



State of New Jersey
DEPARTMENT OF HEALTH
PO BOX 360
TRENTON, N.J. 08625-0360

CHRIS CHRISTIE
Governor

www.nj.gov/health

KIM GUADAGNO
Lt. Governor

MARY E. O'DOWD, M.P.H.
Commissioner

May 1, 2015

VIA UNITED PARCEL SERVICE

Joseph A. Trunfio, Ph.D.
Chief Executive Officer
AHS Hospital Corp.
475 South Street
Morristown, New Jersey 07962

Re: Hackettstown Regional Medical Center
Transfer of Ownership
CN# FR 140203-14-01
Project Cost: \$54,000,000
Expiration Date: May 1, 2020

Dear Dr. Trunfio:

I am approving your certificate of need (CN) application submitted on February 3, 2014, pursuant to N.J.A.C. 8:33-3.1, for the transfer of the ownership of Hackettstown Regional Medical Center (HRMC) from Hackettstown Community Hospital (HCH), a New Jersey nonprofit corporation whose sole member is Adventist HealthCare, Inc., to AHS Hospital Corporation (AHS), a New Jersey nonprofit corporation and subsidiary of Atlantic Health System. The application is being approved at the total project cost noted above. For the purposes of this review, the application was deemed a transfer of ownership of a licensed facility currently offering health care services and not a reduction, elimination, or relocation of a health care service. A transfer of ownership of an entire general hospital is subject to the full CN review process (N.J.A.C. 8:33-3.3(a)1). I evaluated this application for a transfer against standards set forth in statute (N.J.S.A. 26:2H-1 et seq.) and by administrative rule (N.J.A.C. 8:33). I am satisfied that the application submitted by AHS is consistent with those requirements.

This CN approval is limited to the transfer of ownership of HRMC, a general acute care hospital with a 111-bed capacity. Categorically, the bed composition would continue to reflect 93 Medical/Surgical beds, 10 OB/GYN beds, and 8 Adult ICU/CCU

beds. The hospital's service complement would continue to include the existing 3 Mixed Operating rooms, 1 Mobile Lithotripter, 1 Linear Accelerator, 1 PET/Computerized Tomography Scanner combined unit, 1 Fixed Computerized Tomography Scanner, a Sleep Center, 2 Hyperbaric Chambers, and Acute Hemodialysis services. HRMC would also continue to operate the Center for Healthier Living at 108 Bilby Road in Hackettstown and the Counseling and Addiction Center at 112 East Avenue in Hackettstown as hospital-based, off-site ambulatory care facilities. In addition, the applicant is committed to continuing the hospital's two designations as both a Community Perinatal Center - Basic and Primary Stroke Center.

As set forth in the CN application, AHS agrees to operate HRMC as a general acute care hospital following the transfer of ownership. It also agrees to continue all existing medical services offered by HRMC and maintain the existing licensed bed capacity, service complement and programs at the hospital's existing location in Hackettstown. In addition, AHS agrees to hire substantially all hospital employees who are employed at HRMC at the time of the transfer of ownership.

For the reasons that follow I am approving, with conditions, the application submitted for the transfer of ownership of HRMC to AHS. My decision to approve this CN application is consistent with the recommendation of the State Health Planning Board (SHPB), which unanimously recommended approval of CN# FR 140203-14-01 at its July 10, 2014, meeting. In reaching this decision, I considered the CN application for the transfer of ownership of HRMC, completeness questions and responses, public hearing transcripts, written comments, exhibits, Department of Health (Department) staff recommendations, and SHPB recommendations. The referenced materials are incorporated and made a part of this final decision.

