCARE System Board.<sup>103</sup> PMH leadership testified that their decision was based on the level of sustained losses, [REDACTED]

[REDACTED],<sup>104</sup> [REDACTED]  
[REDACTED]  
[REDACTED].<sup>105</sup> [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

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<sup>102</sup> See 24-R-CNT-PMH-001584 (Financial Statements of Rhode Island CharterCARE System FYE 2019 and FYE 2020); See also 24-R-CNT-PMH-001651 (Financial Statements of Rhode Island CharterCARE System FYE 2021 and FYE 2022); See also C-CNT-PMH-012888 (Financial Statements of Rhode Island CharterCARE System FYE 2023).

<sup>103</sup> See 06-R-C-CNT-PMH-003436 (“[REDACTED]  
[REDACTED].”).

<sup>104</sup> See Sabillo May 9, 2024 Tr. 61:18 – 63:21.

<sup>105</sup> See Sabillo May 9, 2024 Tr. 61:9 – 62:17; see also Pillari May 8, 2024 Tr. 43:20 – 45:4; see also 06-R-C-CNT-PMH-003436.

[REDACTED]

[REDACTED]

[REDACTED].

Prior to entering into the APA to purchase the CharterCARE System, Centurion and PMH each engaged valuation firms to determine the fair market value of the CharterCARE System. Based upon an income-based valuation methodology, the two valuation firms determined the fair market value of the CharterCARE System to be within the range of [REDACTED] [REDACTED].<sup>106</sup> Ultimately, PMH and Centurion agreed to a negotiated purchase price for the CharterCARE System of \$80 million.<sup>107</sup> According to Centurion, the purchase price was reduced, in part, because the CharterCARE System would otherwise have no working capital upon the closing of the transaction, and Centurion will require that an additional \$80 million in cash, to be obtained through debt financing, be placed on the balance sheet to sustain operations.<sup>108</sup>

The entire financing for the proposed acquisition, including \$800,000 of Centurion's stated acquisition costs, is intended to be funded through tax-exempt and taxable bond financing secured by the New CharterCARE System's assets with no financial support of the Hospitals coming from Centurion.<sup>109</sup> In order to close the proposed transaction, Centurion plans to secure the following funds through debt that will be owed by the New CharterCARE System: (i) \$49 million in taxable bond financing, which includes over \$14 million of financed issuance costs, capitalized interest, and required debt service reserve funds; and (ii) \$104 million through tax-

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<sup>106</sup> 21-R-C-CNT-PMH-004683 to 21-R-C-CNT-PMH-004700 (Principle Valuation); 21-R-C-CNT-PMH-004702 to 21-R-C-CNT-PMH-004843 (VMG Valuation).

<sup>107</sup> 16-R-CNT-PMH-001186.

<sup>108</sup> Mingle May 6, 2024 Tr. 108:3-25 – 109:1-9.

<sup>109</sup> C-CNT-PMH-021851 to C-CNT-PMH-021852.

exempt bond financing, which includes over \$22.7 million of financed issuance costs, capitalized interest, and required debt service reserve funds.<sup>110</sup> Another \$60 million of debt will be shouldered by the New CharterCARE System by virtue of existing Property Assessed Clean Energy (PACE) loans, taken out under PMH’s leadership for purposes of energy efficiency renovations, and a subject of the 2021 Decision.<sup>111</sup> Finally, and significantly, the proposed bond financing would also include a large balloon payment (called a “bullet payment”) at the end of maturity of the series. If interest rates are unfavorable at that time, the New CharterCARE System could have a rapid spike in unmet cash needs.

Centurion has been steadfast in its position that it will not be making financial investments or capital commitments in connection with the proposed acquisition of the CharterCARE System.<sup>112</sup> The CharterCARE System Board and the Hospitals’ leadership have been strongly supportive of this proposal, approving the concept without hesitation at the board level.<sup>113</sup> While this support from the CharterCARE System Board and Hospital leadership has been vocal, it has not been illuminating as to why replacing a parent company that is obligated, pursuant to the 2021 Decision, to fund operating losses through 2026 with a new owner that would impose additional debt at the CharterCARE System level is in the best interest of the CharterCARE System. Even under the best-case scenario under the proposed turnaround plan, when considering the overwhelming burden of the debt financing plan to the Hospitals, and as

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<sup>110</sup> C-CNT-PMH-021852.

<sup>111</sup> C-CNT-PMH-021852.

<sup>112</sup> C-CNT-PMH-014184; *see also* Mingle May 6, 2024 Tr. 162:14 – 163:7.

<sup>113</sup> *See* Jeffrey Liebman, CharterCARE/Centurion Public Meeting March 19, 2024 Tr. p. 9-10; *see also* Maria Leonard, CharterCARE/Centurion Public Meeting March 26, 2024 Tr. p. 21; *see also* Dan Ison, CharterCARE/Centurion Public Meeting March 26, 2024 Tr. p.8; 06-R-C-CNT-PMH-003436 to 06-R-C-CNT-PMH-003437.

discussed in detail below, there exists no pathway that does not result in the Hospitals requiring additional financial support.<sup>114</sup>

Centurion has stated that if the New CharterCARE System needs additional capital beyond the proposed initial financing, Centurion is unwilling to make financial commitments with respect to assuming and/or securing such additional debt. Even though Centurion reported having total assets valued greater than \$230 million in its 2021 Form 990,<sup>115</sup> “Centurion is not willing to leverage its other assets in order to obtain financing for the [Rhode Island] Hospitals,”<sup>116</sup> and, “[a]dditional debt will be evaluated as needed and will be obtained based on the New [CharterCARE] System’s ability to sustain the additional debt.”<sup>117</sup> Centurion has made it clear that if there is a lack of adequate funds to finance the purchase, Centurion will walk away from the deal. “If the financing for the New CharterCARE System does not cover the \$80,000,000 proposed cash on hand, Centurion is not obligated to consummate the transaction, per Section 6.4 of the APA, and will not cover the shortfall.”<sup>118</sup>

As set forth above, if the transaction can be consummated as planned, the New CharterCARE System will have \$80 million (in debt-financed capital) on hand at closing.<sup>119</sup> Its accounts will be segregated and owned by the New CharterCARE System for the benefit of the New CharterCARE System and no other party. The \$80 million will be deposited with an established financial institution(s) that is qualified to manage that amount of cash and investments.<sup>120</sup>

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<sup>114</sup> Veralon Report at 8.

<sup>115</sup> F-037-C-CNT-PMH-005882.

<sup>116</sup> Supp. Response I.C.5

<sup>117</sup> *Id.*

<sup>118</sup> Supp. Response I.C.13.

<sup>119</sup> Hegner May 13, 2024 Tr. 79:1-4.

<sup>120</sup> *See* Supp. Response I.C.13.



When Centurion was asked what would happen if the New CharterCARE System had no capacity to assume additional debt, Centurion responded, “[w]hile Centurion cannot predict the New [CharterCARE] System’s response to the listed hypotheticals, the New [CharterCARE] System will do its best to resolve any challenges by working with its counterparts in the state and taking necessary actions as part of the state’s health ecosystem.”<sup>121</sup> Evidently, Centurion’s plan is to seek help from the State of Rhode Island or other health systems should the Rhode Island Hospitals need funds to cover operating losses. This plan shifts the risk of failure of the Rhode Island Hospitals from Centurion to the State of Rhode Island and its taxpayers.

Centurion has shielded itself from any liability arising from its performance under the Corporate Services Agreement, which provides, “[i]n connection with the performance by Centurion of its duties hereunder, Centurion shall have no liability to CharterCARE nor to any other Member of the System, except for its willful breach of contract or actions not taken in good faith.”<sup>122</sup> While Centurion has consistently sought to position itself at “arms-length” from the New CharterCARE System, the foregoing is not an arms-length provision. Because Centurion has ultimate control over the New CharterCARE System, it is able to impose contractual terms that favor Centurion above the New CharterCARE System, which would not be acceptable to an independent health system contracting at arms-length with a service provider. Since hospital operations represents a new frontier for Centurion, this foray into operating hospitals will benefit Centurion, not only by the fees that they will receive, but also by establishing them as more qualified to operate other hospitals. There is no discussion of Centurion’s complete lack of

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<sup>121</sup> Supp. Response I.A.65.

<sup>122</sup> 20-R-C-CNT-PMH-004673.

financial support of the Hospitals, coupled with these disadvantages of having such a parent organization, reflected in minutes of the CharterCARE System Board.

### **3. Findings**

While not making financial commitment to the proposed New CharterCARE System, Centurion has nonetheless represented that it brings value to the proposed New CharterCARE System by way of its financing expertise and administrative services, as described in the proposed Corporate Services Agreement.<sup>123</sup> Of note, Centurion indicates that they will also need to hire consultants in order to close the financing related to this transaction - in other words, even with the limited expertise Centurion provides to the hospitals, which has essentially been cast as the wherewithal to close sophisticated transactions, there will still be costs beyond Centurion's administrative fee and purchase price. At the same time, Centurion has positioned itself to benefit financially from this transaction without assuming any financial risk.

Instead, Centurion holds all of the potential gains from this transaction as originally proposed. Centurion will receive approximately \$750,000 in annual fees from the New CharterCARE System pursuant to a Corporate Services Agreement.<sup>124</sup> Pursuant to the Corporate Services Agreement, there remains potential for such fees to increase, and the New CharterCARE System has no effective authority to terminate the agreement on its own. In addition, Centurion representatives and other board members will receive a fee of at least [REDACTED] per year for attending board meetings.<sup>125</sup> This is not typical of non-profit organizations. The lack of financial investment by Centurion, and their further insistence that they will not

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<sup>123</sup> 20-R-C-CNT-PMH-004671 to 20-R-C-CNT-PMH-004677.

<sup>124</sup> See 20-R-C-CNT-PMH-004673.

<sup>125</sup> See Supp. Response I.B.2.

guarantee the bond financing plan, create a scenario where Centurion may not be adequately incentivized to ensure that the Hospitals succeed in their turnaround.

There is no evidence that the CharterCARE System Board recommended to PMH that other options be pursued as an alternative to selling the CharterCARE System prior to or at any time after PMH's decision to sell.<sup>126</sup> To date, no objection has arisen from any CharterCARE System Board member with respect to the proposed transaction. Rather, the CharterCARE System Board approved the proposed transaction with minimal comment, and several board members and members of the Hospitals' leadership team spoke openly in support of this transaction at public hearing on this matter.<sup>127</sup>

This plan, which saddles the Hospitals with an enormous debt burden and no source of capital resource or rescue, creates an array of exposure that cannot be outweighed by whatever contingent future value could be realized as a result of this proposed transaction (i.e., the turnaround plan). The real property assets of the Hospitals are exposed by this plan, not only because they will not have sufficient cash flow to maintain operations and fund improvements, but moreover, insofar as they will face a balloon payment in 2034 of almost [REDACTED], which will devastate these already struggling Hospitals if they are not able to refinance before the term of that payment comes due.<sup>128</sup> On balance, the projected contingent future upon which they are leveraging this enormous debt is riddled with faulty assumptions and unsteady premises (see full discussion on this issue in Section III.D).

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<sup>126</sup> Pillari May 8, 2024 Tr. 116:20 - 117:23.

<sup>127</sup> See 06-R-C-CNT-PMH-003431 to 06-R-C-CNT-PMH-003437 (Minutes from Special Meeting of the Prospect CharterCARE LLC Board of Directors, November 7, 2022).

<sup>128</sup> C-CNT-PMH-021853.

The Attorney General finds that as proposed, the Application does not accurately account for the CharterCARE System’s history of operational losses as a standalone entity in its valuation and purchase price funding mechanisms. Because the CharterCARE System has been operating at a loss for at least the past five years and, with the consummation of the proposed transaction, is expected to stand alone without the financial support of a capital investor or parent company to fund operational losses, the Attorney General conditions its approval of this transaction upon creation of a new fund for the sole use and benefit of the Hospitals. Additionally, given the lack of evidence indicating that the CharterCARE System Board appropriately investigated and challenged the substance of this transaction according to its fiduciary duties, the Attorney General requires a governance review and implementation of best practices as determined by the turnaround consultant team.

**C. The procurement of bond financing is at-risk.**

**1. Criteria under the Hospital Conversions Act**

The HCA requires the Attorney General to review an array of criteria that speak to the value of assets being exchanged and the terms of that exchange as part of any hospital transaction. These include:

- “Whether the proposed conversion contemplates the appropriate and reasonable fair market value;”<sup>129</sup>
- “Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third-party report, or fairness opinion;”<sup>130</sup>
- “Whether officers, board members, directors, or senior management deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price;”<sup>131</sup>

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<sup>129</sup> R.I. Gen. Laws § 23-17.14-7(c)(17).

<sup>130</sup> R.I. Gen. Laws § 23-17.14-7(c)(18).

<sup>131</sup> R.I. Gen. Laws § 23-17.14-7(c)(23).

- “Whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital;”<sup>132</sup>
- “Whether the proposed conversion appropriately provides for disposition of proceeds of the conversion . . . .”<sup>133</sup>

Considering these criteria within the context of the HCA’s larger purpose to protect the Rhode Island health care system for the benefit of those it serves,<sup>134</sup> the Attorney General recognizes an overarching responsibility to examine whether a given transaction is financially fair, appropriate, and in the best interests of the hospital(s). The importance of ensuring a fair and appropriate transaction comes into even sharper relief within the context of a transaction such as this one: where the purchase price of the Hospitals is entirely bond-financed and the Hospitals alone are responsible for repayment of that debt. The financing model of this transaction has significant implications for the ongoing status of the hospitals and requires close review.

Related to an important facet of the bond financing plan, the HCA requires particular examination of issues impacting tax-exempt hospitals, including:

- “Whether the conversion is proper under applicable state tax code provisions;”<sup>135</sup>
- “Whether appropriate tax status implications of the entity receiving the proceeds have been considered;”<sup>136</sup> and
- “Whether the proposed conversion jeopardizes the tax status of the existing hospital.”<sup>137</sup>

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<sup>132</sup> R.I. Gen. Laws § 23-17.14-7(c)(11).

<sup>133</sup> R.I. Gen. Laws § 23-17.14-7(c)(25).

<sup>134</sup> R.I. Gen. Laws § 23-17.14-3(1).

<sup>135</sup> R.I. Gen. Laws § 23-17.14-7(c)(20).

<sup>136</sup> R.I. Gen. Laws § 23-17.14-7(c)(25)(ii).

<sup>137</sup> R.I. Gen. Laws § 23-17.14-7(c)(21).

The tax-exempt status of the Hospitals following the closure of the transaction takes on additional significance here because of its role in facilitating the bond financing strategy. Taken together, the requirements to review both the financial terms of the transaction and the tax implications of the transaction necessitate review of these issues on their own and within the context of the feasibility of the bond financing strategy, without which the Proposed Transaction cannot be completed.

## 2. Analysis

Centurion has stated throughout the HCA application process that it is unwilling to invest capital or assume responsibility for any debt, associated with either the purchase or ongoing operations of the proposed New CharterCARE System. Instead, as described above, Centurion proposes to finance the purchase of the CharterCARE System through roughly \$200 million in a combination of tax-exempt and taxable bond financing.<sup>138</sup>

In connection with this bond financing plan, Centurion engaged Barclays, an investment banking firm, to serve as an underwriter for the financing of the Proposed Transaction.<sup>139</sup> Barclays modeled a bond financing plan that would cover (a) the purchase price to PMH—initially set at \$80 million, to be adjusted downward according to certain conditions of the APA; (b) the funding of another \$80 million to remain with the Rhode Island Hospitals; and (c) certain other costs and funds associated with effectuating the transaction.<sup>140</sup> Barclays also accepted [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]. The \$80 million remaining with the Hospitals has

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<sup>138</sup> See C-CNT-PMH-021851 to C-CNT-PMH-021852.

<sup>139</sup> 13-R-C-CNT-PMH-004057 to 13-R-C-CNT-PMH-004062.

<sup>140</sup> C-CNT-PMH-021849 to C-CNT-PMH-021864.

been represented by the Transacting Parties as an infusion of capital to the Hospitals. However,

[REDACTED]

[REDACTED].<sup>141</sup> It is likely that

a significant portion of these funds, [REDACTED]

[REDACTED]

[REDACTED].<sup>142</sup>

The Barclays financing model determined that there would be a market for the New CharterCARE System’s bonds, subject to additional assumptions and dependencies, including:

- [REDACTED];
- [REDACTED];
- [REDACTED]; and
- [REDACTED].<sup>143</sup>

The tax-exempt bond financing portion is further contingent upon the newly created corporate entities that will comprise the New CharterCARE System receiving tax-exempt designation from the IRS.<sup>144</sup>

The Attorney General engaged in a thorough review of the feasibility of this financing plan. The Attorney General was assisted in its review by Veralon, a health care consulting firm with deep and varied experience in health care merger matters. The Attorney General also worked closely with expert legal counsel Shipman & Goodwin, including their tax-exempt

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<sup>141</sup> See Hegner May 13, 2024 Tr. 44:11-24.

<sup>142</sup> *Id.* at 91:2 – 92:12 (discussing cash to debt ratios important to investors and credit rating agencies).

<sup>143</sup> C-CNT-PMH-021850 to C-CNT-PMH-021852.

<sup>144</sup> Liebman May 15, 2024 Tr. 388:3-8.

organizations counsel with respect to the New CharterCARE System’s pending tax-exempt status. In the review of this financing plan, the Attorney General identified a number of risks to the completion of this financing strategy, without which the Parties have represented they will not move forward with the Proposed Transaction.<sup>145</sup>

**(a) Tax-exempt status**

Centurion, on behalf of the New CharterCARE System, has applied for tax-exempt status with the IRS. This status is important both for the Hospitals to realize the financial benefits afforded to tax-exempt organizations and also because the tax-exempt bonds that are central to this plan cannot be issued without that designation. With respect to the timing of the New CharterCARE System receiving tax-exempt designation, Centurion has represented to this Office that it fully expects to receive a favorable tax-exempt determination from the IRS by June 2024.<sup>146</sup> However, this Office believes that this projected date is unrealistic because: (i) Centurion’s IRS 1023 filing for tax-exemption has yet to be assigned to an agent as of the date of this writing;<sup>147</sup> (ii) Centurion submitted its tax-exemption filing in December 2023 on a non-expedited basis;<sup>148</sup> and (iii) the average IRS determination period is approximately 190 days (assuming there are no complications or issues with the tax-exempt filing that will cause further delays).<sup>149</sup>

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<sup>145</sup> Mingle May 10, 2024 Tr. 476:13-18 (stating Centurion would “walk away” if unable to secure capital); *see also* 16-R-C-CNT-PMH-000770 (Centurion’s financing contingency as a condition to closing under the Asset Purchase Agreement).

<sup>146</sup> Mingle May 6, 2024 Tr. 223:16 – 224:9.

<sup>147</sup> *See* <https://www.irs.gov/charities-non-profits/charitable-organizations/wheres-my-application-for-tax-exempt-status> (Last Updated June 9, 2024) (“If you submitted after August 17, 2023: Your application has not yet been assigned. Please check back later.”).

<sup>148</sup> Mingle May 6, 2024 Tr. 225:14-23.

<sup>149</sup> *See* <https://www.irs.gov/charities-non-profits/charitable-organizations/wheres-my-application-for-tax-exempt-status> (Last Updated June 9, 2024) (“We issue 80% of Form 1023 application determinations within 191 days.”).



Furthermore, even if Centurion were to receive a tax-exempt status determination this month, the closing for the proposed transaction would likely not occur until October based upon what Centurion states will thereafter be a 90–120-day period to obtain the bond financing.<sup>150</sup>

Joseph Hegner, Managing Director at Barclays, in his Statement Under Oath [REDACTED]

[REDACTED].<sup>151</sup> Any delay in a tax-exempt designation will further delay this timeline. A denial of tax-exempt status would halt the transaction completely by entirely precluding the issuance of tax-exempt bonds. Without certainty that the New CharterCARE System will receive tax-exempt status, the promise of bond financing cannot be certain. And while this determination remains outstanding, the CharterCARE System will continue to run at a deficit without the financial benefits of tax-exempt status promised by the Proposed Transaction.

When Centurion’s Mr. Mingle was questioned by this Office regarding the projected timing of the tax-exempt determination and the possibility of an extended period of delay, Mr. Mingle conveyed for the first time to this Office [REDACTED]

[REDACTED]. Specifically, Mr. Mingle stated that Centurion [REDACTED]

[REDACTED].<sup>152</sup> In tax parlance, [REDACTED]

[REDACTED]

[REDACTED]. In this way, [REDACTED]

[REDACTED].

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<sup>150</sup> Mingle May 6, 2024 Tr. 213:8-18.

<sup>151</sup> Hegner May 13 Tr. 103:6 – 104:3 (discussing a 20-week bond financing process, including a 12-week feasibility analysis).

<sup>152</sup> See Mingle May 6, 2024 Tr. 221:4-222:6 (discussing alternative financing plan involving [REDACTED]).

Mr. Mingle stated further that, once formed, [REDACTED]

[REDACTED]. Then, [REDACTED]

[REDACTED] 153

This Office was not provided with any plan regarding this alternative strategy. Indeed, it was not included in the written Application at all. This Office has also not been provided with an unqualified opinion from bond counsel on either approach. Consultation with bond counsel is standard practice and will be required by Barclays to proceed with the financing plan.<sup>154</sup> Therefore, there remain many unanswered questions regarding whether the alternative plan would be at all feasible. Further, the Attorney General has not been provided with sufficient information on the alternative strategy to be able to assess substantial logistical questions, including:

- [REDACTED]
- [REDACTED];
- [REDACTED]; and
- [REDACTED]

<sup>153</sup> Mingle May 6, 2024 Tr. 222:3-6.

<sup>154</sup> See Hegner May 13, 2024 Tr. 99:21- 100:14.

Although this alternative strategy was offered as an opportunity to mitigate the timeline challenges associated with their initial plan to obtain independent tax-exempt status for the New CharterCARE System, it appears that it may in fact create further challenges that this Office has not been afforded the opportunity to adequately assess.

**(b) Feasibility plan**

The Barclays bond financing model was developed by relying on projections offered by the Transacting Parties about their ability to turnaround the hospitals moving forward. As identified by Barclays’s Mr. Hegner, the ability to market and sell the contemplated bonds will rely on a feasibility study to demonstrate that the Hospitals have a plan to quickly reach a cash-flow-positive state:

“And if you're not in a free cash flow position... you need to have a plan to get there fairly quickly. And, that comes into what those turnaround plans are, what those expense reduction goals are, what revenue enhancements goals are, etc. So, again, those are the conversations that when we bring a transaction to market, we're going to sit down with specific investors, institutional investors and have those conversations and say here is what we're looking at. They're going to ask a lot of questions about the value of those enhancements, the value of the position of the company on day one and having enough cash.”<sup>155</sup>

Stated more succinctly, the feasibility study would have to conclude that an organization

[REDACTED]<sup>156</sup> would have to have a turnaround plan that is demonstrably cash flow positive in short order. When Barclays’s Mr. Hegner was asked whether he believed that the Centurion turnaround plan as presented was sufficient evidence that the New CharterCARE System would be in a [REDACTED]

[REDACTED], Mr. Hegner stated that Barclays [REDACTED]

[REDACTED].<sup>157</sup> Instead, this will

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<sup>155</sup> Hegner May 13, 2024 Tr. 33:5-20.

<sup>156</sup> Veralon Report at 64.

<sup>157</sup> Hegner May 13, 2024 Tr. 58:20-59:7.

be part of the forthcoming feasibility study. Veralon, the Attorney General’s expert financial consultant, also agrees that the success of the turnaround plan, both in achieving its aims and in convincing investors of its viability, is key to obtaining the bond financing Centurion has proposed.<sup>158</sup>

As discussed in-depth in Section III.D, the Attorney General finds that the turnaround plan offered by the Transacting Parties as part of the Application is highly challenged. The Attorney General’s review has identified that many of the planned efforts to improve the finances of the system: (i) lack underlying supporting material validating statements about anticipated growth and savings; (ii) will likely take months longer to implement than was represented in the Application due to unaccounted for logistical and regulatory processes; and (iii) do not include consideration of up-front capital expenditures that will be necessary to implement change. For a full discussion of these issues, see Section III.D. Considering that this is the same plan that will be evaluated as part of a full feasibility study to demonstrate to the entities involved in the issuance of these bonds that this plan makes sense, the Attorney General has concerns that it will not be evaluated favorably, placing the bond financing plan at risk.

**(c) Other barriers**

In addition to challenges associated with obtaining tax-exempt status and successfully completing a feasibility study, other challenges to the bond financing plan were also identified. First, Barclays’ approach assumes that the New CharterCARE System will be able to obtain an interest rate between [REDACTED] based on an assumption that the New CharterCARE System will obtain a BB credit rating. In their report on behalf of the Attorney General (“Veralon Report,” included herein as Exhibit A to this Decision), Veralon states [REDACTED]

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<sup>158</sup> Veralon Report at 61-63.

[REDACTED] based on their “experience with other bond financed transactions currently taking place in the health care market.”<sup>159</sup> Higher interest rates will impact both the amount of bond financing that can be raised as well as the repayment terms to which the New CharterCARE System will be obligated.<sup>160</sup> The assumption that the New CharterCARE System can obtain a BB credit rating is also not proven. [REDACTED]

[REDACTED]<sup>161</sup> [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]<sup>162</sup>

Additionally, as described more fully in the Veralon Report, it is likely that a new valuation of the New CharterCARE System will have to be performed. The valuation that was submitted as part of the Application is well over a year old, and according to industry standards, the one year mark is the point at which a valuation should be reconsidered because of potential changes in the financial status of the Hospitals, changes in the health care market, and other factors.<sup>163</sup> Further, the valuation relied upon many of the same assumptions regarding the New CharterCARE System’s turnaround plan that this Office finds unsubstantiated in Section III.D.<sup>164</sup> For these and other reasons described in the Veralon Report, the current valuation as provided by the Transacting Parties is unreliable for purposes of this review. Moreover, the Parties objected to

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<sup>159</sup> Veralon Report at 62.

<sup>160</sup> *Id.*

<sup>161</sup> *See* Hegner May 13, 2024 Tr. 43:18 – 44:5 (discussing impact of credit rating on bond yield/interest rates).

<sup>162</sup> Veralon Report at 62.

<sup>163</sup> Verlon Report at 22.

<sup>164</sup> *Id.* at 23.

the Attorney General’s expert performing a new valuation during the pendency of the Application.

Veralon, at the Attorney General’s direction and through retention of Porto Leone Consulting, LLC, nevertheless undertook a *limited* valuation exercise to verify the reasonableness of the purchase price by employing a hypothetical “cost approach.”<sup>165</sup> This analysis measures the cost to rebuild or replace the physical assets of the Hospitals and relies on certain assumptions about the financial state of the business. This analysis provided an initial “floor value” to the hospitals of \$121 million. As noted by Veralon: “This additional valuation information provides some additional comfort that the \$80 million Net Purchase Price may be at least supported by the [fair market value] of the [real property and machinery and equipment] that would be acquired in conjunction with the Proposed Transaction.”<sup>166</sup> However, this analysis is not an equivalent valuation like the kind prepared for investors, and an appropriate valuation could reach a different conclusion. To the extent that a new valuation would value the Hospitals lower than the current valuation, that finding would impact the amount of bond financing able to be raised.<sup>167</sup>

### **3. Findings**

The bond financing is a key component of the Proposed Transaction, both because it is the only avenue that has been presented to fund the purchase price of the transaction and because, without funding from Centurion to the Hospitals, it is necessary to support and respond to the financial needs of the CharterCARE System. Based upon review of the Application, the feasibility of a successful bond financing appears to be at risk. This risk is in part the result of the

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<sup>165</sup> *Id.* at 25-26.

<sup>166</sup> Veralon Report at 27.

<sup>167</sup> *See* Veralon Report at 7-8, 63.

fact that the New CharterCARE System entities have not yet received tax-exempt status and that receipt of such status does not appear to be imminent.

Centurion’s response to this timing risk—[REDACTED]  
[REDACTED]—fails to meet criteria under the HCA. The HCA requires an examination of whether “tax status implications of the entity receiving the proceeds have been considered.”<sup>168</sup> The tax status of the entity receiving the proceeds in the first instance—the New CharterCARE System—is currently indeterminate. Within the context of the bond financing strategy, the tax status implications are therefore profound because they affect the timing, availability, and ultimate pricing of the debt. As described above, [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] For these

same reasons, the Attorney General finds that the alternative strategy would jeopardize the tax-exempt status sought by the Hospitals.<sup>169</sup> For all of these reasons, the Attorney General imposes a condition to require that the New CharterCARE System entities only seek bond funding under their own tax-exempt status, once it is issued by the IRS, rather than as disregarded entities of Centurion.

Further, the bond financing strategy is at risk because of both concerns with the feasibility of the turnaround plan (discussed fully in Section III.D) and uncertainty regarding the

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<sup>168</sup> R.I. Gen. Laws § 23-17.14-7(c)(25)(ii).

<sup>169</sup> R.I. Gen. Laws § 23-17.14-7(c)(21).

valuation of the hospital system. The outdated valuation that was provided as part of the Application, particularly in light of a persistent downward trend in the financial health of the New CharterCARE System, undercuts the Attorney General’s confidence in its findings. Notably, this valuation is necessary both to evaluate the terms of the transaction as well as to facilitate the bond financing strategy. Therefore, the Attorney General cannot determine that the conversion “contemplates the appropriate and reasonable fair market value”<sup>170</sup> or that the conversion is “based upon appropriate valuation methods” (to the extent that those methods are not meaningful if the valuation is stale). At the same time, these concerns are balanced against the need, considering the challenged history of the CharterCARE System under Prospect’s leadership and the needs of the health care system of Rhode Island, to find a path to financial solvency for CharterCARE. One mitigation to these risks, which is again discussed more fully in Section III.D, is the Attorney General’s imposition of a condition requiring the New CharterCARE System to engage an outside turnaround consultant to ensure the viability and success of the turnaround effort.

The risks to the procurement of bond financing are notable. It is possible that these risks could lead to an inability of the system to access bond funding. Alternatively, they may lead to a reduction in the amount of bond financing the New CharterCARE System is able to obtain. Because the \$80 million of the anticipated bond financing that would go to the hospitals is important to support their financial needs, the Attorney General imposes a condition of this transaction that Centurion and/or Prospect must ensure that \$80 million is made available on the New CharterCARE System’s balance sheet, regardless of the outcome of the bond financing process.

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<sup>170</sup> R.I. Gen. Laws § 23-17.14-7(c)(17).



**D. Centurion’s plan to turnaround the hospitals is inadequate.**

**1. Criteria under the Hospital Conversions Act**

The HCA requires inquiry into whether a proposed transaction has the potential to realistically bring about the outcome contemplated by this statute: to assure the viability of a safe, accessible and affordable health care system that is available to all.<sup>171</sup> In doing so, it seeks to understand “whether the value of assets factored in the conversion is based on past performance or future performance,”<sup>172</sup> “whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital,”<sup>173</sup> and “whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion.”<sup>174</sup> Each of these criteria trigger an analysis of the substance and credibility of the proposed turnaround plan for the CharterCARE System.

**2. Analysis**

**(a) Reliance on Flawed Leadership**

Centurion’s plan to turnaround the hospitals now rests squarely on the shoulders of CEO Jeff Liebman, whom Mr. Mingle, speaking on behalf of Centurion, believes to have suitable qualifications for an undertaking of this size and scope. The record in this matter is insufficient to validate Mr. Mingle’s beliefs regarding Mr. Liebman’s prior success and qualifications in restructuring hospitals and health care systems. On the contrary, the facts indicate that under Mr. Liebman’s leadership over the past six years, [REDACTED],

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<sup>171</sup> R.I. Gen. Laws § 23-17.14-3(1).

<sup>172</sup> R.I. Gen. Laws § 23-17.14-7(c)(30).

<sup>173</sup> R.I. Gen. Laws § 23-17.14-7(c)(11).

<sup>174</sup> R.I. Gen. Laws § 23-17.14-7(c)(9).

and its financial condition has progressively worsened.<sup>175</sup> The current CharterCARE System management team has not evinced the capacity to effectuate any kind of operational turnaround for the past six years, even despite having the benefit of two distinct consultant teams ( [REDACTED] [REDACTED] )<sup>176</sup> in place at various intervals during past three years, who were specifically brought in to orchestrate operational efficiencies and improvements.

Additionally troubling was Mr. Liebman’s unwillingness to take accountability for operational and financial failures when asked about the weak performance of the CharterCARE System while under his leadership. Instead, he deflected responsibility to other members of his management team and to the parent company.<sup>177</sup> It is generally accepted across industries that the CEO of an organization is accountable for the actions and omissions of his or her entire leadership team. It would be unreasonable and imprudent for the Attorney General to have confidence in a leader who: (i) is unwilling to own accountability for the CharterCARE System’s current condition; and (ii) has failed to demonstrate the leadership capacity and strength to effectively respond to the day-to-day challenges faced by most hospitals and health systems. While Mr. Liebman appears to have informed Mr. Mingle that his limitations and failures are

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<sup>175</sup> See Liebman May 14, 2024 Tr. 30:10-33:23 (Attributing the CharterCARE System’s lack of growth in patient revenue since 2019 to COVID-19 and a cyber-attack); See also 24-R-CNT-PMH-001584 (Financial Statements of the CharterCARE System FYE 2019 and FYE 2020 showing losses of \$9.6M and \$14.6M, respectively); See also 24-R-CNT-PMH-001651 (Financial Statements of the CharterCARE System FYE 2021 and FYE 2022 showing losses of \$16.8M and \$29.3M, respectively); See also C-CNT-PMH-012888 (Financial Statements of the CharterCARE System FYE 2023 showing losses of [REDACTED]).

<sup>176</sup> See 06-R-C-CNT-PMH-003530 (Minutes from Special Meeting of the Prospect CharterCARE LLC Board of Directors, October 11, 2023) (“ [REDACTED] [REDACTED] ”).

<sup>177</sup> Liebman May 14, 2024 Tr. 29:20 – 30:9 [REDACTED] [REDACTED] ), see also Liebman May 14, 2024 Tr. 188:10-14 [REDACTED] [REDACTED] ).

entirely attributable to [REDACTED], there is no evidence in the board minutes provided to this Office [REDACTED]

[REDACTED].

Furthermore, when it came to the November, 2023 CMS citations relating to OLF and RWMC, Mr. Liebman would not agree that the matter was serious, instead describing it as a “less than ideal situation.”<sup>178</sup> More specifically, in November 2023, scheduled surgeries and procedures were cancelled abruptly because of the failure of the two hospitals to procure the needed supplies and equipment to perform the surgeries and procedures.<sup>179</sup> While the supply shortage, caused by PMH’s nonpayment of long overdue accounts payable, was the immediate cause of the cancellations, the state and federal health regulators were most concerned about the failure of leadership and governance that allowed this situation to occur. The citations levied were rooted in the failure of the CEO to appropriately apprise the governing body of the issues pertaining to the provision of safe, appropriate patient care, ultimately determining “that the hospital failed to have a Governing Body that is effective in carrying out its responsibilities for the conduct of the hospital.”<sup>180</sup> Mr. Liebman claimed to be unaware of the lack of supplies and cancellations of surgeries, but he also made it clear that he didn’t consider the cancellations to be significant or particularly concerning.<sup>181</sup> CMS thought otherwise, concluding that the hospital “was unable to produce evidence that the CEO was able to manage the hospital finances, as

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<sup>178</sup> Liebman May 14, 2024 Tr. 92:10-11.

<sup>179</sup> See C-CNT-PMH-015294 (November 7, 2023, Letter from CMS citing non-compliance with Medicare Conditions of Participation by Roger Williams Medical Center).

<sup>180</sup> C-CNT-PMH-015293.

<sup>181</sup> Liebman May 10, 2024 Tr. 90:20-23 (“When you say ‘canceled,’ you know, we didn’t cancel any. We rescheduled almost all of them. We delayed – we delayed the – delayed the procedures a little bit.”); see also *Id* at 93:6-9 (“Q. Okay. And it’s more than just an inconvenience to patients; isn’t that right? / A. No, not necessarily. It depends on the nature of the procedure.”).

evidenced by the number of vendors placed on credit hold due to lack of payment resulting in the failure to obtain necessary supplies/equipment necessary in 6 surgical procedures being cancelled in October 2023.”<sup>182</sup> By contrast, Mr. Liebman stated that the root cause of the cancellations was that, with respect to the supply shortages and difficulty with vendors, “it didn’t happen that it got escalated, apparently.”<sup>183</sup>

Subsequently in April 2024, the CharterCARE System hospitals were placed on Immediate Jeopardy status, (i.e., Medicare/Medicaid certification would be removed if not immediately addressed with a plan of correction).<sup>184</sup> Although the Immediate Jeopardy status was resolved, the survey noted ongoing deficiencies, including “multiple roof leaks” that had been known to hospital staff to be a problem since at least September and various other fire safety violations that would require repair of Roger Williams Medical Center’s physical plant.<sup>185</sup> When questioned about these issues, Mr. Liebman did not appear to view them as serious, or as issues that could not be easily remedied.<sup>186</sup> These are just a few examples of Mr. Liebman’s consistent casually defensive posture when confronted by the Attorney General with issues that concern the well-being of the Hospitals and their patients and communities.

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<sup>182</sup> C-CNT-PMH-015294 to C-CNT-PMH-015302 (RWMC); *see also* C-CNT-PMH-015273 to C-CNT-PMH-015286 (analogous CMS findings with respect to OLF).

<sup>183</sup> Liebman May 14, 2024 Tr. 98:8-10.

<sup>184</sup> *See* C-CNT-PMH-021867 to C-CNT-PMH-021887 (April 16, 2024, Letter from CMS citing Roger Williams Medical Center as an “Immediate Jeopardy to the health and safety of patients” and findings related to water leaks and associated electrical issues).

<sup>185</sup> C-CNT-PMH-021873, C-CNT-PMH-021877, C-CNT-PMH-021867 to C-CNT-PMH-021887 (full report and attachments).

<sup>186</sup> Liebman May 14, 2024 Tr. 294:24-295:23 (discussing roof leaks only with respect to cost of repair).

