



Project # 192157-E

SLHS Massena, Inc. d/b/a Massena Hospital

Program: Hospital
Purpose: Establishment

County: St. Lawrence
Acknowledged: October 7, 2019

Executive Summary

Description

St. Lawrence Health System, Inc. (SLHS), a not-for-profit health care organization, requests approval to establish SLHS Massena, Inc., a New York not-for-profit corporation, as the new operator of Massena Memorial Hospital (MMH), a 25-bed, public municipal, Article 28 sole community hospital located at 1 Hospital Drive, Massena (St. Lawrence County), and to establish SLHS as the hospital's active parent and co-operator. The hospital's sponsorship will be converting to a 501(c)(3) governance structure. Upon approval by the Public Health and Health Planning Council (PHHPC), SLHS will change its name to Massena Hospital, Inc., and be known as Massena Hospital. Recently under CON 191208, the hospital decertified 25 beds and requested approval to operate as a Critical Access Hospital (CAH). Approval of CAH designation by the Centers for Medicare and Medicaid Services (CMS) is pending.

The proposed governance restructuring and affiliation with SLHS are part of an overall sustainability plan to preserve essential health care services in the Town of Massena and enable the hospital to become financially sustainable.

The parties to this Transaction are SLHS (Purchaser) and the Town of Massena and Massena Memorial Hospital (collectively Seller). The Seller and Purchaser executed a Management Agreement dated June 19, 2019, whereby the Purchaser is providing general management services to MMH. The Seller, Purchaser and NYSDOH are parties to a Supervisory Agreement effective June 19, 2019, whereby the NYSDOH provides oversight to the

arrangement. On July 30, 2019, the Seller and Purchaser executed an Asset Purchase Agreement (APA) that provided for the transfer of all the hospital's assets, including the real property, and the assignment and assumption of certain liabilities and obligations relating to MMH prior to Closing. The purchase consideration is \$8,000,000 and provides a commitment of capital and the funding of services including providing financial support for workforce liabilities.

SLHS has developed an overall Transformation Plan for the Hospital. The Plan is to transform the Hospital to a financially sustainable institution capable of preserving essential health care services in St. Lawrence County. The purpose of the Plan is to grow a coordinated, highly integrated system with the objectives of improving quality, increasing access and lowering the costs of health care in the communities served by SLHS and MH.

On July 31, 2019, the Town of Massena was awarded a \$20 million Statewide Health Care Facility Transformation Program Phase II grant. The purpose of the grant is to retire debt and support the conversion of MMH from a public hospital to a voluntary non-profit hospital affiliated with SLHS. The NYSDOH notified MMH that the grant is conditioned upon, among other things, the conversion of the hospital to a voluntary non-profit 501(c)(3) hospital corporation that is co established with SLHS pursuant to an APA agreement acceptable to the Department. SLHS is a not-for-profit 501(c)(3) organization that serves as the sole corporate member, active parent and co-

operator of Canton-Potsdam Hospital (CPH) and Gouverneur Hospital (GH), both located in St. Lawrence County.

OPCHSM Recommendation

Contingent Approval

Need Summary

There will be no change to beds or services as a result of this application.

Program Summary

The individual background review indicates the proposed members have met the standard for approval as set forth in Public Health Law §2801-a(3).

Financial Summary

There are no project costs associated with this project. The currently identified acquisition price is valued at approximately \$8,000,000 and includes assumption of liabilities, commitment of capital, and the funding of services including providing financial support for workforce liabilities.

<u>Budget</u>	<u>Current Year</u>	
Revenues	\$51,460,734	
Expenses	<u>\$63,526,226</u>	
Net Income/(Loss)	(\$12,065,492)	

	<u>Year One</u>	<u>Year Three</u>
Revenues	\$53,427,636	\$54,627,693
Expenses	<u>\$55,408,808</u>	<u>\$54,608,808</u>
Net Income/(Loss)	(\$1,981,172)	\$18,985

Recommendations

Health Systems Agency

There will be no HSA recommendation for this project.

Office of Primary Care and Health Systems Management

Approval contingent upon:

1. Submission of a photocopy of an amended and executed Certificate of Amendment to the Certificate of Incorporation of St. Lawrence Health System, Inc. (Health System), acceptable to the Department. [CSL]
2. Submission of a photocopy of the amended bylaws of the Health System, acceptable to the Department. [CSL]
3. Submission of a photocopy of an executed Resolution of the Board of Directors of the Health System, acceptable to the Department. [CSL]
4. Submission of a photocopy of an executed Resolution of the Town Council of the Town of Massena, acceptable to the Department. [CSL]
5. Submission of a photocopy of an amended and executed Certificate of Incorporation of SLHS Massena, Inc., acceptable to the Department. [CSL]
6. Submission of a photocopy of an amended and executed Restated Certificate of Incorporation of SLHS Massena, Inc., acceptable to the Department. [CSL]
7. Submission of a photocopy of the bylaws of Massena Hospital, Inc., acceptable to the Department.