N.J.S.A. 26:2H-8, as well as N.J.A.C. 8:33-4.9(a), provide for the issuance of a CN only where the action proposed in the application for such certificate is necessary to provide required health care in the area to be served, can be economically accomplished and maintained, will not have an adverse economic or financial impact on the delivery of health services in the region or statewide, and will contribute to the orderly development of adequate and effective health care services. In making such determinations, I must take into consideration: (a) the availability of facilities or services which may serve as alternatives or substitutes, (b) the need for special equipment and services in the area, (c) the possible economies and improvement in services to be anticipated from the operation of joint central services, (d) the adequacy of financial resources and sources of present and future revenues, (e) the availability of sufficient manpower in the several professional disciplines, and (f) such other factors as may be established by regulation.

As part of the review process, the SHPB is also required to hold at least one public hearing in the service area of the health care facility within 30 days of the application being declared complete by the Department. A public hearing took place at Centenary College's Lackland Center in Hackettstown on June 30, 2014, with approximately 45 people attending and 18 speakers providing comments. The

comments from the transcript show significant support for the applicant's acquisition of the hospital. Seventeen speakers spoke in favor of the application, citing the benefits and opportunities to be realized with the merger of a smaller, stand-alone hospital with a larger, well established hospital system. They emphasized how the merging of these institutions would provide greater access to more complex care and technological advances for patients, as well as how the sharing of services and the investment of capital into HRMC will reduce operational costs. William Neigher, Atlantic Health System, stated that "[t]he intent of pursuing the merger is to increase clinical collaboration and expand programs to better meet the healthcare needs of all residents of Morris and Warren County." (6/30/14 Tr. at 24:11-14). Dr. Khanna, Interventional Cardiologist practicing at both HRMC and Morristown Medical Center, noted that "[f]or HRMC to be affiliated with an institution with a reputation like this will not only benefit my patients, but all patients in the region by providing high quality, accessible health care that will inevitably lead to a healthier community." (6/30/14 Tr. at 43:2-7).

A concerned resident and former hospital patient was the only speaker who voiced reservations regarding the transfer of ownership on the grounds that "Hackettstown Regional Memorial Hospital is a community hospital. It's been an excellent hospital, but today with the conglomeration of Atlantic Health, I'm afraid it's going to be lost in the shuffle." (6/30/14 Tr. at 36::6-10). This speaker also expressed concern that there had been improper notification to the public as to the scheduling of the hearing. In response, the SHPB member chairing the hearing pointed out that this was not the case, referring the speaker to his introductory statement in which he referenced the Department's statutory and regulatory compliance with the public notice requirement. (6/30/14 Tr. at 35:7-9 and 11-14).

As to the specifics of this application, N.J.S.A. 26:2H-8(a) requires that I consider the availability of facilities or services which may serve as alternatives or substitutes. The applicant has demonstrated that while there are alternative hospitals with market share within the primary service area of HRMC, Warren County residents would likely experience substantial reductions in health care services if HRMC were to close or significantly downsize. The acquisition of the hospital by AHS will preserve the current level of health care services in the area. In its application, AHS stated that it had no intention to downsize services or reduce availability to any service currently provided at HRMC, and this will provide for accessibility and continuity of health care in this community. I have taken into consideration that there are other hospitals in Warren County that offer comparable or expanded capabilities to HRMC, but find that this transfer of ownership will not significantly alter the relationship of these hospitals to coexist or adversely impact the current level of care or services in the area.

I agree that the proposed transfer of ownership, as opposed to the potential reduction of services or closure of HRMC, will preserve appropriate access to health care services for the community, including the medically indigent and medically underserved population. Thus, I am satisfied that this criterion is met.

I also find that the requirement at N.J.S.A. 26:2H-8(b), to consider the need for special equipment and services in the area, would be met in this case. AHS agrees to offer the same services that are currently licensed at the present facility. This transfer of ownership will afford HRMC patients more of an opportunity to access the specialized care provided in the service area already offered at AHS's Morristown Medical Center, such as Cardiac Surgery, Neonatal Care, Neurosurgery and Trauma.