The capabilities of Mr. Liebman are also called into question based on his misdiagnosis of the CharterCARE System’s financial struggles. The CharterCARE System is losing [REDACTED] per month.<sup>187</sup> Most recently, in fiscal year 2023, the CharterCARE System experienced operating losses of more than [REDACTED]<sup>188</sup> PMH has determined that the continued operation of this system is unsustainable.<sup>189</sup> Both the CharterCARE System and PMH largely attribute the financial distress of the CharterCARE System to two events: the COVID-19 pandemic and a cyber-attack that occurred on August 3, 2023. According to Mr. Liebman, the CharterCARE System has not recovered the patient service revenue it lost during the COVID-19 pandemic and believes that as a result of the August 2023 cyber-attack, it has lost additional market share.<sup>190</sup> However, on a broad scale, hospitals have begun to recover from the economic impact of the COVID-19 pandemic.<sup>191</sup> Yet the CharterCARE System has not demonstrated this level of improvement.

The CharterCARE System was also incurring significant losses well before the time of the cyber-attack, which occurred 58 days prior to the end of 2023 fiscal year. CharterCARE’s Interim Chief Financial Officer reported that as of March 2024, the CharterCARE System had almost completely recovered outstanding accounts receivable which were delayed by the cyber-attack.<sup>192</sup> We also know that for fiscal year 2024 year-to-date, the CharterCARE System has had

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<sup>187</sup> Sabillo May 9, 2024 Tr. 25:22-25.

<sup>188</sup> C-CNT-PMH-012888.

<sup>189</sup> See 06-R-C-CNT-PMH-003436 (“[REDACTED]”).

<sup>190</sup> See Liebman May 14, 2024 Tr. 30:10-33:23 (attributing Prospect Rhode Island Health System’s lack of growth in patient revenue since 2019 to COVID-19 and cyber-attack).

<sup>191</sup> See <https://academic.oup.com/healthaffairsscholar/article/1/3/qxad034/7243451>.

<sup>192</sup> See Arriera May 8, 2024 Tr. 159:2- 160:4 (attributing a spike in accounts receivable to [REDACTED] as of September 2023 to the inability to post payments after the cyber-attack and noting a return to pre-attack metrics as of the March, 2024).

losses in excess of ██████████, projected to reach approximately ██████████ by year end.<sup>193</sup>

Even factoring out the COVID-19 pandemic and the August 2023 cyber-attack, the CharterCARE System has consistently sustained significant operating losses. A failure to adequately understand the root causes of the operating losses, and consistent scapegoating of external factors, does not amount to leadership that can competently lead the turnaround these hospitals need.

Finally, the roadmap that Mr. Liebman plans to follow to bring about the financial turnaround of these Hospitals is the Transition Plan and the EBITDA Bridge, which as further discussed later in this section, both raise significant concerns in terms of being able to accomplish the desired objectives.

#### **(b) Reliance on Tax-Exempt Status**

Beyond its reliance on the leadership of Mr. Liebman, careful examination of both the Transition Plan and the EBITDA Bridge raises serious doubt as to their credibility. The Transition Plan includes the plan to transition certain centralized services away from PMH, bringing those functions within the New CharterCARE System.<sup>194</sup> The EBITDA Bridge, which stands for “earnings before interest, taxes, depreciation, and amortization,” includes information about a number of initiatives that will be implemented to turn around the financial state of the hospitals, along with the anticipated financial impact that will take place in conjunction with the Transition Plan.<sup>195</sup> Together, these documents represent the proposed turnaround plan, as presented by the Transacting Parties.

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<sup>193</sup> C-CNT-PMH-012885.

<sup>194</sup> CNT-PMH-013279 to CNT-PMH-013330.

<sup>195</sup> C-CNT-PMH-012885.

A critical portion of the proposed turnaround hinges on the New CharterCARE System achieving tax-exempt status. Greater than [REDACTED] of the overall initiatives depend upon the New CharterCARE System achieving savings from 340B status and tax savings from converting from a for-profit to tax-exempt status.<sup>196</sup> The proposed tax-exempt financing is wholly contingent upon the IRS issuing a determination that the New CharterCARE System qualifies for tax-exemption. As discussed in Section III.C, there could be significant delay before that status is granted.

While any delay in tax-exempt status determination persists, the CharterCARE System will continue to decline, which may further jeopardize its proposed bond financing assumptions and PMH's capacity to continue to sustain such losses. Moreover, a significant percentage of the operating savings associated with becoming tax-exempt will not occur on Day 1 in that the New CharterCARE System may not qualify for 340B status until 12-15 months post-closing.<sup>197</sup> The 340B Program is a federal program that allows certain health care organizations to receive price discounts on pharmaceuticals. Thus, the projected 340B savings of [REDACTED] in Year 1 are not realistic.

In addition, Centurion projects that real and personal property tax savings will contribute [REDACTED] per year to the bottom line,<sup>198</sup> but this, too, will not occur upon closing. Even if and when realized, such savings are presumptive and not actual, insofar as the applicable towns (Providence and North Providence) conduct annual assessments, and are not beholden to

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<sup>196</sup> *Id.*

<sup>197</sup> Tax-exempt entities must supply an annual tax-exempt cost report in connection with filing during the quarterly registration periods. See <https://www.hrsa.gov/opa/registration/hospital-registration-instructions>.

<sup>198</sup> C-CNT-PMH-012885.

recognize the New CharterCARE System’s tax-exempt status on day one post-closing.<sup>199</sup>

Furthermore, it is not unusual for Rhode Island municipalities to negotiate a Payment in Lieu of Taxes, or “PILOT” for large landholders that are otherwise tax exempt, such as the New CharterCARE System, that results in at least some amount being paid to the municipality. Indeed, Mr. Mingle has contemplated entering into PILOT arrangements with Providence and North Providence.<sup>200</sup> Therefore, the amount of [REDACTED] in real estate tax savings is incorrect for Year 1 and uncertain in future years.

**(c) Reliance on Faulty Assumptions in the EBITDA Bridge & Transition Plan**

According to Centurion and the CharterCARE System, the EBITDA Bridge represents Centurion’s plan for the New CharterCARE System obtaining positive net operating revenue by the end of Year 1. However, as presented in the Application, the projects are theoretical, and the assumptions lack explanation. A full analysis of all of the initiatives presented in the Application can be found in the Veralon Report.<sup>201</sup>

First, the predicted turnaround timeline as represented in the Application is remarkable. Year 1 of the pro forma provided in the Application anticipates a positive EBITDA of [REDACTED], which would mean that in Year 1, the New CharterCARE System would need to generate a turnaround of approximately [REDACTED] *in a single year* from a baseline of negative [REDACTED].<sup>202</sup> Subsequent years predict additional turnaround, with a [REDACTED] turnaround from baseline in Year 2 and a [REDACTED] turnaround from baseline in Year 3.<sup>203</sup> It

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<sup>199</sup> <https://www.providenceri.gov/wp-content/uploads/2021/11/Tax-Exempt-Application-New.pdf>

<sup>200</sup> Mingle May 6, 2024 Tr. 243:18-22.

<sup>201</sup> Veralon Report at 43-58.

<sup>202</sup> Veralon Report at 44.

<sup>203</sup> *Id.*



is an understatement to say that this represents a swift financial turnaround taking place within a short span of time following the closing of the Proposed Transaction.

However, many of the initiatives that are considered as part of this Year 1 turnaround appear to require implementation time that has not been factored into the analysis. For example,

[REDACTED]

[REDACTED]

[REDACTED].<sup>204</sup> Another initiative for [REDACTED]

[REDACTED]

[REDACTED].<sup>205</sup> The Attorney General,

based on Veralon's expert opinion, finds that the rapid turnaround anticipated by the EBITDA Bridge is unsupported.

Further, it appears that capital costs necessary to implement the EBITDA Bridge were not fully considered. The EBITDA Bridge assumes increases in patient revenue are achieved by certain service line changes, including but not limited to: [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]<sup>206</sup> When Dan Ison, CharterCARE System's Vice President of Financial Operations, was questioned about whether any capital expenses were factored into the EBITDA Bridge, [REDACTED]

[REDACTED].<sup>207</sup> Yet, during Mr. Liebman's

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<sup>204</sup> *Id.* at 51.

<sup>205</sup> *Id.* at 53.

<sup>206</sup> *See* C-CNT-PMH-012885.

<sup>207</sup> Ison May 13, 2024 Tr. 56:20-22.

Statement Under Oath, [REDACTED]

[REDACTED].<sup>208</sup> It appears from the record, and from the confusion among the proponents of the Application, that whatever expenses are included in some of the initiatives, they are inadequately reflected in the EBITDA Bridge.

There are also contradictions and omissions in the various statements made in the turnaround plan. For example, the EBITDA Bridge indicates a [REDACTED] reduction in annual corporate allocations to PMH but fails to reflect the \$750,000 Corporate Service Agreement fees that must be paid to Centurion on an annual basis. Further, [REDACTED]

[REDACTED]  
[REDACTED]

[REDACTED].<sup>209</sup>

In addition, a plan relying on growth for a health system that has a payor mix of roughly 70% government payors is highly speculative, simply because Medicare and Medicaid rates are non-negotiable, and commercial inpatient rates are subject to a cap.<sup>210</sup> Also disconcerting is the assumption that patient liability for payment will increase, furthering concern, as discussed in Section III.E, that the New CharterCARE System is not adequately committed to funding charity care programs.<sup>211</sup> Centurion also represents labor savings of approximately [REDACTED]

[REDACTED].<sup>212</sup> This reduction in operating costs assumes [REDACTED]  
[REDACTED]

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<sup>208</sup> Liebman May 14, 2024 Tr. 197:2-8 (“[REDACTED]”).

<sup>209</sup> Liebman May 14, 2024 Tr. 28:16-29:21 (describing numerous operational functions performed regionally by PMH on behalf of the CharterCARE System).

<sup>210</sup> 230-RICR-20-30-4.10.

<sup>211</sup> Second HCA Application Submission, Q.45, p.89; *see also* Supp. Response I.D.20.

<sup>212</sup> C-CNT-PMH-012885.

[REDACTED]. However, given the competitiveness of the market and the shortage and demand for nurses, we find these assumptions not to be realistic.

As more fully described in the Veralon Report, the Attorney General engaged in a robust review of each initiative comprising the EBITDA Bridge, both through examination of the written Application and focused discussion during Statements Under Oath. As Veralon concludes at the end of this analysis: “The financial estimates provided in the EBITDA Bridge cannot be accepted as a reasonably accurate representation of future financial performance.”<sup>213</sup>

### **3. Findings**

Based upon the foregoing analysis, the Attorney General concludes that the New CharterCARE System does not have a credible chance under the terms of the transaction as originally proposed to achieve the operating revenue to offset the monthly losses that have been occurring for the CharterCARE System under the Transition Plan and EBITDA Bridge set forth in the Application. According to the Veralon Report, even under the best-case scenario where all initiatives proposed by Centurion are implemented and effective, [REDACTED]

[REDACTED].<sup>214</sup> Without the infusion of more cash, the New CharterCARE System will not successfully financially weather the Proposed Transaction.

But for the (unrealistic) projected gains and savings associated with the tax-exempt status, which the Attorney General remains wary about, the EBITDA Bridge and Transition Plan depict a continuation of endeavors that the CharterCARE System has attempted, with little success, for the past several months, if not years. It fails to demonstrate a market analysis,

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<sup>213</sup> Veralon Report at 58.

<sup>214</sup> Veralon Report at 67-68.

including but not limited to the need and demand for the proposed increase in services, the cost of providing such services, and the reimbursement associated with the services before embarking on a commitment to offer, increase, decrease or terminate a health care service.

The successful execution of a viable turnaround plan with the current leadership (and without the support of a health care restructuring expert or sufficient operating capital) is not supported on this record. Many of Centurion's assumptions for achieving additional revenue by way of cost savings or enhanced patient volumes require additional capital investments and significant time to implement the planned initiatives to achieve the desired results. Even assuming that the turnaround initiatives are eventually partially or fully successful, the monthly operating losses will quickly outpace the returns on investment, if any, associated with such initiatives.

For these reasons, the Attorney General conditions approval of this Proposed Transaction with the formation of a restricted fund for the sole use of the Hospitals, which may be utilized to cover operational shortfalls and capital needs during the period of time it will take for the Hospitals to realize savings and gains as a result of the implementation of the turnaround plan. This fund, as further described in the Conditions, is required to be funded in the amount of **\$66.8 million**.

As detailed fully in the Veralon Report, Veralon, at the instruction of the Attorney General, analyzed four scenarios of the Rhode Island Hospitals' performance over the three years following the transaction, based on the EBITDA Bridge.<sup>215</sup> These analyses incorporate and rely upon the information provided by the Transacting Parties and assume certain requirements and conditions of the anticipated bond financing that Veralon, in their industry expert experience,

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<sup>215</sup> Veralon Report at 63-68.

found to be reasonable, including covenants that require the Hospitals to retain 75 days cash on hand. The results of these analyses are as follows:

<b>Scenario 1 (worst case)</b> → The hospitals make no meaningful progress toward a turn around and are not able to realize the benefits of tax-exempt status.	█████ million in financial support required over three years
<b>Scenario 2</b> → The hospitals are able to realize the benefits associated with tax-exempt status, but are not otherwise able to realize the impacts of other initiatives.	█████ million in financial support required over three years
<b>Scenario 3</b> → The hospitals are able to achieve their anticipated savings/additional revenue, with a delay in initiative impact until quarter 4 post-closing.	█████ million in financial support required over three years
<b>Scenario 4 (best case)</b> → The hospitals are able to achieve their anticipated savings/additional revenue as described in the EBITDA Bridge.	█████ million in financial support required over three years

The calculations underlying these scenarios are described more fully in the Veralon Report. Importantly, even under the best-case scenario, where all initiatives presented by the Transacting Parties are immediately achieved (Scenario 4), Veralon still identifies a need for financial support to the Hospitals. It is the case, as explained above, that the record contains no evidence to support that the Rhode Island Hospitals under the current plan are likely to achieve the full complement of savings and revenue of the initiatives in the EBITDA Bridge, as presented in the Application, at any time over the next three years. While these efforts should be pursued and may yield results, particularly over the medium to long-term, these safety-net Rhode Island Hospitals must be supported by a solid foundation and their viability cannot be reliant on contingent and uncertain projects. Even without the transaction, the Rhode Island Hospitals would need to undertake significant initiatives to return to break-even or revenue positive cash flow, where funds for needed capital improvements could be set aside. However, as Judge Stern’s June 12, 2024 Decision in PC-2023-05832 revealed with force, the current ownership structure is starving the Rhode Island Hospitals of necessary investment and competent leadership. Maintaining the status quo is not a viable option. In recognition that some of these

initiatives will take time to implement, Veralon evaluated that even a successful implementation of the EBITDA bridge will likely be delayed until quarter 4 under Scenario 3. While achieving Scenario 3 is ambitious, it represents the narrow path for success for which the Rhode Island Hospitals must now aim.

More certain is the future tax status of the new entities—because the Attorney General’s Decision requires that Centurion and the New CharterCARE System obtain tax-exempt status for each of the Rhode Island entities that will comprise the New CharterCARE System, and prohibits the reliance on disregarded entity status for purpose of accessing tax-exempt bond financing. The Attorney General therefore does anticipate that the New CharterCARE System will be able to achieve financial benefit from those initiatives that depend on that tax-exempt status, and will not face the worst-case cash flow scenario considered. And, \$66.8 million is a mere fraction of the dividends PMH paid to its shareholders over its ownership of the Rhode Island Hospitals, amounts that were imprudent and left the Rhode Island Hospitals in the precarious position they now face.

For these reasons, the Attorney General requires the New CharterCARE System to utilize an expert turnaround consultant (and/or consultant team) with expertise and proven competence in management and performance improvement of acute care hospitals. This condition will increase the chance of New CharterCARE System’s success to achieve all needed initiatives within the timeframe of the Conditions. Additionally, the Attorney General will require the Transacting Parties to set aside \$66.8 million to meet the cash needs of the Rhode Island Hospitals, based on the analysis presented in Scenario 3. This level of funding will give the Rhode Island Hospitals a short runway of three quarters to implement the EBITDA bridge strategies. Under the Conditions of this Decision, Prospect has the option of partially fulfilling

this obligation with the outstanding escrow funds (~\$47 million) that it and Leonard Green were required to put aside, pursuant to the 2021 Decision.

The Attorney General also requires that Prospect ensure the funding of certain capital expenditure needs, as identified by CMS during the April 2024 survey, prior to the closing of the Proposed Transaction. Furthermore, Finally, the Attorney General requires that Prospect come into compliance with all terms of the 2021 Decision prior to the closing of the Proposed Transaction, including with its obligations to pay outstanding accounts payable to vendors of the Rhode Island Hospitals.

**E. The application demonstrates an insufficient commitment to community need.**

**1. Criteria under the Hospital Conversions Act**

The HCA, at its core, is a law that seeks to protect individual Rhode Islanders in their ability to access health care services. In addition to the established purpose of the law to “[a]ssure the viability of a safe, accessible and affordable healthcare system that is available to all,”<sup>216</sup> the findings of the legislature that animate the act identify a need to “protect public health and welfare.”<sup>217</sup> This fundamental interest in protecting the Rhode Island community extends to the obligations of the Attorney General in any review of a hospital transaction. The Attorney General must evaluate whether the relevant board(s) “established appropriate criteria for any impact analysis for the affected communities... including benefits to the community”<sup>218</sup> and “established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and

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<sup>216</sup> R.I. Gen. Laws § 23-17.14-3(1).

<sup>217</sup> R.I. Gen. Laws § 23-17.14-3(2).

<sup>218</sup> R.I. Gen. Laws § 23-17.14-7(c)(37).

purposes.”<sup>219, 220</sup> Moreover, the transacting parties’ “character, commitment, competence and standing in the community” must be “satisfactory.”<sup>221</sup>

## 2. Analysis

The CharterCARE System serves a diverse and often marginalized population, including many individuals who are either underinsured or uninsured.<sup>222</sup> Frequently, for reasons owing to persistent socioeconomic and racial disparities and other social determinants of health, individuals living in communities like those served by the CharterCARE System experience a higher disease burden than the general population.<sup>223</sup> As acknowledged in the 2022 Community Health Needs Assessment (“CHNA”) conducted by the CharterCARE System, residents living within a number of communities served by the CharterCARE System “experience significant disparate socioeconomic and health outcomes that disproportionately affect people of color.”<sup>224</sup> The Transacting Parties also acknowledge in the Second HCA Application Submission that “significant population cohorts in [the neighborhoods served by the Rhode Island Hospitals] have higher than normal [health] risk factors.”<sup>225</sup> Not only is it imperative that these communities have continued access to all of the essential health care services offered by the Rhode Island Hospitals, but, further, the health challenges and disparities experienced by the

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<sup>219</sup> R.I. Gen. Laws § 23-17.14-7(c)(3).

<sup>220</sup> Where the CharterCARE System mission is as follows: “The mission of CharterCARE Health Partners is to ensure that residents of Rhode Island receive exceptional quality care at the right time, in the right setting, with the utmost compassion and efficiency.”

<https://www.chartercare.org/about-us/mission-and-vision/>.

<sup>221</sup> R.I. Gen. Laws § 23-17.14-7(c)(28).

<sup>222</sup> 45-R-C-CNT-PMH-002002 to 45-R-C-CNT-PMH-002002; *see also* 45-R-CNT-PMH-001953 to 45-R-C-CNT-PMH-002066.

<sup>223</sup> *See* 45-R-CNT-PMH-001953 to 45-R-C-CNT-PMH-002066, at 5-6.

<sup>224</sup> *See Id.* at 6.

<sup>225</sup> Second HCA Application Submission, Q.55.



individuals served by these hospitals necessitate efforts to implement community benefits and charity care that respond to the needs of the community.

Against this backdrop, Centurion has represented that it does not intend to conduct a formal needs assessment following the purchase of the Hospitals, but instead will rely on the most recent CHNA conducted by the Hospitals in 2022 to inform their understanding of the needs of the community.<sup>226, 227</sup> Further, Centurion will not provide an ongoing financial commitment to fund these efforts. Instead, Centurion has indicated that the New CharterCARE System will be responsible for financially supporting any efforts to provide community benefits on an ongoing basis.<sup>228</sup> Considering the financial challenges of the CharterCARE System as described elsewhere in this Decision, the Attorney General finds that this places the continued provision of these important community benefits at risk.

With respect to charity care, Centurion's charity care policies for the New CharterCARE System commit to providing full financial assistance to those at or below 200% of the Federal Poverty Income Guidelines and partial assistance up to 300% of the guidelines.<sup>229</sup> This is in line with the charity care policies that already exist at the current CharterCARE System.<sup>230</sup>

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<sup>226</sup> See Second HCA Application Submission, Q.45(a); *see also* Supp. Response I.A.18.

<sup>227</sup> Under IRC Section 501(r), organizations that operate one or more hospital facilities that qualify as tax-exempt under IRC Section 501(c)(3) must complete a CHNA and develop an associated implementation plan every three years. Rhode Island law further extends this requirement to all hospitals, including for-profit hospitals. *See* 216-RICR-40-10-23.14.3.

<sup>228</sup> Supp. Response I.D.21 (“The New CharterCARE System anticipates providing a level of financial assistance to the community without jeopardizing the financial health of the New CharterCARE System and based on the needs of the community. Since the New Hospitals are safety net hospitals, the first priority is to stabilize the New CharterCare System’s financial health as it transitions to a nonprofit system. Additional charity care may be considered in the future if it is needed in the community and the New CharterCARE System is able to support it.”).

<sup>229</sup> See Second HCA Application Submission, Q.45(a).

<sup>230</sup> See 45-R-CNT-PMH-002068 to 45-R-CNT-PMH-00203 (Centurion’s preliminary Financial Assistance Policy for RWMC); *see also* 45-R-CNT-PMH-002074 to 45-R-CNT-PMH-002080

Centurion acknowledged that “[i]t is common in the industry to extend financial assistance to those individuals who make 400% of the Federal Poverty Income Guidelines,”<sup>231</sup> but represented that the New CharterCARE System’s priority is to address current operating losses. As for the future, Centurion has represented only that “[a]dditional charity care may be considered” if “the New CharterCARE System is able to support it.”<sup>232</sup> Importantly for this review, in the board minutes detailing the discussion leading up to the approval of the Proposed Transaction by both the PMH Board and the CharterCARE System Board, [REDACTED]

[REDACTED]

Within the Second HCA Application Submission, the Transacting Parties also discuss plans to discontinue certain services in the interest of addressing the financial shortfalls of the Rhode Island Hospitals.<sup>234</sup> Health care systems often have to make challenging decisions regarding the provision of certain services in the context of financial shortfalls. However, the Attorney General recognizes that decisions to reduce access to essential care services can negatively impact access to care for patients. As an example, one of the cost-saving initiatives described in the New CharterCARE System’s plan to turnaround the finances of the Hospitals

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(Centurion’s preliminary Financial Assistance Policy for OLF); *compare to* 44-R-CNT-PMH-001932 to 44-R-CNT-PM-001949 (Current Charity Care Policies of RWMC and OLF).

<sup>231</sup> Supp. Response I.D.20.

<sup>232</sup> Supp. Response I.D.21.

<sup>233</sup> *See* 06-R-C-CNT-PMH-003317 to 06-R-C-CNT-PMH-003318; *see also* 06-R-C-CNT-PMH-003379 to 003532.

<sup>234</sup> *See* Supp. Response I.A.18 (“The New CharterCARE system will continue to consolidate systems and programs where opportunities exist to achieve economies of scale and avoid duplication if such consolidation will improve clinical services or access to care for its respective communities”); *see also* C-CNT-PMH-012885 (EBITDA Bridge showing [REDACTED]).

However, *see* Second HCA Application Submission, Q.1(“The Centurion Transacting Parties have no plans for any reduction of existing services and/or facilities associated with the Proposed Transaction.”)

was the recent closure of the pediatric clinic at St. Joseph’s Health Clinic.<sup>235</sup> This was a high-volume pediatric clinic that offered sliding scale fees to families in South Providence.<sup>236</sup>

Notably, [REDACTED]

[REDACTED].<sup>237</sup> The Attorney General is concerned that future decisions to eliminate services will undermine the community benefit provided by these health care institutions.

Some services that the CharterCARE System provides are a keystone of the entire Rhode Island health care system. In 2023, Roger Williams Medical Center and Our Lady of Fatima had 53,544 emergency room encounters not resulting in hospitalization in the injury category and 19,976 emergency room encounters not resulting in hospitalization in the behavioral, mental health and neurodevelopmental disorder category.<sup>238</sup> Elimination or substantial reduction of emergency department services is likely to have wide-ranging effects on health care access and provision for the whole of Rhode Island. A study conducted in 2020 following the closure of the Memorial Hospital of Rhode Island’s emergency department, which at the time was conducting under 30,000 emergency department visits a year, found that Memorial’s closure caused “noticeably longer wait times” at area hospitals and decreased access to emergency care,

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<sup>235</sup> See C-CNT-PMH-012885; see also Veralon Report at 54-55.

<sup>236</sup> See Second HCA Application Submission, Q.45(a) (“The St. Joseph’s Health Clinic...now located on the RWMC campus, serves a broad population and provides comprehensive adult and pediatric care, which also includes bilingual and multicultural staffing, as well as sliding scale fees pursuant to the Existing Hospitals’ charity care policies.”).

<sup>237</sup> *Id.*; compare to C-CNT-PMH-012885, Veralon Report at 54-55.

<sup>238</sup> See Hospital Association of Rhode Island & Rhode Island Department of Health, Rhode Island Hospital Discharge Data Reporting, “Primary Diagnosis for Emergency Department Visits and Hospitalizations among Rhode Island Residents, by Year, Age, Sex, Race/Ethnicity, and Hospital: 2023”, available at <https://health.ri.gov/data/hospitalization/discharge/>.

potentially contributing to an increase in emergency department diversions (or times when emergency departments cannot accept new admissions).<sup>239</sup> Post-COVID, Rhode Island emergency rooms have experienced overcrowding as upper respiratory viruses and behavioral health needs continue to stretch available capacity.<sup>240</sup> If the New CharterCARE System does not succeed in successfully supporting its emergency department services, the loss of community access would be felt statewide and especially in the vulnerable communities the CharterCARE System currently serves.

Finally, it is notable that unlike other hospital systems that create spaces within hospital leadership for patient and family participation, the proposed board structure of the New CharterCARE System does not. Currently, the only members of the board for CharterCARE Health of Rhode Island, Inc. are Mr. Mingle and Greg Grove of the Centurion Foundation, and Mr. Liebman, CEO of the CharterCARE System. Although the Application speaks to a plan to include “community members” on the board of the New CharterCARE System,<sup>241</sup> there is no language in the bylaws of CharterCARE Health of Rhode Island that require reserving seats for members of the community or other representatives that can speak to patient and community experience.<sup>242</sup>

### **3. Findings**

Based on the foregoing analysis, the Attorney General finds that additional steps are needed to ensure that community benefits will be adequately prioritized and provided by the

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<sup>239</sup> See “Community Health and Health Systems Impact Assessment Related to the Closure of Memorial Hospital of Rhode Island (MHRI) Report”, available at <https://drive.google.com/file/d/1jjhH7E196C8gR2ixsf7heVywNuYQO5li/view>, at 60-61.

<sup>240</sup> See <https://www.wpri.com/health/ri-taking-steps-to-address-emergency-room-overcrowding/>.

<sup>241</sup> Second HCA Application Submission, Q. 32.

<sup>242</sup> 07-R-CNT-PMH-000442 to 07-R-CNT-PMH-000447.

New CharterCARE System. Additionally, based on the record of board meeting minutes, the Attorney General finds that the [REDACTED]

[REDACTED].<sup>243</sup> At the same time, the Attorney General recognizes the important role of the CharterCARE System in the larger health care system in the State. The importance of the Rhode Island Hospitals and their affiliates in serving their communities and in adding stability to the entire State's health care system cannot be overstated.

To address these gaps in the Application and ensure that the New CharterCARE System continues the CharterCARE System's mission of serving its community, the Attorney General requires that the New CharterCARE System complete a CHNA in 2025, in accordance with their legal obligations, and subsequently develop, fund, and implement a plan to provide community services responding to the needs identified by the assessment. Further, the Attorney General requires that the New CharterCARE System maintain charity care policies consistent with state and federal law and maintain access to all Essential Services, as defined in the Conditions, below, without suspending or reducing such services without prior approval by the Attorney General and the Rhode Island Department of Health. Lastly, to ensure that community voices are elevated and prioritized in strategic decision-making at the New CharterCARE System, the Attorney General requires that the New CharterCARE System establish a Patient and Family Advisory Council (PFAC) to address issues most important to patients and their families.

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<sup>243</sup> R.I. Gen. Laws § 23-17.14-7(c)(37).

## F. Labor

The HCA includes a number of criteria for review that look to whether certain considerations were made for the staff members of the Hospitals. These criteria consider whether the relevant board(s) examined how staffing levels would be treated following the Proposed Transaction<sup>244</sup> and whether the relevant board(s) examined terms related to retirement and pensions.<sup>245</sup>

With respect to staffing levels, Centurion represented in the Application that they “have no plans to reduce staffing levels,” and in some areas of the Hospitals, including IT, the New CharterCARE System intends to hire additional staff.<sup>246</sup> Elsewhere in the Application they reiterated: “There will not be any reduction in ... employees ... due to this transaction.”<sup>247</sup>

However, [REDACTED]  
[REDACTED].<sup>248</sup> From the Attorney General’s review, there was no evidence of specific consideration of staffing levels on a go-forward basis by the CharterCARE System Board. Considering the precarious financial position of the Hospitals, and in light of the fact that the CharterCARE System issued a reduction in force earlier this year,<sup>249</sup> the Attorney General will implement a condition to require that the New CharterCARE System notify the Attorney General of any reductions in workforce of a certain magnitude.

With respect to retirement plans offered to staff, Centurion represented that they have not yet finalized a plan for the New CharterCARE System, but Centurion anticipates that it will be

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<sup>244</sup> R.I. Gen. Laws §§ 23-17.14-7(c)(32)-(34).

<sup>245</sup> R.I. Gen. Laws §§ 23-17.14-7(c)(35)-(36).

<sup>246</sup> Second HCA Application Submission, Q. 52(a).

<sup>247</sup> Second HCA Application Submission, Q. 52(g).

<sup>248</sup> Veralon Report at 54.

<sup>249</sup> *Id.*

substantially similar to or better than the plans currently offered in the CharterCARE System.<sup>250</sup>

Based on the Attorney General's review, there was no evidence of specific consideration of retirement plans by the CharterCARE System Board. Once again considering the financial situation of the Hospitals and the importance of protecting retirement assets for beneficiaries, the Attorney General will implement conditions to require that the current level of benefits be maintained during the initial period following the closing of the Proposed Transaction.

### **G. Conflict of Interest**

The following criteria of the HCA demand an inquiry into various forms of conflict of interest on the part of board members, officers, directors, senior management, experts, consultants and representatives of the transacting parties. These criteria require an examination of the people vested with fiduciary and other duties to the Hospitals, to identify and ensure the absence of self-interested behavior that could harm the interests of the Hospitals:

(6) Whether any conflict of interest exists concerning the proposed conversion relative to members of the board, officers, directors, senior management, experts or consultants engaged in connection with the proposed conversion including, but not limited to, attorneys, accountants, investment bankers, actuaries, health care experts, or industry analysts;<sup>251</sup>

(7) Whether individuals described in subdivision (c)(6) were provided with contracts or consulting agreements or arrangements which included pecuniary rewards based in whole, or in part on the contingency of the completion of the conversion;<sup>252</sup>

(12) Whether officers, directors, board members or senior management will receive future contracts in existing, new, or affiliated hospital or foundations;<sup>253</sup>

(13) Whether any members of the board will retain any authority in the new hospital;<sup>254</sup>

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<sup>250</sup> Second HCA Application Submission, Q. 52(d).

<sup>251</sup> R.I. Gen. Laws § 23-17.14-7(c)(6).

<sup>252</sup> R.I. Gen. Laws § 23-17.14-7(c)(7).

<sup>253</sup> R.I. Gen. Laws § 23-17.14-7(c)(12).

<sup>254</sup> R.I. Gen. Laws § 23-17.14-7(c)(13).

(22) Whether the individuals who represented the existing hospital in negotiations avoided conflicts of interest.<sup>255</sup>

The Attorney General has identified a perceived conflict of interest in members of the PMH Board who are charged by Prospect to ensure the sale of these Hospitals. This potential conflict – of divided loyalty between the interests of parent company, PMH, and the interests of the CharterCARE System Board – arises in situations like the one that occurred when Prospect representatives were questioned about the cost of QHR services. At that time, the PMH representative simply indicated [REDACTED]

[REDACTED].<sup>256</sup>

Mr. Liebman also stands to benefit from the Proposed Transaction, in that he has secured his employment with Centurion as evidenced [REDACTED], despite his inability to prevent the System from becoming increasingly distressed during his tenure. His contract includes a [REDACTED], when the CharterCARE System’s financial performance under his leadership was abysmal in both years. Other members of his management team will also receive contracts with Centurion in the event the transaction closes, including but not limited to [REDACTED] and [REDACTED]. There is also an apparent conflict with respect to the fact that [REDACTED]

[REDACTED]  
[REDACTED].

In addition, Centurion is contractually incentivized in enhancing revenue by not making capital investments in the New CharterCARE System, simply because the greater the net revenue, the greater Centurion’s share of the net revenue is (.10%), plus \$750,000 annually, plus

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<sup>255</sup> R.I. Gen. Laws § 23-17.14-7(c)(22).

<sup>256</sup> C-CNT-PMH-014571.



reimbursement of “transaction fees” incurred by Centurion.<sup>257</sup> For example, one component of the transaction fees could be reimbursement of consultant fees. When asked what the budget will be for consultants without QHR, Centurion states that the removal of QHR will allow them a budget for other consultants, because they kept QHR in the EBITDA Bridge.<sup>258</sup>

As a result of the foregoing perceived conflicts, the Attorney General has conditioned the approval of this transaction on required fiduciary training for all board members and the imposition of a turnaround consultant with expertise in governance to manage and guide the implementation of best practices for performance improvement.

#### **IV. Amendment as of November 14, 2024**

Since the release of this Office’s Decision on June 20, 2024, additional facts have come to light which require the clarification and/or amendment of four (4) of the forty (40) Conditions imposed by this Office.

The first two Conditions at issue require clarification only. Condition 5 requires that no post-closing contracts may be amended, terminated, or entered into without at least thirty (30) days’ notice to the Attorney General. The RIAG did not intend for the terms of this provision to impede the Hospitals from making and acting upon personnel decisions in an appropriately expeditious manner. Condition 5 has been amended to clarify that intent, specifically allowing terminations for cause and/or promotions to be executed without prior notice, but requires notification to this Office within fourteen days following such actions. Condition 6 requires the Transacting Parties to provide funds sufficient to complete any repairs necessary according to plans of correction approved by CMS, relating to deficiencies noted on form CMS-2567 and

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<sup>257</sup> R-C-CNT-PMH-004606-004677 (Confidential Exhibit 20).

<sup>258</sup> Supp. Response I.A.9

issued on April 2, 2024. This amendment offers explicit clarification that the funds required to complete plans of correction may come from the existing pre-closing PACE escrow amount, which was the intent of the original Condition.

Condition 17 articulates several requirements related to a Turnaround Consultant who must be retained to evaluate the financial condition, strategic planning, governance materials and current operations of the New CharterCARE System. This Office learned, in discussion with the Transacting Parties following the issuance of the Decision, that the Transacting Parties had already begun a search for an appropriate consultant. The submission of a Request for Proposals (RFP), as initially required by Condition 17, would create inefficiencies for the Parties. Therefore, this Office has removed that requirement and replaced it with a requirement that the New CharterCARE System shall share the scope of the role and potential candidates with the Office no later than fourteen days prior to final selection. The Attorney General retains the authority to approve the final selection of the Turnaround Consultant and the Strategic Plan and Governance Review developed by the Turnaround Consultant prior to implementation.

Further, the decision from the Rhode Island Department of Health (RIDOH), issued simultaneously with the Attorney General's Decision on June 20, 2024, contains a condition requiring the hiring of a Chief Restructuring Officer (CRO), whose function intersects with the responsibilities of the Turnaround Consultant required by the Attorney General. It is required by RIDOH's condition that the CRO be employed (and hence paid for) by the New CharterCARE System. Following the issuance of its June 20th Decision, this Office continued to be apprised of updates regarding the nature of Prospect's financial condition. This Office determined, through its analysis of this additional information, that Prospect's financial condition has continued to deteriorate. Given the intersection of roles and responsibilities of the Turnaround Consultant and

the CRO envisioned by RIDOH, the Attorney General amends the requirement in Condition 17 to eliminate the funding of an escrow in the amount of \$1 million to pay for the Turnaround Consultant. Additional amendments are included to provide clarity on the timing of this process.

Condition 35 requires annual financial reporting from the Rhode Island Hospitals as well as the Centurion Foundation. The Attorney General learned after issuing its Decision that the Centurion Foundation does not produce audited financial statements as part of the normal course of business and will not be in a position to do so at the closing of this transaction. Therefore, Condition 35 is amended to allow an alternative mechanism of compliance that is sufficient allow for appropriate oversight of Centurion's financial condition by this Office.

## **V. Conclusion**

Wherefore, based upon the information provided above in this Decision, the Proposed Transaction is **APPROVED WITH CONDITIONS**. These conditions are outlined below.

## **VI. Conditions**

All of the following Conditions are directly related to the proposed conversion and the purposes of the HCA. The Attorney General's APPROVAL WITH CONDITIONS is contingent upon the satisfaction of the Conditions. The Proposed Transaction shall not take place until CERTAIN CONDITIONS have been satisfied. The Attorney General shall enforce compliance with these Conditions pursuant to the HCA, including R.I. Gen. Laws Section 23-17.14-30.

Because this Application follows less than five years from the issuance of the 2021 Decision, that Decision, along with all of its Conditions, remains in full force and effect unless expressly modified by the below Conditions.

