



# Public Health and Health Planning Council

Project # 132204-E

## Mohawk Valley Health System

**County:** Oneida  
**Purpose:** Establishment

**Program:** Hospital  
**Acknowledged:** October 10, 2013

### Executive Summary

#### Description

Faxton-St. Luke's Healthcare (FSL), St. Elizabeth Medical Center (SEMC), and St. Lukes Home, through this application, are requesting approval for Mohawk Valley Network Inc. (MVN), which is currently the passive parent of FSL, to become the active parent of the facilities. Upon approval, Mohawk Valley Network, Inc. will change its name to Mohawk Valley Health System (MVHS). In addition to the above listed facilities, MVHS will also serve as the active parent of Visiting Nurse Association of Utica and Oneida County, Inc. (VNA), Mohawk Valley Home Care, LLC (MVHC) and Senior Network Health, LLC (SNH). MVN is currently the sole member of each of these entities.

FSL is a not-for-profit hospital with 370 licensed acute care beds and is a designated Stroke Center. FSL also operates 16 extension clinics throughout the region and operates a dental residency program.

SEMC is a not-for-profit community hospital located in Utica, New York. The facility is certified to operate 201 beds. SEMC is the only New York State designated Level 2 trauma center in the community. SEMC also provides community based services at 14 certified hospital extension clinics.

SEMC also provides educational programs, including: SEMC's College of Nursing, Family Medicine Residency program, fellowship in Minimally Invasive Gynecologic Surgery, and fellowship in Hospital Medical programs.

SEMC is sponsored by Partners in Franciscan Ministries, Inc. (PFM), which is a not-for-profit charitable tax-exempt corporation sponsored by the Congregation of the Sisters of St. Francis of the Neumann Communities in Syracuse (SOSF). PFM

and SOSF are affiliated with the Roman Catholic Church.

The main reason put forth for this proposed affiliation is to address the increasingly challenging financial conditions the facilities are encountering, and the associated threat to the on-going provision of quality care at the facilities. The proposed active parent model is intended to reduce these concerns through the combined improvement efforts of FSL and SEMC. Overall, the active parent is intended to strengthen the facilities' quality improvement and performance initiatives and programs in a way that is not possible without this arrangement.

Some of the current financial issues that are being faced by FSL and SEMC include:

- SEMC has suffered unsustainable operating losses of almost \$2 million through June, 2013.
- FSL has lost approximately \$3.5 million from operation through June 2013.
- The shift in the payer mix away from commercially insured patients towards Medicaid and uninsured patients, which negatively impacts the hospitals' revenue.
- Changes in Medicare and Medicaid reimbursement have also reduced revenue.
- Declining inpatient and outpatient patient base.
- Sequestration.

Without the active parent the applicant indicates that SEMC's expected survival time is limited to only a few months. The main goal of this active parent is to keep these needed facilities operating.

BFA Attachment A shows the organizational chart for VHS providers under the active parent structure.

DOH Recommendation  
Contingent Approval

#### Need Summary

This CON seeks to transition Mohawk Valley Network, Inc. (MVN) from the passive parent of Faxton-St Luke's Healthcare (FSL) to the active parent and co-operator of FSL, St. Elizabeth Medical Center, and St. Lukes Home. The joining of these entities under a common active parent will create a health system that will be able to respond to the evolving needs of the community.

#### Program Summary

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 Summary

There are no project costs associated with this project.

#### Incremental Budget

Revenues:	\$11,096,232
Expenses	<u>(\$875,083)</u>
Gain/ (Loss)	\$11,971,315

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

## Recommendations

Health Systems Agency  
The HSA recommends approval of this application.

Office of Health Systems Management

**Approval contingent upon:**

1. Submission of Approval from the Office of Mental Health. [PMU]
2. Submission of a photocopy of the fully executed Restated Certificate of Incorporation of Mohawk Valley Network, Inc., acceptable to the Department. [CSL]
3. Submission of a photocopy of the amended bylaws of Mohawk Valley Network, Inc. t/b/k/a Mohawk Valley Health System, acceptable to the Department. [CSL]
4. Submission of a photocopy of the fully executed Restated Certificate of Incorporation of St. Elizabeth Medical Center, acceptable to the Department. [CSL]
5. Submission of a photocopy of the amended bylaws of St. Elizabeth Medical Center, acceptable to the Department. [CSL]
6. Submission of a photocopy of the fully executed Restated Certificate of Consolidation of Faxton-St. Luke's Healthcare, acceptable to the Department. [CSL]
7. Submission of a photocopy of the amended bylaws of Faxton-St. Luke's Healthcare, acceptable to the Department. [CSL]
8. Submission of a photocopy of the fully executed Restated Certificate of Incorporation of St. Lukes Home Residential Health Care Facility, Inc., acceptable to the Department. [CSL]
9. Submission of a photocopy of the amended bylaws of St. Lukes Home Residential Health Care Facility, Inc., acceptable to the Department. [CSL]
10. Submission of a photocopy of the fully executed Restated Certificate of Incorporation of Visiting Nurse Association of Utica and Oneida County, Inc., acceptable to the Department. [CSL]
11. Submission of a photocopy of the amended bylaws of Visiting Nurse Association of Utica and Oneida County, Inc., acceptable to the Department. [CSL]
12. Submission of a photocopy of the executed Articles of Organization of Mohawk Valley Home Care, LLC, and any amendments thereto, acceptable to the Department. [CSL]
13. Submission of a photocopy of the amended and executed operating agreement of Mohawk Valley Home Care, LLC, acceptable to the Department. [CSL]