Approval conditional upon:

1. The project must be completed within one year from the date of the Public Health and Health Planning Council recommendation letter. Failure to complete the project within the prescribed time shall constitute an abandonment of the application by the applicant and an expiration of the approval. [PMU]

Council Action Date

December 12, 2019

Need and Program Analysis

Background

MMH is currently certified for 25 beds and through project 191208 is seeking to become designated as a Critical Access Hospital (CAH). CMS approval of the CAH designation is pending. With the change in ownership, there are no additional projected changes in the services or beds. The approval of this project will allow St. Lawrence Health System to coordinate an integrated system to improve quality, access and decrease costs.

Character and Competence

The initial Board of Directors of SLHS Massena Inc. are:

<u>Name</u>	<u>Title/Position</u>
Edward Mucenski	Director
Mark Cornett	Director
Mark Brackett	Director
Michael Burgess	Director
Donald Dangremond	Director

The SLHS Massena, Inc Board of Directors subsequent to final PHHPC approval are:

<u>Name</u>	<u>Title/Position</u>
Bedros Bakirtzian, MD	Director
Michael Cook	Director
Real C. Coupal	Director
Susanne Day, MD	Director
Dawn Hewlett	Director
David LeClair, Jr.	Director
Lenore Levine	Director
G. Michael Maresca	Director
Paul B. Morrow	Director
Loretta Perez	Director

Mr. Bedros Bakirtzian, M.D. is an Orthopedic Surgeon who has been in private practice for 29 years. He received his medical degree from the University De Sherbrooke in Canada. He is board-certified in Orthopedic Surgery.

Mr. Mark Brackett is a retired pharmacist with over 45 years of practice at a local pharmacy. He was also the Vice President of Human Resources for the pharmacy.

Mr. Michael Burgess is the Vice President of Financial Planning and Treasury Services for a national provider of pharmaceutical and healthcare services company. He is a Secretary of the Board for the St. Lawrence Health System and Chair of the Board for Gouverneur Hospital.

Mr. Michael Cook is employed as the Director of Health Operations of the St. Regis Mohawk Health Services for over six years. He was previously employed as the Project Officer at a health services facility in Tennessee.

Mr. Mark Cornett is the Chief Operating Officer a biometrics company for seven years. He has a general management and business background. He was the previous Chief Operating Officer of a platform technology company for 12 years.

Mr. Real Coupal is the President and Owner of a Ford and Chevrolet Auto Dealerships for over 37 years. He oversees 75 employees for both corporations. He is the member of multiple boards. He is the real estate manager of 25 rental units.

Mr. Donald Dangremond is retired from Clarkson University where he spent over 44 years. He held numerous senior management and administrative roles including Director of Residence Life, Associate Dean of Students, Director of Alumni Relations, Executive Director of Alumni and Parent Relations, Associate Vice President and Vice President of University Relations, and most recently Senior Gift Planning Officer. He is a trustee on the board of Canton-Potsdam Hospital and the St. Lawrence Health System.

Susanne Daye, M.D. is a retired Physician. She retired in 2017 with over 12 years as a Radiologist at multiple facilities and a remote Radiologist with coverage at hospitals in multiple states. She graduated with her medical degree from Georgetown University. She completed her transitional internship at the Letterman Army Medical Center in California. She completed her Diagnostic Radiologic Residency at the Brooke Army Medical Center in Texas. She completed a Body Imaging Fellowship at the University of Texas Houston Medical School.

Ms. Dawn Hewlett is the Financial Controller of a Data Center for over one year. She is responsible for financial accounting and reporting. She oversees the management of 70 employees. She was previously the Director of Decision Support and Budgeting and the Interim Controller at the University of Vermont for three years. Her responsibilities included being the point of contact for network budget software implementation, providing leadership for the integration, operation, maintenance, and reporting capabilities of the network decision support and cost accounting system, working to improve decision making and organizational performance by collaborating with departments to review cost center reports and department specific performance analysis.

Mr. David LeClair, Jr. has been employed for over 20 years in Production at Alcoa, an aluminum manufacturer. He is also trained and qualified on parts of each job in management. He has sat on the Massena School Board. He was the local union President. Each of these various board experiences has given him experience from daily operations to fiscal responsibility.