## DEFINITIONS

The following definitions shall apply to the terms used in these Conditions:<sup>259</sup>

- (1) “Community Director” shall be defined as an individual who resides or works within the New CharterCARE System service area and has the appropriate skill sets to serve on a hospital board of directors. *See* R.I. Gen. Laws § 23-17.14-7(25)(viii).
- (2) “Conditions” shall mean Conditions 1-40 and all subparts as set forth herein.
- (3) “Conditions and Monitoring Period” shall begin on the effective date of the conversion and extend for a period of five years from that date.
- (4) “Essential Health Care Services” to be provided by the New CharterCARE System and its subsidiaries shall mean the following:
  - a) A 24-hour emergency department;
  - b) Medical/Surgical Services and Intensive/Coronary Care Unit;
  - c) Acute Dialysis Services;
  - d) Inpatient and Outpatient Rehabilitation Services, including Sub-acute;
  - e) Ambulatory Care Services;
  - f) Emergency Services, including emergency behavioral health services;
  - g) Inpatient and Outpatient Psychiatric/Mental Health/Addiction Medicine Services;
  - h) Diagnostic Imaging and Interventional/Radiology Services, including diagnostic Cardiac Catheterization;
  - i) Laboratory/Pathology;
  - j) Inpatient and Outpatient Cancer Services including Blood and Marrow Transplantation/ Surgical and Radiation Oncology;
  - k) Sleep Lab;
  - l) Wound Care/Hyperbaric Services;
  - m) Homecare/Hospice services; and,
  - n) Any and all other primary care service(s), as defined by R.I. Gen. Laws § 23-17.14-18 and under Rhode Island Department of Health regulations related to said statute, not listed herein.
- (5) An “Insolvency Event” shall occur if either Centurion and/or any of its subsidiaries or any of the entities that comprise the New CharterCARE System shall: (a) be unable to pay its debts as they become due in the usual course of its business; (b) file a voluntary bankruptcy, receivership, special mastership or

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<sup>259</sup> Terms not defined in this section shall be defined in accordance with this Decision.

similar petition for itself and/or for substantially all of its property or assets; (c) be the subject of an involuntary bankruptcy, receivership, special mastership or similar petition that is not dismissed within thirty (30) days of its filing, over it or substantially all of its property or assets; and/or (d) make an assignment for the benefit of creditors.

## **I. TRANSACTION**

1. **Consistent with Application.** The transaction shall be implemented as outlined in the Application, including all Exhibits and Supplemental Responses and as modified and/or amended consistent with these Conditions.
2. **Notice of Change.** For the duration of the Conditions and Monitoring Period, upon any change in what was represented by the Transacting Parties in the Application, Asset Purchase Agreement, or any Exhibits or Supplemental Responses describing post-closing actions of the Transacting Parties in connection with the approval of this transaction, notice shall be provided to the Attorney General no fewer than thirty (30) days prior to the implementation of any such change.
3. **Subordinated Debt.** To the extent that any debts, liabilities and/or obligations are owed by Centurion and/or the New CharterCARE System to Prospect after the closing of the Proposed Transaction, those debts, liabilities and/or obligations (collectively “Subordinated Debt”) shall be in the form of an Unsecured Subordinated Note, pursuant to which any and all repayment obligations of Centurion and/or the New CharterCARE System to Prospect shall be junior in right of payment and subordinated in all respects to the repayment obligations of Centurion and/or the New CharterCARE System (i) to pay the holders and/or owners of any bonds issued in connection with the financing and/or the funding of Centurion’s purchase of the Rhode Island Hospitals (collectively “Bond Financing”), and (ii) to pay the PACE loans. The Unsecured Subordinated Note shall provide (i) for interest only payments for a period of five (5) years; and (ii) that if Centurion and/or the New CharterCARE System defaults and/or otherwise fails to comply with any of its obligations and/or covenants under the Bond Financing and/or PACE loans (collectively “Non-Compliance”), Centurion and/or the New CharterCARE System shall have no obligation to pay Prospect and Prospect shall have no right to receive and/or collect any interest and/or any other monies due and owing from Centurion and/or the New CharterCARE System under the Unsecured Subordinated Note while any Non-Compliance exists. The Unsecured Subordinated Note shall not be secured by any of the real property and/or assets of the Rhode Island Hospitals or other assets of the New CharterCARE System. To the extent that the underwriters of any Bond Financing issued in connection with the financing and/or the funding of Centurion’s purchase of the Rhode Island Hospitals find the above-referenced terms unacceptable, Centurion shall promptly forward to the Attorney General the underwriter’s written

positions so that Attorney General may consider same in adjusting the aforementioned terms necessary to facilitate the issuance of the Bond Financing.

4. **Assignment and Assumption of Escrow.** Prior to the closing of the Proposed Transaction, the Transacting Parties shall amend and remove from the Asset Purchase Agreement, and any other agreement between the Transacting Parties, any terms, covenants, or conditions that allow or require the assignment and assumption by Centurion and/or the New CharterCARE System of the Escrow Agreement entered into on June 1, 2021 pursuant to the terms of the 2021 Decision, the escrow accounts created pursuant with that Escrow Agreement and/or the 2021 Decision, or any rights, duties, liabilities or obligations derived therefrom. To the extent that there exists a Cash Escrow Assignment and Assumption Agreement between and among any of the Transacting Parties, prior to the closing of the Proposed Transaction, the Transacting Parties shall terminate such agreement.
5. **Post-Closing Contracts.** For the duration of the Conditions and Monitoring Period, the Transacting Parties shall provide notice to the Attorney General identifying any post-closing contracts, material amendments to existing contracts, or terminations of contracts, between or among any member of the Transacting Parties or between or among any of the Transacting Parties and any of the current officers, directors, board members, members, or senior management of the New CharterCARE System and its subsidiaries, no fewer than thirty (30) days prior to the implementation of any such change. No change shall be implemented without the Attorney General's approval. No prior notice or Attorney General approval is necessary for any personnel related (a) post-closing contract, (b) material amendment to existing contract, or (c) termination of contract between or among any Transacting Parties and senior management, including but not limited to terminations for cause and/or promotions. For any such post-closing contract, material amendment to existing contract, or termination of contract, notice must be provided to the Attorney General within fourteen (14) days following the action.
6. **Pre-Closing Obligations.** Prior to closing, PMH shall provide funds sufficient to complete any plans of correction approved by Centers for Medicare and Medicaid Services relating to deficiencies noted on forms CMS-2567 and issued to the Rhode Island Hospitals on April 2, 2024, including all capital investment necessary to complete needed repairs to the physical plant. Such funds may come from the existing pre-closing PACE escrow amount. PMH shall provide evidence of compliance with all elements of the plans of correction, or that sufficient funds have been set aside for completion, to the Attorney General at least ten (10) days prior to closing.
7. **Compliance with 2021 Decision.** At the closing of the Proposed Transaction, PMH shall be in compliance with all Conditions of the 2021 Decision, including but not limited to its obligation to pay certain outstanding accounts payable, to the satisfaction of the Attorney General.

8. **Payment of Costs.** Centurion and Prospect shall pay all costs and expenses due from the Transacting Parties pursuant to the Reimbursement Agreement dated February 14, 2023 in full prior to the closing of the Proposed Transaction. Further, Prospect shall pay all outstanding costs and expenses associated with the monitoring and enforcement of the 2021 Decision, pursuant to the Monitoring & Trustee Reimbursement Agreement dated May 27, 2021, in full prior to the closing of the Proposed Transaction.

## II. BOND FINANCING

9. **Expedited Processes.** The Transacting Parties shall make all best efforts to expedite all steps necessary to secure the Bond Financing, including but not limited to completing the federal tax-exempt determination process, completing a feasibility and valuation analysis, coordinating with and applying to a conduit issuer and rating agency, and marketing and selling the bonds in order to complete the transaction.
10. **Feasibility Study and Valuation.** Centurion shall provide to the Attorney General the completed feasibility study and valuation, as prepared for and provided to the bond underwriter and conduit issuer, within 48 hours of completion of the study and valuation.
11. **Tax Exempt Status.** Centurion and the New CharterCARE System shall only proceed with Bond Financing based on 501(c)(3) tax-exempt status obtained from the IRS by CharterCARE Health of Rhode Island, Inc., as represented in the written submission by the Transacting Parties dated November 14, 2023. Centurion and the New CharterCARE System shall not proceed with Bond Financing based on treatment of the CharterCARE System as disregarded entities of Centurion for purposes of establishing tax-exempt status.

## III. FINANCIAL CONDITIONS

12. **Initial Hospital Funding.** The Transacting Parties shall ensure that \$80 million of the Bond Financing is deposited and retained in an account controlled by the Rhode Island Hospitals (the “Initial Hospital Funding”) prior to or at the closing of the Proposed Transaction. In the event that the Bond Financing does not yield funds sufficient to meet this requirement, the Transacting Parties shall fund at closing any remaining amount necessary to ensure Initial Hospital Funding of \$80 million (“True-Up Funding”). Any True-Up Funding shall not be provided for with revenue from the New CharterCARE System or secured by any of the real property and/or assets of the Rhode Island Hospitals or other assets of the New CharterCARE System. The Initial Hospital Funding shall be reserved exclusively for use by the New CharterCARE System. The Initial Hospital Funding shall not be used to pay any portion of the purchase price or any costs owed to Prospect or any of its affiliates by Centurion and/or the New CharterCARE System as a result of the Proposed Transaction.

13. **Hospital Fund.** Centurion and Prospect, or their parent entities and/or principal shareholders, shall fund a restricted non-permanent fund for the sole benefit of the Rhode Island Hospitals (the “Hospital Fund”), which shall be considered a fund created by the New CharterCARE System for its own purpose and not subject to the Rhode Island Uniform Prudent Management of Institutional Funds Act, R.I. Gen. Laws §§ 18-12.1-1 *et seq.*, as follows:
- a. Prior to the closing of the Proposed Transaction, Centurion will ensure the creation of a restricted account on behalf of the New CharterCARE System, which shall be used for the purpose of supporting the continued operations of the Rhode Island Hospitals, making necessary and prudent capital improvements to the Rhode Island Hospitals, and meeting the health care needs of the community served by the Rhode Island Hospitals. The balance of the fund will be paid out according to its purposes or, if fiscally prudent in the judgment of the New CharterCARE System Board, be transferred to an endowment five years after the date of this Decision.
  - b. Prior to the closing of the Proposed Transaction, Centurion and/or Prospect, or their parent entities and/or principal shareholders, shall fund the restricted account described in Condition 13(a) in the amount of **\$66.8 million**, to serve as a Hospital Fund for the exclusive benefit of the New CharterCARE System and the Rhode Island Hospitals; provided, however, that the Attorney General will permit the funds, monies and/or deposits (“Hospital Beneficiary Funds”) subject to and/or covered by the General Escrow Agreement and/or Trust Agreement by and among, inter alia, Leonard Green, Prospect and their respective affiliates to fund a portion of the Hospital Fund on the condition that, prior to and/or contemporaneously with the closing of the Proposed Transaction, Leonard Green, Prospect and their respective affiliates execute and deliver to the Attorney General all documents deemed necessary by the Attorney General (i) to cause the Hospital Beneficiary Funds to be transferred to the Hospital Fund, (ii) to cause Leonard Green, Prospect and their respective affiliates to assign any and all of their respective right, title and interest in and to the Hospital Beneficiary Funds to the New CharterCARE System and the Rhode Island Hospitals, and (iii) to cause Leonard Green, Prospect and their respective affiliates to waive and forever discharge any and all claims, causes of action, defenses, oppositions and/or objections (a) to the transfer of the Hospital Beneficiary Funds to the Hospital Fund and/or (b) to the right, power and/or entitlement of the New CharterCARE System and the Rhode Island Hospitals to use and/or spend the Hospital Beneficiary Funds.
  - c. The Hospital Fund shall not be funded by revenue from the New CharterCARE System or by debt secured by the New CharterCARE System’s assets.



- d. The Hospital Fund shall not be used for executive salaries, fees, bonuses, or any form of compensation for executive-level leadership of the Centurion Foundation and its affiliates, or the New CharterCARE System or any entity comprised therein. The Hospital Fund shall not be used to pay any fee or other payment to the Centurion Foundation or any of its affiliates, including any fees related to the closing of this Proposed Transaction, the Corporate Services Agreement, or any agreement between Centurion and the New CharterCARE System or any of its component organizations.
  - e. The Hospital Fund shall be governed exclusively by the board of CharterCARE Health of Rhode Island, Inc. through the establishment of a new Hospital Fund Governance Committee.
  - f. The Hospital Fund Governance Committee shall be established by the board of CharterCARE Health of Rhode Island, Inc. only after Conditions 22-24 are satisfied.
  - g. Within three months of the establishment of the Hospital Fund Governance Committee, the Hospital Fund Governance Committee shall establish a mission statement and internal policies governing the uses of the Hospital Fund, in accordance with the Hospital Fund purpose in Condition 13(a).
  - h. The Hospital Fund shall not be accessed until the establishment of the Hospital Fund Governance Committee and the promulgation of the mission statement and internal policies governing the use of the Hospital Fund.
  - i. The Transacting Parties shall submit any contracts, instruments, or other agreements necessary to effectuate Condition 13 to the Attorney General for approval before final execution.
14. **PACE Loans.** The Pace Loans shall either be paid in full at the closing of the Proposed Transaction or assumed by the Rhode Island Hospitals, the New CharterCARE System and/or any of its component entities (“PACE Loan Assumption”).
15. **MPT Release.** Prior to and/or contemporaneously with the closing of the Proposed Transaction, Prospect shall amend and/or cause to be amended the Pledge and Security Agreement between MPT TRS Lender PMH, LLC (“MPT”) and Prospect Medical Holdings, LLC, and its affiliates, dated May 23, 2023, and the Loan Agreement between MPT TRS Lender PMH, LLC and Prospect Medical Holdings, LLC, and its affiliates, dated May 23, 2023, to (a) release, discharge and terminate all security interests, liens and/or pledges of any and all assets of any entity within the CharterCARE System serving as security for any obligation, debt and/or liability owed to MPT and/or any of its

affiliates, and (b) release, discharge and terminate any and all guaranty obligations, liabilities and debts of any entity within the CharterCARE System to MPT and/or any of its affiliates. Prior to and/or contemporaneously with the closing of the Proposed Transaction, Prospect shall file and/or cause to be filed with the Rhode Island Secretary of State's Office, the Providence Recorder of Deeds and/or any other applicable federal, state and/or municipal agency all terminations and discharges necessary to promptly release, discharge and/or terminate any and all security interests, liens and/or pledge filings of public record by and/or on behalf of MPT and/or its affiliates against any entity within the CharterCARE System.

16. **Corporate Services Agreement Fee.** Under the Corporate Services Agreement between Centurion and CharterCARE Health of Rhode Island, Inc., any fees payable to the Centurion Foundation, including the Corporate Administrative Services Charge and the Participation Fee, shall be paid only if and so long as the Transacting Parties are in compliance with the terms of this Decision. That is, if any Transacting Party has actual or constructive knowledge of noncompliance, the Transacting Party must notify CharterCARE Health of Rhode Island, Inc. and the Attorney General within thirty (30) days of the knowledge of noncompliance. Thereafter, CharterCARE Health of Rhode Island Inc., must cease all future payment of fees payable to the Centurion Foundation. Similarly, if the Attorney General has actual or constructive knowledge of noncompliance, the Attorney General shall so notify CharterCARE Health of Rhode Island, Inc., and no further payment of fees payable to the Centurion Foundation shall be made. In the event the noncompliance is cured or waived, the aforementioned payments may resume. No changes, additions, or deletions of any terms of the Corporate Services Agreement related to any fees or costs owed to Centurion or its affiliates may be made without prior approval by the Attorney General.

#### **IV. OPERATIONS AND PROVISION OF CARE**

17. **Turnaround Consultant.** Directly following the closing of the Proposed Transaction, the New CharterCARE System shall retain a consultant ("Turnaround Consultant") to evaluate the financial condition, strategic planning, governance materials and current operations of the New CharterCARE System and subsequently develop and implement a strategy to improve operations, stem operational losses, ensure appropriate investment in capital needs, and improve access to safe, high-quality care ("Strategic Plan"). The Turnaround Consultant must include non-profit governance expertise, and the Turnaround Consultant team will complete a thorough review of the New CharterCARE System governance materials, including bylaws, policies and procedures, and will make recommendations to align governance materials with best practices in good governance ("Governance Review"). The New CharterCARE System shall retain the Turnaround Consultant subject to the following conditions:

- a. The New CharterCARE System shall share the proposed scope of the role of the Turnaround Consultant and potential candidates with the Attorney General, no later than fourteen (14) days prior to final selection.
  - b. Final selection of the Turnaround Consultant shall be determined by the CharterCARE Health of Rhode Island, Inc. Board, subject to the approval of the Attorney General.
  - c. The Strategic Plan and Governance Review shall be submitted to the Attorney General for review and approval prior to its implementation, which review and approval shall not take more than thirty (30) days.
  - d. Centurion and/or the New CharterCARE System shall support and facilitate the implementation of the Strategic Plan and Governance Review, as developed by the Turnaround Consultant and approved by CharterCARE Health of Rhode Island Board. It is anticipated that all implementation activities related to the Strategic Plan and Governance Review shall be initiated and/or completed (as appropriate) not more than one (1) year following the closing of the Proposed Transaction.
  - e. In addition to the Strategic Plan and Governance Review, all evaluations, interim and final reports, amendments to the Strategic Plan and/or Governance Review, and recommendations of the Turnaround Consultant must be submitted to the Attorney General within five (5) business days of completion of said Plan, Review, evaluation, interim or final report, amendment, etc. These reporting obligations related to the Turnaround Consultant shall cease as of completion of the implementation of the Strategic Plan and Governance Review.
18. **AHEAD Participation.** The Boards of CharterCARE Roger Williams Medical Center, Inc. and CharterCARE Our Lady of Fatima, Inc., shall make a good faith effort to explore, consider and vote on participation in CMS' total cost of care program, States Advancing All-Payer Health Equity Approaches and Development ("AHEAD"), in the event that Rhode Island becomes a participating state.
19. **Continuity of Care.** During the Conditions and Monitoring Period, Centurion and the New CharterCARE System shall keep all entities currently within the CharterCARE System, including the Rhode Island Hospitals, open and operational. Centurion and the New CharterCARE System shall maintain and continue to provide at each Hospital and all non-hospital settings the full complement of Essential Health Care Services. The New CharterCARE System shall continue to provide access to quality health care services and maintain good standing status with all state and federal licensing and regulatory requirements and shall meet all accreditation standards. There shall be no suspension,

termination, or material reduction of Essential Health Care Services currently provided by the CharterCARE System without the prior approval by the Attorney General and Rhode Island Department of Health.

20. **Charity Care.** During the Conditions and Monitoring Period, Centurion and the New CharterCARE System shall continue to provide charity care consistent with its current charity care policy and consistent with all applicable state and federal laws and Rhode Island Department of Health Regulations 216-RICR-40-10-23 and provide the Attorney General with supporting documentation evidencing its charitable and uncompensated care expenditures.
21. **Community Health Needs Assessment.** Centurion and/or the New CharterCARE System shall complete a Community Health Needs Assessment (“CHNA”) within the calendar year 2025 and develop a responsive implementation strategy to address the identified needs, in accordance with applicable federal requirements. Following the conclusion of the CHNA and annually thereafter, Centurion and/or the New CharterCARE System shall fully fund the activities included in the implementation plans of the CHNAs as part of the annual budgets for the Rhode Island Hospitals.

## V. GOVERNANCE

22. **Board Composition.** Throughout the Conditions and Monitoring Period, the boards of CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., CharterCARE Our Lady of Fatima, Inc., and CharterCARE Health of Rhode Island Foundation, Inc. shall each consist of no less than 40% Community Directors. Each of the Community Directors shall: (1) be independent of and not employed by or affiliated with Prospect or its affiliates; and (2) not be an elected official. At least one *ex officio* voting seat will be retained on each Board for a representative of the Patient and Family Advisory Council (see below).
23. **Board Control.** The bylaws of CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., CharterCARE Our Lady of Fatima, Inc., and CharterCARE Health of Rhode Island Foundation, Inc. shall each be amended to prohibit the unilateral removal of any board member by Centurion or any individual representative of Centurion.
24. **Patient and Family Advisory Council.** Throughout the Conditions and Monitoring Period, Centurion and the New CharterCARE System shall establish, host, and provide resources for a Patient Family Advisory Council (“PFAC”) for the purpose of advising the Board of CharterCARE Health of Rhode Island about matters impacting patient care and patient and family experience. The PFAC shall have no fewer than 12 members comprised of patients, and family members of patients, of the New CharterCARE System. Reports from the PFAC will be a standing agenda item at each CharterCARE

Health of Rhode Island board meeting. The PFAC will be explicitly consulted on and included in any strategic planning initiatives conducted by the New CharterCARE System or the Turnaround Consultant, and they shall be involved in the development of the 2025 CHNA.

25. **Fiduciary Duty Training.** During the Conditions and Monitoring Period, all board members of CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., CharterCARE Our Lady of Fatima, Inc., and CharterCARE Health of Rhode Island Foundation, Inc. shall be required to complete fiduciary training on an annual basis and provide certification of completion to the Attorney General.
26. **Bylaw Amendments.** The corporate documents that function as the bylaws for CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., CharterCARE Our Lady of Fatima, Inc., and CharterCARE Health of Rhode Island Foundation, Inc. shall each be amended to reflect Conditions 22-24, as necessary, prior to the closing of the Proposed Transaction.
27. **Board Membership.** Centurion and the New CharterCARE System shall notify the Attorney General of the initial board members for CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., CharterCARE Our Lady of Fatima, Inc., and CharterCARE Health of Rhode Island Foundation, Inc., prior to closing of the Proposed Transaction and, during the Conditions and Monitoring Period, shall notify the Attorney General of any change in the board membership within thirty (30) days of such change.
28. **Conflict of Interest Statements.** During the Conditions and Monitoring Period, all board members of CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., CharterCARE Our Lady of Fatima, Inc., and CharterCARE Health of Rhode Island Foundation, Inc. shall file annual conflict of interest statements on a form provided by the Attorney General no later than May 31 of each year. Additionally, any newly appointed board member must file a conflict of interest statement within thirty (30) days of appointment.

## **VI. WORKFORCE**

29. **Retirement Plans.** During the Conditions and Monitoring Period, the New CharterCARE System shall guarantee funding of the retirement plan(s) matching contributions currently offered to employees of the CharterCARE System, in accordance with the most recent methodology. Nothing herein shall impair the right of any union now existing, or to be formed at any of the New CharterCARE System entities in the future, to negotiate changes to existing collective bargaining agreements and/or to enter new collective bargaining agreement provisions with respect to retirement plan(s).

30. **Employee Benefits.** For the twelve (12) months following the issuance of the Decision, Prospect shall make no changes to reduce benefits currently provided under the CharterCARE System's current plans, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage. Thereafter and during the Conditions and Monitoring Period, New CharterCARE System shall continue to provide benefits, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage. Nothing herein shall impair the right of any union now existing, or to be formed at any of the entities in the future, to negotiate changes to existing collective bargaining agreements and/or to enter new collective bargaining agreement provisions with respect to benefits.
31. **Reduction in Workforce.** During the Conditions and Monitoring Period, Centurion and/or the New CharterCARE System shall provide written notice to the Attorney General (a) within ten (10) days upon the adoption of any resolution or plan to implement a reduction in workforce, layoff, furlough, or other restructuring of the workforce that will lower the number of employed FTEs by thirty (30) or more in the course of a fiscal year at the New CharterCARE System, or by ten (10) or more clinical staff (physicians and/or nurses) at either of the Rhode Island Hospitals; and (b) again no fewer than thirty (30) days prior to the implementation date thereof.

## VII. MONITORING AND NOTICES

32. **Monitor and Experts.** The Transacting Parties shall comply with all necessary agreements for payment of reasonable fees and costs associated with the retention of experts to assist the Attorney General with monitoring and enforcing compliance with these conditions pursuant to R.I. Gen. Laws § 23-17.14-28(d)(3).
33. **Condition Violations.** If the Attorney General determines in writing that the Transacting Parties and/or the New CharterCARE System have failed to comply with any of the required Conditions at any time in a given fiscal year, the Attorney General shall provide such parties with written notice specifying in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, and such parties shall have thirty (30) business days to cure any and all deficiencies with respect to such specified Condition(s).
34. **Quarterly Reporting.** Not later than the fiftieth (50<sup>th</sup>) day after the end of each fiscal quarter, Centurion and the New CharterCARE System shall provide the Attorney General and its experts retained for monitoring the conditions of this Decision with quarterly financial statements, quarterly balance sheets, quarterly statement of operations, and quarterly statement of cash flows (including accounts payable and any amounts due to or due from affiliates), for the Centurion Foundation, Inc., CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., CharterCARE Our Lady of Fatima, Inc., and CharterCARE Health of Rhode Island Foundation, Inc., and any

other evidence documenting compliance with the Conditions of this Decision, which documents shall be certified as accurate by Centurion's or the New CharterCARE System's Chief Financial Officer.

35. **Annual Reporting.** Not later than February 15<sup>th</sup> of each year, Centurion and/or the New CharterCARE System shall furnish the Attorney General and its experts retained for monitoring the conditions of this Decision with the audited annual financial statements of The Centurion Foundation, Inc., CharterCARE Health of Rhode Island, Inc., CharterCARE Roger Williams Medical Center, Inc., CharterCARE Our Lady of Fatima, Inc., and CharterCARE Health of Rhode Island Foundation, Inc., as well as any and all supporting documents for expenditures, including but not limited to general ledgers, current contracts, invoices, and receipts. Centurion and/or the New CharterCARE System shall provide the Attorney General with evidence of a board vote of acceptance of the audited financial statements described herein. Should the Centurion Foundation, Inc. not produce audited financial statements in a given year, the Centurion Foundation, Inc. shall produce unaudited financial statements prepared by an independent third-party certified public accountant in a compilation form, along with an attestation from the Chief Financial Officer of the Centurion Foundation, Inc., that the financial statements fairly and accurately represent the financial condition and operations of the Centurion Foundation, Inc. in all material respects for the time period covered by the unaudited financial statements.
36. **Notices.** During the Conditions and Monitoring Period, Centurion and/or the New CharterCARE System shall provide the Attorney General with:
- a. Notice of any proposed changes to the terms of the Bond Financing no fewer than 30 days prior to the implementation of any such change;
  - b. Notice of any proposed change to the documents governing the PACE financing, no fewer than 30 days prior to the implementation of any such change;
  - c. Immediate notice of any adverse action taken, or to be imminently taken, by any creditor to the New CharterCARE System or its component entities, including but not limited to implementation of any penalties, implementation of any accelerated repayment terms, withholding of contractual benefits, or notice of breach or non-compliance;
  - d. Immediate notice of any adverse action taken, or to be imminently taken, by any vendor to the New CharterCARE System or its component entities, including but not limited to implementation of any penalties, implementation of any less-favorable payment terms or pay-on-demand, withholding of contractual benefits, or notice of breach or non-compliance;

- e. Immediate notice of any Insolvency Event of Centurion and/or any of its subsidiaries;
  - f. Immediate notice of any Insolvency Event of any of the entities that comprise the New CharterCARE System;
  - g. Notice of any terminations or material amendments to any agreements between any of the entities that comprise the New CharterCARE System and Centurion (i.e., Corporate Services Agreement) no fewer than sixty (60) days prior to the implementation of such termination or change;
  - h. Notice of any new proposed organizational agreements between any of the entities that comprise the New CharterCARE System and Centurion no fewer than sixty (60) days prior to the implementation of such termination or change;
  - i. Notice of any complaints or notices received from the State of Rhode Island or any Rhode Island municipality for violations, or potential violations, of state or municipal tax law, including but not limited to any notice for delinquency in payments of taxes; and
  - j. Notice of any investigation, violation, adverse finding, determination, or action, including fines and penalties, or complaints from the Office of Inspector General, Securities and Exchange Commission, Internal Revenue Service, Centers for Medicare and Medicaid Services, United States Department of Justice, any state attorney general, the Rhode Island Department of Health, Rhode Island Medicaid, any other state or federal regulatory body, or any hospital accreditation organizations, as well as any and all documents related to the resolution of any notices or complaints, within seven (7) days of receipt by Centurion or the New CharterCARE System.
37. **Transfer of Assets.** During the Conditions and Monitoring Period, real or personal property, including any lines of service, owned by the New CharterCARE System and/or the Centurion Foundation in the State of Rhode Island with a value in excess of \$100,000 shall not be sold, transferred, encumbered, or pledged as collateral without prior notice of at least sixty (60) days and approval by the Attorney General.
38. **Additional Information.** The Transacting Parties, the entities comprising the New CharterCARE System, and any and all subsidiaries shall provide, within a reasonable time, any and all information requested by the Attorney General and/or the Attorney General's experts to confirm compliance with all Conditions stated herein.



39. **Fining Authority.** The Attorney General may impose fines of not more than two million dollars (\$2,000,000), in accordance with R.I. Gen. Laws § 23-17.14-30, to secure compliance with Conditions expressed herein.
40. **Confidentiality.** If Centurion and/or the New CharterCARE System seek a determination by the Attorney General that any information submitted pursuant to the above Conditions should be deemed confidential and/or proprietary under R.I. Gen. Laws § 23-17.14-32, they shall submit such information clearly labeled “Request for Confidentiality” and shall include the legal citation and/or explanation for the reason that the information should be deemed confidential.



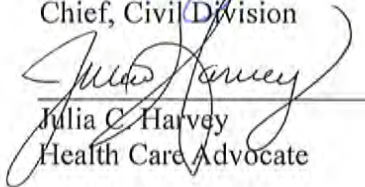
Peter F. Neronha  
Attorney General



Kathryn M. Sabatini  
Chief, Civil Division



Sarah W. Rice  
Deputy Chief, Civil Division



Julia C. Harvey  
Health Care Advocate

#### NOTICE OF APPELLATE RIGHTS

Under the Hospital Conversions Act, this Decision constitutes a final order of the Office of Attorney General. Pursuant to R.I. Gen. Laws Section 23-17.14-34, any transacting party aggrieved by a final order of the Attorney General under this chapter may seek judicial review in the superior court in accordance with Section 42-35-15.

#### CERTIFICATION

I hereby certify that on this 14th day of November 2024, a true copy of this Decision was sent via electronic and first-class mail to counsel for the Transacting Parties.



# EXHIBIT A

# Review of the Financial Aspects of the Proposed Transaction Between Prospect Medical Holdings, Inc. and The Centurion Foundation, Inc.

Prepared for the Rhode Island Attorney General

June 9, 2024



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# Executive Summary

## SCOPE AND OBJECTIVES

Veralon Partners Inc. ("Veralon") was engaged by the Rhode Island Office of the Attorney General ("AG") to provide expert assistance in relation to the review and evaluation of the Hospital Conversion Application ("HCA"),<sup>1</sup> which was submitted June 30, 2023, resubmitted July 11, 2023, and resubmitted again November 14, 2023. Veralon's review focused on the financial aspects of the proposed transaction between The Centurion Foundation, Inc. ("Centurion"), Prospect Medical Holdings, Inc. ("PMH"), and the PMH affiliates designated as selling parties ("Selling Parties"), which include Prospect CharterCARE, LLC ("CharterCARE") and its affiliates, (collectively referred to herein as "the Parties" and individually, as a "Party"). PMH is seeking to divest its ownership of CharterCARE and its affiliated entities to Centurion ("Proposed Transaction"), the details of which are summarized in the Background section of this report.

The objective of Veralon's engagement was to assist the AG in its evaluation of the Proposed Transaction and HCA. Veralon's review was aimed at assisting the AG in identifying financial risks and potential benefits associated with the Proposed Transaction as they relate to the communities currently served by the assets included in the Asset Purchase Agreement and two amendments to the Asset Purchase Agreement (collectively, the "APA"),<sup>2</sup> including consideration of the following (collectively referred to herein as "Veralon's Scope"):

- Due Diligence and Transaction Review Efforts: The due diligence and transaction review efforts undertaken by the Parties in determining whether to pursue the Proposed Transaction;
- **Fair Market Value ("FMV")**: The degree to which the negotiated terms of the Proposed Transaction were informed and supported by FMV; and
- Financial Feasibility Considerations: Including review and analysis of financial information and data provided by the Parties pertaining to:
  - The historical financial performance and position of CharterCARE;
  - The contemplated financial turnaround plan developed by CharterCARE and Centurion; and
  - The proposed financing for the Proposed Transaction (described further in the Background section), and associated implications on future cash flows post-Proposed Transaction.

Veralon's findings are specific to review of the above-described financial elements of the Proposed Transaction and are intended to provide the AG with supplementary analysis and information for the purposes of the AG's review of the Proposed

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<sup>1</sup> "Hospital Conversion Application." (4888-5876-2896, v.3).

<sup>2</sup> "Exhibit 16 – Non-Confidential Transaction Document." (16-R-CNT-PMH-000703-001197).

Transaction. Veralon has not provided any opinion to the AG as to whether to approve or deny the HCA under review.

The findings summarized in this report represent Veralon's observations related to the financial information, forward-looking financial estimates, and business valuations developed and provided by the Parties and/or their outside consultants relevant to Veralon's Scope. Veralon was not engaged to conduct an independent feasibility study of the Proposed Transaction or the contemplated financing (described below), or to make an independent determination of the future viability of CharterCARE, pre-or-post Proposed Transaction. Further, Veralon was not engaged to develop an independent determination of the FMV of CharterCARE and its affiliates.

## HIGHLIGHTED FINDINGS

Key findings from Veralon's review, discussed in further detail in the referenced bolded sections of the report, are as follows:

- No Financial Due Diligence: Compared to other healthcare merger and acquisition diligence exercises, there are apparent gaps in the overall Proposed Transaction diligence conducted by Centurion, [REDACTED]. Most concerningly, [REDACTED]. In several sections of the HCA, the Parties note that additional due diligence will be conducted following State/regulatory approval; however, we would expect that much of the due diligence review would have been conducted up front and should be relied upon to inform the APA, risk mitigation efforts, and post-Proposed Transaction closing integration, and operational planning. *This is discussed in detail in the Centurion Transaction Evaluation and Due Diligence section of this report.*
- Outdated Valuation: The financial terms of the Proposed Transaction were developed with the guidance of a valuation developed by VMG Holdings LLC's ("VMG"). The VMG valuation conclusion is as of February 14, 2023, which at this time is outdated, and therefore does not consider material events that have transpired since the valuation date, and is not reflective of recent CharterCARE performance. For these reasons, VMG's valuation conclusion may not reflect the current FMV of CharterCARE. Veralon also acknowledges that the discounted cash flow ("DCF") analysis, is contingent upon the successful implementation of substantial financial turnaround, reflected as "management initiatives" in the VMG analysis, the results of which are speculative and may not be supported by recent performance. While the Purchase Price of \$80 million (the "Purchase Price" - defined in the Background section of this report), is well below VMG's concluded valuation range, the concerns regarding the VMG conclusion assumptions and valuation date make it challenging to rely upon the VMG conclusion as a reliable reflection of the current FMV of CharterCARE. While Veralon was not engaged to develop its own conclusion with respect to the current fair market enterprise value of CharterCARE, Veralon (with the consent of the AG) engaged Porto Leone Consulting, LLC ("PLC") to develop a hypothetical estimate of the current FMV of the CharterCARE Real Property

("RP") and Machinery and Equipment ("M&E") (collectively, the "Subject Assets"), with the goal of identifying whether the Purchase Price is at least supported by the value of the Subject Assets that would be acquired. While PLC's estimate cannot be treated as a conclusion of value, due to the limitations noted in the associated section of this report, PLC estimated a total value of [REDACTED] for CharterCARE's Subject Assets, prior to consideration of any applicable economic obsolescence discount. If an updated business valuation identified that the value of the Subject Assets exceeded the business enterprise value, a discount for economic obsolescence, of some degree, would be appropriate. *This is discussed in detail in the Valuation section of this report.* If the concluded FMV of the CharterCARE business is less than the \$160 million that is assumed in Barclays preliminary analyses related to the Proposed Financing associated with the Proposed Transaction, this could impact financing assumptions and feasibility. *This is discussed in detail in the Financing Feasibility section of this report.*

- Centurion Efficacy as a Parent: Centurion has stated that it is unwilling to provide financial support for the New CharterCARE System post-closing of the Proposed Transaction, either to address future operational losses or support **capital needs**. Given CharterCARE's historical reliance on material financial support from its parent, PMH, it is difficult to reconcile how the New CharterCARE System will survive without any parent financial backing. Further, if the New CharterCARE System is able to achieve financial sustainability and independence, it will require a complete financial turnaround. Given that **Centurion's leadership team does not have any experience operating health systems or hospitals**, it is unclear whether Centurion will be able to provide leadership and/or guidance to support execution of this turnaround; Centurion **will be heavily reliant on CharterCARE's existing management team to execute** the vital turnaround initiatives. *This is discussed in detail in the Efficacy of Leadership and Management Team – Centurion section of this report.*
- **Concerns Regarding Leadership/Management Team's Ability to Support Financial Turnaround:** The Parties intend for CharterCARE's current management team to lead the New CharterCARE System post-Proposed Transaction, including execution of a material financial turnaround. **CharterCARE's current management team has been unable to turnaround or fix** critical issues or produce breakeven operations to date. Further, as the bulk of the contemplated initiatives underlying the financial turnaround plan are not dependent upon the Proposed Transaction, and reportedly are not capital intensive,<sup>3</sup> it is unclear why these initiatives have not been implemented to date. *This is discussed in detail in the Efficacy of Leadership and Management Team – New CharterCARE System Leadership Team section of this report.*
- **CharterCARE's Financial Struggles:** CharterCARE's historical and current financial performance raises concerns relative to the ability for the New CharterCARE System to operate without financial backing from a parent. CharterCARE has continually operated at a loss in recent history, with those

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<sup>3</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.



losses increasing substantially in recent years. Despite volume and revenue increasing, CharterCARE was more unprofitable in fiscal year ("FY") 2023 than any other previously analyzed year. CharterCARE's accounts payable ("AP") and operating costs have also increased in recent periods. Consideration of CharterCARE's historical and current performance indicates a system that is in significant financial distress and incapable of generating revenues sufficient to cover its expenses, with that gap having widened year-over-year (though showing some improvement in recent months). CharterCARE receives significant funding from PMH to cover its operating shortfalls. However, PMH's substantial financial struggles are such that the funding provided to CharterCARE has not been sufficient to meet its vendor and other obligations. This has begun to result in vendor supply issues and impacts to patient care. *This is discussed in detail in the Financial Performance section of this report.*

- Achievement of EBITDA Bridge and Transition Plan: The importance of realizing the significant and timely financial turnaround that is reflected in the EBITDA Bridge is integral to the Proposed Financing and sustained viability of the Proposed Transaction. The New CharterCARE System's intended cash balance at closing of \$80 million (*see Background section of this report*) will be quickly drawn down to fund operating shortfalls unless a material financial turnaround is successful. Additionally, the feasibility of the estimated pro forma financial results after implementation of the turnaround plans and initiatives shown in the EBITDA Bridge is speculative and requires much deeper review. As the Proposed Transaction will be financed with significant debt, the related debt service will require use of either cash reserves or excess cash generated from operations. As such, the New CharterCARE System's financial vulnerability is heightened. In its current state, CharterCARE generates an earnings before interest, taxes, depreciation, and amortization ("EBITDA") loss of approximately [REDACTED] (based on annualized four months ended January 31, 2024) and an EBITDA loss of [REDACTED] in FY 2023. The EBITDA Bridge, incorporating the turnaround initiatives, projects a [REDACTED] turnaround by FY 2025, growing to a total turnaround of [REDACTED] by FY 2027; the achievability of this magnitude of turnaround is questionable. *This is discussed in detail in the Financial Turnaround section of this report.* Without the successful implementation of these initiatives, and realization of the full financial impact, the New CharterCARE System will be unsustainable and will likely violate debt covenants within the first three years of operation post-Proposed Transaction closing. *This is discussed in detail in the Cash Flow Analysis section of this report.*
- Risks Related to Proposed Financing: Barclays developed a preliminary analysis (the "Barclays Analysis") related to the financing options and feasibility of the contemplated material financing that will be pursued to support the Proposed Transaction (*see the Background and Barclays Proposed Financing Overview sections of this report for detailed discussion*). However, there are a number of assumptions relied upon in the Barclays Analysis that may not be appropriate based on current information, including the enterprise value of CharterCARE, current interest rates, and feasibility of the financial estimates in the EBITDA Bridge. These premises and assumptions, if different than assumed, could impact the marketability of the bonds, the amount of financing the Parties are able to raise, the cost of debt, total debt service, and

likely debt covenants. *This is discussed in detail in the Financing Risks section of this report.*

- Insufficiency of Cash Balance at Closing: Veralon developed hypothetical, high-level cash flow analyses to illustrate the New CharterCARE System's potential cash position in the three years post-Proposed Transaction under different scenarios with respect to realization and timing of the EBITDA Bridge initiatives and operating cash flow. The cash flow analyses incorporate assumptions regarding debt service payments, with some minor modifications to the assumptions used in the Barclays Analysis, and other financing and investing assumptions (outline in the Cash Flow Scenario Analysis section of this report). Importantly, even if the pro forma financial results in the EBITDA Bridge are fully realized, the New CharterCARE System's days cash on hand ("DCOH") and debt service coverage ratio ("DSCR") will drop below the assumed minimum levels required to avoid default on the bond covenants by Year 3 of the analyses. Even in the "best case" scenario, the New CharterCARE System would need some degree of incremental capital support to meet operating and debt service obligations, make minimum capital investments, and avoid default on bond covenants. T [REDACTED]  
[REDACTED]  
[REDACTED] This is discussed in detail in the Cash Flow Scenario Analysis section of this report.