With respect to N.J.S.A. 26:2H-8(c), regarding the possible economies and improvement in services to be anticipated from the operation of joint central services, I find that applicant plans to share certain services such as financial management, human resources management, legal, patient billing services, and purchasing, as well as the development of electronic patient records and disease management improvement programs, as a means to control expenses and improve efficiencies. Moreover, I note that this transfer of ownership will improve resource utilization and operational efficiencies at all AHS hospitals. AHS has also stated that economies and improvements will be accomplished without reducing any of the existing licensed bed complement or services provided at HRMC, and AHS has committed to retaining substantially all of the current staff employed at HRMC.

N.J.S.A. 26:2H-8(d) requires me to examine the adequacy of financial resources and sources of present and future revenues. Financial analysis of the AHS application undertaken by the Department indicates that AHS possesses adequate financial resources to accomplish the proposed project. According to audited financial statements for the period ending December 31, 2013, provided by the hospital to the N.J. Health Care Facilities Financing Authority, AHS reported an excess of revenues over expenses of \$70,446,000, which translates to a profit margin of 4.3 percent. Unrestricted cash, including board-designated funds as of December 31, 2013, was \$816,447,000, which translates to about 200 days cash on hand. For the same period, HRMC showed a deficit of revenues over expenses of \$1,141,000 (negative 1.29 profit margin) and cash of \$33,788,000 (153 days). The applicant has stated that this transfer of ownership will help ensure the continued financial viability of HRMC.

With respect to N.J.S.A. 26:2H-8(e) regarding the availability of sufficient manpower in the several professional disciplines, I am satisfied that there will be sufficient qualified personnel since AHS has agreed to hire substantially all of the current 878 HRMC employees. AHS plans to implement a number of measures to enhance the hospital's ability to recruit and sustain the appropriate complement of physicians, clinical staff, and support personnel to ensure the long term viability of HRMC, such as upgrading information and medical technology.

N.J.S.A. 26:2H-8(f) requires consideration of such other factors as may be established by regulation. Therefore, I have taken into consideration the applicable administrative rules governing the services subject to full review (i.e., N.J.A.C. 8:33-1.1 et seq.). AHS is in compliance with the access requirements set forth in N.J.A.C. 8:33-1.1 et seq. and N.J.A.C. 8:33-4.10(a). Specifically, AHS plans no changes to the care or services currently provided at HRMC following this transfer of ownership, and will

promote access to low income persons, racial and ethnic minorities, women, disabled persons, the elderly, persons with HIV infections, and other persons who are unable to obtain care. Furthermore, HRMC will continue to maintain its commitment to the community to preserve access to health care for the residents, including the medically indigent and medically underserved population. The applicant states that its policies are consistent with those previously at HRMC regarding the provision of indigent care and its acceptance of all patients regardless of their ability to pay. In addition, AHS was found to be in compliance with the track record requirements at N.J.A.C. 8:33-4.10(d).

I agree with the SHPB on the recommended conditions, although I emphasize that HRMC must take all appropriate measures to ensure that patients receiving services at the facility are aware of the transfer of the license and that insurance coverage may change. Pursuant to Condition 15(c) below, HRMC shall post on the hospital's website the status of all insurance contracts related to patient care between the hospital and insurance plans, and must proactively provide notices to patients concerning pricing and charges related to coverage during termination of plans or out-of-network admissions. The Affordable Care Act, section 2718(e) of the Public Health Service Act also requires that "[e]ach hospital operating within the United States shall for each year establish (and update) and make public (in accordance with guidelines developed by the Secretary) a list of the hospital's standard charges for items and services provided by the hospital, including for diagnosis-related groups established under section 1886(d)(4) of the Social Security Act." I rely on the representations made at the SHPB by AHS that the applicant is committed to continuing and improving access to quality health care for the community and will work with all of the existing insurance carriers to ensure the continuation and availability of their services. In the event that plans are terminated or considered out-of-network, AHS shall provide patients with the necessary information to plan their care and make informed choices, including the ability to make a choice informed by costs. Information concerning insurance coverage and network participation would be an appropriate discussion topic to share with the community at the Annual Public Meeting (P.L.2008, c.59).