Ms. Lenore Levine is a Registered Nurse with over 37 years of experience. She retired in 2017 with 21 years of service at Massena Memorial Hospital Ambulatory Surgical Services and Medical Imaging Services.

G. Michael Maresca, M.D. is a currently practicing Radiologist and CEO and Founder of a private radiology practice. He received his medical degree from the University of Maryland School of Medicine. He completed his Diagnostic Radiology residency from the State University of New York Health Science Center in Syracuse. He is board-certified in Radiology and Physician Special Purpose Exam. He provides professional radiology services to numerous facilities.

Paul B. Morrow is the owner of an international multi-medical manufacturing and distributing corporation. He has operated a large corporation for over 19 years. He was previously employed as a supervisor for General Motors. He taught as a substitute teacher in the Business Department at the local high school.

Mr. Edward Mucenski is the Officer/Director of the Certified Public Accounting firm he has been employed by for over 35 years. He is a trustee of Canton-Potsdam Hospital and of the St. Lawrence Health System. He was also a trustee of St. Joseph's Rehabilitation Center.

Ms. Loretta Perez is the Owner/Manager of a travel agency for over 38 years. She was previously a Teacher for middle and high school English and Math for 26 years. She participated as the Department Chairperson, Student Council, and Class Advisor. She has been a board member of the Massena Memorial Hospital board for six years. She has served as chair of the Medical Affairs, Executive Committee, chair of the Finance Committee, member of the Safety Building and Grounds, and member of the Audit and Compliance Committee. She currently chairs the Board of Managers.

Staff from the Division of Certification & Surveillance reviewed the disclosure information submitted regarding licenses held, formal education, training in pertinent health and/or related areas, employment history, a record of legal actions, and a disclosure of the applicant's ownership interest in other health care facilities. Licensed individuals were checked against the Office of Medicaid Management, the Office

of Professional Medical Conduct, and the Education Department databases as well as the US Department of Health and Human Services Office of the Inspector General Medicare exclusion database.

Dr. Maresca disclosed that he was named in two open malpractice lawsuits. The first case alleged that a patient who presented with a head injury after a fall failed to properly diagnose hematoma and/or cystic hygromas that resulted in emergency brain surgery. The second case alleges a negligent read of appendicitis by Radiology. The patient received a laparoscopic appendectomy and expired. Both cases are pending.

The **St. Lawrence Health System Board**, comprised of 14 officers and directors, was subject to a Character and Competence review.

Name	Title/Position
Edward Mucenski	Chair
Mark Cornett	Vice Chair
Mark Brackett	Treasurer
Michael Burgess	Secretary
Florence Bero, MD	Director
Ronald Berry	Director
Donald Dangremond	Director
Brian Gardam	Director
Michael Griffin	Director
Stephen Knight	Director
Anne Richey	Director
James Theodore	Director
Michael Tulloch, MD	Director
David Acker	Chief Executive Officer

Dr. Florence Bero M.D. disclosed that being named in three malpractice cases, one that is opened and one that is closed. The closed malpractice case was filed on February 21, 2011 and alleged wrongful death, negligence, and improper care for an obstetrical patient who presented to the emergency department and became an inpatient. Dr. Bero was the covering physician during a portion of the patient's inpatient care. The case was settled and Dr. Bero was dropped from the case prior to the final settlement. On March 13, 2018 there was a stipulation of discontinuation for all the defendants. The second case was filed on behalf of the patient by his parents for prolonged resuscitation of a newborn, postpartum on August 4, 2014, and alleged failure to monitor labor and that the infant was hypoxic and cerebral palsy. The case remains ongoing. The third case was brought against the physician practice in April 2018. It was found that they had never provided care to this patient and they were dropped from the case in May 2018.

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

The Department issued a Stipulation and Order (S&O) dated November 16, 2018 and fine to MMH \$6,000 based on an investigation into nursing failing to monitor telemetry patient alarms appropriately. The patients were not being monitored by nurses trained in cardiac monitoring and dysrhythmias.

Prevention Agenda

Massena Memorial Hospital submitted a joint planning document (CSP/CHIP) with St Lawrence Health System and the St. Lawrence Department of Health. This combined report identified two priorities

- Preventing chronic disease – Reducing obesity in children and adults with activities focused on increasing physical activity in schools and the community. They identified transportation as a disparity,

- Promoting mental health and preventing substance abuse, focusing on strengthening the drug task forces, and safe disposal of prescription drugs and sharps

The applicant specified the evidence-based interventions selected to address these priorities. The partners have engaged with diverse local organizational partners in Prevention Agenda efforts to plan and/or implement appropriate interventions and will continue to do in the new structure.