**Approval conditional upon:**

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

Council Action Date  
**December 12, 2013.**

## Need Analysis

### Project Description

Mohawk Valley Health System seeks approval to become the active parent and co-operator of Faxton-St. Luke's Healthcare, St. Elizabeth Medical Center, St. Lukes Home Residential Health Care Facility, Visiting Nursing Associating of Utica and Oneida County, and Mohawk Valley Home Care.

### Background/Analysis

Faxton-St Luke's Healthcare is a 370-bed acute care hospital located at 1656 Champlain Avenue Utica, 13502, in Oneida County, and St Elizabeth Medical Center is a 201-bed acute care hospital located at 2209 Genesee Street Utica, 13501, in Oneida County.

The facilities have the following certified beds and services:

Table 1: Certified Beds: Faxton-St Luke's Healthcare St Luke's Division and St. Elizabeth Medical Center. Source: HFIS, October 2013.		
Bed Category	Faxton-St. Luke's Healthcare St. Luke's Division	St. Elizabeth Medical Center
Coronary Care	8	0
Intensive Care	22	20
Maternity	26	0
Medical / Surgical	238	149
Neonatal Continuing Care	4	0
Neonatal Intermediate Care	8	0
Pediatric	14	8
Physical Medicine and Rehabilitation	24	0
Psychiatric	26	24
<b>Total</b>	<b>370</b>	<b>201</b>

Table 2: Certified Services: Faxton-St Luke's Healthcare St Luke's Division and St. Elizabeth Medical Center. Source: HFIS, October 2013.		
Service	Faxton-St Luke's Healthcare St Luke's	St Elizabeth Medical Center
Ambulatory Surgery - Multi Specialty	√	√
Cardiac Catheterization - Adult Diagnostic	√	√
Cardiac Catheterization - Electrophysiology (EP)		√
Cardiac Catheterization - Percutaneous Coronary Intervention (PCI)	√	√
Cardiac Surgery - Adult		√
Clinic Part Time Services	√	√
Clinical Laboratory Service	√	√
Coronary Care	√	√
Dental O/P	√	
Emergency Department	√	√
Health Fairs O/P	√	√
Intensive Care	√	√
Maternity	√	

Table 2: Certified Services: Faxton-St Luke's Healthcare St Luke's Division and St. Elizabeth Medical Center. Source: HFIS, October 2013.		
Service	Faxton-St Luke's Healthcare St Luke's	St Elizabeth Medical Center
Medical Social Services	√	√
Medical/Surgical	√	√
Neonatal Continuing Care	√	
Neonatal Intermediate Care	√	
Nuclear Medicine - Diagnostic	√	√
Nuclear Medicine - Therapeutic		√
Pediatric	√	
Pediatric O/P	√	
Pharmaceutical Service	√	√
Physical Medical Rehabilitation	√	
Podiatry O/P	√	
Prenatal O/P	√	
Primary Medical Care O/P	√	√
Psychiatric	√	√
Psychology O/P	√	√
Radiology - Diagnostic	√	√
Renal Dialysis - Acute	√	√
Therapy - Occupational O/P	√	√
Therapy - Physical O/P	√	√
Therapy - Speech Language Pathology O/P		√
Transfusion Services - Limited	√	

Faxton-St Luke's Healthcare is authorized to operate 16 hospital extension clinics in Herkimer and Oneida Counties. These facilities provide outpatient services such as primary medical care, psychology, radiology – diagnostic, renal dialysis - chronic, linear accelerator and pediatric.

St Elizabeth Medical Center is authorized to operate one certified Home Health Agency, one school based hospital extension clinic, and 13 hospital extension clinics in Herkimer and Oneida Counties. These facilities provide outpatient services such as home health aide, medical social services, medical supplies equipment and appliances, nursing, nutritional, occupational therapy, physical therapy, speech language pathology, primary medical care, diagnostic radiology, and clinical laboratory service.

The facilities have the following New York State Designations:

Faxton-St Luke's Healthcare St Luke's Division:

- Level 2 Perinatal Center; and
- Stroke Center;

St Elizabeth Medical Center:

- Area Trauma Center.