# Background

## THE PARTIES

The following are relevant parties to the Proposed Transaction ("Parties," and individually, a "Party"):

- **Prospect Medical Holdings ("PMH")** and its affiliates: PMH is a for-profit organization that offers hospital and community-based health services. Founded in 1996, PMH is headquartered in Southern California where a majority of its hospital assets are located. PMH owns and operates 16 hospitals across four states: California, Connecticut, Pennsylvania, and Rhode Island. PMH purchased CharterCARE in 2014 and has operated it since. Several PMH affiliates are also party to the Proposed Transaction. The complete list of PMH related Parties is included in the response to Question 1 of the resubmitted HCA, dated November 15, 2023.<sup>4</sup>
- **Prospect CharterCARE, LLC ("CharterCARE")** and affiliates: Owned and operated by PMH for approximately ten years, CharterCARE is a regional coordinated health care network. Its network includes Roger Williams Medical Center ("RWMC"), Our Lady of Fatima Hospital ("OLF"), Prospect RI Home Health & Hospice, LLC, Prospect CharterCARE Home Health and Hospice, LLC, Prospect Blackstone Valley Surgicare, LLC, New University Medical Group, Prospect CharterCARE Physicians, LLC (d/b/a CharterCARE Medical Associates), and Prospect CharterCARE Ancillary Services, LLC (together known as the "Existing Hospitals and Affiliates"). The Existing Hospitals and Affiliates, which represent the PMH affiliate entities and assets to be sold to/acquired by Centurion, provide a wide array of services to their patients in Central and Northern Rhode Island, including emergency department, ambulatory care, and inpatient and outpatient services, including cancer care, elder care, gastroenterology, psychiatric, mental health, and addiction medicine services. RWMC is an academic medical center affiliated with the Boston University School of Medicine.
- **The Centurion Foundation, Inc. ("Centurion")**: Centurion is an Atlanta-based 501(c)(3) non-profit corporation formed in 1996 whose mission is centered upon increasing access to and lowering the cost of healthcare. Heretofore, Centurion has achieved this mission by assisting non-profit health systems in the development, acquisition, and financing of healthcare facilities. To date, Centurion has completed 20 transactions resulting in the financing of 31 healthcare facilities across the United States. Should the Proposed Transaction be approved and closed, it would represent Centurion's first experience owning hospitals or other healthcare operating assets.

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<sup>4</sup> "Hospital Conversion Application". 4888-5876-2896, v.3.

## THE PROPOSED TRANSACTION

To facilitate the Proposed Transaction, Centurion will create three new legal entities, collectively referred to herein as the “New CharterCARE System:”

- CharterCARE Health of Rhode Island, Inc, of which Centurion will be the sole corporate member and which will serve as the parent of the New CharterCARE System; and
- CharterCARE Roger Williams Medical Center, Inc. and CharterCARE Our Lady of Fatima, Inc., of which CharterCARE Health of Rhode Island will be the parent, and which will own and operate the Existing Hospitals and Affiliates.

CharterCARE and its Existing Hospitals and Affiliates will be acquired by the New CharterCARE System entities. Following the Proposed Transaction, Centurion will be the ultimate corporate parent of the New CharterCARE System.

The terms of the Proposed Transaction are detailed in the APA and two amendments to the Asset Purchase Agreement (therefore, the APA) by and between Centurion, and PMH and each of the selling entities, most recently amended on November 7, 2023.<sup>5</sup> The financial terms of the Proposed Transaction are described in the APA and summarized in response to Question 1 of the HCA and summarized as follows:

- Centurion will pay PMH the Purchase Price of \$80 million, less:
  - Deduction of an amount equal to \$5 million deposited into the indemnity escrow account at closing;
  - Deduction of any remaining accrued and outstanding acquisition costs, which amounts shall either be remitted to Centurion or paid to third parties at the direction the Centurion;
  - Deduction of the amount of the Centurion note, for any costs of the Proposed Transaction not covered by the proposed financing (described below);
  - Deduction of an amount equal to the full outstanding balance of the Property Assessed Clean Energy (“PACE”) loans, less any escrow amounts held in the PACE escrow account (in the event Centurion determines to assume the PACE loan);
  - Deduction or addition of any estimated deficit or surplus in acquired net **working capital (“NWC”) at closing, relative to the target NWC established by the Parties (“Target NWC”).** During the statements under oath, Mr. Ben Mingle (Director and President of Centurion) noted that the contemplated Target NWC will be \$0, meaning the current assets included in the Target NWC formula will be equal to the current liabilities included in the Target NWC formula.<sup>6</sup>

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<sup>5</sup> “Asset Purchase Agreement by and between Centurion Foundation, Inc. and Prospect Medical Holdings, Inc.” (16-R-CNT-PMH-000703-16-R-CNT-PMH-001197).

<sup>6</sup> Statements Under Oath – Ben Mingle. May 6, 2024 through May 7, 2024.

- The New CharterCARE System will raise funds such that they will have an amount equal to 80 days cash on hand on the New CharterCARE balance sheet as of the closing date (i.e., as defined in the APA as 12:01 A.M. Eastern Time on the first calendar day after the Closing Date), equal to an estimated \$80 million (“Cash Balance at Closing”);<sup>7</sup>

The Purchase Price of \$80 million and Cash Balance at Closing of \$80 million represent \$160 million of value, which aligns with the VMG-determined FMV conclusion as of February 14, 2023, in the range of [REDACTED].

## Proposed Financing

The Proposed Transaction is contingent on successfully raising the entirety of the funds required to support the Purchase Price, the Cash Balance at Closing, and any other financing and acquisition costs. The Parties propose to accomplish this by issuing taxable and tax-exempt bonds (the “Proposed Financing”), to be underwritten by Barclays.

In addition to issuance of new debt through the Proposed Financing, it is currently **contemplated that the New CharterCARE System will assume CharterCARE’s current PACE loans**, which have an interest rate of [REDACTED] (significantly below the current public market taxable yield of 8.23 percent)<sup>8</sup>. The current plan is for the New CharterCARE System to assume the PACE loans as a part of the Proposed Financing; if the PACE loans were not to be assumed, additional financing would be secured via bonds to satisfy the outstanding PACE loans at closing.

In response to Question 1 of the HCA, the Parties represented that, if the PACE loans are assumed, the total debt associated with the Proposed Transaction and Proposed Financing will be \$193 million, as follows:<sup>9</sup>

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<sup>7</sup> “Hospital Conversion Application”. 4888-5876-2896, v.3.

<sup>8</sup> “Project Ocean Financing Analysis, February 2024 Update.” (C-CNT-PMH-0211849-C-CNT-PMH-021864).

<sup>9</sup> “Hospital Conversion Application”. 4888-5876-2896, v.3.

Table 1<sup>10</sup>

<b>Sources:</b>	<b>PACE Loan</b>	<b>Centurion RI Series 2023A - Taxable</b>	<b>Centurion RI Series 2023B - Tax Exempt</b>	<b>Total</b>
<b>Bond Proceeds:</b>				
Par Amount	60,165,000	39,815,000	93,235,000	193,215,000
Net OID			(2,324,799)	(2,324,799)
PACE Escrow Balance	(15,000,000)			(15,000,000)
	<b>45,165,000</b>	<b>39,815,000</b>	<b>90,910,201</b>	<b>175,890,201</b>

However, Barclays issued an updated analysis of the contemplated financing dated February of 2024 (“Barclays Analysis”),<sup>11</sup> which provided refined estimates of the total debt associated with the Proposed Transaction and Proposed Financing under one scenario at [REDACTED], consisting of [REDACTED] (collectively, the “Bonds”), along with the PACE loan of [REDACTED] (if assumed).

Uses of the proceeds of the Bonds would consist of:

- Funding the Purchase Price, less any adjustments, and Cash Balance at Closing;
- Establishment of a debt service reserve fund (“DSRF”) and potentially a capitalization interest (“CAPI”) fund;
- Payment of financing and acquisition costs; and
- The PACE loans, if assumed.

The Barclays Analysis and associated assumptions regarding the Proposed Financing is described in detail in the “Proposed Financing” section of this report.

## Post-Transaction Management

Centurion initially engaged Quorum Health Resources (“QHR”) as a partner and consultant in the Proposed Transaction. Centurion intended to partner with QHR to provide management and operational services to the New CharterCARE System and support the contemplated financial and operational turnaround.

However, in the Fall of 2023, Centurion determined that QHR’s involvement was no longer needed and subsequently disengaged with QHR, resubmitting the HCA with

<sup>10</sup> “Hospital Conversion Application”. 4888-5876-2896, v.3.

<sup>11</sup> “Project Ocean Financing Analysis, February 2024 Update.” (C-CNT-PMH-0211849-C-CNT-PMH-021864).

corrections to the HCA responses and the transaction documents for the Proposed **Transaction to eliminate reference to QHR's involvement.**

The current plan is for the current local CharterCARE leadership team, including Mr. Jeffrey Liebman, CEO, to lead the management and operations of the New CharterCARE System post-Proposed Transaction. Centurion will provide certain guidance and support to the New CharterCARE System leadership team.

# Veralon Process

Veralon's assessment of the financial elements of the Proposed Transaction involved:<sup>12</sup>

- Review of the HCA and associated exhibits, along with additional documents and data provided by the Parties;
- Development of supplementary questions for the Parties and their respective advisors;
- Assistance with the preparation for and attendance at the following Statements Under Oath ("SUOs") conducted by the Rhode Island Attorney General:
  - Alfredo Sabillo, PMH, CFO;
  - **Cici Arriera, Alvarez & Marsal ("A&M"), CFO;**
  - John Hegner, Barclays, Managing Director;
  - **Bill Hanlon, Hammon Hanlon Camp, LLC ("H2C"), Prior CEO;**
  - Dan Ison, CharterCARE, CFO;
  - Jeffrey Liebman, CharterCARE, CEO;
  - Ben Mingle, Centurion, Director & President;
  - George Pillari, PMH, COO; and
  - Chris Callaci, United Nurses and Allied Professionals in Rhode Island, General Counsel;
- Routine meetings and working sessions with the AG's office and its outside legal advisors;
- Analysis of the historical and current financial performance and position of the Parties, including:
  - Identification, quantification, and application of appropriate adjustments to historical, current, and budgeted EBITDA;
  - Ratio analyses to assess profitability and liquidity; and
  - High-level cash flow analyses;
- Review, analysis, and development of observations related to the "turnaround plan" for the New CharterCARE System and financial feasibility of the Proposed Transaction; and
- Development and summary of findings and conclusions.

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<sup>12</sup> Veralon did not, nor was Veralon asked to, independently assess or otherwise validate the financial information provided by each Party.



# Transaction Evaluation

Prior to each critical partnership milestone (e.g., letter of intent, request for proposal ("RFP"), definitive agreement, etc.), merging or otherwise affiliating parties evaluate and diligence both the transaction and the potential partner to ensure that, if they ultimately continue to move forward and consummate a transaction, there is both a strong rationale for doing so and a comfort that they are not undertaking undue risk.

## CENTURION TRANSACTION EVALUATION AND DUE DILIGENCE

Veralon reviewed the due diligence and transaction review efforts undertaken by Centurion. The primary sources of information Veralon relied upon for development of findings related to this include:

- The HCA responses;
- **The Parties' responses** to supplemental questions related to their due diligence and transaction review efforts;
- **H2C Project Ocean Confidential Information Memorandum ("CIM");**<sup>13</sup>
- H2C Process/Roadshow Summary;<sup>14</sup>
- QHR Due Diligence and Assessment Summary;<sup>15</sup>
- **Centurion's RFP;**<sup>16</sup> and
- **Barclays's RFP response.**<sup>17</sup>

Findings related to the above sources of information and Centurion's diligence and review of the Proposed Transaction follow.

### Financial Information in H2C CIM Not Supported by Historical Performance

H2C was engaged by PMH to bring CharterCARE to market and secure a buyer. As is consistent with such efforts, H2C developed a CIM to provide preliminary essential information to allow prospective buyers to assess the opportunity and develop an offer.

While a CIM and similar initial informational materials can be helpful sources of preliminary information, they do not represent independent due diligence. Further, as CIMs are developed to support the marketing of a business or asset, they are often

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<sup>13</sup> "Project Ocean: Confidential Information Memorandum." (C-CNT-PMH-010652-C-CNT-PMH-010689).

<sup>14</sup> "Project Ocean: Process Summary." (C-CNT-PMH-010453-C-CNT-PMH-010457).

<sup>15</sup> "CharterCARE Health Partners Due Diligence and Assessment Summary." (21-R-C-CNT-PMH-004845-21-R-C-CNT-PMH-004864).

<sup>16</sup> "Request for Underwriter Proposal." (C-CNT-PMH-021598-C-CNT-PMH-021601).

<sup>17</sup> "RE: CharterCARE Underwriter Request." (C-CNT-PMH-021710-C-CNT-PMH-021712).

developed in a manner that serves to both provide information as well as market the subject business or asset. As such, the financial and other information provided in a CIM would only be used pre-diligence and would be vetted and confirmed through comprehensive due diligence efforts post-letter of intent (or similar).

The CIM covered the Rhode Island market and demographics, service offerings, physician network, quality of care, facilities, an overview of the Existing Hospitals and Affiliates operating under CharterCARE and some information on RWMC and OLF facilities and key inpatient statistics. The CIM also provided an overview of CharterCARE and its leadership, employees, and IT systems, as well as information on each service line and an operating and financial review. While the topics covered were comprehensive, much of the information that was presented served to highlight the attractive aspects of CharterCARE and, in many instances, did not include important information related to areas of weakness. Again, given the function of a CIM, this is not necessarily unexpected.

**Importantly, Veralon’s review of the CIM indicates that certain financial information and statements made related to financial performance may have been misleading, relative to actual financial performance. The [REDACTED] [REDACTED] However, Veralon’s review of the historical financial data provided by CharterCARE, confirmed by the testimony provided by CharterCARE and PMH representatives during the SUOs, contradicts the notion that CharterCARE has a history of profitability and revenue growth.**

- The H2C CIM noted that [REDACTED] [REDACTED] [REDACTED] Veralon, on the other hand, [REDACTED] [REDACTED]
- The CIM also cited [REDACTED] [REDACTED] [REDACTED] while Veralon observed [REDACTED] [REDACTED]
- Not only has CharterCARE been historically unprofitable, but in FY 2022 and 2023, it generated operating losses of [REDACTED] and [REDACTED], respectively.

### No Financial Due Diligence

Veralon notes that Centurion did not complete a quality of earnings review, nor any other form of typical financial due diligence that would be expected of a buyer entering into a material transaction, such as the Proposed Transaction.

As is customary, Veralon would have expected that Centurion would have completed due diligence, with satisfactory findings (or associated risk mitigating actions), prior to signing the APA and certainly prior to closing the Proposed Transaction.

**While Centurion notes that they engaged VMG to develop a business valuation, VMG’s work does not represent financial due diligence and relies upon management-developed forward-looking financial estimates that VMG did not independently test.**



Further, the review conducted by QHR (discussed below), while helpful in identifying opportunity areas, does not include comprehensive financial due diligence.

Given the historical financial challenges, the substantial disconnect between the financial information in the CIM and actual financial performance, the financial impact of material one-time events (i.e., the COVID-19 Pandemic, a cyber-attack), and the **importance of the New CharterCARE System’s independent financial viability, financial due diligence is especially important in evaluating the Proposed Transaction.**

Veralon recognizes that Centurion has limited the financial risk that it will be assuming in conjunction with the Proposed Transaction and the New CharterCARE System, which may be the reason that financial due diligence was not completed. However, this review is pertinent to the Parties’ understanding of (and ability to support and represent their confidence in) the financial viability of the New CharterCARE System under the Proposed Transaction.

### QHR Due Diligence and Assessment Summary

QHR developed an initial assessment and opportunity analysis for CharterCARE, which includes:

- [Redacted]
- [Redacted]; and
- [Redacted]

QHR identified key risks in the following areas:

- [Redacted]
- [Redacted]
- [Redacted]



- [REDACTED]

[REDACTED]

The QHR assessment was an important resource for the Parties and formed the foundation for many of the improvement initiatives that the parties identified to support the financial turnaround for the New CharterCARE System, especially given Centurion’s lack of expertise on that front.<sup>18</sup>

### Financing Support and Diligence

The Proposed Financing is a critical element of the Proposed Transaction; without successful completion of the Proposed Financing, it is unlikely that the Parties will move forward. To support successful financing, Centurion engaged an investment bank, Barclays, to provide underwriting and other services in support of the Proposed Financing.

**Barclays was selected as the result of a request for proposal (“RFP”) process. An RFP is a business document pertaining to a project that describes it and solicits bids from qualified contractors to complete it.** [REDACTED]

[REDACTED] The RFP came after Centurion’s letter of intent with PMH to acquire certain assets and operations of CharterCARE, as Centurion seeks financing for the acquisition.

Barclays submitted a response to Centurion’s RFP on [REDACTED] [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]

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<sup>18</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

- [REDACTED]
- [REDACTED]
- [REDACTED]

Centurion ultimately elected to move forward with Barclays based on their RFP response. Given their prior expertise in similar financing circumstances and early commitment to the process, Barclays appears to be an appropriate and qualified underwriter in financing the Proposed Transaction.

Following their engagement by Centurion, Barclays developed multiple preliminary analyses related to the Proposed Financing. [REDACTED]<sup>19</sup> d [REDACTED]  
[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

While the Barclays Analysis is helpful in understanding the key dependencies upon which the feasibility of the Proposed Financing will depend, it does not provide [REDACTED]  
[REDACTED]<sup>20</sup> In particular, [REDACTED]  
[REDACTED]

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<sup>19</sup> "Project Ocean Financing Plan." C-CNT-PMH-021849-C-CNT-PMH-021864.

<sup>20</sup> Ibid.

## Other Due Diligence

# PMH BUYER SELECTION AND TRANSACTION REVIEW EFFORTS

## Decision to Sell

In November of 2022, CharterCARE held a board meeting where they discussed a potential sale. The CharterCARE board discussed [REDACTED]

[REDACTED],<sup>21,22</sup>

## H2C Advisor Proposals

As previously noted, PMH engaged H2C to support the sale of CharterCARE. As such, H2C marketed CharterCARE through a CIM, garnered interest in the transaction from potential buyers and assisted the Parties in negotiating initial deal terms. H2C initiated the search for a buyer in April of 2021.

Highlighted findings from Veralon's review of the H2C process follow:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]; and
- [REDACTED]
- [REDACTED]. Centurion was identified as a potential buyer of interest by H2C later in the process, [REDACTED]

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<sup>21</sup> Statements Under Oath - Alfredo Sabillo. May 9, 2024.

<sup>22</sup> "Minutes of the Board of Directors." (06-R-C-CNT-PMH-003229-06-R-CNT-PMH-003914).

[REDACTED]  
[REDACTED].<sup>23</sup>

### Selection of Centurion and Approval of Proposed Transaction

Centurion and QHR presented their offer and Proposed Transaction to the PMH board. On November 8, 2022, PMH's board [REDACTED].<sup>24</sup> Mr. Von Crockett first noted [REDACTED]. A discussion followed [REDACTED]. The board then re [REDACTED]. [REDACTED]. [REDACTED]. After further discussion, t [REDACTED]. [REDACTED].

It is unclear how the PMH board made the decision to continue with the Proposed Transaction following QHR's separation from the Proposed Transaction.

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<sup>23</sup> Statements Under Oath – Ben Mingle. May 6, 2024 through May 7, 2024.  
<sup>24</sup> "Minutes of the Board of Directors of Prospect Medical Holdings, Inc." (06-R-C-CNT-PMH003317).



# Valuation

One criterion of the AG's review of an HCA is to ensure that any contemplated purchase price and/or other economic consideration associated with a contemplated healthcare transaction is supported by FMV. Veralon's findings related to this criterion and the Proposed Transaction follow.

## VMG Valuation

VMG was engaged by Centurion to estimate the FMV of CharterCARE for management planning purposes.<sup>25</sup> VMG concluded the value of CharterCARE to be between \$139 million and \$161 million, with the mid-point at \$150 million. Veralon's findings related to the VMG valuation are as follows:

- **Qualified Valuator:** VMG is an experienced and well-regarded valuation firm in the healthcare space. They are sufficiently qualified to opine on the FMV of the CharterCARE assets.
- **Valuation May Be "Stale:"** VMG's valuation conclusion is as of February 14, 2023. A valuation conclusion is only accurate so long as the underlying assumptions and financial information used to arrive at the valuation conclusion are accurate. While the "age" of a valuation does not necessarily dictate its current accuracy or inaccuracy, the VMG valuation is well over one year old (which is typically considered to be a "cut off" point where the valuation should be reconsidered) and:
  - CharterCARE's financial performance differs substantially from the financial results reflected in the income approach DCF method projection period.
  - The broader economic markets have also changed since the date of the valuation. And as such, valuation inputs do not reflect current borrowing costs, expected returns, and volatility in the market; and
  - The market approach does not reflect current revenue and EBITDA multiples at which similar companies and transactions are trading.

For these reasons, Veralon questions the relevance of the VMG valuation conclusion to the FMV of the CharterCARE assets today.

- **All Commonly Accepted Valuation Approaches Considered:** In arriving at its FMV conclusion, VMG considered the three commonly used valuation approaches - the income approach, cost approach, and market approach.
  - The income approach measures earning potential. VMG used a DCF method to arrive at the income approach valuation result. VMG relied upon the income approach in its ultimate valuation conclusion.

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<sup>25</sup> "VMG Health: Prospect CharterCARE, LLC (Valuation)." (21-R-C-CNT-PMH-004702-21-R-C-CNT-PMH-004843).



- The market approach compares the subject to comparable transactions or **guideline public companies (“GPCs”)**. These methods provide an indication of value based on comparisons to similar publicly traded companies and comparable transactions involving companies that operate in the same industry based on a multiple of revenue or earnings. Multiples of EBITDA are generally the most appropriate and widely utilized comparison because EBITDA is generally an acceptable proxy for cash flow. VMG considered and developed both the comparable transactions method and the GPC method. VMG relied upon the value indication of the market approach in its valuation conclusion.
- The cost approach, which measures the cost to rebuild or replace an asset of similar utility, was developed by VMG. The cost approach is generally **considered the “floor value.”** In this instance, the income and market approach results exceeded the value under the cost approach and VMG did not rely on the cost approach value indication in its ultimate valuation conclusion, as the cost approach value indication did not provide adequate consideration to the going concern value.
- **Income Approach Value Indication Dependent Upon Financial Turnaround: VMG’s income approach value indication ranged from [REDACTED]**. The income approach reflects the value of the cash flow of a subject company into perpetuity. In applying the DCF methodology to arriving at an income approach value indication, the valuator looks at annual estimated future financial performance until the business reaches a steady state, and then a terminal value which represents the steady state cash flow of the business into perpetuity. Cash flows over the projection period and the terminal value are then discounted by an appropriate discount rate (in this instance, by the **weighted average cost of capital (“WACC”)**) to account for the time value of money. As the income approach valuation conclusion is a function of the estimated future cash flows, these underlying financial estimates are one of the two most important considerations in the evaluation of an income approach value indication. Relevant to this, Veralon makes the following observations:
  - **EBITDA Turnaround Risk: VMG’s DCF relied upon management’s** projections of future financial performance tied to a series of turnaround initiatives. These turnaround initiatives are projected to result in a consolidated EBITDA turnaround from negative [REDACTED] in the normalized period, to [REDACTED] in Year 1, [REDACTED] in Year 2, and increasing to [REDACTED] in Year 5. This turnaround is driven by management initiatives that are projected to contribute [REDACTED] to EBITDA in Year 1, [REDACTED] in Year 2, [REDACTED] in Year 3, [REDACTED] in Year 4, and [REDACTED] in Year 5. [REDACTED]

substantial operating losses, discussed further in this report). If the turnaround initiatives reflected in the financial estimates in the VMG DCF analysis do not materialize, the organization would not be cash flow positive, suggesting not only that the income approach would not be applicable to the valuation of CharterCARE, but that the actual value of CharterCARE could be materially different than the VMG conclusion.

- High Terminal Value: The FMV of the discounted future cash flows across the five-year projection period equal approximately [REDACTED], while the **discounted terminal value (i.e., the business's cash flow generation into perpetuity after the five-year projection period)** is approximately [REDACTED]. When a terminal value accounts for the majority of the total value (in this case, accounting for almost 83 percent of the total enterprise value), it can indicate that the valuation conclusion is dependent upon more speculative performance (i.e., performance that takes effect later in the projection period) and thus may be heavily reliant on more speculative assumptions.
- Market Approach May be Impacted by Comparability of Guideline Companies and Transactions: **VMG's application of the market approach** considered both the GPC and the comparable transactions methods. Highlighted findings from Veralon's review are as follows:

- GPCs Lack Similarity with CharterCARE: In terms of the GPC method, [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]. [REDACTED]  
[REDACTED]. From there, a  
s [REDACTED]  
[REDACTED]  
[REDACTED]. [REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED] Typically, if GPCs or comparable transactions have low similarity to the subject, they are excluded from the selected companies or transactions and/or less weight is applied to the market approach in the value reconciliation. It is unclear how VMG broke down their weightings in arriving at their overall market approach conclusion, but based on the comparability concerns in the GPC Method, it stands to reason that less weight should be placed on the results of this methodology.

- [REDACTED]: As for the comparable transactions method, [REDACTED]  
[REDACTED]  
[REDACTED] While VMG noted [REDACTED]  
[REDACTED]

d [REDACTED]. As such, Veralon is unable to evaluate the comparability of the selected transactions.

- [REDACTED]: Typically, valuers do not solely rely on a revenue multiple in ascribing a value through the market approach for an established healthcare provider business, such as a health system. It is more common to use a valuation multiple related to the profitability of a business, such as enterprise value/EBITDA (i.e., price/earnings multiples). [REDACTED]

- [REDACTED]  
[REDACTED]: V [REDACTED]  
[REDACTED]  
[REDACTED]. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]  
[REDACTED]  
[REDACTED]. T [REDACTED]  
[REDACTED]. As the VMG report notes, [REDACTED]  
[REDACTED]  
[REDACTED] d. As previously discussed, the Target NWC for the Proposed Transaction is \$0. [REDACTED]  
[REDACTED]  
[REDACTED]

In review of VMG’s FMV of CharterCARE’s assets, Veralon acknowledges and emphasizes the age of the valuation and the vital importance (and speculative nature) of the financial impact of the prospective turnaround initiatives. These factors present a risk that the concluded VMG FMV is not representative of the current FMV of CharterCARE and that the Proposed Transaction terms may need to be reevaluated relative to FMV.

### ADDITIONAL VALUATION ANALYSIS

Given the age of the valuation and concern related to the accuracy of the underlying financial information, Veralon suggested that an updated business valuation be developed. However, [REDACTED]  
[REDACTED] As such, Veralon was not engaged to develop its own conclusion related to the current FMV of CharterCARE, nor did the Parties engage VMG to develop an updated business valuation conclusion.



However, Veralon engaged PLC to **provide a report (the "PLC Report")** to render an estimate of the hypothetical current FMV of certain Subject Assets pertaining to CharterCARE. This exercise was conducted for the purpose of determining, in the absence of an updated business valuation, whether the proposed Purchase Price was at least equal to the current estimated hypothetical value of the CharterCARE Subject Assets.

PLC's hypothetical value estimate is as of April 1, 2024, and is based upon several essential assumptions, which if inaccurate would change the valuation conclusion:

- **"In Use" Premise:** The hypothetical value provided includes an assumption of an **"In Use" premise, which assumes that there is sufficient** cash flow available to the operating business occupying the RP asset and operating the M&E to support the full replacement cost less physical depreciation. While Veralon and PLC assumed there was economic obsolescence that would apply to CharterCARE, given CharterCARE's **financial condition, PLC was not able to** quantify an appropriate associated adjustment without a current business enterprise valuation to substantiate this adjustment to value.
- No Physical Inspection: PLC viewed the RP from the exterior but did not conduct a detailed physical inspection of the RP. PLC also did not inspect a representative sample or conduct a physical inventory of the M&E, as it was not in the scope of the engagement.
- Additionally, PLC noted the following:
  - **"We have not verified the ownership interest, nor have we investigated any** future claims or liabilities. We have assumed that the Subject Assets are owned in fee simple interest and are free and clear of and atypical **encumbrances;"** and
  - **"We have relied on the data provided by Management and information** obtained from market sources without independent verification. We have assumed that all data received or obtained is accurate in all material **aspects."**

Considering the above assumptions and based upon the methodology described in the PLC report, PLC's valuation estimates as of April 14, 2024, are as follows:

- Hypothetical FMV of CharterCARE's total RP: \$94 million;
- Hypothetical FMV of CharterCARE's M&E: \$27 million; and
- Combined Hypothetical FMV of CharterCARE's Subject Assets: \$121 million

The PLC Report is separately provided in Appendix E and includes substantial detail related to PLC's assumptions, methodology, and findings.

## Purchase Price vs. Valuation

While the \$80 million Net Purchase Price to be paid to PMH (before the NWC true up and other adjustments) is less than VMG's concluded value, the age of the VMG valuation conclusion presents risk in relying upon it as the current value of

CharterCARE's **assets**. Additionally, the VMG valuation conclusion assumed that CharterCARE would be acquired with a net working capital level of \$21 million, which exceeds the Target Net Working Capital of \$0.

However, the PLC valuation estimate of \$121 million, while hypothetical and limited by the underlying assumptions and limitations described above, is higher than the Net Purchase Price to be paid to PMH for the CharterCARE assets of \$80 million. This additional valuation information provides some additional comfort that the \$80 million Net Purchase Price may be at least supported by the FMV of the CharterCARE Subject Assets that would be acquired in conjunction with the Proposed Transaction. However, as previously described, if the current enterprise value of CharterCARE does not exceed \$121 million, there would be a discount for economic obsolescence applied to the \$121 million valuation estimate; the amount of the discount is indeterminable in the absence of an updated business enterprise value conclusion.

# Financial Feasibility & Analysis

## FINANCIAL PERFORMANCE

### Historical CharterCARE Financial Review

#### Income Statement

Veralon reviewed audited income statements for FY ended September 30, 2019 through 2022,<sup>26</sup> and internal income statements for FY ended September 30, 2023<sup>27</sup> and **trailing twelve months ("TTM") ended March 31, 2024 ("TTM 2024")**,<sup>28</sup> as shown in Table 2.

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<sup>26</sup> "Prospect CharterCARE, LLC: Consolidated Financial Statements." (24-R-CNT-PMH-001577-24-R-CNT-PMH-001675).

<sup>27</sup> "CharterCARE Network Statement of Operations, Year-to-Date September 30, 2023." (24-R-C-CNT-PMH-005109).

<sup>28</sup> "CharterCARE Network Statement of Operations, March 2024." (C-CNT-PMH-021866).

Table 2

Prospect CharterCARE, LLC Historical Statement of Revenue and Expenses <sup>1</sup>						
(in \$000s)	Years ended September 30,				Year ended March 31,	
	2019	2020	2021	2022	2023	2024
Revenue						redacted
Net Patient Service Revenue	\$ 362,109	\$ 327,759	\$ -	\$ -		
Provision for Bad Debts	(14,290)	(17,091)	-	-		
Net Patient Service Revenues Less Provision for Bad Debts	\$ 347,819	\$ 310,668	\$ 338,972	\$ 338,383		
Other non-patient Hospital Revenues	8,879	11,543	9,574	11,606		
Total Net Revenues	\$ 356,698	\$ 322,211	\$ 348,546	\$ 349,989		
Operating Expenses						
Salaries, Wages, and Benefits	\$ 189,268	\$ 182,085	\$ 191,323	\$ 198,734		
Supplies	61,933	58,939	67,154	69,769		
Purchased Services	29,817	30,900	33,616	32,519		
Professional fees	16,545	16,003	17,662	18,517		
Taxes and Licenses	22,911	23,257	18,376	19,922		
Registry	699	1,547	2,026	9,481		
Insurance	4,091	4,040	11,923	5,330		
Lease and rental	5,185	5,206	5,503	5,456		
Utilities	5,159	4,893	4,812	5,886		
Repairs and maintenance	1,702	1,805	1,809	3,249		
Research grant expense	2,626	2,263	2,011	621		
Management fees	7,395	6,532	4,004	-		
Legal settlement (Note 8)	-	22,250	(11,900)	-		
Other	3,461	4,027	6,024	5,670		
Depreciation and Amortization	15,048	8,924	10,865	2,633		
Total Operating Expenses	\$ 365,840	\$ 372,671	\$ 365,208	\$ 377,787		
Pandemic Relief Grant Income	\$ -	\$ 36,069	\$ 245	\$ 209		
Operating Income from Unconsolidated Equity Method Investments	\$ 560	\$ 881	\$ 304	\$ 117		
Operating Income (Loss)	\$ (8,582)	\$ (13,510)	\$ (16,113)	\$ (27,472)		
Other Expense						
Interest Expense	\$ 1,023	\$ 836	\$ 729	\$ 1,964		
Other Expense	-	715	(33)	(85)		
Total Other Expense	\$ 1,023	\$ 1,551	\$ 696	\$ 1,879		
Net Loss from Continuing Operations	\$ (9,605)	\$ (15,061)	\$ (16,809)	\$ (29,351)		
Income (Loss) from Discontinued Operations	\$ (91)	\$ 420	\$ -	\$ -		
Net Income (Loss)	\$ (9,696)	\$ (14,641)	\$ (16,809)	\$ (29,351)		
EBITDA	\$ 6,466	\$ (4,586)	\$ (5,248)	\$ (24,839)		

## Financial Performance Observations

### REVENUE

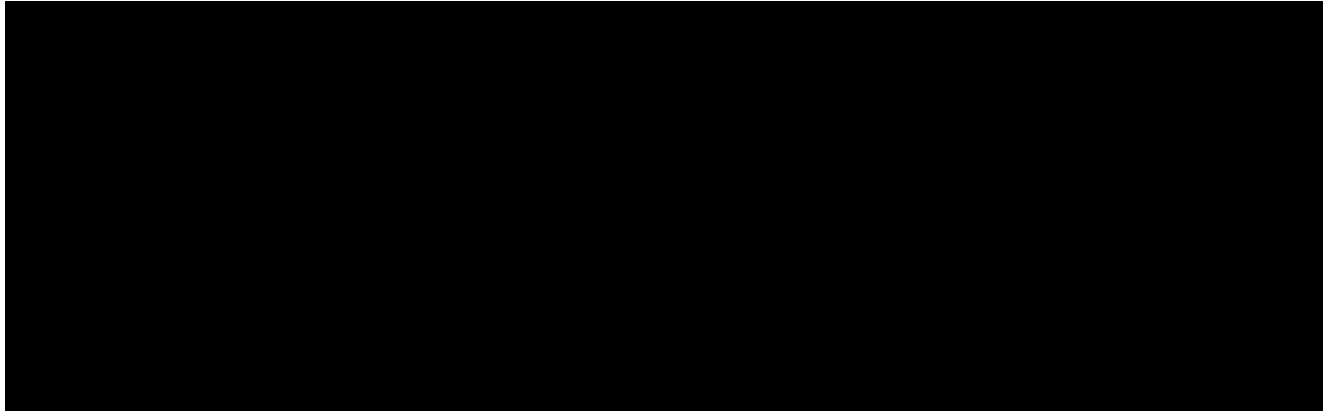
CharterCARE revenue has not yet reached pre-COVID-19 pandemic (the "Pandemic") levels; however, the TTM 2024 period shows an increase from FY 2023. Pertaining to revenue, Veralon makes the following observations related to CharterCARE volume, payor mix, and material events.

### VOLUME

The Parties provided historical volume data for CharterCARE for FYs 2019 through 2022, FY 2023 as of July 31 and "estimated 2024." No information was provided

regarding how the Estimated 2024 period was derived. A summary of this information is provided in Table 3.

Table 3



Patient statistics have fluctuated over the past five FYs, but generally volumes are depressed relative to pre-Pandemic levels across inpatient and outpatient settings.

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

<sup>29</sup> "Patient Statistics." (47-R-C-CNT-PMH-006407-47-R-C-CNT-PMH-006410).  
<sup>30</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>31</sup> Ibid.  
<sup>32</sup> RWMC has approximately 210 licensed beds and OLF has approximately 320 licensed beds, totaling 530 licensed beds.



- [REDACTED]
- [REDACTED]

## PAYOR MIX

Payor mix across the CharterCARE hospitals is presented in Table 4. The payor mix data provided by the Parties does not include information to clarify whether the payor mix is for all of CharterCARE or specific to certain facilities or settings.