No financial data are available for Massena Memorial Hospital and their community benefit spending is not known. Massena Memorial Hospital is currently in a transition phase and in the process of being purchased by St. Lawrence Health System, as indicated in the application.

Conclusion

Approval will preserve hospital services for the Massena community. Based on the information reviewed, staff found nothing that would reflect adversely upon the applicant’s character and competence or standing in the community.

Financial Analysis

Asset Purchase Agreement

The applicant has submitted an executed APA detailing the transfer of the hospital’s assets and liabilities from the Town of Massena and Massena Memorial Hospital to St. Lawrence Health System.

Date:	July 30, 2019
Seller:	Town of Massena and Massena Memorial Hospital
Purchaser:	St. Lawrence health System
Assets/Liabilities Acquired:	Seller’s rights and assets in the Facility and Business; Assets include: real property used in the operation of the Hospital (land, buildings, other improvements); tangible personal property (all inventory, supplies, all furniture, fixtures, and equipment); all books and records relating to the Hospital; patient medical records to the extent legally transferable; all cash, cash equivalents and securities held in accounts relating to the Hospital; accounts receivable and prepaid expenses; all rights and benefits under the assumed contracts, agreements, leases or instruments between Seller and any third party; and the name; Medicare and Medicaid provider numbers and all associated PINs related to physician employees and independent contractors, goodwill and intellectual property.
Excluded Assets:	MMH’s general ledgers, corporate charter, minute and stock record books, Tax ID number, income tax returns and corporate seals; membership interest of the Seller related to the business; all employee benefit plans; the excluded contracts; the asset described on the MMH balance sheet as line item “deferred outflows-pension;” all claims (and benefits arising therefrom) that relate to any liability other than the assumed liabilities; all rights (including tax and other refunds and claims thereto) relating to the excluded liabilities; all records relating to the excluded assets or excluded liabilities; all other records Seller is required under applicable law to maintain in their possession; all of the Seller’s rights under this agreement; all assets, whether real, personal, or mixed, tangible or intangible, owned or leased by the town and not held or used for the operation of the business or facility.
Acquisition Price:	Valued at \$8,000,000. Includes assumption of liabilities and commitment of capital, funding and services of \$8,000,000, which includes providing financial support for workforce liabilities.

The applicant has submitted an affidavit, which is acceptable to the Department, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding between the applicant and the transferor to the contrary, to be liable and responsible for any Medicaid overpayments made to the facility and/or surcharges, assessments or fees due from the transferor pursuant to Article 28 of the Public

Health Law with respect to the period of time prior to the applicant acquiring its interest, without releasing the transferor of the liability and responsibility. As of October 25, 2019, there are no outstanding Medicaid liabilities or assessments.

Operating Budget

The applicant has submitted an operating budget, in 2019 dollars, as summarized below:

	<u>Current Year</u>	<u>Year One</u>	<u>Year Three</u>
<u>Inpatient Revenues</u>			
Commercial - FFS	\$316,815	\$347,862	\$361,818
Commercial - MC	\$239,352	\$262,808	\$273,352
Medicaid - FFS	\$326,389	\$358,374	\$372,752
Medicaid - MC	\$2,353,485	\$2,584,116	\$2,687,793
Medicare - FFS	\$2,353,485	\$2,584,116	\$2,687,793
Medicare - MC	\$3,077,634	\$3,379,228	\$3,514,907
Private Pay	<u>\$384,704</u>	<u>\$422,403</u>	<u>\$439,352</u>
Total Inpt Revenues	\$9,051,864	\$9,938,907	\$10,337,767
<u>Outpatient Revenues</u>			
Commercial - FFS	\$7,685,667	\$7,916,756	\$8,088,234
Commercial - MC	\$3,742,102	\$3,854,618	\$3,938,110
Medicaid - FFS	\$1,044,834	\$1,076,249	\$1,099,561
Medicaid - MC	\$8,044,810	\$8,286,698	\$8,466,189
Medicare - FFS	\$9,625,040	\$9,914,443	\$10,129,190
Medicare - MC	\$3,663,262	\$3,773,407	\$3,855,140
Private Pay	<u>\$2,108,615</u>	<u>\$2,172,018</u>	<u>\$2,219,062</u>
Total Outpt Revenues	\$35,914,330	\$36,994,189	\$37,795,486
Other Oper Revenue	\$6,332,502	\$6,332,502	\$6,332,502
Non-Oper Revenue	<u>\$162,038</u>	<u>\$162,038</u>	<u>\$162,038</u>
Total Revenue	\$51,460,734	\$53,427,636	\$54,627,793
<u>Expenses</u>			
Operating	\$60,858,080	\$52,740,662	\$51,940,662
Capital	<u>\$2,668,146</u>	<u>\$2,668,146</u>	<u>\$2,668,146</u>
Total Expenses	\$63,526,226	\$55,408,808	\$54,608,808
Net Income/(Loss)	(\$12,065,492)	(\$1,981,172)	\$18,985
Total Discharges	1,436	1,295	1,277
Visits	83,245	81,580	82,413