N.J.A.C. 8:33-4.9(a) requires a demonstration by the applicant that this transfer of ownership shall not have an adverse impact on the population being served in regards to access and quality of care. The applicant indicates that the transfer of ownership of HRMC, as opposed to any reduction in services or possible unplanned future closure of the hospital, will preserve and enhance the financial viability of the hospital and allow it to continue as a general acute care hospital providing the same level of licensed beds and health care services in the community. AHS has made a commitment to maintain HRMC as a general acute care hospital for at least five years following the transfer of ownership. The objective of this transfer of ownership is to reshape the healthcare delivery system at the existing HRMC, and provide more efficient and effective services, without causing any disruption in the continuity of care for its patients. As a component of rebuilding the hospital's information infrastructure, AHS plans to upgrade the current IT services at HRMC to conform to its existing IT system already established throughout the Atlantic Health System. This integration would enhance communication and more efficiently coordinate care through the

electronic sharing of patient medical records. I also believe that the development of a comprehensive medical records system between AHS and HRMC will cultivate a stronger working relationship and promote greater collaboration and decision making among the system's physicians.

Moreover, I find that AHS has provided an appropriate project description, which includes information as to the financial impact of the merger, operating costs and revenues, services affected, equipment involved, source of funds, utilization statistics, and justification for the proposed project (N.J.A.C. 8:33-4.10(b)), assurance that all residents of the area, particularly the medically underserved, will have access to services (N.J.A.C. 8:33-4.10(a)), and assurance that it will meet appropriate licensing and construction standards (N.J.A.C. 8:43G-1.1 et seq.).

Based on the foregoing, I am approving the application for the transfer of ownership of HRMC, with conditions. My decision to allow this transfer of ownership from HCH to AHS is based on the fact that the operation of HRMC under the proposed new ownership would be beneficial to the population in its service area because it will preserve access to health care services for the community, including the medically indigent and medically underserved population. This transfer of ownership will strengthen the financial viability of HRMC, making it better equipped to provide essential health care services needed to serve the core population of its primary service area. I believe that this approval will not have an adverse impact on the other existing hospitals in Warren County or the surrounding counties. There is no existing data to suggest that this transfer of ownership would alter HRMC's relationship with the other existing hospitals or adversely impact the health status of any of the communities served by the hospitals in Warren and surrounding counties.

My decision to approve this application also factors in the applicant's plans to rebuild the healthcare delivery system at HRMC by enhancing their medical and non-medical supportive technology, as well as creating a more structured physician and patient environment for better care. This transfer has the potential of promoting shared services and administrative efficiencies targeting improvements in patient outcomes.

Finally, I acknowledge that HRMC has had a long-standing commitment to the residents in its service areas and believe that this approval will better enable the hospital, under its new ownership, to maintain and enhance its commitment to the community into the foreseeable future. I also note that the management of HRMC and the AHS hospitals share the same values and vision for providing quality health care services to the communities they serve. For the reasons set forth in this letter and noting the approval of the SHPB, I am approving AHS's application for the transfer of ownership of HRMC subject to the following conditions, which I note were accepted by a representative of the applicant while addressing the SHPB:

1. The applicant shall complete the Office of Attorney General Community Health Care Assets Protection Act, N.J.S.A. 26:2H-7.10 et seq., review for the proposed transfer of the assets of HRMC to AHS.