- [REDACTED]
- [REDACTED]
- [REDACTED]

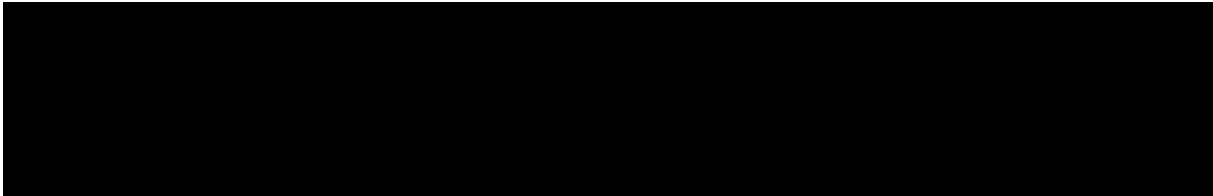
Table 4

[REDACTED]
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## OPERATING EXPENSES

[REDACTED]. Relevant to CharterCARE operating expenses, Veralon notes the following:

- Salaries, wages, and benefits expenses have a five-year CAGR of 2.09 percent, despite declining volume. Salary and wage inflation has been a significant challenge for hospitals and health systems across the US since the Pandemic and is not unique to the CharterCARE system or Rhode Island market.



## MATERIAL EVENTS

Mr. Liebman attributes a large portion of revenue declines in FYs 2020 and 2023 to the Pandemic and the PMH cyber-attack.<sup>33</sup>

- The Pandemic: The Pandemic was an unprecedented event across the country, carrying economic implications across industries but disproportionately impacting the healthcare industry. As was true for many health systems, CharterCARE was forced to close beds in certain units and other business units (e.g., Prospect Blackstone Valley Surgicare, LLC) to address physician and nurse staffing shortages and other resource constraints. Elective surgeries and procedures were also impacted by shutdown measures implemented at the beginning of the Pandemic. While revenues declined, operating expenses also inflated, as the Pandemic initiated the beginning of a significant increase in the cost of nursing and other patient care labor. CharterCARE has been unprofitable since the Pandemic, generating negative EBITDA since FY 2020; this is not necessarily true of other health systems in Rhode Island or across the country, as many have recovered from the Pandemic, at least to a new normal status quo, with labor cost challenges persisting.
- Cyber-Attack: On August 1, 2023, PMH was the target of a cyber-attack,<sup>34</sup> which impacted operations and financial performance across all PMH regions and facilities. Mr. Pillari stated, i [REDACTED]  
[REDACTED]  
[REDACTED] Additionally, during the immediate period surrounding the cyber-attack, hospital volumes dropped due to the significant disruption in operations. By the November 30, 2023, PMH board meeting, [REDACTED]  
[REDACTED]. At this time, Mr. Pillari indicated [REDACTED]  
[REDACTED] During the SUOs, v [REDACTED]  
[REDACTED]  
[REDACTED]<sup>35,36</sup>

<sup>33</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>34</sup> "Minutes of the Board of Directors of Prospect Medical Holdings, Inc." (C-CNT-PMH-010626-C-CNT-PMH-010640).

<sup>35</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>36</sup> Statements Under Oath – George Pillari. May 8, 2024.

## NET INCOME AND MARGIN

CharterCARE experienced negative operating and net income margins consistently from the FY 2019 through TTM 2024 period (Table 5). Performance declined consistently from FY 2019 through FY 2023, before showing some marginal improvement in the TTM 2024 period, shown in Table 2.

Table 5

Prospect CharterCARE, LLC Margin Analysis <sup>1</sup>						
	Years ended September 30,					Year ended March 31,
	2019	2020	2021	2022	2023	2024
EBITDA Margin	1.8%	-1.4%	-1.5%	-7.1%	redacted	
Operating Margin	-2.4%	-4.2%	-4.6%	-7.8%		
Net Income Margin	-2.7%	-4.5%	-4.8%	-8.4%		

<sup>1</sup> Source: FY 2019 through 2022 based on audited financial statements; FY 2023 and TTM 2024 based on internal financial statements.

Relevant to CharterCARE EBITDA and net income, Veralon notes:

- FY 2019 was the only year of the analysis period when CharterCARE generated positive EBITDA, with an associated EBITDA margin of 1.8 percent (which is still quite low relative to the industry).
- Net income declined from negative \$9.7 million in FY 2019 to negative [REDACTED] in the TTM 2024 period. Of note, the TTM 2024 period is a substantial improvement over FY 2023 net income, which was negative [REDACTED].

## Balance Sheet

Veralon reviewed audited balance sheets as of September 30, 2019 through 2021,<sup>37</sup> and internal balance sheets as of September 30, 2022<sup>38</sup> and 2023<sup>39</sup> and March 31, 2024,<sup>40</sup> as shown in Table 6.

<sup>37</sup> "Prospect CharterCARE, LLC: Consolidated Financial Statements." (24-R-CNT-PMH-001577-24-R-CNT-PMH-001675).

<sup>38</sup> "Quarterly RI AG Reporting Package". (C-CNT-PMH-014700-C-CNT-PMH-014714).

<sup>39</sup> "CharterCARE Network Statement of Operations, Year-to-Date September 30, 2023." (24-R-C-CNT-PMH-005109).

<sup>40</sup> "CharterCARE Network Balance Sheet." (C-CNT-PMH-021865).

Table 6

		Prospect CharterCARE, LLC Historical Balance Sheets <sup>1</sup>					
		September 30,					March 31,
(in \$000s)		2019	2020	2021	2022	2023	2024
<b>Assets</b>							
Current Assets							
Cash And Cash Equivalents	\$	-	\$ 1,820	\$	-	redacted	redacted
Restricted Cash		174	521		485		
Patient Accounts Receivable, Less Allowance For Doubtful Accounts		49,713	36,314		40,561		
Other Receivables		2,895	4,803		5,274		
Due From Government Payers		5,531	6,281		6,787		
Due From Affiliated Companies, Net		-	32,458		24,209		
Inventories		5,974	6,569		7,136		
Prepaid Expenses And Other Current Assets		3,812	4,934		5,791		
<b>Total Current Assets</b>	<b>\$</b>	<b>68,099</b>	<b>\$ 93,700</b>	<b>\$</b>	<b>90,243</b>		
Long-Term Assets							
Property, Improvements And Equipment, Net	\$	60,918	\$ 60,265	\$	62,244		
Goodwill, Net		-	415		420		
Intangible Assets, Net		19	-		-		
Equity Method Investments		3,675	3,644		3,948		
Other Assets		1,970	2,057		713		
<b>Total Long-Term Assets</b>	<b>\$</b>	<b>66,582</b>	<b>\$ 66,381</b>	<b>\$</b>	<b>67,325</b>		
<b>Total Assets</b>	<b>\$</b>	<b>134,681</b>	<b>\$ 160,081</b>	<b>\$</b>	<b>157,568</b>		
<b>Liabilities And Members' Equity</b>							
Current Liabilities							
Accounts Payable And Other Accrued Liabilities	\$	33,382	\$ 30,512	\$	31,313		
Accrued Salaries, Wages And Benefits		18,150	23,971		19,794		
Deferred Revenue		170	1,376		1,265		
Due To Government Payers		4,900	5,742		4,236		
Refund Liability, Current Portion		-	6,198		20,935		
Due To Affiliated Companies, Net		16,694	-		-		
Capital Leases, Current Portion		49	254		938		
Other Current Liabilities		-	-		-		
<b>Total Current Liabilities</b>	<b>\$</b>	<b>73,345</b>	<b>\$ 68,053</b>	<b>\$</b>	<b>78,481</b>		
Long-Term Liabilities							
Capital Leases, Net Of Current Portion	\$	43	\$ 932	\$	2,322		
Asset Retirement Obligations		3,123	2,982		3,031		
Deferred Revenue, Net Of Current Portion		1,484	-		-		
Refund Liability, Net Of Current Portion		-	21,347		-		
Other Long-Term Liabilities		10,964	35,686		59,462		
<b>Total Long-Term Liabilities</b>	<b>\$</b>	<b>15,614</b>	<b>\$ 60,947</b>	<b>\$</b>	<b>64,815</b>		
<b>Total Liabilities</b>	<b>\$</b>	<b>88,959</b>	<b>\$ 129,000</b>	<b>\$</b>	<b>143,296</b>		
Members' Equity							
Member Contributions	\$	120,105	\$ 120,105	\$	120,105		
Accumulated Deficit		(74,383)	(89,024)		(105,833)		
<b>Total Members' Equity</b>	<b>\$</b>	<b>45,722</b>	<b>\$ 31,081</b>	<b>\$</b>	<b>14,272</b>		
<b>Total Liabilities And Members' Equity</b>	<b>\$</b>	<b>134,681</b>	<b>\$ 160,081</b>	<b>\$</b>	<b>157,568</b>		

<sup>1</sup> Source: 2019 through 2021 based on audited financial statements; 2022 through 2024 based on internal financial statements.

## Balance Sheet Observations

### CASH

As PMH sweeps all cash from CharterCARE's balance sheet daily to the parent, CharterCARE does not maintain its own unrestricted cash balances. However, CharterCARE does have restricted cash, which is designated for use for research at

CharterCARE’s hospitals and representative payee funds for long-term behavioral health patients.<sup>41</sup>

### ACCOUNTS RECEIVABLE

CharterCARE accounts receivable (“AR”) analysis is presented in Table 7. Veralon notes the following:

- AR increased significantly at FYE 2023, attributed to the cyber-attack that occurred in August of 2023.
- AR dropped by March 31, 2024, suggesting improvement/recovery from the AR challenges experienced in conjunction with the cyber-attack.

Table 7

Prospect CharterCARE, LLC Accounts Receivable						
	September 30,					March 31,
	2019	2020	2021	2022	2023	2024
Patient Accounts Receivable <sup>1</sup>	\$ 49,713,000	\$ 36,314,000	\$ 40,561,000	\$ redacted		

<sup>1</sup> Source: 2019 and 2020 audited financial statements; 2021 consolidated financial statements; and 2022, 2023, and 2024 internal financial statements.

### INTERCOMPANY RECEIVABLE AND FUNDING FROM PARENT

Due to sustained operating losses at CharterCARE, PMH has had to contribute additional funding to CharterCARE in order to maintain operations. This funding is **tracked in the intercompany receivable on PMH’s balance sheet. The balance essentially represents the difference between the cash “swept” by PMH from the CharterCARE system and the expenses paid on behalf of the CharterCARE system.** When the balance is positive, it indicates that the cash swept to the PMH parent exceeds the expenses paid by PMH on behalf of its subsidiaries, including CharterCARE; when the balance is negative, the reverse is true. Expenses paid and considered in this balance include both direct expenses as well as portions of corporate **expenses allocated to PMH’s subsidiaries, including CharterCARE.**

As of March 31, 2024, the PMH intercompany receivable balance was negative [REDACTED], indicating PMH paid [REDACTED] more in expenses to its subsidiaries, including CharterCARE, than it collected in revenue.<sup>42</sup> In March of 2023, this balance was negative [REDACTED] and in March of 2022, the balance was positive [REDACTED].<sup>43</sup>

While there may be unknown reasons for period-to-period fluctuations in this balance, the overall trend in this intercompany account indicates the substantial recent decline

<sup>41</sup> “Prospect CharterCARE, LLC: Notes to Consolidated Financial Statements” (24-R-CNT-PMH-001663).

<sup>42</sup> “CharterCARE Network Balance Sheet.” (C-CNT-PMH-021865).

<sup>43</sup> “CharterCARE Network Balance Sheet.” (24-R-C-CNT-PMH-005056-24-R-C-CNT-PMH-005057).

in CharterCARE’s financial performance. The continued negative increase in the intercompany receivable highlights the financial challenges at CharterCARE and the necessity, under current operations, of financial support to cover CharterCARE’s sustained operating losses.

**ACCOUNTS PAYABLE**

As of September 30, 2023, accounts payable (“AP”) was \$63 million, which was an increase from \$41 million as of September 30, 2022. In FY 2024, AP has continued to grow, increasing to approximately \$69 million on March 31, 2024. During Mr. Pillari’s SUO, he stated that days in payables outstanding (“DPO”) were above 90 days in quarters prior to June 30, 2023 but then PMH was hit by the cyber-attack they did not meet the 90 day target for the quarters ending September 30 and December 31, of 2023.

Table 8

Prospect CharterCARE, LLC						
Accounts Payable						
	September 30,					March 31,
	2019	2020	2021	2022	2023	2024
Accounts Payable <sup>1</sup>	\$ 33,382,000	\$ 30,512,000	\$ 31,313,000	\$ 41,262,231	\$ 62,941,914	\$ 69,103,970

<sup>1</sup> Source: 2019 and 2020 audited financial statements; 2021 consolidated financial statements; and 2022, 2023, and 2024 internal financial statements.

While some (but not all) of the increase in AP would be expected as of September 30, 2023, following the cyber-**attack and CharterCARE’s associated increase in AR**, the sustained growth in AP in March 2024 cannot be attributed to this, as AR has recovered.

During the SUOs, Mr. Liebman noted discussing issues with growing AP, unpaid accounts, and vendor credit holds with the board, CFO, and head of AP of CharterCARE and leadership at PMH.<sup>44</sup> The increase in AP throughout FYs 2023 and 2024 is a result of **CharterCARE’s sustained financial distress**. CharterCARE does not generate sufficient earnings to cover its operating expenses, and that gap has increased in FY 2023 and TTM 2024.

**Further, CharterCARE’s parent, PMH, has had its own financial struggles (further discussed subsequently) and is also managing its cash and revenue cycle to cover losses, AP, and other obligations across its markets.**<sup>45</sup>

CharterCARE does not have control over AP today. Each day, PMH indicates to CharterCARE which vendors to pay and the amount that each should be paid; CharterCARE management expressed that the total cash provided by PMH to fund **CharterCARE’s AP falls short of CharterCARE’s total obligations, driving the observed growth in AP balances.**<sup>46</sup>

<sup>44</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>45</sup> Statements Under Oath – George Pillari. May 8, 2024.

<sup>46</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.



The biggest concern when a health system has material outstanding payable balances is vendor actions to cut off supplies and the potential impact that this could have on patient care. Unfortunately, this has occurred at CharterCARE. CharterCARE received citations at RWMC and OLF titled Statement of Deficiencies and Plan of Correction from the Centers for Medicare & Medicaid Services for rescheduling surgeries and lack of medical supplies that delayed procedures.<sup>47</sup>

**DEBT**

In 2020, CharterCARE entered into an agreement with a third party that specializes in PACE loans to obtain [REDACTED] in financing to be used toward qualifying renovations.<sup>48</sup> The full amount of PACE funds was deposited into an escrow account managed by a third-party administrator, less deductions for deferred financing fees totaling approximately [REDACTED] million and lease payoffs of approximately [REDACTED]. CharterCARE received cash from the escrow account of approximately [REDACTED], which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The financing is subject to an annual interest rate of 5.75 percent and the financing matures on April 30, 2045. The associated interest expense can be seen as a part of the debt service CharterCARE has been paying. PACE financing is classified as current and long-term assets held for sale and the associated liability is classified as current and long-term liabilities held for sale.

CharterCARE also has a number of outstanding capital leases, the outstanding balances of which totaled approximately [REDACTED] as of March 31, 2024.

**Historical PMH Financial Review**

While the Proposed Transaction would separate PMH from CharterCARE post-Proposed Transaction, PMH’s historical and current financial performance and position are relevant to understanding certain aspects of CharterCARE’s financial situation.

**Sustained Operating Losses**

PMH’s net income in FY 2019 was negative \$342 million and this improved to negative \$183 million in FY 2022,<sup>49</sup> [REDACTED]

[REDACTED]<sup>50</sup> and [REDACTED].<sup>51</sup> The Proposed Transaction [REDACTED]

<sup>47</sup> “Statement of Deficiencies and Plan of Correction - Centers for Medicare & Medicaid Services.” (C-CNT-PMH-010511–C-CNT-PMH-O10520).

<sup>48</sup> “Prospect CharterCARE, LLC: Consolidated Financial Statements.” (24-R-CNT-PMH-001672).

<sup>49</sup> “Prospect Medical, Consolidated Financial Statements.” (24-R-CNT-PMH-001380-24-R-CNT-PMH-001564).

<sup>50</sup> “Prospect Medical Holdings, Inc. Consolidated Statement of Operations.” (C-CNT-PMH-012919).

<sup>51</sup> “Prospect Medical Holdings, Inc. Consolidated Statement of Operations.” (C-CNT-PMH-021889).



PMH's historical income statement is shown in Table 9. Table 10 provides an analysis of PMH's historical EBITDA, operating, and net income margins.

Table 9

Prospect Medical Holdings, Inc. Historical Statement of Revenues and Expenses <sup>1</sup>						
(in \$000s)	Years ended September 30,				Year ended	
	2019	2020	2021	2022	2023	March 31, 2024
Revenue						redacted
Net Hospital Services Revenues	\$ 2,438,227	\$ 2,275,592	\$ 736,217	\$ 819,954		
Medical Group Revenues	353,954	372,646	471,296	528,387		
Global Risk Management Revenues	49,696	84,900	100,154	191,925		
Corporate Revenues	7,321	250	3,171	4,655		
Total Net Revenues	\$ 2,849,198	\$ 2,733,388	\$ 1,310,838	\$ 1,544,921		
Operating Expenses						
Hospital Operating Expenses	\$ 1,966,380	\$ 1,937,766	\$ 577,159	\$ 674,535		
Medical Group Cost Of Revenues	259,631	242,314	344,275	380,751		
Global Risk Management Cost Of Revenues	33,444	52,851	67,297	155,457		
General And Administrative	501,586	493,486	270,081	292,037		
Depreciation And Amortization	92,011	80,040	22,050	18,505		
Goodwill Amortization	-	30,245	16,163	16,163		
Total Operating Expenses	\$ 2,853,052	\$ 2,836,702	\$ 1,297,025	\$ 1,537,448		
Operating (Loss) Income From Unconsolidated Joint Ventures	\$ 5,889	\$ 118,872	\$ 20	\$ (71)		
Operating Income	\$ 2,035	\$ 15,558	\$ 13,833	\$ 7,402		
Other Expenses						
Interest Expense And Amortization Of Deferred Financing Costs	\$ 110,605	\$ 86,157	\$ 38,472	\$ 35,723		
Net Period Benefit Cost	17,230	9,242	12,217	12,973		
Loss On Early Extinguishment Of Debt	30,052	-	-	-		
Other Expense (Income) Net	2,858	2,091	(2,172)	2,771		
Total Other Expense, Net	\$ 160,745	\$ 97,490	\$ 48,517	\$ 51,467		
Loss Before Income Taxes	\$ (158,710)	\$ (81,932)	\$ (34,684)	\$ (44,065)		
Income Tax Benefit	\$ 16,455	\$ (7,070)	\$ (2,265)	\$ (2,671)		
Loss From Continuing Operations	\$ (175,165)	\$ (74,862)	\$ (32,419)	\$ (41,394)		
Loss From Discontinued Operations, Net Of Income Taxes	(123,305)	(23,612)	(116,703)	(190,907)		
Net Loss	\$ (298,470)	\$ (98,474)	\$ (149,122)	\$ (232,301)		
Net Income (Loss) Attributable To Non-Controlling Interests	\$ (734)	\$ 1,136	\$ (5,777)	\$ 928		
Net Loss Attributable To Prospect Medical Holdings	\$ (297,736)	\$ (99,610)	\$ (143,345)	\$ (233,229)		
Other Comprehensive Income (Expense), Net Of Tax:						
Pension Obligation And Other Post-Retirement Benefits	\$ (45,796)	\$ 9,267	\$ (48,498)	\$ 59,324		
Debt And Equity Securities, Unrealized (Loss) Gain	1,257	46	264	(9,672)		
Total Other Comprehensive Income (Loss), Net Of Tax	\$ (44,539)	\$ 9,313	\$ (48,234)	\$ 49,652		
Total Net Income (Loss)	\$ (342,275)	\$ (90,297)	\$ (191,579)	\$ (183,577)		
EBITDA	\$ 94,046	\$ 125,843	\$ 52,046	\$ 42,070		

<sup>1</sup> Source: FY 2019 through 2022 based on audited financial statements; FY 2023 and TTM 2024 based on internal financial statements.



Table 10

Prospect Medical Holdings, Inc. Margin Analysis <sup>1</sup>						
	Years ended September 30,					Year ended
	2019	2020	2021	2022	2023	March 31, 2024
EBITDA Margin	3.3%	4.6%	4.0%	2.7%	redacted	
Operating Margin	0.1%	0.6%	1.1%	0.5%		
Net Income Margin	-12.0%	-3.3%	-14.6%	-11.9%		

<sup>1</sup> Source: FY 2019 through 2022 based on audited financial statements; FY 2023 and TTM 2024 based on internal financial statements.

### Accounts Receivable and Accounts Payable

PMH AR has fluctuated since FYE 2019.<sup>52</sup>

PMH AP has increased substantially since FYE 2019. The first increase was in FYE 2020, and while there was some minor recovery, AP began to balloon again in FYE 2023 and **further grew as of March 31, 2024. This is supported by PMH leadership’s testimony** that they are in a position where they have to actively manage cash (and associated vendor payment decisions) on a day-to-day basis.<sup>53</sup>

Table 11

Prospect Medical Holdings, Inc. Accounts Receivable and Accounts Payable <sup>1</sup>						
	September 30,					March 31,
	2019	2020	2021	2022	2023	2024
Patients Accounts Receivable, Net Allowance	\$ 306,587,000	\$ 288,764,000	\$ 254,908,000	redacted		
Accounts Payable and Other Accrued Liabilities	\$ 264,252,000	\$ 383,040,000	\$ 311,038,000			

<sup>1</sup> Source: 2019 and 2020 audited financial statements; 2021 consolidated financial statements; and 2022, 2023, and 2024 internal financial statements.

### Days Cash on Hand

PMH does not typically operate with a significant cash “cushion.” [redacted], shown in Table 12 aside from the cash infusion in FY 2020 attributed to COVID-19 Pandemic funding.

PMH’s ability to continue to fund losses and improve AP for CharterCARE and its other markets may become a challenge without substantial overall turnaround. [redacted]

[redacted]<sup>54</sup>

<sup>52</sup> “Prospect Medical Holdings, Inc. Consolidated Statement of Operations.” (C-CNT-PMH-021889).

<sup>53</sup> Statements Under Oath – George Pillari. May 8, 2024.

<sup>54</sup> “Minutes of the Board of Directors of Prospect Medical Holdings, Inc.” (C-CNT-PMH-010626-C-CNT-PMH-010640; C-CNT-PMH-012923-C-CNT-PMH-013025).

Table 12

Prospect Medical Holdings, Inc. Days Cash on Hand <sup>1</sup>					
(in \$000s)	September 30,				
	2019	2020	2021	2022	2023
Unrestricted Cash Balance	\$ 122,091	\$ 386,894	\$ 58,993	\$ 56,084	redacted
Operating Expenses	\$ 2,853,052	\$ 2,836,702	\$ 1,297,025	\$ 1,537,448	redacted
Less: Depreciation and Amortization	(92,011)	(110,285)	(38,213)	(34,668)	redacted
Total Operating Expenses (Less Depr. And Amort.)	\$ 2,761,041	\$ 2,726,417	\$ 1,258,812	\$ 1,502,780	redacted
Daily Cash Operating Expense	\$ 7,564	\$ 7,449	\$ 3,449	\$ 4,117	redacted
Days Cash on Hand	16	52	17	14	redacted

<sup>1</sup> Source: 2019 through 2022 based on audited financial statements; 2023 based on internal financial statements.

## Liquidity

PMH’s current ratio (equal to current assets minus current liabilities) has consistently worsened since FY 2019 and has not exceeded 1.0 since FYE 2020 (when the company received pandemic funding). A current ratio below 1.0 means that current liabilities exceed current assets, indicating that there are insufficient resources to cover short-term obligations.

The PMH liquidity challenges provide further context for CharterCARE’s own struggles to meet its AP and other current obligations, as PMH is managing payment of its overall current obligations across all markets, not just CharterCARE.

Table 13

Prospect Medical Holdings, Inc. Current Ratio <sup>1</sup>						
(in \$000s)	September 30,					March 31,
	2019	2020	2021	2022	2023	2024
Total Current Assets	\$ 837,009	\$ 1,086,425	\$ 870,375	\$ 883,948	redacted	redacted
Total Current Liabilities	778,674	956,393	1,120,477	1,230,312	redacted	redacted
Current Ratio	1.07	1.14	0.78	0.72	redacted	redacted

<sup>1</sup> Source: 2019 through 2022 based on audited financial statements; 2023 and 2024 based on internal financial statements.

## PMH AND CHARTERCARE OUTLOOK – STATUS QUO

redacted  
 redacted  
 redacted. <sup>55,56</sup> PMH leadership stated redacted  
 redacted  
 redacted However, redacted

<sup>55</sup> Statements Under Oath – Alfredo Sabillo. May 9, 2024.

<sup>56</sup> Statements Under Oath – George Pillari. May 8, 2024.

[REDACTED]  
[REDACTED].<sup>57</sup>

CharterCARE leadership indicated [REDACTED]  
[REDACTED].<sup>58, 59</sup>

CharterCARE's current sustained operating shortfalls and material outstanding AP are such that CharterCARE could not operate without continued financial funding from a parent and/or transformative financial turnaround. Currently, CharterCARE has the benefit of a parent company, PMH, which can help fund losses – **albeit PMH's own** financial position is questionable. If CharterCARE were to lose the support of a parent company that provides financial support, as is contemplated under the Proposed Transaction, the required financial turnaround would be substantial (and would need to be immediate).

## FEASIBILITY OF THE PROPOSED TRANSACTION

As previously described, the Proposed Transaction would essentially result in a return to independent operations for CharterCARE (as the New CharterCARE System) as a non-profit stand-alone health system.

This would be accomplished through:

- Leveraging the combined skill sets of Centurion and the current CharterCARE leadership team;
- Successful execution of an ambitious, multi-pronged financial turnaround plan for the New CharterCARE System;
- Raising taxable and tax-exempt bond proceeds that would fund the costs of the Proposed Transaction and create an opening cash balance for the New CharterCARE system of approximately 80 days; and
- Proposed Transaction terms that require **pay-down of the bulk of CharterCARE's** current outstanding AP, such that the net working capital for the New CharterCARE system would be equal to \$0 immediately following Proposed Transaction closing.

**Veralon's observations** and findings related to the above elements required for success of the Proposed Transaction and the New CharterCARE **System's ability to operate as a** self-sustaining independent non-profit health system follow.

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<sup>57</sup> Statements Under Oath – George Pillari. May 8, 2024.

<sup>58</sup> Statements Under Oath – Cici Arriera. May 8, 2024.

<sup>59</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

## Efficacy of Leadership and Management Team

### Centurion

Relevant to Centurion's ability to support the New CharterCARE System's success and operations going forward, Veralon makes the following observations:

- **No Healthcare Expertise:** Centurion does not (and has not) owned or operated health systems (outside of real estate operations). Centurion has three employees, none of whom have relevant health care operations experience. When initially proposed, Centurion intended to complete the transaction with QHR as a partner, with QHR providing the operational and management expertise to support the financial turnaround and future operations. As Centurion subsequently decided to eliminate the QHR partnership, **Centurion's intent is to** rely on the current CharterCARE leadership/management team to drive operations – including execution of the required financial turnaround. Centurion has committed to hiring consultants in order to fill knowledge gaps in the management team, though it is unclear who will be paying for consultants and the cost. While Centurion has no prior experience operating a healthcare services organization, Mr. Liebman stated that Centurion has a strong background in financing, financial systems, and treasury functions. Mr. Liebman believes that Centurion will provide expertise in the forms of recruitment, vendor negotiations, and other core areas.<sup>60</sup>
- **No Financial Support:** Centurion has stated that, despite taking full effective control over the New CharterCARE system post-Proposed Transaction, it will not provide any financial support to the New CharterCARE System, for operations or capital investment. This position is not only challenging to reconcile for the New CharterCARE System, which has historically required **the financial "backstop"** provided by PMH (as previously discussed), it is also atypical of most non-profit corporate member substitutions in healthcare; typically, the new parent would assume financial responsibility for the organization, as PMH has – and often would commit to making some capital investment.

Further to this point, it is unlikely that Centurion will be in a position to offer material financial support, even if it would be willing to extend such support, considering:

- **Centurion's revenues** total \$15.6 million, which is negligible relative to the revenues of a health system. Their revenues exceeded expenses by only \$100,000; again, a negligible cash flow relative to what could be required to support a health system.
- **Centurion's balance sheet**, as of June 2023, showed over \$720 million of long-term bonds payable, merely \$265 million in restricted cash, and property and equipment value totaling \$474 million.

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<sup>60</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

- Centurion's current ratio is less than 1.0, indicating that it may struggle to meet short-term obligations, particularly if Centurion's existing projects are unable to make lease payments on time.
- o Additionally, as of January 15, 2024, Centurion has an outstanding debt principal balance of over \$1 billion across ten different financings, only some of which amortize while the rest require a bullet repayment.

## New CharterCARE System Leadership Team

The New CharterCARE System will be led and managed by the current CharterCARE team. While this will provide helpful continuity in operations, the current team has not historically managed to operate CharterCARE in a financially sustainable manner.

Outside of the change from for-profit to non-profit/tax-exempt status, it is not clear how circumstances will change such that the current team is able to accomplish this post-Proposed Transaction. With the exception of the benefits that would be achieved through conversion to a non-profit health system, the majority of the contemplated financial turnaround initiatives (discussed in the next section) could have been implemented historically. Mr. Liebman acknowledged [REDACTED] and, further, Mr. Liebman noted t [REDACTED].<sup>61</sup> As such, it remains unclear why these initiatives were not already implemented if they are operationally and financially feasible, and the current team is capable of implementation.

### Related Note - QHR Disengagement

The QHR assessment formed the foundation for many of the improvement initiatives that the Parties identified to support the financial turnaround for the New CharterCARE System.<sup>62</sup> However, QHR was disengaged from the Proposed Transaction. Additionally, when Mr. Liebman was questioned regarding this matter during the SUOs, [REDACTED].<sup>63</sup> Given that several initiatives were driven by QHR's assessment of the potential impact with their involvement, it raises the question of whether the New CharterCARE team will be able to execute the same results without QHR's guidance or involvement.

## Financial Turnaround

The Parties provided two main documents that describe the planned financial turnaround initiatives and estimated future financial performance of the New

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<sup>61</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>62</sup> "CharterCARE Health Partners Due Diligence and Assessment Summary." (21-R-C-CNT-PMH-004845-21-R-C-CNT-PMH-004864).

<sup>63</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

CharterCARE System: the CharterCARE Health System Transition Plan (“Transition Plan”)<sup>64</sup> and the EBITDA bridge (“EBITDA Bridge”).<sup>65</sup>

### The Transition Plan

The Transition Plan was developed in collaboration between Centurion and Mr. Liebman from CharterCARE, with the goal of identifying and developing plans to address and eliminate/mitigate business risks that either exist today or will exist as a result of the Proposed Transaction. The Transition Plan is positioned as a comprehensive risk assessment and identifies twelve risk areas and associated mitigating initiatives to be undertaken, with timelines.

There was no reference in the Transition Plan to the EBITDA Bridge (described below) other than certain clearly identifiable overlapping initiatives. There was no separate financial analysis or impact estimates provided in association with the Transition Plan. Further, estimated capital costs for the strategies identified in the Transition Plan were not provided. Therefore, we focused our financial feasibility analysis on the EBITDA Bridge.

### The EBITDA Bridge

The EBITDA Bridge is an estimate of the financial impact (measured by EBITDA impact) of various financial improvement initiatives across a three-year pro forma period (representing FY 2025 through 2027). The initiatives are classified into six categories: [REDACTED]

[REDACTED]. The EBITDA Bridge [REDACTED].

The EBITDA Bridge begins with a baseline EBITDA of negative [REDACTED], which was [REDACTED]. Pro Forma EBITDA during each of the three pro forma years is as follows:

- [REDACTED]
- [REDACTED] and [REDACTED]
- [REDACTED]

As the success of the Proposed Transaction, Proposed Financing, and the New CharterCARE System relies on the feasibility of the financial results estimated in the EBITDA Bridge, the EBITDA Bridge was a topic of focus during many of the SUOs, particularly those of Mr. Liebman and Mr. Ison. Without accomplishing the substantial financial turnaround set forth in the EBITDA Bridge, the New CharterCARE System will

<sup>64</sup> “CharterCARE Health System Transition Plan”. (CNT-PMH-013279-CNT-PMH-013331).

<sup>65</sup> “EBITDA Bridge with index.” (C-CNT-PMH-021909).



be unsustainable and fail to meet debt obligations while also violating anticipated DSCR and DCOH covenants.

Information and observations related to each of the initiatives are discussed in the following sections.

## CENTURION RELATED INITIATIVES

The Centurion related initiatives in the EBITDA Bridge include opportunities that are specific to operations under the Proposed Transaction or with Centurion as the non-profit parent of the New CharterCARE System. These include:

- Initiatives related to non-profit conversion, the impact of which will be influenced by the timing to receive tax-exempt status, which is still unclear as of the date of this report. Initiatives related to non-profit conversion (“**Non-Profit Initiatives**”) include:
  - Centurion NFP Conv-340B: The 340B drug pricing program allows covered entities to purchase outpatient drugs at a discount, which the Parties have estimated to be between 25 and 50 percent,<sup>66</sup> primarily on outpatient drugs related to oncology. The 340B pricing program is only available to non-profit organizations, which CharterCARE is not today but would become under the Proposed Transaction. The EBITDA Bridge represents the total expense reduction to be [REDACTED], [REDACTED] realized in Year 1. While the method for estimating the potential impact seems reasonable, the timing for realizing 340B benefits is still unclear (and thus the [REDACTED] [REDACTED]). Mr. Liebman noted [REDACTED] [REDACTED] [REDACTED] [REDACTED]. Others noted that [REDACTED],<sup>67</sup> [REDACTED] [REDACTED]. Delays in receiving 340B benefits would delay the timing of the financial impact of this initiative.<sup>68</sup> During his SUO, Mr. Mingle noted [REDACTED] [REDACTED] [REDACTED]. Veralon is not aware of whether the Parties have initiated actions to take this alternative approach or if the New CharterCARE System is able to fully realize the **Non-Profit Initiatives’** EBITDA impacts during the years specified in the EBITDA Bridge under this approach.
  - Centurion NFP Conv-Property Tax and Centurion NFP Conv-Sales Tax: This initiative depends upon the New CharterCARE System receiving tax-exempt status and represents the elimination of expenses associated with property and sale taxes that would be expected. The Parties estimate

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<sup>66</sup> Healthpolicy.usc.edu.

<sup>67</sup> Statements Under Oath – Ben Mingle. May 6, 2024 and May 10, 2024.

<sup>68</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

that this initiative will result in a \$3 million expense reduction once fully achieved. However, the actual savings for each municipality will be impacted by discussions with the municipalities; some may recognize full exemption, others may require a pilot program period where exemption is phased in to stabilize municipality cash flows.<sup>69</sup> While it is unclear how the \$3 million opportunity was explicitly determined, it does fall within the historical range of property and sales tax expenses. Further, the timing of the impact of this benefit will be impacted by a variety of factors:

- The timing for the New CharterCARE System to be granted tax-exempt status;
- The timing for discussions with each municipality; and
- The fact that the property tax exemption may not be effective until the next assessment year and likely would not relate back to the date of purchase.

While timing is uncertain, it is not unreasonable to think that it could take

[REDACTED]

- GPO Optimization: A Group Purchasing Organization (“GPO”) is a purchasing collective that aims to achieve savings through ordering in larger quantities. Currently, CharterCARE is a part of PMH’s systemwide GPO, Vizient. [REDACTED]

[REDACTED]

[REDACTED] Further, in the SUOs, Mr. Mingle was [REDACTED]

[REDACTED]<sup>70</sup> though the EBITDA Bridge indicates [REDACTED]

[REDACTED] However, [REDACTED]

[REDACTED]

[REDACTED]. [REDACTED]<sup>71</sup> [REDACTED]

[REDACTED]

Finally, it was indicated during Mr. Sabillo’s SUO [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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<sup>69</sup> Statements Under Oath – Ben Mingle. May 6, 2024 through May 7, 2024.

<sup>70</sup> Ibid.

<sup>71</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>72</sup> Statements Under Oath - Alfredo Sabillo. May 9, 2024.



- Corporate Allocation: The Corporate Allocation initiative in the EBITDA Bridge is reportedly entirely related to savings on IT chargebacks from PMH to CharterCARE. The Corporate allocation initiative is estimated to have a \$2 million cost reduction impact and to be achieved fully in Year 1 of the EBITDA Bridge. During SUOs, Mr. Ison<sup>73</sup> and Mr. Liebman<sup>74</sup> both said outside consulting services may be necessary to achieve this initiative. Further, there are capital costs that will be required to implement the IT changes and separate the New CharterCARE System from PMH. These costs are not reflected in the EBITDA Bridge.<sup>75</sup>

## REVENUE CYCLE INITIATIVES

The revenue cycle initiatives in the EBITDA bridge include various financial opportunities related to different elements of revenue cycle improvement. PMH recently engaged Alvarez & Marsal (“A&M”) to identify and implement revenue cycle improvement initiatives, many of which are believed to be reflected in the revenue cycle initiatives in the EBITDA Bridge.

- [REDACTED] Interim CharterCARE CFO, Ms. Arriera, stated [REDACTED].<sup>76</sup> As such, [REDACTED]. However, Mr. Ison notes [REDACTED].<sup>77</sup> On this point, Mr. Liebman [REDACTED].<sup>78</sup> Currently, C [REDACTED]. Finally, i [REDACTED].
- [REDACTED] The C [REDACTED]. Mr. Liebman stated [REDACTED].<sup>79</sup> PMH has started i [REDACTED]. Ms. Arriera [REDACTED].

<sup>73</sup> Statements Under Oath – Dan Ison. May 13, 2024.

<sup>74</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>75</sup> Ibid.

<sup>76</sup> Statements Under Oath – Cici Arriera. May 8, 2024.

<sup>77</sup> Statements Under Oath – Dan Ison. May 13, 2024.

<sup>78</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>79</sup> Ibid.