Utilization by payor source for the the Current Year and Years One and Three is as follows:

<u>Payor</u>	<u>Inpatient %</u>	<u>Outpatient %</u>
Commercial - FFS	3.48%	21.40%
Commercial - MC	2.65%	10.42%
Medicaid - FFS	3.62%	2.91%
Medicaid - MC	25.98%	22.40%
Medicare - FFS	25.98%	26.80%
Medicare - MC	33.98%	10.20%
Private Pay	3.20%	4.17%
Charity Care	<u>1.11%</u>	<u>1.70%</u>
Total	100.00%	100.00%

There will be no changes in the daily operations of the hospital. The recent bed reduction to 25 certified beds will result in the following expense reductions: Salaries and Wages by \$3,000,000; Employee Benefits by \$800,000 in year one and \$1,600,000 in year three; Professional Fees by \$400,000; Medical/Surgical Supplies by \$500,000; and Purchased Services by \$2,917,418. Utilization is projected to decrease in Year One due to the current lack of community trust in the institution. The applicant expects utilization to improve by Year Three once community starts to gain trust in the hospital under SLHS's leadership. Revenue is based on CAH status achieved by the start of Year One.

Capability and Feasibility

There are no project costs or purchase price associated with this transaction. There will be no change in daily operations of the hospital, although the facility is projecting cost benefits from the changes in health insurance, retirement plans and interest expense.

BFA Attachment A is the 2016-2017 audited financial statements and the 2018 interim and as of June 30, 2019 internal financial summary of Massena Memorial Hospital (A Component Unit of the Town of Massena, New York). As shown, the facility had an average negative working capital position, an average positive net asset position, and achieved an average net loss of \$6,820,971 for the 2016-2017 period. For the period 2018 through June 30, 2019, the facility achieved an average net loss of \$6,714,919. The negative working capital position and negative net income are due to the overall changing health care market and the facility's overall small size and rural nature. With declining volumes and costs remaining stagnant, the facility has continued to lose money annually despite state support through the Interim Access Assurance Fund Program and Vital Access Provider Assurance Program funding and a \$5.8 million Essential Health Care Provider Program grant to retire debt.

BFA Attachment B is the 2017 and 2018 audited financial summary of St. Lawrence Health System. As shown, the System had a negative working capital position, a positive net asset position and achieved an average net income of \$9,649,537 for the period shown. The negative working capital position is due to a \$4.1 million increase in estimated third party settlements. The System places a significant amount of its cash in its Foundation and not in the current assets account and retains the majority of assets as long-term assets. As of December 31, 2018, the System had approximately \$88 million in total net assets and unrestricted cash and investments amounted to approximately \$60 million comprised of \$6.8 million from cash/cash equivalents, \$36.8 million from assets whose use is limited (Board Designated Only) and \$16.4 million from Canton-Potsdam Hospital Foundation, Inc., which is classified as cash and investments. The System's certified financial statements show income from operations of \$9.8 million and excess revenue over expenses of \$10.1 million in 2018. Also, the System experienced an increase in cash and cash equivalents of \$2.6 million in 2018 over 2017, indicating a strong health care system overall.

BFA Attachment C is the Massena Hospital Pro Forma Balance Sheet, which shows the facility will have an equity position of \$2,017,827 as of the first day of operation.

BFA Attachment D is the pre- and post-closing organization chart of the facility.

Conclusion

The applicant has demonstrated the capability to proceed in a financially feasible manner

Attachments

BFA Attachment A	Financial Summary-Massena Memorial Hospital audited periods 2016-2017, and 2018 interim and as of June 30, 2019 internal financial summary.
BFA Attachment B	2017 and 2018 audited financial summary of St. Lawrence Health System
BFA Attachment C	Pro Forma Balance Sheet of Massena Hospital
BFA Attachment D	Pre and Post Closing Organization chart.