2. The applicant shall file a licensing application with the Department's Division of Certificate of Need and Licensing (the Division) to execute the transfer of the ownership of HRMC's license to AHS, as well as all other licensed health care facilities described in the application and described as included in the entire transaction between the applicant and HRMC.
3. The applicant shall notify the Division, in writing, of specifically who is responsible for the safekeeping and accessibility of all HRMC patients' medical records (both active and stored) in accordance with N.J.S.A. 8:26-8.5 et. seq. and N.J.A.C. 8:43G-15.2.
4. The applicant, AHS, agrees to retain substantially all of the current employees at HRMC. Six months after licensure, AHS shall document to the Division the number of employees retained and provide the rationale for any workforce reductions.
5. For at least five years, AHS shall continue all inpatient and clinical services and all community health programs currently offered at HRMC. Any changes in this commitment involving either a reduction, relocation out of HRMC's current service area, or elimination of inpatient or clinical services or community health programs offered by HRMC's former ownership shall require prior written approval from the Department and shall be subject to all applicable statutory and regulatory requirements. This condition shall be imposed as a contractual condition of any subsequent sale or transfer, subject to appropriate regulatory or legal review, by AHS within the five-year period.
6. AHS shall continue compliance with N.J.A.C. 8:43G-5.21(a), which requires that "[a]ll hospitals . . . provide, on a regular and continuing basis, out-patient and preventive services, including clinical services for medically indigent patients, in those services provided on an in-patient basis." Within 30 days of the issuance of the license and every six months thereafter for a period of five years, AHS shall submit documentation of compliance with this condition to the Division. Such documentation of clinical services shall include, but not be limited to, a list of all physician specialties, the number of physicians within each specialty and the number of those physicians within each specialty that accept Medicaid reimbursement.
7. AHS shall comply with federal EMTALA requirements set forth at 42 C.F.R. §489.24, and also provide care for all patients who present themselves at HRMC without regard to their ability to pay or payment source, in accordance with N.J.S.A. 26:2H-18.64 and N.J.A.C. 8:43G-5.2(c).
8. AHS shall provide care in accordance with N.J.S.A. 26:2H-18.64 and N.J.A.C. 8:43G-5.2(c), which shall be consistent with the needs of the uninsured and provide unimpaired access to all services offered by the hospital.

9. AHS shall establish a functioning Board of Directors for the hospital responsible for implementing hospital-wide policy, adopting bylaws, maintaining quality of care, and providing institutional management and planning consistent with the AHS organizational structure. This Board shall maintain suitable representation of the residing population of HRMC's service area who are neither employees of, nor related to employees of, any parent, subsidiary corporation or corporate affiliate. Annual notice shall be made to the Department of this Board's roster, along with any policies governing Board composition, governance authority and Board appointments.
10. Within 30 days of licensing, AHS shall provide the Department with an organizational chart of HRMC and each service that shows lines of authority, responsibility, and communication between AHS and hospital management and the Board of Directors.
11. AHS shall submit annual reports to the Department for the initial five years following the transfer of ownership, or upon request, detailing:
 - a. The investments it has made during the previous year at the hospital. Such reports shall also include a detailed annual accounting of any long- or short-term debt or other liabilities incurred on the hospital's behalf and reflected on the HRMC balance sheet;
 - b. The transfer of funds from the hospital to any parent, subsidiary corporation, or corporate affiliate and indicating the amount of funds transferred to document that assets and profits reasonably necessary to accomplish the healthcare purposes remain with the hospital. Transfer of funds shall include, but not be limited to, assessments for corporate services, transfers of cash and investment balances to centrally controlled accounts, management fees, capital assessments, and/or special one-time assessments for any purpose; and
 - c. All financial data and measures required pursuant to N.J.A.C. 8:31B and from the financial indicators monthly reporting.

In addition, AHS shall provide its Audited Annual Financial Statements to the Department and post them to its website within 180 days of the end of its fiscal year.

12. Within 15 business days of approval of this application, AHS shall provide a report to the Division detailing the communication plan to HRMC staff and to the community, including but not limited to elected officials, clinical practitioners, and EMS providers, concerning the approval of the transfer of ownership and the availability of fully-integrated and comprehensive health services. This shall include reference to the outreach plan referenced in

Condition 14 below.