[REDACTED]  
[REDACTED],<sup>81</sup> [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]: The [REDACTED]  
[REDACTED]  
[REDACTED] Mr. Liebman [REDACTED]  
[REDACTED],<sup>82</sup> [REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]: A&M found that [REDACTED]  
[REDACTED]  
[REDACTED] Mr. Liebman stated [REDACTED]  
[REDACTED],<sup>83</sup> [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] Finally, similar to [REDACTED], Ms. Arriera  
noted t [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]<sup>84</sup>

REIMBURSEMENT INITIATIVES

Reimbursement initiatives in the EBITDA Bridge include opportunities for enhanced reimbursement rates or other forms of revenue from government and commercial payers.

- Enhanced DSH Payments: Disproportionate Share Hospital (“DSH”) payments are determined by formulas submitted by the state to the federal government related to the amount of Medicaid patients a hospital treats. Mr. Liebman stated that the state legislature has already verified a DSH additional revenue of \$3.4 million – expected in July of 2024.<sup>85</sup> [REDACTED]  
[REDACTED]

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<sup>80</sup> Statements Under Oath – Cici Arriera. May 8, 2024.  
<sup>81</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>82</sup> Ibid.  
<sup>83</sup> Ibid.  
<sup>84</sup> Statements Under Oath - Cici Arriera. May 8, 2024.  
<sup>85</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.



redacted. Further, it is unclear whether future DSH payments will remain at Year 1 levels, given targeted overall reductions in DSH funding. As such, the future year DSH levels incorporated into the EBITDA Bridge are speculative.

- Medicare Rate Increase – Inpatient: This initiative refers to an expected rate increase from Medicare. The initiative is redacted. Veralon notes that Ms. Arriera r redacted. <sup>86</sup> Finally, redacted.
- redacted: While this initiative is labeled as redacted “ it is rather related to increasing the staffed behavioral health beds at the System. redacted, stated by Mr. Liebman, redacted. <sup>87</sup> According to the Transition Plan, redacted. Mr. Liebman stated redacted. <sup>88</sup>
- redacted: This initiative involves implementing redacted. <sup>89</sup> The initiative is projected to be achieved fully in Year 1, w redacted. The financial impact redacted. Mr. Liebman noted redacted. <sup>90</sup>

## VOLUME/SERVICES INITIATIVES

Volume/Services initiatives relate to opportunities to enhance volumes in different specialty areas.

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<sup>86</sup> Statements Under Oath - Cici Arriera. May 8, 2024.

<sup>87</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>88</sup> Ibid.

<sup>89</sup> Ibid.

<sup>90</sup> Ibid.

- [REDACTED]; This initiative refers to the [REDACTED]  
[REDACTED]  
[REDACTED]  
According to Mr. Liebman, [REDACTED]  
[REDACTED]  
[REDACTED]<sup>91</sup> [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- [REDACTED]; [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] According to Mr. Ison [REDACTED].<sup>92</sup>
- [REDACTED] [REDACTED] [REDACTED]  
[REDACTED] [REDACTED] Mr. Ison  
noted [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] However, [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] Mr. Liebman  
stated [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

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<sup>91</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>92</sup> Statements Under Oath – Dan Ison. May 13, 2024.  
<sup>93</sup> Ibid.  
<sup>94</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.





recruited spine physician is estimated to contribute \$275,000 in EBITDA. While the initiative details notes that a second spine physician will be recruited in Year 2, neither the Year 2 nor Year 3 pro forma reflect the impact of the second physician.

- [REDACTED]: This initiative refers [REDACTED]  
[REDACTED]  
[REDACTED] The EBITDA Bridge [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- [REDACTED]: The [REDACTED] initiative [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] Mr. Liebman stated t [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- [REDACTED]: The [REDACTED]  
[REDACTED] t. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] although Mr.  
Liebman stated t [REDACTED]  
[REDACTED]<sup>102</sup> E [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- [REDACTED]: T [REDACTED] [REDACTED]  
[REDACTED] Mr. Liebman noted [REDACTED]<sup>103</sup>  
[REDACTED]  
T [REDACTED]  
[REDACTED]

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<sup>100</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>101</sup> Ibid.  
<sup>102</sup> Ibid.  
<sup>103</sup> Ibid.



[REDACTED]

- [REDACTED]

- [REDACTED] Mr. Liebman stated [REDACTED]<sup>105</sup> However, the [REDACTED]

## WORKFORCE INITIATIVES

Workforce initiatives relate to financial opportunities to reduce staffing levels and associated expenses.

- [REDACTED] T [REDACTED] Mr. Liebman states [REDACTED]

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<sup>104</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>105</sup> Ibid.

<sup>106</sup> Ibid.

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] and Ms. Arriera questioned [REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]: T [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]: T [REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]: [REDACTED], according to Mr. Liebman, [REDACTED].<sup>108</sup>  
[REDACTED]  
According to Mr. Liebman, [REDACTED].  
[REDACTED]<sup>109</sup> T [REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]: T [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]: T [REDACTED]  
[REDACTED] Now,  
Mr. Liebman [REDACTED]  
[REDACTED]. T [REDACTED]  
[REDACTED]  
[REDACTED]

---

<sup>107</sup> Statements Under Oath - Cici Arriera. May 8, 2024.

<sup>108</sup> Statements Under Oath - Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>109</sup> Ibid.



[REDACTED]

EXPENSE REDUCTION INITIATIVES

- [REDACTED] ): [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] According to Mr. Liebman, [REDACTED]  
[REDACTED]<sup>110</sup> [REDACTED]  
[REDACTED]  
[REDACTED] Mr. Liebman supported the accuracy [REDACTED]  
[REDACTED]<sup>111</sup> Mr. Liebman  
a [REDACTED]  
[REDACTED]<sup>112</sup>
- Dental Clinic: The Dental Clinic initiative refers to **divestiture of CharterCARE's** dental clinic to a Federally Qualified Health Center, which closed December 2023.<sup>113</sup> [REDACTED]  
[REDACTED]<sup>114</sup> [REDACTED]  
[REDACTED] Mr. Ison noted t [REDACTED]  
[REDACTED]
- V [REDACTED]  
[REDACTED]  
[REDACTED] Mr. Liebman stated [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- [REDACTED], according to Mr. Liebman,  
[REDACTED]  
[REDACTED]<sup>115</sup> [REDACTED]  
[REDACTED] Mr. Liebman  
stated that [REDACTED]  
[REDACTED]

---

<sup>110</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>111</sup> Ibid.  
<sup>112</sup> Ibid.  
<sup>113</sup> Ibid.  
<sup>114</sup> Ibid.  
<sup>115</sup> Statements Under Oath – Dan Ison. May 13, 2024.  
<sup>116</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>117</sup> Statements Under Oath – Dan Ison. May 13, 2024.  
<sup>118</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>119</sup> Ibid.



[REDACTED]  
[REDACTED]<sup>120</sup>

• [REDACTED]  
[REDACTED]<sup>121</sup>  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

• R [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

• [REDACTED]  
[REDACTED]  
[REDACTED] Mr. Liebman [REDACTED]  
[REDACTED]  
[REDACTED]

• C [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] However, as  
confirmed by Mr. Ison, [REDACTED]  
[REDACTED]<sup>122</sup>

• [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

• P [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] as confirmed by Mr. Ison, [REDACTED]  
[REDACTED]

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<sup>120</sup> Statements Under Oath – Dan Ison. May 13, 2024.

<sup>121</sup> Ibid.

<sup>122</sup> Ibid.

[REDACTED]<sup>123</sup>

- [REDACTED]: Mr. Liebman admitted [REDACTED] and deferred to Mr. Ison.<sup>124</sup> Mr. Ison [REDACTED].
- [REDACTED] T [REDACTED] Mr. Ison noted [REDACTED]<sup>126</sup>
- [REDACTED]: T [REDACTED] Mr. Ison noted [REDACTED]<sup>128</sup> He also noted [REDACTED]
- [REDACTED]: [REDACTED] Mr. Liebman confirms [REDACTED]<sup>130</sup> Further, Mr. Ison notes [REDACTED]<sup>131</sup> Mr. Liebman asserted [REDACTED]<sup>132</sup> h [REDACTED]

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<sup>123</sup> Statements Under Oath – Dan Ison. May 13, 2024.  
<sup>124</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>125</sup> Statements Under Oath – Dan Ison. May 13, 2024.  
<sup>126</sup> Ibid.  
<sup>127</sup> Ibid.  
<sup>128</sup> Ibid.  
<sup>129</sup> Ibid.  
<sup>130</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.  
<sup>131</sup> Statements Under Oath – Dan Ison. May 13, 2024.  
<sup>132</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

[REDACTED]  
[REDACTED] S.

## OTHER CONSIDERATIONS AND FINDINGS

- **Costs to Return Centralized Services to Local Team:** CharterCARE will need to fully support its own operations, including the provision of all centralized services previously provided by PMH. Despite repeated requests, the Parties did not produce a detailed accounting of the estimated cost to provide the current PMH services locally, nor a comparison of estimated go-forward costs compared to historical. Given the typical theory that centralizing creates cost efficiency through economies of scale, it is likely that there will be expense reduction associated with transitioning all services to local operations.
- **Exclusion of Centurion Management Fee:**<sup>133</sup> The EBITDA Bridge does not account for the monthly fee to be paid to Centurion of \$62,500 which is to be increased yearly by the Consumer Price Index for All Urban Consumers.
- **Recruitment Timing Risk:** Throughout the EBITDA Bridge, there are initiatives that depend upon the successful and efficient recruitment of physicians, nurses, and staff. In the current labor market, especially for provider recruitment, is a widespread challenge. Reportedly, physician recruitment is a particular challenge in Rhode Island. The feasibility of recruitment-dependent initiatives should consider recruitment risk.
- **Lack of Capital Expense Budget:** The Parties have yet to provide a comprehensive view of the capital expenditures that will be required to support execution of the separation from PMH and implementation of the EBITDA Bridge initiatives and Transition Plan. Without this information, assessing the sufficiency of the cash that will be on the balance sheet at closing is challenged.

### Overall Findings

The financial estimates provided in the EBITDA Bridge cannot be accepted as a reasonably accurate representation of future financial performance for the reasons noted throughout the discussion of the individual initiatives and additional observations, which include:

- **Timing:** The timing of certain initiatives, including the Non-Profit Initiatives and many of the volume/service-related initiatives may not consider approval **timelines, “ramp up,” and/or other considerations that would impact the timing** of initiative implementation and the associated financial impact. Given the importance of the EBITDA Bridge to the overall feasibility of the Proposed Transaction, the implementation timeline should be reconsidered and refined.
- **Challenges with Validating the Accuracy of the EBITDA Bridge Initiatives, including:**

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<sup>133</sup> “Corporate Services Agreement”. 20-CNT-PMH-021830 – 20-CNT-PMH-021836.

- Exclusion of various (direct and indirect) revenues or expenses that impact EBITDA, specific to certain initiatives, s [REDACTED] [REDACTED] [REDACTED] as well as areas not considered in the EBITDA Bridge, including the [REDACTED] [REDACTED] additionally, Mr. Liebman confirmed [REDACTED] [REDACTED],<sup>134</sup>
- [REDACTED] [REDACTED]
- Lack of supporting detail to substantiate revenue, expense, and EBITDA impact estimates for certain initiatives, [REDACTED] [REDACTED];
- Incorrect spreadsheet calculation related to the [REDACTED];
- [REDACTED] [REDACTED] [REDACTED]n; and
- Inability to reconcile between baseline and future impact for initiatives that have been implemented. Some of the financial impact for various initiatives that have already been implemented may be reflected in the baseline financial performance, and thus may limit the incremental financial impact beyond what is seen in baseline recent performance.
- New CharterCARE System Leadership Team May Lack Key Expertise: Mr. Liebman stated during SUOs t [REDACTED] [REDACTED] [REDACTED]<sup>135</sup> OHR no longer being a part of the Proposed Transaction, paired with some uncertainty regarding the OHR-developed initiatives (both cost and time horizon), may indicate a certain level of risk associated with the turnaround initiatives. Finally, as many initiatives could have been implemented without the Proposed Transaction and Centurion, but were not, the rationale for that should be understood in the context of evaluating the proposed New CharterCARE **leadership team’s ability** to execute the turnaround.
- Capital Costs not Considered: It is unclear how much capital will be required to separate from PMH, implement the Transition Plan and EBITDA Bridge Initiatives, and meet routine capital needs. Validating the feasibility of the forward-looking financial estimates in the EBITDA Bridge requires ensuring that the System will be able to fund the capital required to implement and operate.

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<sup>134</sup> Statements Under Oath – Jeffrey Liebman. May 14, 2024 through May 15, 2024.

<sup>135</sup> Ibid.

If the Proposed Transaction is approved, the Parties will need to substantiate the forecasted performance in a feasibility analysis to support Proposed Financing; it is unlikely that the estimates provided will be accepted without revision.

## Financing Feasibility

### Barclays Proposed Financing Overview

Barclays developed a preliminary financing analysis (the Barclays Analysis)<sup>136</sup> to facilitate planning related to the Proposed Financing for the Proposed Transaction. The Barclays Analysis **presented two different financing scenarios (the "Financing Scenarios")** and outlined the key assumptions and dependencies upon which the Proposed Financing would rely.

### FINANCING SCENARIOS

The Financing Scenarios are described as follows:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

<sup>136</sup> "Project Ocean Financing Analysis, February 2024 Update." (C-CNT-PMH-0211849-C-CNT-PMH-021864).



o P [REDACTED]

## KEY FINANCING ASSUMPTIONS

Key assumptions, relevant to both Financing Scenarios include:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

## Financing Risks

Veralon highlights the following risks related to the Proposed Financing:

- Achievement of EBITDA Bridge and Transition Plan: Barclays has not independently audited or confirmed the accuracy of the underlying data provided and has relied on **the Parties' representations that** the data is accurate and correct.<sup>137</sup> Barclays has stated that the viability of their Proposed Financing is dependent on the New CharterCARE **System's future financial results** provided by the Parties and a financial feasibility study performed by a credible independent third party is required to test the feasibility of the Proposed Financing and underlying financial inputs.<sup>138</sup> Therefore, the Proposed Financing

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<sup>137</sup> "Project Ocean Financing Analysis, February 2024 Update." (C-CNT-PMH-0211849-C-CNT-PMH-021864).

<sup>138</sup> Statements Under Oath - Joseph Hegner. May 13, 2024.

is contingent on achievement of the EBITDA Bridge and Transition Plan initiatives, which drive the free cash flows necessary to support the debt service of the Proposed Financing. In the event these turnaround initiatives and financial impact do not materialize, the New CharterCARE System will not be able to sustain operations and will need to undergo significant restructuring of existing debt.

- Interest Rate Volatility and Spread: Veralon believes that the interest rates assumed in the Barclays Analysis (between [REDACTED] percent) are too low, based on experience with other bond financed transactions currently taking place in the healthcare market. Veralon has also not independently verified the feasibility of obtaining a BB credit rating. In the event that the Proposed Financing is unable to obtain a BB rating, interest rates may be adjusted upwards or downwards to address the perceived risk of the Proposed Transaction; any interest rate fluctuations would impact debt service and/or the amount that is able to be raised.
- Payment of Bullet Bond: Under the current Proposed Financing, the New CharterCARE System will need to pay off the [REDACTED] in taxable bond in its entirety in 2034. The New CharterCARE System may seek to refinance at that time; however, refinancing is not a guarantee. In the event they are unable to secure refinancing, this will be a daunting lump sum payment for the New CharterCARE System, which they may not be able to fulfill.
- Use and Transfer of PACE Loans: Veralon has not received additional details surrounding the current outstanding PACE loan balance nor the current remaining balance available on the PACE loan. We are unable to determine if the projects identified in Appendix A of the November 14, 2023 resubmitted HCA<sup>139</sup> are qualifying expenses that can be funded with PACE funds and will be approved. Additionally, no analysis on whether the PACE loans can be assumed by the New CharterCARE System as a part of the Proposed Financing has been submitted by the Parties.
- Centurion Not Part of Obligated Group: As previously mentioned, Centurion will not be assuming any financial liability or risk related to the New CharterCARE System. Therefore, the New CharterCARE System will be solely responsible for paying debt service and meeting debt covenants and will receive no support from its parent company, Centurion, in the event it is unable to make payments or at the risk of default.
- Marketability of Proposed Financing to Investors: According to Mr. Hegner (Managing Director at Barclays) w [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]<sup>140</sup> Barclays is still early in the financing process and have not stress tested the credibility of the assumptions or presented to potential investors. [REDACTED]

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<sup>139</sup> "CCHP FY23 Capital Budget Three Year Plan." A-R-CNT-PMH-003124 - A-R-CNT-PMH-003128.

<sup>140</sup> Statements Under Oath - Joseph Hegner. May 13, 2024.



[REDACTED]. However, if the feasibility finds the New CharterCARE System cannot achieve the turnaround initiatives and generate free cash flow to service the debt on a go-forward basis, this deal will not be financeable in the marketplace.

- **VMG Valuation and Proposed Financing:** The size of the anticipated Bond issue is a function of Barclays's understanding of the FMV of CharterCARE's assets, which ranged from \$139 million to \$161 million. That understanding is rooted in the VMG valuation analysis with a valuation date as of February 14, 2023, which employs the full impact of management's EBITDA Bridge initiatives as the basis for their valuation conclusion. As previously discussed, the stale age of the valuation and the vital importance of the high-speculative financial impact of the EBITDA Bridge initiatives present a risk that the concluded VMG FMV is not representative of the current FMV of CharterCARE. The valuation analysis will need to be updated in relation to the feasibility study required for the Proposed Financing.<sup>141</sup> Therefore, according to Mr. Hegner, if the valuation comes back significantly different, the feasibility of the Proposed Financing will need to be reconsidered.<sup>142</sup>

## Cash Flow Scenario Analysis

Veralon developed high-level, illustrative cash flow analyses for the twelve quarters following the Proposed Transaction's closing under various scenarios; the purpose of which are to inform the AG's understanding of the New CharterCARE System's post-Proposed Transaction cash position. As previously noted, the degree to which management will be successful in achieving the financial impact anticipated by the EBITDA Bridge is unproven. Any estimates of impact related to the EBITDA Bridge at this point in time are inherently speculative. However, the financial viability of the Proposed Transaction will be a direct function of the financial performance of the New CharterCARE System post-closing.

Therefore, Veralon developed four high-level three year cash flow scenario analyses (the "Cash Flow Scenarios") to help illustrate the New CharterCARE System's hypothetical cash position, DSCR, and DCOH under different scenarios with respect to realization of the EBITDA Bridge initiatives and operating cash flow. In each Cash Flow Scenario, we have mostly incorporated the key Proposed Financing assumptions related to Financing Scenario One, which includes a CAPI fund. We focused our analysis on Financing Scenario One because we agree with Barclays's recommendation to defer amortization of debt and funding DSRF and CAPI funds to alleviate cash flow pressure during the turnaround period.<sup>143</sup>

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<sup>141</sup> Statements Under Oath - Joseph Hegner. May 13, 2024.

<sup>142</sup> Ibid.

<sup>143</sup> "Project Ocean Financing Analysis, February 2024 Update." (C-CNT-PMH-0211849-C-CNT-PMH-021864).

# Operating Cash Flow Scenarios

The four Cash Flow Scenarios varied based on the assumed operating cash flows and are described as follows:

- Cash Flow Scenario One: Scenario One essentially reflects status quo operations, with no EBITDA Bridge initiative impact. **redacted**  
[Redacted text block]

- Cash Flow Scenario Two: Scenario Two reflects the same assumptions as Scenario One, but also includes the positive EBITDA impact of certain Non-Profit Initiatives (the "Non-Profit Initiatives EBITDA"), but no other EBITDA Bridge initiatives. **redacted**  
[Redacted text block]



- Cash Flow Scenario Three: Scenario Three essentially reflects a delay in EBITDA Bridge initiative impact until quarter four. **redacted**  
[Redacted text block]

<sup>144</sup> "EBITDA Bridge." (C-CNT-PMH-012885).  
<sup>145</sup> "CharterCARE Network, Statement of Operations, March 2024." (C-CNT-PMH-021866).

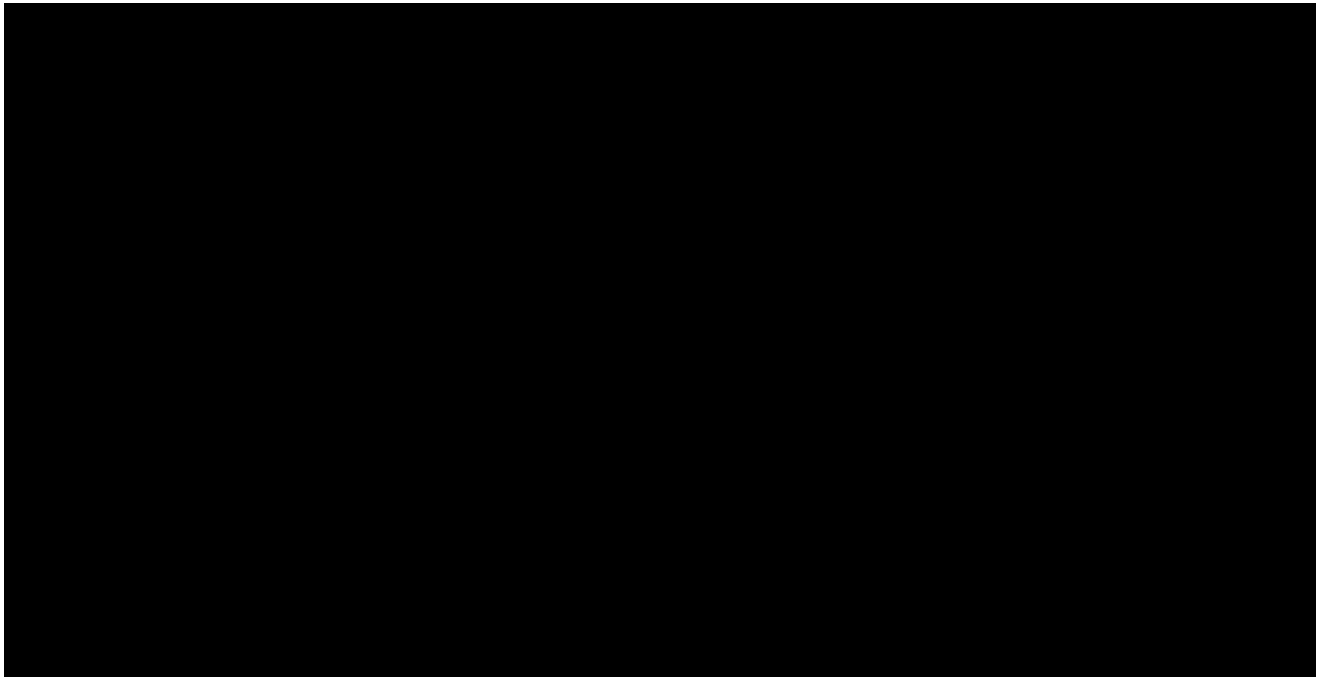


redacted

- Cash Flow Scenario Four: Scenario Four essentially reflects full EBITDA Bridge impact achievement similar to what the Parties have projected and has been used as the basis of Barclays's Proposed Financing. redacted

redacted

A summary of EBITDA, total CapEx (which includes routine and Initiative CapEx), and operating expenses by year for each of the Cash Flow Scenarios is presented in Table 14.



<sup>146</sup> \$15.7 million / 4 quarters = \$3.9 million.

<sup>147</sup> \$21.2 million / 4 quarters = \$5.3 million.

<sup>148</sup> \$28.0 million / 4 quarters = \$7.0 million.

## Investing and Financing Cash Flow Assumptions

In conducting our net cash flow analyses, Veralon made the following assumptions, which applied to all Cash Flow Scenarios:

- Centurion Management Fee of \$750,000 per year;
- Taxable and tax-exempt bond interest rates will be 0.75 percentage points higher than those assumed by Barclays, based on **Veralon's consideration of** current market conditions and the operational health of CharterCARE. The taxable Bonds interest rate was increased from [REDACTED] percent and the tax-exempt Bonds interest rate was increased from [REDACTED] percent;
- Interest earned on the DSCR and CAPI funds of three percent per annum;
- Outstanding PACE loans would be repaid based on the aggregate debt service schedule provided by Barclays;<sup>149</sup>
- **No incremental "draw down" on PACE funding**/additional PACE loans were assumed, as we were unable to determine if any funds would be approved for use in the next three years;
- Quarterly payments to a sinking fund for interest and principal payments on the PACE loans and taxable and tax-exempt Bonds;
- Draws on the CAPI fund for interest payments;
- **Routine Capital Expenditures ("CapEx") of \$13.6 million per year**, based on the FY 2025 Capital Budget<sup>150</sup> (separate from any noted incremental initiative related CapEx assumed for the Scenarios);
- One-time up-front acquisition fee paid to Centurion of \$800,000; and
- **Master Trust Indenture ("MTI") required minimum ratios/covenants to avoid default:**
  - Minimum DCOH of 75 days;
    - DCOH is a measure of liquidity and represents the number of days a company can continue to cover operating expenses using its cash on the balance sheet without any additional influx of funds or revenue;
  - Minimum DSCR of 1.25X; and
    - DSCR is a **measure of a company's ability to service annual interest and principal debt obligations** with its available operating cash flow. It is an important metric to determine whether a business generates sufficient income to pay off its liabilities.

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<sup>149</sup> "Aggregate Debt Service." (C-CNT-PMH-021847-C-CNT-PMH-021848).

<sup>150</sup> "CCHP FY23 Capital Budget Three Year Plan." A-R-CNT-PMH-003124 - A-R-CNT-PMH-003128.

## Cash Flow Analysis Results

Results of the cash flow analysis for each Cash Flow Scenario are shown in Appendices A through D and are summarized as follows:

- Cash Flow Scenario One: redacted  
redacted  
redacted  
redacted. See Appendix A for details.
- Cash Flow Scenario Two: redacted  
redacted  
redacted  
redacted. See Appendix B for detail.
- Cash Flow Scenario Three: redacted  
redacted  
redacted  
redacted. See Appendix C for details.
- Cash Flow Scenario Four: redacted  
redacted  
redacted  
redacted. See Appendix D for detail.

## Cash Flow Analysis Findings

Veralon’s findings related to the cash flow analysis is as follows:

- Achievement of EBITDA Bridge is Critical: The analysis above highlights the importance of realizing the significant and quick financial turnaround that is reflected in the EBITDA Bridge. Every quarter that the **EBITDA Bridge’s** Pro Forma EBITDA fails to materialize will add significant strain to the New CharterCARE System’s cash position.
- redacted redacted  
redacted  
redacted. This is a major turnaround, and the Turnaround Initiatives section of this report describes a number of considerations and factors that raise questions related to the accuracy and achievability of the modeled turnaround and associated timing.
- redacted  
redacted  
redacted



redacted

If technical default were to occur and not be cured, the consequences would likely be significant. Typically, when these default instances are triggered, investors are provided with a variety of measures intended to set the stage for significant restructuring of not just the financing, but also the management and governance of the borrower, in this case the New CharterCARE System.<sup>151</sup>

- Insufficient Cash Reserve: The anticipated \$80 million Cash Balance at Closing to be derived from the Proposed Financing is insufficient to cover all operating losses, critical transitional and capital investment needs, debt service on the Bonds, and any unforeseen changes in net working capital needs (which were not in this high-level cash flow analysis) in any of the Cash Flow Scenarios, while also allowing the New CharterCARE System to avoid technical default. The degree of insufficiency varies substantially based on the Cash Flow Scenario operating cash flow results. redacted

redacted

Determining the degree of insufficiency of the cash reserve at closing will require a more in-depth study of the feasibility of the financial turnaround in the EBITDA Bridge and Barclays Analysis.

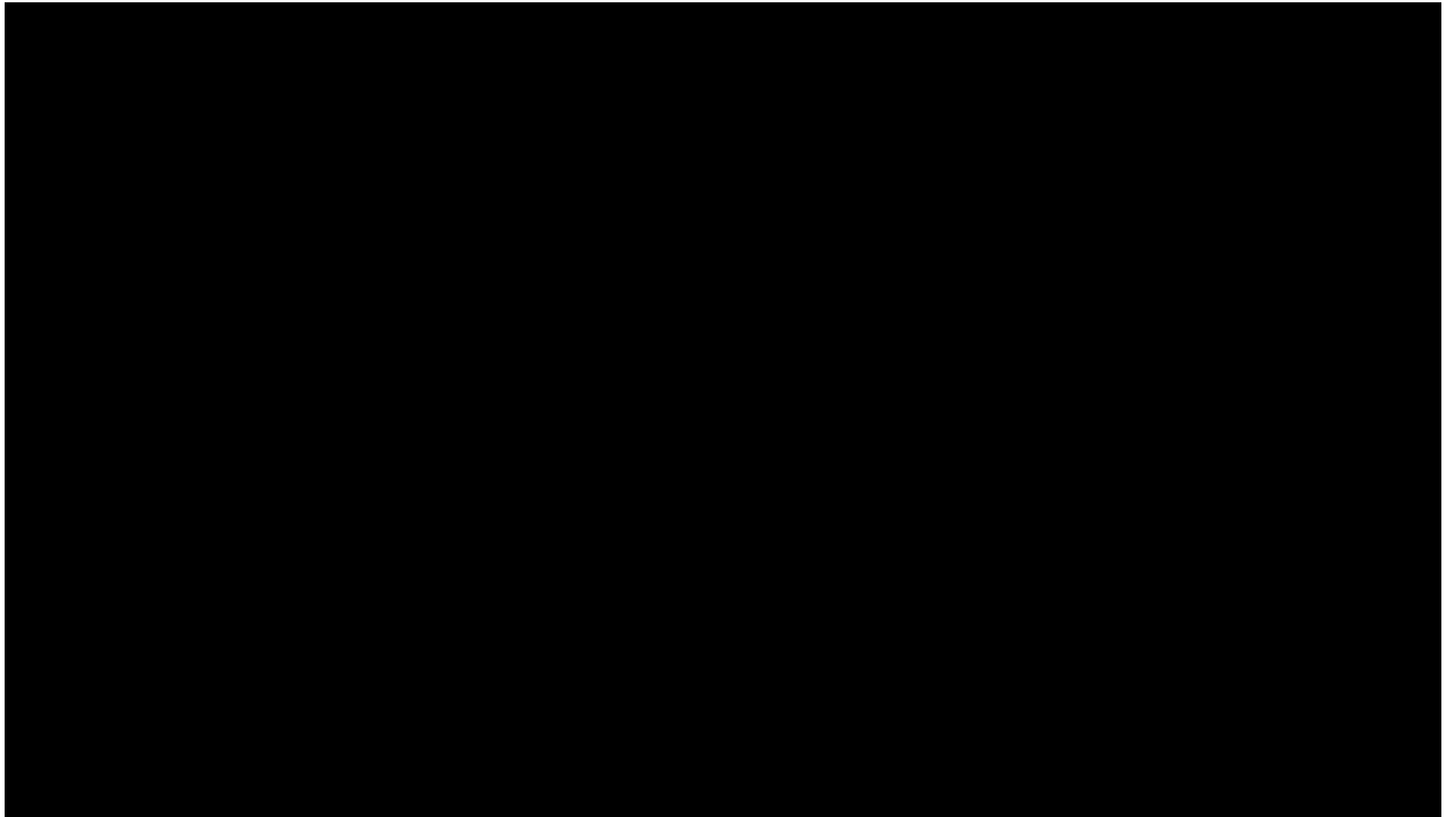
- redacted

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<sup>151</sup> Statements Under Oath - Joseph Hegner. May 13, 2024.

<sup>152</sup> Ibid.

## APPENDIX A





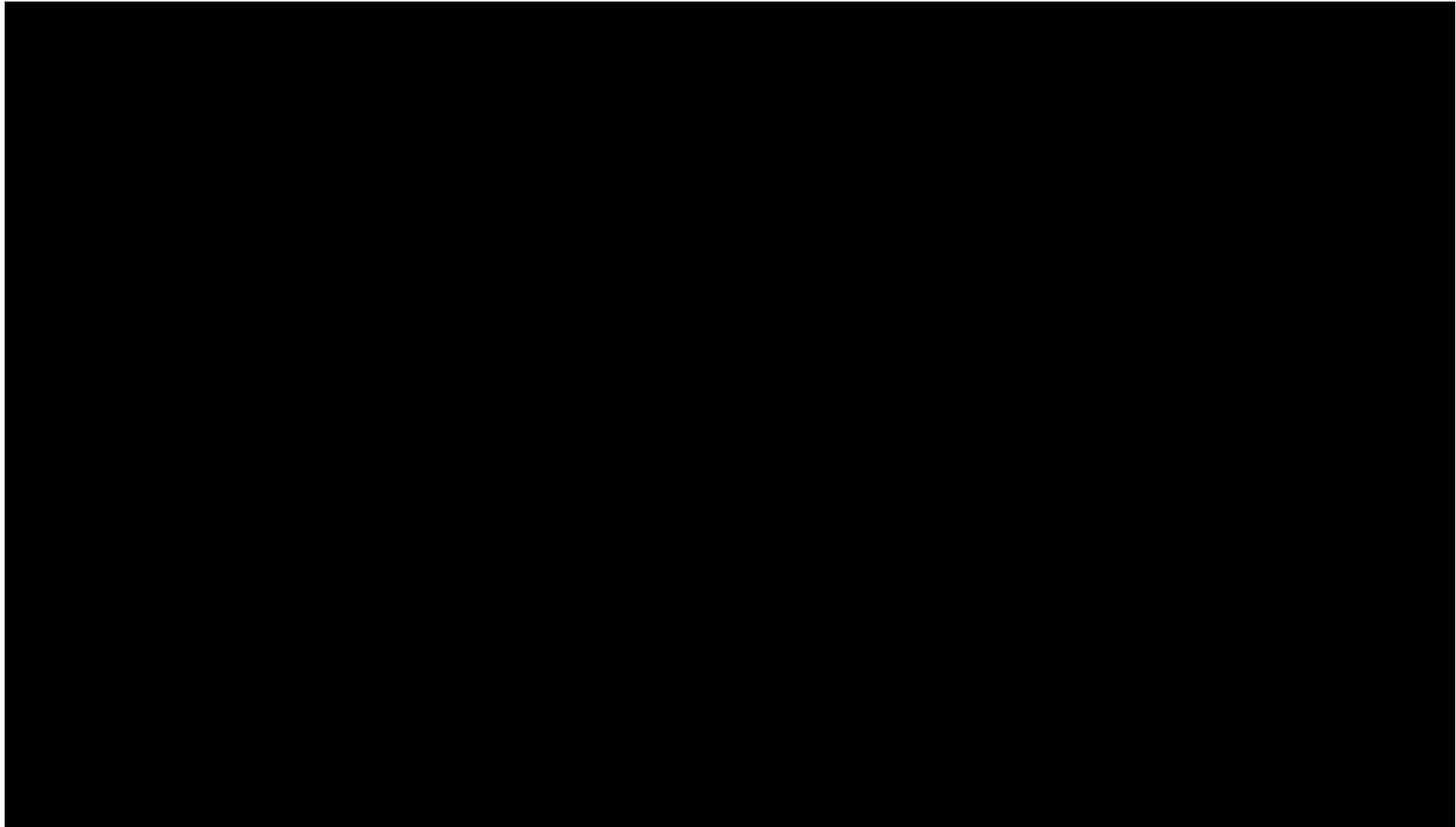


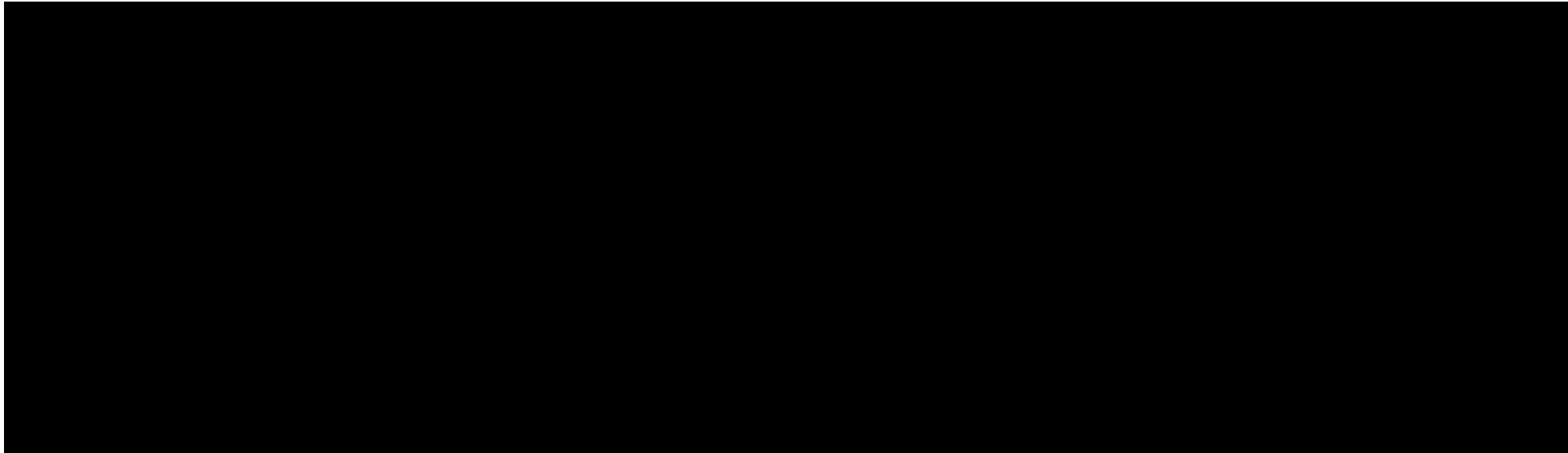
APPENDIX B



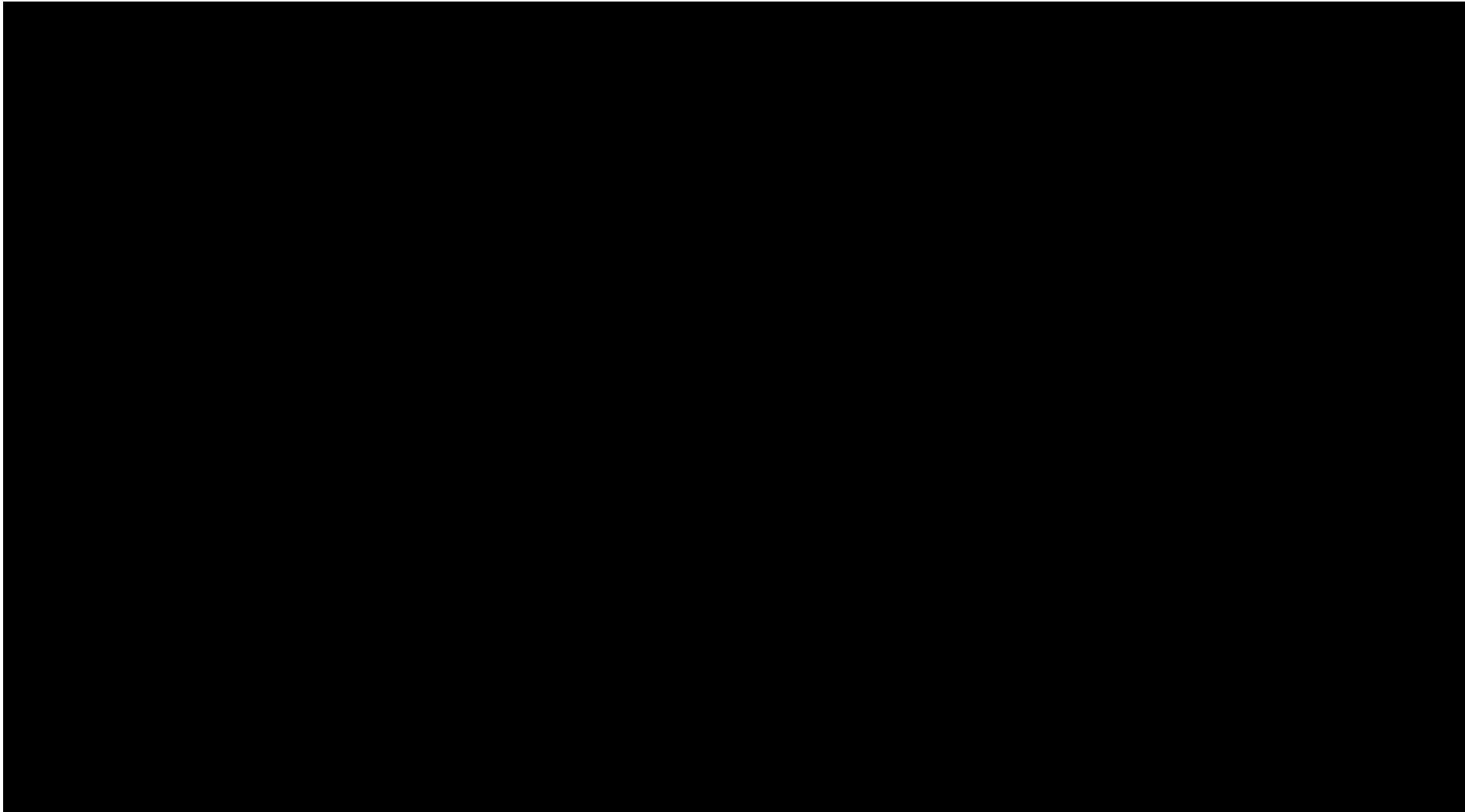


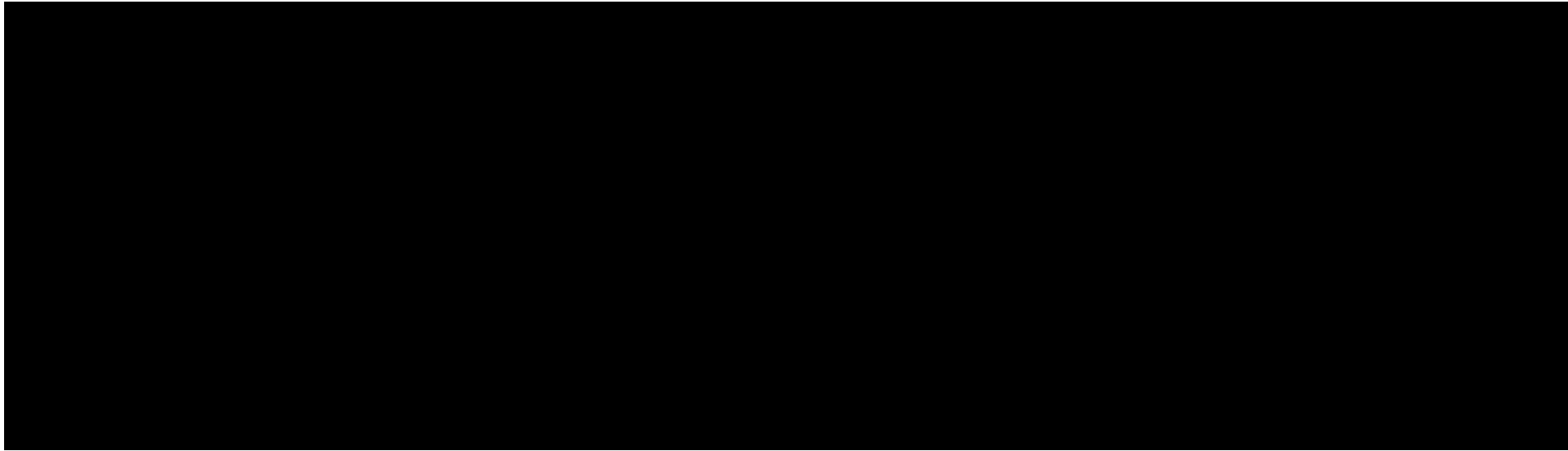
APPENDIX C





## APPENDIX D





## APPENDIX E: PLC REPORT

**Hypothetical Fair Market Value Report of the Real Property and  
Machinery and Equipment Pertaining to Prospect CharterCare LLC**

**Prepared For:**



**Veralon Partners, Inc.**

**As of April 1, 2024**

**Prepared by:**

**PORTO LEONE CONSULTING, LLC  
1220 Valley Forge Road, Unit 8  
Phoenixville, Pennsylvania 19460**



**PORTO LEONE CONSULTING, LLC**  
**Corporate Valuation, Appraisal, and Cost Segregation Services**

May 21, 2024

Ms. Danielle Bangs, MHA, CVA  
Director  
Veralon Partners, Inc.  
Three Bala Plaza West, Suite 702  
Bala Cynwyd, PA 19004

Dear Ms. Bangs:

Veralon Partners, Inc. ("Veralon") retained Porto Leone Consulting, LLC ("PLC") to render an opinion as to the hypothetical Fair Market Value ("FMV") of certain Real Property ("RP", the "Subject(s)", or the "Properties") and Machinery and Equipment (the "M&E") pertaining to Prospect CharterCare LLC ("Prospect", the "Seller", or the "Hospitals"). The RP and ME will collectively be called the "Subject Assets" or "Tangible Property". We understand that the Rhode Island Attorney General's Office ("RI" or "AG") and Veralon will utilize our hypothetical conclusions as one part of a review of the proposed purchase price between Prospect and The Centurion Foundation, Inc. ("Centurion" or the "Buyer") as of April 1, 2024 (the "Valuation Date").

We were not engaged to make specific purchase or sale recommendations. Our work was designed solely to provide information that will allow management's advisors to make an informed decision.

Our valuation is intended to conform to Uniform Standards of Professional Appraisal Practice ("USPAP") of The Appraisal Foundation. The information contained in this document and attachments is an appraisal report and is intended to comply with the requirements set forth under Standards Rule 2-2 and 8-2 of USPAP. It presents limited discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the estimate of Hypothetical Fair Market Value. Supporting documentation concerning the data, reasoning, and analyses is retained in PLC's files.

For the purposes of this engagement, Fair Market Value is defined by the American Society of Appraisers as an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date and assuming that the business earnings support the value reported, without verification.

We know that economic obsolescence will apply to the Subject Assets and that our hypothetical conclusions will be reduced by this amount. Without a business enterprise valuation to substantiate this adjustment our premise to value is defined in USPAP as a hypothetical assumption.

This hypothetical value includes an assumption of an "In Use" premise that is based upon sufficient cash flow is available to the operating business occupying the real property asset and operating the equipment to support the FULL replacement cost new less physical depreciation.

Ms. Danielle Bangs  
May 21, 2024  
Page 2

It is our understanding that based upon the expected purchase price that sufficient profitability does not exist.

Although we viewed the RP from the exterior, we have not conducted a detailed physical inspection of the RP. We also did not inspect a representative sample or conduct a physical inventory of the M&E as it was not included in the scope of this engagement. This valuation has been conducted on a desktop basis and this may have an impact on our valuation conclusions.

Based on our investigation and analysis as described in the report, subject to the assumptions and limiting conditions specified in the report, it is our opinion that the hypothetical Fair Market Value of the Real Property and Machinery and Equipment as of the Valuation Date is reasonably represented in aggregate as:

**One Hundred Twenty-One Million Dollars  
(\$121,000,000)**

Very truly yours,

*Preliminary and Tentative – For Discussion Purposes Only*

Porto Leone Consulting, LLC

**HYPOTHETICAL FAIR MARKET VALUE REPORT OF THE  
REAL PROPERTY AND MACHINERY AND EQUIPMENT  
PERTAINING TO PROSPECT CHARTERCARE LLC**

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## **A. EXECUTIVE SUMMARY**

### **1. Introduction**

Veralon Partners, Inc. (“Veralon”) retained Porto Leone Consulting, LLC (“PLC”) to render an opinion as to the hypothetical Fair Market Value (“FMV”) of certain Real Property (“RP”, the “Subject(s)”, or the “Properties”) and Machinery and Equipment (the “M&E”) pertaining to Prospect CharterCare LLC (“Prospect”, the “Seller”, or the “Hospitals”). The RP and ME will collectively be called the “Subject Assets” or “Tangible Property”. We understand that the Rhode Island Attorney General’s Office (“RI” or “AG”) and Veralon will utilize our hypothetical conclusions as part of a review of the proposed purchase price of Prospect between Prospect and The Centurion Foundation, Inc. (“Centurion” or the “Buyer”) as of April 1, 2024 (the “Valuation Date”).

We were not engaged to make specific purchase or sale recommendations. Our work was designed solely to provide information that will allow management to make an informed decision.

Our valuation is intended to conform to Uniform Standards of Professional Appraisal Practice (“USPAP”) of The Appraisal Foundation. The information contained in this document and attachments is an appraisal report and is intended to comply with the requirements set forth under Standards Rule 2-2 and 8-2 of USPAP. It presents limited discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the estimate of Fair Market Value. Supporting documentation concerning the data, reasoning, and analyses is retained in PLC’s files.

We know that economic obsolescence will apply to the Subject Assets and that our hypothetical conclusions will be reduced. Without a business enterprise valuation to substantiate this adjustment our premise to value is defined in USPAP as a hypothetical assumption.

This hypothetical value includes an assumption of an “In Use” premise that is based upon sufficient cash flow is available to the operating business occupying the real property asset and operating the equipment to support the FULL replacement cost new less physical depreciation. It is our understanding that based upon the expected purchase price that sufficient profitability does not exist.

Although we viewed the RP from the exterior, we have not conducted a detailed physical inspection of the RP. We also did not inspect a representative sample or conduct a physical inventory of the M&E as it was not included in the scope of this engagement. This valuation has been conducted on a desktop basis and this may have an impact on our valuation conclusions.

### **2. Scope of Work**

This report is considered a hypothetical appraisal report and is intended to conform to USPAP. This report states the data relied upon, valuation reasoning and methodology utilized, and analysis developed to estimate FMV. The results of this hypothetical valuation are prepared in a summary format and are intended to be used by our client including RI. We have summarized descriptions of the data and reasoning used to arrive at the hypothetical value conclusion. This report is appropriate for an experienced intended user. The information and data analyzed by the appraiser in completing this assignment is retained in the appraiser’s file.

We have prepared a hypothetical valuation considering the Cost, Income, and Market Approaches to value. Under these approaches, we have investigated numerous comparable listings and

transactions. Additionally, we have spoken with buyers, sellers, brokers, and market participants to confirm the data as it pertains to the land in this hypothetical appraisal assignment. Since the RP is considered a special purpose use, we have relied on the Cost Approach to value the improvements and equipment. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

The Real Property consists of the following assets:

Land (exclusive of permitted air rights);  
Site Improvements; and  
Building Improvements (or improved property).

This level of detail provided can be further segmented for US Tax purposes. This level of detail is generally sufficient and accepted in the marketplace for hypothetical FMV reporting.

### **3. Intended Use and Intended User of the Hypothetical Appraisal**

PLC understands that the hypothetical valuation results of our analysis will be used by the Rhode Island Attorney General's Office and Veralon who will utilize our hypothetical conclusions as part of a review of the proposed purchase price of Prospect.

### **4. Valuation Date**

The Hypothetical Valuation Date for the Subject Assets is April 1, 2024.

### **5. Definition of Fair Market Value**

Fair Market Value is defined by the American Society of Appraisers as an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts, as of a specific date and assuming that the business earnings support the value reported, without verification. Fair Market Value will be considered under the premise of continued use and will be hypothetical in nature.

We have relied upon an "In Use" premise to value which assumes there is sufficient cash flow available to the operating business to support the hypothetical full value of the replacement cost new less physical depreciation.

### **6. Hypothetical Assumption**

A hypothetical condition is a condition directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results but is used for the purpose of analysis.

In the development of our appraisal we relied upon the following hypothetical assumption based upon our discussions with Management:

*We know that economic obsolescence will apply to the Subject Assets and that our hypothetical conclusions will be reduced but are unable to quantify without a business*

*enterprise valuation to substantiate this adjustment our premise to value. We have relied upon an "In Use" premise to value which assumes there is sufficient cash flow available to the operating business to support the full value of the replacement cost new less physical depreciation.*

## **7. Extraordinary Assumptions**

An extraordinary assumption is an assignment-specific assumption, as of the effective date, regarding uncertain information used in the analysis which, if found to be false, could alter the appraiser's opinions or conclusions.

In the development of our appraisal we relied upon the following extraordinary assumptions based upon our discussions with Management:

*We have not verified the ownership interest, nor have we investigated any future claims or liabilities. We have assumed that the Subject Assets are owned in fee simple interest and are free and clear of and atypical encumbrances; and*

*We have relied on the data provided by Management and information obtained from market sources without independent verification. We have assumed that all data received or obtained is accurate in all material aspects.*

*We have relied upon an "In Use" premise to value which assumes there is sufficient cash flow available to the operating business to support the full value of the replacement cost new less physical depreciation.*

Accordingly, if any one of these extraordinary assumptions is incorrect, this could render our hypothetical FMV conclusions inaccurate.

## **B. VALUATION APPROACHES**

### **1. Valuation Theory**

We considered in our hypothetical appraisal the three basic approaches to value: Income, Market, and Cost.

#### ***Income Approach***

The Income Approach selects an income level for the asset under analysis, usually based on historical or current income that, to an independent investor, is reasonably reflective of a sustainable level of income the asset may hope to obtain in future periods. This selected income level may then be capitalized at an appropriate rate that meets the return requirements of an investor. Factors taken into consideration include prevalent investment return requirements as of the Valuation Date and risks associated with the asset appraised. This approach assumes that the income derived from an asset will, to a large extent, control its value.

#### ***Market Approach***

The Market Approach arrives at an indication of value by comparing the asset being valued to assets that have been recently acquired in arm's-length transactions. The market data is then adjusted for any significant differences, to the extent known, between the identified comparable assets and the asset being valued.

A benefit of the Market Approach is its simple application when comparable transactions are available. This situation is most commonly found when the acquired asset is widely marketed to third parties. Under these circumstances, the market comparable method represents the most appropriate method for determining the Fair Value of the asset. The primary drawback of the Market Approach is often the scarcity of data regarding comparable transactions within a recent date upon which to establish Fair Value.

#### ***Cost Approach***

The Cost Approach is based on the assumption that a prudent investor would pay no more for an asset than the amount for which he could replace or re-create it. Historical costs are often used to estimate the current cost of replacing the asset valued. In doing so, adjustments for Physical,<sup>1</sup> Functional<sup>2</sup> and Economic<sup>3</sup> Depreciation are taken into account. Replacement cost new is typically estimated using one of two approaches: Indirect or Direct. The Indirect Approach applies specific indices to the historical cost of an asset to estimate current replacement cost, which is often referred to as the reproduction cost new. The Direct Approach involves using published sources, cost estimating techniques, and input from new equipment dealers and manufacturers to estimate replacement cost new.

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<sup>1</sup> Physical Deterioration is defined as the loss in value of an asset due to age, typical wear and tear, physical stress, exposure to various elements and loss not prevented by everyday maintenance.

<sup>2</sup> Functional Obsolescence is defined as the loss in value of an asset due to the lack of desirability or loss of utility caused by design inadequacies or inefficiencies resulting from technological innovations.

<sup>3</sup> Economic obsolescence is defined as the loss in value of an asset due to external factors, including environmental or governmental regulations, increased cost of raw materials or labor or reduced market demand for the product.



## **2. Valuation Approaches Utilized**

In our analysis, we have identified the following approaches to value for the tangible assets that were material in nature to the real and personal property.

### ***Subject Assets***

- Land – Market Approach
- Buildings and Site Improvements – Cost Approach
- Equipment – Cost Approach

## C. REAL PROPERTY ASSETS OVERVIEW

### 1. Location

The Subject Assets of this analysis are the Our Lady of Fatima Hospital located at 200 High Service Avenue in North Providence, Rhode Island and the Roger Williams Medical Center located at 825 Chalkstone Avenue in Providence, Rhode Island, as well as many other owned properties including medical office buildings that are affiliated with the hospitals in North Providence and Providence, Rhode Island.

### 2. Property Description

The Subject Assets in North Providence consist of a 312-bed hospital and surrounding parcels used for parking or are vacant and unimproved. The Providence Assets consist of a 220-bed hospital, medical office buildings, a medical office condominium, and parking lots. The table below shows each of the owned properties and its current use.

Address	City	State	Zip code	Use
200 High Service Ave	North Providence	RI	02911	Acute Care Hospital
High Service Ave	North Providence	RI	02911	Parking
Fruit Hill Ave	North Providence	RI	02911	Vacant
Fruit Hill Ave	North Providence	RI	02911	Wooded Land
825 Chalkstone Ave	Providence	RI	02908	Acute Care Hospital
865 Chalkstone Ave	Providence	RI	02908	Parking
867 Chalkstone Ave	Providence	RI	02908	Parking
25 Winrooth Ave	Providence	RI	02908	Parking
29 Winrooth Ave	Providence	RI	02908	Parking
33 Winrooth Ave	Providence	RI	02908	Parking
37 Winrooth Ave	Providence	RI	02908	Parking
41 Winrooth Ave	Providence	RI	02908	Parking
45 Winrooth Ave	Providence	RI	02908	Parking
49 Winrooth Ave	Providence	RI	02908	Parking
53 Winrooth Ave	Providence	RI	02908	Parking
61 Winrooth Ave	Providence	RI	02908	Parking
444 Pleasant Valley Pkwy	Providence	RI	02908	Parking
17 Parkway Ave	Providence	RI	02908	Parking
881 Chalkstone Ave	Providence	RI	02908	Parking
50 Convent St	Providence	RI	02908	Office Condo
33 Rosebank Ave	Providence	RI	02908	Parking
37 Rosebank Ave	Providence	RI	02908	Parking
41 Rosebank Ave	Providence	RI	02908	Parking
45 Rosebank Ave	Providence	RI	02908	Parking
49 Rosebank Ave	Providence	RI	02908	Parking
55 Rosebank Ave	Providence	RI	02908	Parking
895 Chalkstone Ave	Providence	RI	02908	Office Building
21 Winrooth Ave	Providence	RI	02908	Parking

57 Winrooth Ave	Providence	RI	02908	Parking
65 Winrooth Ave	Providence	RI	02908	Parking
71 Winrooth Ave	Providence	RI	02908	Parking
877 Chalkstone Ave	Providence	RI	02908	Medical office

### 3. Interest Appraised

The Fee Simple interest of the Subject Assets was appraised.

### 4. Ownership and History

The current owner is Prospect CharterCare, LLC. There were no prior transactions of the Subject Assets in the three years preceding the effective date of this appraisal.

### 5. Neighborhood Description

The Subject Assets are generally located to the northwest of downtown Providence. The following are aerial photos and descriptions of the owned Real Properties.

#### North Providence Properties



## Providence Properties



### 6. Zoning Description

The parcels that the Subject Assets sit on are zoned 'I-1-75 – Healthcare Institutional', 'IS – Institutional', 'C-1 – Neighborhood Commercial', 'R-1', 'R-2, or R-3 – Residential', or 'RL13 – Limited Household'. A cursory review of the applicable zoning code suggests that each of the properties is legally conforming, thus, the Subject Properties are assumed to be a legally conforming use. We were not provided with the original record plan to determine if the actual building improvements are consistent with the original recorded plan. Without verification from a professional engineer, we are unable to determine if the current improvements can be reconstructed if the properties were vacant.

## **D. MARKET OVERVIEW**

### **1. General Economic Outlook**

The U.S. market is expected to experience a decreased inflation rate through 2024. The weakened global economy will help to keep commodity prices low and construction cost growth is expected to ease which will allow for more new developments, according to CBRE's U.S. Real Estate Market Outlook 2024. The unemployment rate barely changed in March 2024 and sits at 3.8 percent after 303,000 jobs were added. The unemployment rate has ranged from 3.7 to 3.9 percent since August 2023. Job growth occurred in health care, government, and construction and has averaged 231,000 per month over the past twelve months. According to Cushman & Wakefield ("C&W"), the U.S. economy is in a rolling recession, "in which some industries contract while others evade damage." The impact from monetary policy has not yet been fully realized but early indicators of recession, such as rising delinquency rates, have been signaling that the consumer is starting to feel the pressure of higher rates.

The U.S. office market finished 2023 with its fifth consecutive quarter of negative net absorption of 2.9 million square feet. This negative net absorption, paired with the completion of 5 million square feet of new supply increased the overall vacancy rate by 20 basis points over the last quarter to 18.6 percent. In spite of increased vacancy, average asking rents increased to \$36.02 in Q4. However, average taking rents were largely unchanged, widening the gap between asking and taking rent which reflects tenants' increased leverage in lease negotiations. The U.S. office market has seen limited demand which will continue into 2024 as the normalization of hybrid working arrangements continues. CBRE and C&W predict that most firms will complete their downsizing by 2025. Top-tier office products have consistently outperformed lower quality space since 2020 and this will continue to support demand for newer, prime office product with the best amenities. CBRE predicts the overall office vacancy rate will peak at 19.8 percent by 2024-year end. Many older buildings lacking modern amenities will struggle to attract tenants in 2024, so some may convert to other uses. The federal government is supporting office-to residential conversion projects through grant and incentive programs which also aid lenders in mitigating risk for conversion projects.

Medical office building ("MOB") investment increased in Q4 2023 by 15 percent, quarter-over-quarter to \$2.0 billion. This quarterly investment increase was 50 percent below the 2018-2022 Q4 average of \$3.9 billion and the annual total for 2023 investment volume was \$7.1 billion, which was also a decline of about 52 percent from the 2022 total. Medical office space traded at an average of \$287 per square foot through the quarter, about 41 percent above the \$204 square foot for traditional office buildings. The average MOB price per square foot has been steadily declining for the past six quarters after peaking at \$356 in Q2 2022. Capitalization rates have been steadily increasing over the same time period, ending Q4 at 6.9 percent. Triple net asking rents increased by 0.4 percent up to \$23.66 per square foot in Q4 2023 with the overall MOB vacancy rate remaining at 9.5 percent. Asking rents for MOB space have recorded a compounded annual growth rate of 2.7 percent since the fourth quarter of 2019. Net absorption in the fourth quarter was 2.2 million square feet for the MOB sector, which brought the annual total to 6.6 million square feet. Construction completions of 2.9 million square feet brought the 2023 total to 10.7 million square feet. This was an increase of 24 percent from 2022 completions.

The U.S.'s retail market experienced 12.5 million square feet of positive net absorption in the fourth quarter of 2023, bringing the annual total to 40 million square feet. This was a 40 percent decrease from 2022 that was largely due to the lack of new supply. Overall retail availability fell

by 10 basis points since last quarter and 31 basis points year-over-year. Construction completions of new retail space were an all-time quarterly low of just 5.3 million square feet. New supply is likely to remain low through 2024 as construction costs and interest rates remain high. Asking rents increased by 0.8 percent over the past quarter and 2.4 percent year-over-year; both rates are above their ten-year averages. In spite of the positivity of the past year, the growth has been tempered with construction well below for 2011-2019 average of 0.6 percent of inventory per year. C&W predicts that “a modest pullback in demand will not be overly impactful” due to the new construction limitations. Rental growth is expected to decline from 4.3 percent in 2023 to 3.3 percent in 2024 and down further, to 1.7 percent, in 2025 but remain positive due to the low vacancy compared to past economic downturns.

The U.S. industrial market continued in its expansion but with a clear slowdown in growth with annual leasing activity falling by 8.8 percent to 790.3 million square feet, with 267 million square feet of that in lease renewals. Leasing activity totaled 1,827.7 million square feet in Q4 2023, which was up by 15.4 percent over Q4 2022. Net absorption was 37.2 million square feet in Q4 202, bringing the annual total to 238.9 million square feet. 2023’s total net absorption was less than half of 2022’s 526.8 million square feet absorbed. Construction completions also declined by 8.0 percent quarter-over-quarter to 159.1 million square feet, but annually, completions were up 20.5 percent from 2022. Construction completions have outpaced absorption for six consecutive quarters, causing the overall vacancy rate to increase by 50 basis points quarter-over-quarter to 4.8 percent. According to C&W 538 million square feet are currently underway with 112 million square feet being build-to-suit and 39 million square feet being pre-leased. The remaining 387 of vacant product will increase vacancy and slow rent growth. Average net asking rent rose 0.3 percent over the last quarter and 6 percent year-over-year to \$10.24 per square foot. It is predicted that the slowdown in new supply through 2024 will regenerate demand in 2025 and vacancy will return to below 5 percent with steady asking annual rent growth in the 4-5 percent range.

## **2. Conclusion**

The outlook of the U.S. economy has weakened slightly in some sectors and proves to be strong in others as we face this “rolling recession.” Employment growth has slowed and consumers and businesses are beginning to feel the pressures of the high interest rates and inflation. Economists seem confident that a soft correction to “normal” will continue through 2024.

## **E. HYPOTHETICAL VALUATION OF THE REAL PROPERTY**

### **1. Valuation Overview**

The scope of our hypothetical valuation included the following real property:

Land; and  
Buildings and Improvements (or Improved Property)

### **2. Valuation Procedure**

When conducting the hypothetical valuation of the Subject Assets we obtained information which would be pertinent to the site improvements. We have not performed a site inspection of the Real Property. We have reviewed property information provided in regard to the condition of the properties. We were also provided with historical financial information. This information was considered reliable and consistent with similar properties of the same age and condition. PLC conducted the following procedures related to the owned Real Property:

Interviewed local market real estate brokers familiar with the Real Property;

- Analyzed comparable land sales data including active listings;
- Collected and considered comparable improved sales in the local marketplace;
- Analyzed national and local economic conditions affecting not only real estate but the economy as a whole;
- Considered the history and operations of the Real Property;
- Analyzed legal and descriptive documents and other information provided by management, which outline the characteristics of certain Real Property;
- Performed research of public sources such as assessor records, aerial or satellite photography and other data sources regarding the physical attributes of the Real Property;

## **F. HIGHEST AND BEST USE**

Of the financially feasible uses, the use that produces the highest price, or value, consistent with the rate of return warranted by the market for that use is the highest and best use. To estimate the highest and best use of the site as improved, the same rate of return is often used to capitalize income streams from different uses into their respective values. This procedure is appropriate if all competing uses have similar risk characteristics. If not, different rates of return would be required. The market usually limits the number of property uses to a few logical choices. Each alternative use must first meet the tests of physical possibility and legal permissibility. The uses that meet the first two tests are then analyzed to ascertain how many maximally productive alternatives must be considered. The use that produces the highest value is the highest and best use. The use that represents maximum profitability is the financially feasible use that will produce the highest net return.

### ***As Vacant***

In order to determine the highest and best use of the site as vacant, a hypothetical condition was employed where the sites were vacant and available for development. We have concluded that the land, as if vacant, would have a consistent highest and best use regulated by its size, location, zoning, and neighborhood characteristics.

### ***As Improved***

The highest and best use as improved would be for their continued hospital, medical office, and associated parking uses under the current zoning since the value of the improvements is greater than the land plus demolition.



## **G. HYPOTHETICAL LAND VALUATION**

### **1. Overview**

The Subject's land was valued as if vacant and available to be developed to its highest and best use using the Sales Comparison Approach. The Sales Comparison Approach is based on the premise that a buyer would pay no more for a specific property than the cost of obtaining a property with the same quality, utility, and perceived benefits of ownership. It is based on the principles of supply and demand, balance, substitution and externalities. The following steps describe the applied process of the sales comparison approach.

- The market in which the Subject Property competes is investigated; comparable sales, contracts for sale, and current offerings are reviewed.
- The most pertinent data is further analyzed, and the quality of the transaction is determined.
- The most meaningful unit of value for the Subject Assets is determined.
- Each comparable sale is analyzed and where appropriate, adjusted to equate with the Subject Properties.
- The value indication of each comparable sale is analyzed, and the data reconciled for a final indication of value via the Sales Comparison Approach.

Comparables sales data was researched using CoStar and also by contacting several local active real estate consultants. We used the following search parameters to identify potential comparable land sales:

Location: Within 10 miles of the Subject  
Size: Ranging by property from less than 1 acre to 20 acres  
Use: Commercial, Residential, Institutional  
Transaction Date: Within three years of valuation date (April 2024)

After identifying several prospective land sale transactions, we have chosen multiple transactions for each property type or location that we feel are most comparable to the Subject Assets.

### **2. Hypothetical Valuation Approach**

In applying the Sales Comparison Approach, we relied upon the comparable match method. This method relies upon an analysis of transactions of similar assets to estimate a hypothetical FMV. Comparable transactions of similar assets are reviewed, with adjustments made for dissimilar attributes, to develop a unit of comparison for valuation purposes.

In our application of the Sales Comparison Approach, we identified numerous sales and listings of comparable industrial land to establish a land FMV-per-acre multiple for the subject site. The available market data was analyzed and compared to the subject parcel, with adjustments made for dissimilar characteristics. Differences in property rights conveyed, financing, market conditions, location, access/frontage, visibility, size, and development potential were considered. After appropriate adjustments were made for these differences, a per acre cost was estimated and applied to the subject land to estimate our hypothetical FMV.

### 3. Summary of Findings

The estimated hypothetical FMV for the land as of the Valuation Date is presented below.

<b>Ranges and Reconciled Values</b>	<b>200 High Service Ave.</b>
Maximum Adjusted Price:	\$405,206.82
Mean Adjusted Price:	\$301,594.72
Minimum Adjusted Price:	\$149,752.48
<b>Concluded Price/Acre:</b>	<b>\$300,000.00</b>

<b>Ranges and Reconciled Values</b>	<b>Fruit Hill Ave.</b>
Maximum Adjusted Price:	\$244,565.22
Mean Adjusted Price:	\$215,977.18
Minimum Adjusted Price:	\$163,366.34
<b>Concluded Price/Acre:</b>	<b>\$215,000.00</b>

<b>Ranges and Reconciled Values</b>	<b>825 Chalkstone Ave.</b>
Maximum Adjusted Price:	\$459,234.40
Mean Adjusted Price:	\$273,795.08
Minimum Adjusted Price:	\$169,811.32
<b>Concluded Price/Acre:</b>	<b>\$275,000.00</b>

<b>Ranges and Reconciled Values</b>	<b>895 Chalkstone Ave.</b>
Maximum Adjusted Price:	\$788,571.43
Mean Adjusted Price:	\$755,101.60
Minimum Adjusted Price:	\$685,714.29
<b>Concluded Price/Acre:</b>	<b>\$750,000.00</b>

<b>Ranges and Reconciled Values</b>	<b>877 Chalkstone Ave.</b>
Maximum Adjusted Price:	\$788,571.43
Mean Adjusted Price:	\$755,101.60
Minimum Adjusted Price:	\$685,714.29
<b>Concluded Price/Acre:</b>	<b>\$750,000.00</b>

<b>Ranges and Reconciled Values</b>	<b>33-55 Rosebank Ave.</b>
Maximum Adjusted Price:	\$657,142.86
Mean Adjusted Price:	\$625,679.91
Minimum Adjusted Price:	\$557,142.86
<b>Concluded Price/Acre:</b>	<b>\$625,000.00</b>

An adjustment grid that shows details regarding the adjustments is presented in the Addenda of this report and are labeled "Exhibits 1A -1F".

## **H. HYPOTHETICAL BUILDING AND IMPROVEMENTS VALUATION**

### **1. Overview**

We relied on the Cost Approach to estimate the hypothetical FMV of the buildings and improvements. While it is generally considered a poor indicator of value due to the multiple forms of depreciation which are difficult to quantify, it is the only reliable method to estimate the components of an improved property.

In determining the hypothetical FMV of the buildings and improvements via the Cost Approach, we first estimated the Replacement Cost New (“RCN”) of the Subject buildings and improvements. The RCN of these assets is based on the estimated cost to construct, at current prices as of the Valuation Date, improvements with utility equivalent to the improvements being appraised using modern materials and current standards, design, and layout.

### **2. Replacement Cost New**

The replacement cost of the improvements on the Subject’s parcels is based on data provided by the Marshall & Swift Valuation Service (“M&S”) a nationally recognized costing publication.

The M&S data was used to determine the replacement cost new (“RCN”) for the building and improvements. The Marshall & Swift Valuation Service derives the RCN by applying a cost per square foot to the gross building area (“GBA”). The base cost per square foot is determined by the building class and quality of construction. This base rate is then multiplied by several multipliers to achieve the final price per square foot of GBA. Those multipliers are as follows:

- No. of Stories Multiplier – This multiplier accounts for the additional cost associated with multi-story buildings (i.e., additional structural components and construction techniques) necessary for buildings over three stories. As per M&S this multiplier is .5% per floor over three stories.
- Current Cost Multiplier – This multiplier is used to reflect the current construction costs and applies an inflation factor to the base rate.
- Local Multiplier – This multiplier accounts for local influences on material costs and labor costs. Typically, these items are more expensive in large cities due to overall higher cost of living expenses that affect both labor and materials.
- Ceiling Height (Story) Multiplier: This multiplier accounts for the additional cost or deficit for ceiling heights that differ from the standard height.
- Perimeter Multiplier: This multiplier accounts for the cost variation in the proportion of exterior wall area to floor area.

### **3. Depreciation Analysis**

Depreciation may be defined as any loss of value from any cause. There are three general areas of depreciation: Physical Deterioration, Functional Obsolescence and External Obsolescence. Depreciation may be curable or incurable, the test being that money spent to cure the depreciation is gained in value. If the depreciation costs more to fix than will be gained in value, then the depreciation is considered incurable.

Physical Deterioration - This is a result of deterioration from aging and use. This type of depreciation may be curable or incurable.

Functional Obsolescence - This is a result of a lack of utility or desirability due to design or market perception of the improvements. This type of depreciation may be curable or incurable.

External Obsolescence - This is due to circumstances outside the property itself, such as industry, demographic and economic conditions, or an undesirable proximate use. This type of depreciation is rarely curable.

Depreciation factors representing Physical Deterioration were applied to the assets' replacement or reproduction costs based on the estimated economic useful life and the estimated effective age of the assets. The economic useful lives relied on in this analysis were based upon a review of a prior appraisal for the Subject Assets, economic lives published by M&S, and our experience in appraising similar assets. Physical Depreciation was applied based upon a combination of a straight-line age/life analysis and reliance upon Physical Depreciation curves published by M&S. Physical Depreciation was then subtracted from the replacement or reproduction cost to result in replacement cost new less Physical Depreciation.

#### 4. Summary of Findings

A summary table that shows details regarding the Cost Approach is presented below and in further detail in the Addenda of this report and are labeled "Exhibits 2A -2F".

<b>Prospect CharterCare, LLC</b>					
<i>Real Property Valuation</i>					
<i>Summary of Property Values</i>					
<i>As of 04/01/2024</i>					
<b>Location</b>	<b>Land Size (Acres)</b>	<b>Building Size (Square Feet)</b>	<b>Land FMV*</b>	<b>Site FMV*</b>	<b>Building FMV*</b>
<b>Address</b>					
200 High Service Ave.	17.50	286,328	\$5,270,000	\$727,836	\$31,173,829
Marion Hall	0.00	49,634	\$0	\$75,896	\$5,227,252
Fruit Hill Ave	3.54	0	\$760,000	\$0	\$0
825 Chalkstone Ave.	8.64	268,679	\$2,730,000	\$514,389	\$43,911,938
50 Convent St.	0.00	51,025	\$0	\$0	\$2,394,323
895 Chalkstone Ave.	0.15	3,420	\$310,000	\$23,766	\$108,511
877 Chalkstone	0.18	1,925	\$130,000	\$10,031	\$118,481
Rosebank Ave Parking	0.88	0	\$550,000	\$0	\$0
<b>Hypothetical SubTotal</b>			<b>\$9,750,000</b>	<b>\$1,351,917</b>	<b>\$82,934,334</b>

\* Land, Site, and Building Fair Market Values are hypothetical values

## I. REAL PROPERTY HYPOTHETICAL VALUATION CONCLUSION

Based on the facts, assumptions, and valuation methodologies described in this report, it is our opinion that the hypothetical Fair Market Value “in use” of the Subject Assets, as of April 1, 2024, is reasonably estimated as follows:

<b>Prospect CharterCare, LLC</b>					
<i>Real Property Valuation</i>					
<i>Summary of Property Values</i>					
<i>As of 04/01/2024</i>					
<b>Location</b>	<b>Land Size (Acres)</b>	<b>Building Size (Square Feet)</b>	<b>Land FMV*</b>	<b>Site FMV*</b>	<b>Building FMV*</b>
<b>Address</b>					
200 High Service Ave.	17.50	286,328	\$5,270,000	\$727,836	\$31,173,829
Marion Hall	0.00	49,634	\$0	\$75,896	\$5,227,252
Fruit Hill Ave	3.54	0	\$760,000	\$0	\$0
825 Chalkstone Ave.	8.64	268,679	\$2,730,000	\$514,389	\$43,911,938
50 Convent St.	0.00	51,025	\$0	\$0	\$2,394,323
895 Chalkstone Ave.	0.15	3,420	\$310,000	\$23,766	\$108,511
877 Chalkstone	0.18	1,925	\$130,000	\$10,031	\$118,481
Rosebank Ave Parking	0.88	0	\$550,000	\$0	\$0
<b>Hypothetical SubTotal</b>			<b>\$9,750,000</b>	<b>\$1,351,917</b>	<b>\$82,934,334</b>
<b>Total Hypothetical FMV of the Real Property (Rounded)</b>					<b>\$ 94,000,000</b>

\* Land, Site, and Building Fair Market Values are hypothetical values

In arriving at our opinion, PLC applied generally accepted valuation procedures based upon economic and market factors. We have only concluded to a hypothetical Fair Market Value in use, which is limited to a replacement cost new, less physical depreciation. We have not estimated any forms of economic obsolescence. The hypothetical Fair Market Value was derived through the Cost Approach, as, in our opinion, this method provides the most accurate valuation procedure for special purpose assets.