13. Within 60 days of posting its Audited Annual Financial Statements to its website, AHS shall hold an annual meeting for HRMC pursuant to N.J.S.A. 26:2H-12.50, and shall make copies of those financial statements available at the annual public meeting. AHS shall develop mechanisms for the meeting that address the following:
 - a. An opportunity for members of the local community to present their concerns to AHS regarding local health care needs and hospital operations, and a procedure on how those concerns will be addressed by the hospital; and
 - b. A method for AHS to publicly respond to the concerns expressed by community members at the annual public meeting. AHS shall develop these methods within 90 days of approval of this application and share them with the Division.
14. An outreach plan shall be established to ensure that all residents of the hospital service area, especially the medically indigent, have access to the available services at the location. A self-evaluation of this effort shall be conducted on an annual basis for five years after licensure to measure its effectiveness. This evaluation shall contain any expenditure for activities, including but not limited to, outreach, community programs, and health professional education. The evaluation shall be submitted to the Department within 20 business days after the conclusion of each year of licensure and presented to the public at the hospital's annual public meeting.
15. After the transfer of HRMC is implemented:
 - a. AHS shall use its commercially reasonable best efforts to negotiate in good faith for in-network HMO and commercial insurance contracts, with commercially reasonable rates based on the rates that HMOs and commercial insurance companies pay to similarly situated in-network hospitals in the northern New Jersey region.
 - b. AHS shall convene periodic meetings with the Department and the Department of Banking and Insurance (DOBI) to review and evaluate all issues arising in contract negotiations within the first year of licensure, and provide written documentation to the Department on a monthly basis during that first year, which shall include, but not be limited to, a description of the number and subject of telephone calls, correspondence and meetings with existing HMO and commercial insurance carriers, as well as follow-up telephone calls, correspondence and meetings. At a minimum, AHS shall have monthly contact with the existing HMO and commercial insurers. If the existing HMO and commercial insurers fail to

respond to requests for negotiations, then AHS shall notify the Department and DOBI to request assistance.

- c. Within 10 days of licensure, AHS shall post on the hospital's website the status of all insurance contracts related to patient care between the hospital and insurance plans, including all insurance plans with which HRMC contracted at the time of submission of this CN application, February 2014. AHS shall also provide notices to patients concerning pricing and charges related to coverage during termination of plans.
 - d. Within the first year of licensure, AHS shall notify the Department of the status of notices to terminate any HMO or commercial insurance contract that will expand out-of-network service coverage. AHS shall meet with representatives from the Department and DOBI to discuss the intent to terminate such contract, willingness to enter into mediation, and shall document how it will provide notice to patients and providers, and the impact such action is reasonably expected to have on access to health care.
 - e. For at least five years after licensure, AHS shall report annually to the Department on the hospital's payer mix and the number and percent of total hospital admissions that came through the emergency department.
16. In accordance with the provisions of N.J.S.A. 26:2H-18.59h, AHS shall "offer to its employees who were affected by the transfer, health insurance coverage at substantially equivalent levels, terms and conditions to those that were offered to the employees prior to the transfer." This condition does not prohibit good faith contract negotiations in the future.
 17. AHS shall identify a single point of contact to report to the Division concerning the status of all of the conditions referenced within the timeframes noted in the conditions.
 18. All the above conditions shall also apply to any successor organization to AHS who acquires HRMC within five years from the date of the CN approval.

Failure to satisfy the aforementioned conditions of approval may result in sanctions, including license suspension, monetary penalties and other sanctions in accordance with N.J.S.A. 26:2H-1 et seq. and all other applicable requirements. Acceptance of these conditions will be presumed unless written objections are submitted to the Department within 30 days of receipt of this letter. Upon receipt of such objections, this approval will be deemed suspended and the project shall be re-examined in light of the objections.

We look forward to working with you and helping you to provide a high quality of care to the patients of HRMC. If you have any questions concerning this Certificate of Need, please do not hesitate to contact John Calabria, CNHCFL Director, at (609) 292-8773.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary O'Dowd". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Mary O'Dowd, M.P.H.
Commissioner

c: John Calabria, DOH