This valuation was done as a hypothetical value in use because a business enterprise value was not provided. The value in use assumes that there is sufficient market demand for the current business operations to operate at a profit. Any material differences in the aforementioned assumptions may affect our opinion of value.

## **J. HYPOTHETICAL MACHINERY AND EQUIPMENT VALUATION**

### ***Property Profile Asset Description***

We understand the M&E is located at two acute care hospitals with a combined total of 332 beds as well as medical office space.

Major equipment includes surgical and imaging assets along with various other medical equipment, furniture and fixtures, and computer equipment.

We conducted a desktop valuation of the M&E at the Hospitals. We understand that the M&E is in good condition with an average age of one year to over 10 years as determined from information provided by management. We understand that the M&E is to remain in place and will continue to be used in the same manner as was intended. We have been informed that the M&E is operational and has no issues; however, we cannot warrant, guarantee, or certify the total functionality of the M&E.

## **K. METHODOLOGY – HYPOTHETICAL MACHINERY AND EQUIPMENT VALUATION**

### **1. Overview**

We considered in our hypothetical appraisal the three basic approaches to value: Cost, Market, and Income. The Cost Approach measures the value of an asset by the cost to reconstruct or replace it with another of like utility. The Market Approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. The Income Approach measures the value of an asset by the present value of its future economic benefits.

The Cost Approach establishes value based on the Replacement Cost of an asset less Depreciation from Physical Deterioration and Functional and Economic Obsolescence, if present and measurable. This approach is generally the most reliable for valuing assets with no established market and special purpose assets.

The Market Approach establishes value through analysis of recent sales of comparable assets. In this approach, similar assets recently sold or offered for sale in the market are analyzed and compared to the asset being valued, with adjustments made for differences in such factors as time of sale, location, type, age, condition, and prospective use. This approach is used in the valuation of assets for which there is a ready and active market.

The Income Approach recognizes that the value of an asset is premised upon the expected receipt of future economic benefits. Value indications are developed in this approach by discounting expected future cash flows available to the investor at a rate which reflects the risk inherent in the investment. We considered but did not use this approach because it is not feasible to attribute income to an individual property unit or the units of assets which constitute an operating facility, since the assets contribute to earnings only in concert with all other economic factors of operation.

### **2. Hypothetical Valuation Procedure**

We considered all three approaches to value but relied on the Cost Approach. We considered but did not use the Income Approach because it is not possible in this situation to attribute income to an individual property unit or the units of fixed assets, which constitute an operating location, since the assets contribute to earnings only in concert with all other economic factors of production. Although the information provided to us in the fixed asset record was sufficient to apply a Cost Approach, detailed equipment specifications needed to apply a Market Approach was unavailable. Therefore, we considered but did not apply the Market Approach. However, numerous times in the past we have utilized the Market Approach to corroborate the estimates of value developed using the Cost Approach.

In calculating hypothetical Fair Market Value based on the Cost Approach it is necessary to calculate Replacement Cost New (“RCN”). RCN of an asset as defined by the ASA textbook “Valuing Machinery and Equipment” as “the current cost of a similar new property having the nearest equivalent utility as the property being appraised, as of a specific date.” We derived RCN by using an indirect cost methodology. This method to arrive at an estimate of RCN consists of applying asset category specific indices, published by Marshall Valuation Service and the Bureau of Labor Statistics, to the historical cost of each asset. Various indirect costs (e.g., engineering, installation, freight and tax) that put each asset in place and in use were included as part of the historical cost and trended as well. We did not identify any excess capital costs, or make any

further adjustments to reproduction cost, and without any information to the contrary, have assumed reproduction cost to equal replacement cost in our analysis.

We considered Physical Deterioration and Functional and Economic Obsolescence, where measurable, in arriving at our conclusions of value. We determined the loss in value due to Physical Deterioration by depreciating each asset over its average service life using an age/life methodology and applied this depreciation factor to the RCN.

We obtained average service lives for the Subject Assets from published reference guides, conversations with manufacturers, dealers, end-users and from our general industry experience. Utilizing this information, we developed a uniform retirement relationship to age. This then determined Replacement Cost New less depreciation ("RCNLD") for each asset. Assets remaining in service beyond their normal useful life were assigned a minimum percent good or in use hold factor.

Our hypothetical Fair Market Value conclusion does not include any forms of functional and economic obsolescence.



## **L. MACHINERY AND EQUIPMENT HYPOTHETICAL VALUATION CONCLUSION**

Our opinion of the hypothetical Fair Market Value of the Machinery and Equipment is based on information from the Hospitals and general healthcare industry knowledge.

Based on our investigation and analysis as described in the report, subject to the assumptions and limiting conditions specified in the report, it is our opinion that the hypothetical Fair Market Value of the M&E located at the Hospitals as of the Valuation Date is reasonably represented in aggregate as **\$27,000,000**.

## **M. STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

This hypothetical appraisal report is subject to the following general assumptions and limiting conditions:

1. No investigation has been made of, and no responsibility is assumed for, the legal description of the property being valued or legal matters, including title or encumbrances. Title to the property is assumed to be good and marketable unless otherwise stated. The property is assumed to be free and clear of any liens, easements or encumbrances unless otherwise stated.
2. Information furnished by others, upon which all or portions of this report is based, is believed to be reliable, but has not been verified in all cases. No warranty is given as to the accuracy of such information.
3. This report has been made only for the purpose stated and shall not be used for any other purpose. Neither this report nor any portions thereof (including without limitation any conclusions as to value, the identity of Porto Leone Consulting, LLC (“PLC”) or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties by any means without the prior written consent and approval of PLC. Veralon may provide the report of our findings to its independent auditors, financial advisors, and any applicable affiliates, and if requested, to regulatory authorities.
4. Neither PLC nor any individuals signing or associated with this report shall be required by reason of this report to give further consultation, to provide testimony, or appear in court or other legal proceedings unless specific arrangements therefore have been made.
5. This appraisal has been made in conformance with, and is subject to, the requirements of the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers and the Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation.
6. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions which occur subsequent to the appraisal date hereof.
7. The date of value to which the conclusions and opinions expressed in this report apply is set forth in this opinion letter. Our value opinion is based on the purchasing power of the United States dollar as of this date.
8. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can readily be obtained or renewed for any use on which the value estimates provided in this report are based.
9. Full compliance with all applicable federal, state, and local zoning use, environmental and similar laws and regulations is assumed, unless otherwise stated.
10. Responsible ownership and competent property management are assumed.

11. The opinion of value is predicated on the financial structure prevailing as of the date of this appraisal.
12. The allocation in this report of the total valuation among components of the property applies only to the program of utilization stated in this report. The separate values for any components may not be applicable for any other purpose and must not be used in conjunction with any other appraisal.
13. We were not engaged nor are we qualified to detect the existence of toxic or hazardous material which may or may not be present on or near the property. The presence of potentially toxic or hazardous substances such as asbestos, urea-formaldehyde foam insulation, industrial wastes, etc. may affect the value of the assets. The value estimates herein are predicted on the assumption that there is no such material on, or near the property (outside of the typical toxic or hazardous materials customary to an acute care hospital environment that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them. Veralon Partners Inc. ("Veralon") should retain an expert in this field if further information is desired.
14. We specifically prohibit use of our findings in all matters relating to fairness, fraudulent conveyance, and solvency. Any reference to PLC or its affiliates in proxy statements, offering memoranda, or other documents without our written permission is prohibited.
15. Veralon shall indemnify and hold harmless PLC, its affiliates, partners, agents, and employees from and against any losses, claims, damages or liabilities (or actions in respect thereof) that may be asserted by a third party against such persons by reason of Veralon's illegal conduct or willful misconduct relating to this engagement.
16. Except for instances of illegal conduct, willful misconduct, or breach of the confidentiality provisions of this engagement, neither PLC nor its contractors shall be liable to Veralon for any amount in excess of the fees paid to PLC regarding the engagement.
17. As provided in Treasury Department Circular 230, any advice contained in our appraisal report (including any attachments, schedules, and exhibits unless expressly stated otherwise) is not intended or written by PLC to be used, and cannot be used, by a client or any other person or entity for purposes of avoiding tax penalties that may be imposed on any taxpayer.
18. The conclusions of value represent the considered opinion of PLC, based on information furnished to us by Veralon and other sources. The report and conclusions of value are not intended by PLC, and should not be construed by the reader, to be investment advice in any manner whatsoever. For the avoidance of doubt, this report is not a fairness opinion nor a solvency opinion of any contemplated current or future transaction.

## **N. SOURCES OF INFORMATION**

- Information provided by management for the owned Real Property assets.
- Information gathered from various third-party data sources, including *Marshall Valuation Service*; *U.S. Bureau of Labor Statistics*; and *CoStar*.
- Market participants and public/private property transaction databases for comparable sales data.
- County assessment and zoning offices.
- FASB ASC 958-810, *Not for Profit Entities – Consolidation*.
- FASB ASC 820, *Fair Value Measurements and Disclosures*.

This report provides an opinion of the hypothetical Fair Market Value of the Subject Property under a continued use premise without regard to liens, encumbrances, or outstanding loan or financing balances.

## O. CERTIFICATION – REAL PROPERTY

We hereby, to our best knowledge and belief, certify the following statements regarding this opinion:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have not performed any prior services regarding the subject within the previous three years prior to the effective date of this valuation.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- Andrew Smith has not made a personal inspection of the facilities that are the subject of this report.
- Jaclyn Flail (DE appraiser trainee, license no. X4-0000610) provided professional appraisal assistance to undersigned in the preparation of the analyses, conclusions, and opinions concerning the assets that are set forth in this report. Their professional appraisal assistance includes contributing to the development and the reporting of the appraisal. Their work includes subject and market data research and compilation, and analysis, and includes spreadsheet and report drafting. All aspects of their professional appraisal assistance were completed under the direction of the undersigned. The undersigned believe that it is reasonable to rely on their professional appraisal assistance, given their adherence to professional standards and ethics, and their training, experience and capabilities, and the supervision provided by the undersigned.
- As of the date of this report, I have completed the Standards and Ethics Education Requirements for Candidates of the Appraisal Institute
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

**DRAFT**

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Andrew Smith, MAI  
Rhode Island License # In Process

## **P. CERTIFICATION – MACHINERY AND EQUIPMENT**

I certify that to the best of our knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- the engagement in this assignment was not contingent upon developing or reporting predetermined results.
- compensation for completing this assignment was not contingent upon the development or reporting of a predetermined assignment results or assignment results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice (“USPAP”), as promulgated by the Appraisal Foundation, the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers (“ASA”) and the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute.
- Brad Venisnik, ASA provided significant machinery and equipment appraisal assistance.
- I have not conducted a site inspection of the Subject Assets associated with this analysis.

**DRAFT**

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Eric H. Hencken, ASA

## ADDENDA

	Subject	Sale NO.1	Sale NO.2	Sale NO.3	Sale NO.4
Property Name	Our Lady Fatima	Broncos Hwy	22 Austin	Newport Center	Post Rd
Location	200 High Service Ave.	0 Victory Hwy	22 Austin Rd.	75 Newport Ave.	2245 Post Rd.
City, State	North Providence, RI	Harrisville, RI	North Kingstown, RI	East Providence, RI	Warwick, RI
Land Area	17.55	9.63	8.08	7.51	4.92
Sale Price	-	\$2,500,000	\$1,100,000	\$4,057,471	\$2,400,000
Sale Date	-	Under Contract	1/8/2024	7/15/2022	5/17/2022
Unit Sales Price	-	\$259,605.40	\$136,138.61	\$540,275.77	\$487,804.88

**Adjustments**

Property Rights Conveyed	Fee Simple	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%
Adjusted Unit Sales Price		\$259,605.40		\$136,138.61		\$540,275.77		\$487,804.88	
Financing Terms	----	Conventional	0%	Conventional	0%	Conventional	0%	Conventional	0%
Adjusted Unit Sales Price		\$259,605.40		\$136,138.61		\$540,275.77		\$487,804.88	
Conditions of Sale	----	Normal	0%	Normal	0%	Normal	0%	Normal	0%
Adjusted Unit Sales Price		\$259,605.40		\$136,138.61		\$540,275.77		\$487,804.88	
Market Conditions	Apr-24	Current	0%	Current	0%	Current	0%	Current	0%
Adjusted Unit Sales Price		\$259,605.40		\$136,138.61		\$540,275.77		\$487,804.88	

**Location/Physical Adjustments**

Location	Average	Inferior	10%	Inferior	10%	Superior	-5%	Similar	0%
Access/Frontage	Average	Inferior	5%	Inferior	5%	Superior	-5%	Superior	-5%
Visibility	Average	Inferior	5%	Inferior	5%	Similar	0%	Superior	-5%
Size (Acres)	17.55	Superior	-5%	Superior	-5%	Superior	-5%	Superior	-10%
Zoning	IS	GC	-5%	PR	-5%	Mixed Use	-10%	GB	-5%
			10%		10%		-25%		-25%

Adjusted Price Per Acre

	\$285,565.94	\$149,752.48	\$405,206.82	\$365,853.66
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Ranges and Reconciled Values		200 High Service Ave.
Maximum Adjusted Price :		\$405,206.82
Mean Adjusted Price :		\$301,594.72
Minimum Adjusted Price:		\$149,752.48
<b>Concluded Price/Acre:</b>		<b>\$300,000.00</b>
Subject Size:		17.55
Indicated Value		\$5,265,900
<b>Hypothetical Fair Market Value (Rounded)</b>		<b>\$5,270,000</b>



	Subject	Sale NO.1	Sale NO.2	Sale NO.3	Sale NO.4
Property Name	Fruit Hill Ave	603 Clinton St.		22 Austin	258 Pine St.
Location	Fruit Hill Ave.	603 Clinton St.	0 Hartford Ave.	22 Austin Rd.	258 Pine St.
City, State	North Providence, RI	Woonsocket, RI	Johnston, RI	North Kingstown, RI	Pawtucket, RI
Land Area	3.54	0.92	6.00	8.08	6.39
Sale Price	-	\$375,000	\$2,400,000	\$1,100,000	\$1,700,000
Sale Date	-	Under Contract	Under Contract	1/8/2024	11/17/2022
Unit Sales Price	-	\$407,608.70	\$400,000.00	\$136,138.61	\$266,040.69

**Adjustments**

Property Rights Conveyed	Fee Simple	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%
Adjusted Unit Sales Price		\$407,608.70		\$400,000.00		\$136,138.61		\$266,040.69	
Financing Terms	----	Conventional	0%	Conventional	0%	Conventional	0%	Conventional	0%
Adjusted Unit Sales Price		\$407,608.70		\$400,000.00		\$136,138.61		\$266,040.69	
Conditions of Sale	----	Normal	0%	Normal	0%	Normal	0%	Normal	0%
Adjusted Unit Sales Price		\$407,608.70		\$400,000.00		\$136,138.61		\$266,040.69	
Market Conditions	Apr-24	Current	0%	Current	0%	Current	0%	Current	0%
Adjusted Unit Sales Price		\$407,608.70		\$400,000.00		\$136,138.61		\$266,040.69	

**Location/Physical Adjustments**

Location	Average	Similar	-5%	Superior	-10%	Inferior	10%	Similar	0%
Access/Frontage	Good	Superior	-10%	Superior	-10%	Inferior	5%	Superior	-5%
Visibility	Good	Superior	-10%	Superior	-10%	Inferior	5%	Superior	-5%
Size (Acres)	3.54	Superior	-5%	Similar	0%	Inferior	5%	Similar	0%
Use/Development Potential	RL13/Average	C-1/Good	-10%	B-2/Good	-10%	PR	-5%	MO	-5%
			-40%		-40%		20%		-15%

Adjusted Price Per Acre

	\$244,565.22	\$240,000.00	\$163,366.34	\$226,134.59
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Ranges and Reconciled Values		Fruit Hill Ave.
Maximum Adjusted Price :		\$244,565.22
Mean Adjusted Price :		\$218,516.53
Minimum Adjusted Price:		\$163,366.34
<b>Concluded Price/Acre:</b>		<b>\$215,000.00</b>
Subject Size:		3.54
Indicated Value		\$761,530
<b>Hypothetical Fair Market Value (Rounded)</b>		<b>\$760,000</b>

Subject	Sale NO.1	Sale NO.2	Sale NO.3	Sale NO.4
Property Name	Roger Williams Medical Center	936 Toll Gate Rd.	0 Hartford Ave.	258 Pine St.
Location	825 Chalkstone Ave.	936 Toll Gate Rd.	0 Hartford Ave.	258 Pine St.
City, State	Providence, RI	Warwick, RI	Johnston, RI	Pawtucket, RI
Land Area	9.91	11.13	6.00	6.39
Sale Price	-	\$1,800,000	\$2,400,000	\$1,700,000
Sale Date	-	Under Contract	Under Contract	11/17/2022
Unit Sales Price	-	\$161,725.07	\$400,000.00	\$266,040.69
				\$540,275.77

**Adjustments**

Property Rights Conveyed	Fee Simple	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%
Adjusted Unit Sales Price		\$161,725.07		\$400,000.00		\$266,040.69		\$540,275.77	
Financing Terms	----	Conventional	0%	Conventional	0%	Conventional	0%	Conventional	0%
Adjusted Unit Sales Price		\$161,725.07		\$400,000.00		\$266,040.69		\$540,275.77	
Conditions of Sale	----	Normal	0%	Normal	0%	Normal	0%	Normal	0%
Adjusted Unit Sales Price		\$161,725.07		\$400,000.00		\$266,040.69		\$540,275.77	
Market Conditions	Apr-24	Current	0%	Current	0%	Current	0%	Current	0%
Adjusted Unit Sales Price		\$161,725.07		\$400,000.00		\$266,040.69		\$540,275.77	

**Location/Physical Adjustments**

Location	Good	Inferior	10%	Superior	-10%	Similar	0%	Superior	-5%
Access/Frontage	Good	Similar	0%	Superior	-10%	Superior	-5%	Similar	0%
Visibility	Good	Similar	0%	Superior	-10%	Superior	-5%	Similar	0%
Size (Acres)	9.91	Similar	0%	Similar	0%	Similar	0%	Similar	0%
Use/Development Potential	Institutional/Average	GC	-5%	B-2/Good	-10%	MO	-5%	Mixed Use	-10%
			5%		-40%		-15%		-15%

Adjusted Price Per Acre

	\$169,811.32	\$240,000.00	\$226,134.59	\$459,234.40
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Ranges and Reconciled Values	825 Chalkstone Ave.
Maximum Adjusted Price :	\$459,234.40
Mean Adjusted Price :	\$273,795.08
Minimum Adjusted Price:	\$169,811.32
<b>Concluded Price/Acre:</b>	<b>\$275,000.00</b>
Subject Size:	9.91
Indicated Value	\$2,726,350
<b>Hypothetical Fair Market Value (Rounded)</b>	<b>\$2,730,000</b>

	Subject	Sale NO.1	Sale NO.2	Sale NO.3	Sale NO.4
Property Name	895 Chalkstone	13 Croyland Rd.	151 Saratoga St.	317 Amherst St.	40 Newport Ave.
Location	895 Chalkstone Ave.	13 Croyland Rd.	151 Saratoga St.	317 Amherst St.	40 Newport Ave.
City, State	Providence, RI	Providence, RI	Providence, RI	Providence, RI	East Providence, RI
Land Area	0.42	0.07	0.21	0.07	0.87
Sale Price	-	\$61,250	\$184,000	\$60,000	\$1,100,000
Sale Date	-	11/10/2022	11/3/2022	2/8/2022	5/24/2021
Unit Sales Price	-	\$875,000.00	\$876,190.48	\$857,142.86	\$1,264,367.82

**Adjustments**

Property Rights Conveyed	Fee Simple	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Financing Terms	----	Conventional	0%	Conventional	0%	Conventional	0%	Conventional	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Conditions of Sale	----	Normal	0%	Normal	0%	Normal	0%	Normal	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Market Conditions	Apr-24	Current	0%	Current	0%	Current	0%	Current	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	

**Location/Physical Adjustments**

Location	Good	Similar	0%	Similar	0%	Similar	0%	Similar	0%
Access/Frontage	Good	Similar	0%	Similar	0%	Superior	-10%	Superior	-10%
Visibility	Good	Similar	0%	Similar	0%	Similar	0%	Superior	-10%
Size (Acres)	0.42	Similar	0%	Similar	0%	Similar	0%	Similar	0%
Use/Development Potential	C-1 & R-2/Average	R-3/Good	-10%	R-3/Good	-10%	R-3/Good	-10%	C3/Good	-20%
			-10%		-10%		-20%		-40%

Adjusted Price Per Acre

	\$875,000.00	\$788,571.43	\$685,714.29	\$758,620.69
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Ranges and Reconciled Values		895 Chalkstone Ave.
Maximum Adjusted Price :		\$788,571.43
Mean Adjusted Price :		\$755,101.60
Minimum Adjusted Price:		\$685,714.29
<b>Concluded Price/Acre:</b>		<b>\$750,000.00</b>
Subject Size:		0.42
Indicated Value		\$313,800
<b>Hypothetical Fair Market Value (Rounded)</b>		<b>\$310,000</b>

	Subject	Sale NO.1	Sale NO.2	Sale NO.3	Sale NO.4
Property Name	877 Chalkstone	13 Croyland Rd.	151 Saratoga St.	317 Amherst St.	40 Newport Ave.
Location	877 Chalkstone Ave.	13 Croyland Rd.	151 Saratoga St.	317 Amherst St.	40 Newport Ave.
City, State	Providence, RI	Providence, RI	Providence, RI	Providence, RI	East Providence, RI
Land Area	0.18	0.07	0.21	0.07	0.87
Sale Price	-	\$61,250	\$184,000	\$60,000	\$1,100,000
Sale Date	-	11/10/2022	11/3/2022	2/8/2022	5/24/2021
Unit Sales Price	-	\$875,000.00	\$876,190.48	\$857,142.86	\$1,264,367.82

**Adjustments**

Property Rights Conveyed	Fee Simple	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Financing Terms	---	Conventional	0%	Conventional	0%	Conventional	0%	Conventional	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Conditions of Sale	---	Normal	0%	Normal	0%	Normal	0%	Normal	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Market Conditions	Apr-24	Current	0%	Current	0%	Current	0%	Current	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	

**Location/Physical Adjustments**

Location	Good	Similar	0%	Similar	0%	Similar	0%	Similar	0%
Access/Frontage	Good	Similar	0%	Similar	0%	Superior	-10%	Superior	-10%
Visibility	Good	Similar	0%	Similar	0%	Similar	0%	Superior	-10%
Size (Acres)	0.18	Similar	0%	Similar	0%	Similar	0%	Similar	0%
Use/Development Potential	C-1/Average	R-3/Good	-10%	R-3/Good	-10%	R-3/Good	-10%	C3/Good	-20%
			-10%		-10%		-20%		-40%

Adjusted Price Per Acre

	\$787,500.00	\$788,571.43	\$685,714.29	\$758,620.69
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Ranges and Reconciled Values		877 Chalkstone Ave.
Maximum Adjusted Price :		\$788,571.43
Mean Adjusted Price :		\$755,101.60
Minimum Adjusted Price:		\$685,714.29
<b>Concluded Price/Acre:</b>		<b>\$750,000.00</b>
Subject Size:		0.18
Indicated Value		\$132,150
<b>Hypothetical Fair Market Value (Rounded)</b>		<b>\$130,000</b>

	Subject	Sale NO.1	Sale NO.2	Sale NO.3	Sale NO.4
Property Name	33-55 Rosebank Ave.	13 Croyland Rd.	151 Saratoga St.	317 Amherst St.	40 Newport Ave.
Location	33-55 Rosebank Ave.	13 Croyland Rd.	151 Saratoga St.	317 Amherst St.	40 Newport Ave.
City, State	Providence, RI	Providence, RI	Providence, RI	Providence, RI	East Providence, RI
Land Area	0.88	0.07	0.21	0.07	0.87
Sale Price	-	\$61,250	\$184,000	\$60,000	\$1,100,000
Sale Date	-	11/10/2022	11/3/2022	2/8/2022	5/24/2021
Unit Sales Price	-	\$875,000.00	\$876,190.48	\$857,142.86	\$1,264,367.82

**Adjustments**

Property Rights Conveyed	Fee Simple	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%	Fee Simple	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Financing Terms	----	Conventional	0%	Conventional	0%	Conventional	0%	Conventional	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Conditions of Sale	----	Normal	0%	Normal	0%	Normal	0%	Normal	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	
Market Conditions	Apr-24	Current	0%	Current	0%	Current	0%	Current	0%
Adjusted Unit Sales Price		\$875,000.00		\$876,190.48		\$857,142.86		\$1,264,367.82	

**Location/Physical Adjustments**

Location	Good	Similar	0%	Similar	0%	Similar	0%	Similar	0%
Access/Frontage	Good	Similar	0%	Similar	0%	Superior	-10%	Superior	-10%
Visibility	Good	Similar	0%	Similar	0%	Similar	0%	Superior	-10%
Size (Acres)	0.88	Similar	0%	Similar	0%	Similar	0%	Similar	0%
Use/Development Potential	I-1-75/Fair	R-3/Good	-25%	R-3/Good	-25%	R-3/Good	-25%	C3/Good	-30%
			-25%		-25%		-35%		-50%

Adjusted Price Per Acre

	\$656,250.00	\$657,142.86	\$557,142.86	\$632,183.91
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Ranges and Reconciled Values		33-55 Rosebank Ave.
Maximum Adjusted Price :		\$657,142.86
Mean Adjusted Price :		\$625,679.91
Minimum Adjusted Price:		\$557,142.86
<b>Concluded Price/Acre:</b>		<b>\$625,000.00</b>
Subject Size:		0.88
Indicated Value		\$550,375
<b>Hypothetical Fair Market Value (Rounded)</b>		<b>\$550,000</b>

Multipliers	
Ceiling Height Multiplier: 1.000	Local Multiplier: 1.150
Story Multiplier: 1.000	Current Cost Multipliers: 1.020
Perimeter Multiplier: 0.932	Combined Multipliers: 1.093

Building Improvements									
Sec. Pg.	Date	Type	Class	Quality	Cost (SF)	(SF)	Multiplier	Total	
15	24	Nov-23	General Hospital	C	Average	\$303.00	219,816	1.093	\$72,775,098
15	37	Nov-23	Sprinkler	C	Average	\$3.33	286,328	1.173	\$1,118,423
15	24	Nov-23	Basement	C	General	\$234.00	66,512	1.093	\$17,005,787
<b>Total Hard Costs</b>								<b>\$73,893,521</b>	

Soft Costs			
Item	Percent	Type	Total
Preliminary Studies/Land planning	2.5%	% of Building Cost	\$1,847,338
Developers Profit	10.0%	% of Building Cost	\$7,389,352
<b>Total Soft Costs</b>			<b>\$9,236,690</b>

Total Costs	
<b>Total Building Cost</b>	<b>\$83,130,211</b>

Site Improvements							
Sec. Pg.	Date	Item	Unit Type	Cost	Quantity		Total
66	3	Dec-23 Low\$1,740/Avg\$2,070/Gd\$2,600	Surface parking lot	Per space	\$1,740	350	\$609,000
66	8	Dec-23 Avg Office/Retail \$7.93-Avg	Landscaping	Per SF	\$7.93	76,230	\$604,504
66	1	Dec-23 Per Lin Ft \$51	Concrete	Per LF	\$51.00	3,677	\$187,527
66	11	Dec-23 Low \$6.72 High \$11.15	Stormwater	Per SF	\$6.72	76,230	\$512,266
66	1	Dec-23 Avg .45	Bulk Grading	Per SF	\$0.45	762,300	\$343,035
<b>Subtotal</b>							<b>\$2,256,332</b>
Current/Local Multipliers							1.173
Developers Profit							10.00%
<b>Total Site Improvement Costs</b>							<b>\$2,911,345</b>

Depreciation						
Component	Eff. Age	Life	Percent	RUL	Amount	
Physical Depreciation: Building	25	40	63%	15	\$51,956,382	
Physical Depreciation: Site	15	20	75%	5	\$2,183,508	

Segregated Values	
RCNLD of Building	\$31,173,829
RCNLD of Site	\$727,836
<b>Hypothetical Cost Approach Value Indication</b>	<b>\$31,901,665</b>
<b>Rounded</b>	<b>\$31,900,000</b>
<b>Price per SF Gross Building Area</b>	<b>\$145.12</b>

Multipliers									
Ceiling Height Multiplier: 1.000					Local Multiplier: 1.130				
Story Multiplier: 1.000					Current Cost Multipliers: 1.020				
Perimeter Multiplier: 0.887					Combined Multipliers: 1.022				
Building Improvements									
Sec. Pg.	Date	Type	Class	Quality	Cost (\$F)	(SF)	Multiplier	Total	
15	22	Nov-23	Medical Office	A	Average	\$270.00	49,634	1.022	\$13,700,779
15	37	Nov-23	Sprinkler	A	Average	\$4.17	49,634	1.153	\$238,558
15	24	Nov-23	Basement	C	General	\$198.00	14,294	1.022	\$2,893,485
								<b>Total Hard Costs</b>	<b>\$13,939,337</b>
Soft Costs									
Item					Percent Type			Total	
Preliminary Studies/Land planning					2.5%			% of Building Cost \$348,483	
Developers Profit					10.0%			% of Building Cost \$1,393,934	
								<b>Total Soft Costs</b>	<b>\$1,742,417</b>
Total Costs									
								<b>Total Building Cost</b>	<b>\$15,681,755</b>
Site Improvements									
Sec. Pg.	Date	Item	Unit Type	Cost	Quantity	Total			
66	3	Dec-23 Low\$1,740/Avg\$2,070/Gd\$2,600	Surface parking lot	Per space	\$1,740	102	\$177,480		
66	8	Dec-23 Avg Office/Retail \$7.93-Avg	Landscaping	Per SF	\$7.93	0	\$0		
66	1	Dec-23 Per Lin Ft \$51	Concrete	Per LF	\$51.00	1,215	\$61,965		
66	11	Dec-23 Low \$6.72 High \$11.15	Stormwater	Per SF	\$6.72	0	\$0		
66	1	Dec-23 Avg .45	Bulk Grading	Per SF	\$0.45	0	\$0		
								<b>Subtotal</b>	<b>\$239,445</b>
								Current/Local Multipliers	1.153
								Developers Profit	10.00%
								<b>Total Site Improvement Costs</b>	<b>\$303,583</b>
Depreciation									
Component		Eff. Age	Life	Percent	RUL	Amount			
Physical Depreciation: Building		30	45	67%	15	\$10,454,503			
Physical Depreciation: Site		15	20	75%	5	\$227,687			
Segregated Values									
RCNLD of Building								\$5,227,252	
RCNLD of Site								\$75,896	
								<b>Hypothetical Cost Approach Value Indication</b>	<b>\$5,303,147</b>
								<b>Rounded</b>	<b>\$5,300,000</b>
								<b>Price per SF Gross Building Area</b>	<b>\$106.78</b>

Multipliers	
Ceiling Height Multiplier: 1.000	Local Multiplier: 1.150
Story Multiplier: 1.000	Current Cost Multipliers: 1.020
Perimeter Multiplier: 0.914	Combined Multipliers: 1.072

Building Improvements									
Sec. Pg.	Date	Type	Class	Quality	Cost (\$F)	(SF)	Multiplier	Total	
15	24	Nov-23	General Hospital	C	Good	\$403.00	268,679	1.072	\$116,086,837
15	37	Nov-23	Sprinkler	C	Average	\$3.21	268,679	1.173	\$1,011,665
15	24	Nov-23	Basement	C	General	\$164.00	108,250	1.072	\$19,033,382
								<b>Total Hard Costs</b>	<b>\$117,098,502</b>

Soft Costs			
Item	Percent	Type	Total
Preliminary Studies/Land planning	2.5%	% of Building Cost	\$2,927,463
Developers Profit	10.0%	% of Building Cost	\$11,709,850
<b>Total Soft Costs</b>			<b>\$14,637,313</b>

Total Costs	
	<b>Total Building Cost \$131,735,815</b>

Site Improvements								
Sec. Pg.	Date	Item	Unit Type	Cost	Quantity		Total	
66	3	Dec-23	Low\$1,740/Avg\$2,070/Gd\$2,600	Surface parking lot	Per space	\$1,740	471	\$819,540
66	8	Dec-23	Avg Office/Retail \$7.93-Avg	Landscaping	Per SF	\$7.93	37,636	\$298,452
66	1	Dec-23	Per Lin Ft \$51	Concrete	Per LF	\$51.00	1,066	\$54,366
66	11	Dec-23	Low \$6.72 High \$11.15	Stormwater	Per SF	\$6.72	37,636	\$252,913
66	1	Dec-23	Avg .45	Bulk Grading	Per SF	\$0.45	376,358	\$169,361
							<b>Subtotal</b>	<b>\$1,594,632</b>
							Current/Local Multipliers	1.173
							Developers Profit	10.00%
							<b>Total Site Improvement Costs</b>	<b>\$2,057,554</b>

Depreciation						
Component	Eff. Age	Life	Percent	RUL		Amount
Physical Depreciation: Building	30	45	67%	15		\$87,823,876
Physical Depreciation: Site	15	20	75%	5		\$1,543,166

Segregated Values	
RCNLD of Building	\$43,911,938
RCNLD of Site	\$514,389
<b>Hypothetical Cost Approach Value Indication</b>	<b>\$44,426,327</b>
<b>Rounded</b>	<b>\$44,430,000</b>
<b>Price per SF Gross Building Area</b>	<b>\$165.36</b>



Multipliers										
Ceiling Height Multiplier: 1.000					Local Multiplier: 1.160					
Story Multiplier: 1.000					Current Cost Multipliers: 0.990					
Perimeter Multiplier: 0.956					Combined Multipliers: 1.098					
Building Improvements										
Sec. Pg.	Date	Type	Class	Quality	Cost (SF)	(SF)	Multiplier	Total		
15	25	Nov-23	Surgical Center	D	Average	\$287.00	23,232	1.098	\$7,320,143	
15	37	Nov-23	Sprinkler	D	Average	\$4.83	23,232	1.148	\$128,863	
15	24									
<b>Total Hard Costs</b>									<b>\$7,449,006</b>	
Soft Costs										
Item					Percent Type			Total		
Preliminary Studies/Land planning					2.5%			% of Building Cost		\$186,225
Developers Profit					10.0%			% of Building Cost		\$744,901
<b>Total Soft Costs</b>									<b>\$931,126</b>	
Total Costs										
<b>Total Building Cost</b>									<b>\$8,380,131</b>	
Site Improvements										
Sec. Pg.	Date	Item	Unit Type	Cost	Quantity	Total				
66	3	Dec-23	Low\$1,740/Avg\$2,070/Gd\$2,600	Surface parking lot	Per space	\$1,740	0	\$0		
66	8	Dec-23	Avg Office/Retail \$7.93-Avg	Landscaping	Per SF	\$7.93	0	\$0		
66	1	Dec-23	Per Lin Ft \$51	Concrete	Per LF	\$51.00	0	\$0		
66	11	Dec-23	Low \$6.72 High \$11.15	Stormwater	Per SF	\$6.72	0	\$0		
66	1	Dec-23	Avg .45	Bulk Grading	Per SF	\$0.45	0	\$0		
<b>Subtotal</b>									<b>\$0</b>	
Current/Local Multipliers									1.148	
Developers Profit									10.00%	
<b>Total Site Improvement Costs</b>									<b>\$0</b>	
Depreciation										
Component	Eff. Age	Life	Percent	RUL	Amount					
Physical Depreciation: Building	25	35	71%	10	\$5,985,808					
Physical Depreciation: Site	15	20	75%	5	\$0					
Segregated Values										
RCNLD of Building									\$2,394,323	
RCNLD of Site									\$0	
<b>Hypothetical Cost Approach Value Indication</b>									<b>\$2,394,323</b>	
<b>Rounded</b>									<b>\$2,390,000</b>	
<b>Price per SF Gross Building Area</b>									<b>\$102.88</b>	

Multipliers									
Ceiling Height Multiplier: 1.000					Local Multiplier: 1.160				
Story Multiplier: 1.000					Current Cost Multipliers: 0.990				
Perimeter Multiplier: 1.109					Combined Multipliers: 1.274				
Building Improvements									
Sec. Pg.	Date	Type	Class	Quality	Cost (SF)	(SF)	Multiplier	Total	
15	22	Nov-23	Medical Office	D	Low Cost	\$150.00	3,420	1.274	\$653,344
15	37	Nov-23	Sprinkler	D	Low Cost	\$5.56	3,420	1.148	\$21,837
<b>Total Hard Costs</b>									<b>\$675,181</b>
Soft Costs									
Item					Percent Type			Total	
Preliminary Studies/Land planning					2.5%			% of Building Cost \$16,880	
Developers Profit					10.0%			% of Building Cost \$67,518	
<b>Total Soft Costs</b>									<b>\$84,398</b>
Total Costs									
<b>Total Building Cost</b>									<b>\$759,579</b>
Site Improvements									
Sec. Pg.	Date	Item	Unit Type	Cost	Quantity	Total			
66	3	Dec-23	Low\$1,740/Avg\$2,070/Gd\$2,600	Surface parking lot	Per space	\$1,740	36	\$62,640	
66	8	Dec-23	Avg Office/Retail \$7.93-Avg	Landscaping	Per SF	\$7.93	659	\$5,223	
66	1	Dec-23	Per Lin Ft \$51	Concrete	Per LF	\$51.00	0	\$0	
66	11	Dec-23	Low \$6.72 High \$11.15	Stormwater	Per SF	\$6.72	659	\$4,426	
66	1	Dec-23	Avg .45	Bulk Grading	Per SF	\$0.45	6,586	\$2,964	
<b>Subtotal</b>									<b>\$75,253</b>
Current/Local Multipliers									1.148
Developers Profit									10.00%
<b>Total Site Improvement Costs</b>									<b>\$95,062</b>
Depreciation									
Component	Eff. Age	Life	Percent	RUL	Amount				
Physical Depreciation: Building	30	35	86%	5	\$651,068				
Physical Depreciation: Site	15	20	75%	5	\$71,297				
Segregated Values									
RCNLD of Building									\$108,511
RCNLD of Site									\$23,766
<b>Hypothetical Cost Approach Value Indication</b>									<b>\$132,277</b>
<b>Rounded</b>									<b>\$130,000</b>
<b>Price per SF Gross Building Area</b>									<b>\$38.01</b>