The primary service area of the two facilities is Herkimer and Oneida Counties. In 2000, the combined population of these counties was 299,896 residents; by the 2010 census, it declined slightly 299,397 and is projected to reach 294,268 residents by 2020. The 2012 population estimates for the two counties was 298,064 residents.

Displayed in Table 3 below are the total inpatient discharges and emergency department visits for the two facilities.

Table 3: Inpatient Discharges and Emergency Department Visits: St Luke's Memorial Hospital Center and St Elizabeth Medical Center Utilization. Source: SPARCS 2011 and 2012.		
Hospital	2011	2012
Total Discharges		
St Luke's Memorial Hospital Center	16,775	17,354
St Elizabeth Medical Center	11,879	11,503
Total	28,654	28,857
Total Emergency Department		
St Elizabeth Medical Center	40,273	40,110
St Luke's Memorial Hospital Center	34,494	36,598
Total	74,767	76,708

Abortion services and patient care patterns in the service area are well established. Planned Parenthood Mohawk Hudson (PPMH) is located in the service area and is authorized to provide abortion services. The majority of abortions in the service area are performed by PPMH-Utica. Late term abortions up to 19 weeks 6 days are referred to PPMH-Schenectady. If there is a need for an in-hospital abortion, the patient is referred to Albany Medical Center. Over the last two years, Faxton-St. Luke's performed fewer than 10 in-hospital abortions allocated to APR-DRG Abortion w/o D&C, Aspiration Curettage or Hysterectomy.

Approval of the proposed active parent will bring operational collaboration and clinical integration between the two hospitals. The system is expected to achieve the following benefits:

- elimination of administrative redundancy in support and clinical functions;
- coordination of service and clinical programs in order to enhance operational efficiencies and programmatic development;
- improvement in the capacity of the local health system to respond to evolving community needs in a more efficient manner;
- streamlining of services as needed;
- strengthening of the facilities' quality improvement and performance initiatives, staff and programs;

Upon approval of the active parent, the two hospital systems plan a comprehensive review of their clinical practices in order to determine the areas with superior or best practices that could be transferred between the two hospitals.

#### Conclusion

As the active parent, MCHS will continue to offer the range of services in the community where MVN and SEMC already provide services. The combined resources of the two organizations will allow MVHS to develop more effective programs than the facilities could achieve alone, thereby improving health care in the community.

#### Recommendation

**From a need perspective, approval is recommended.**

## Programmatic Analysis

### Program Proposal

Mohawk Valley Network (MVN) seeks approval to become the active parent and co-operator of Faxton-St. Luke's Healthcare (FSL), St. Elizabeth Medical Center (SEMC), St. Luke's Home (SLH), Visiting Nursing Association of Utica and Oneida County (VNA), and Mohawk Valley Home Care (MVHC). Upon approval, MVN will be renamed the Mohawk Valley Health System (MVHS). The active parent will allow SEMC and FSL to eliminate redundancy in support and clinical functions and streamline services. The applicant does not anticipate any change in the overall complement of services offered.

### Character and Competence

The proposed board members for MVHS are as follows:

#### **Name**

Domenic Aiello, M.D.	Physician
Catherine Cominsky	Manager, Higher Education
Joan Compson	Retired CPA/Chief Financial Officer
Thomas Dennison, PhD	Professor and former nursing home administrator
Gregory Evans	President/CEO of Manufacturing Company
Maria Gesualdo, D.O.	Physician
Harrison Hummel, III	President/CEO of Office Supply Company
Todd Hutton, PhD	President/CEO of Utica College
Andrew Kowalczyk, III, JD	Attorney
Gregory McLean	President, Investment Company
Scott Perra	President/CEO of Faxton-St. Luke's
Norman Siegel, JD	Judge, Oneida County
John Sperling, MD	Physician
Stephen Sweet	Owner, Distribution Company
Richard Tantillo	Vice President of Communications & Development at Hamilton College
Symeon Tsoupelis	Owner, Symeon's Restaurant
Mark Warfel, D.O.	Physician
Bonnie Woods	Trust Executive at Bank of America
Eric Yoss, MD	Physician
Richard Zweifel	Partner, CPA Firm

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.

Ms. Cominsky, Drs. Warfel and Yoss, and Messrs. Evans, Hummel, Kowalczyk, Tsoupelis, Siegel and Zweifel each disclosed the following actions which occurred during their affiliation with the entities noted below:

Around December 2007, St. Elizabeth Medical Center (SEMC) was included in a nationwide investigation conducted by the U.S. Attorney General's Office into billing for kyphoplasty procedures. It was determined that certain procedures billed as inpatient should have been billed as outpatient, therefore, SEMC entered into an agreement to pay back \$195,976 plus interest.

In March 2013, St. Elizabeth Medical Center received a citation for alleged violations relating to an employee allegation of overexposure to carbon monoxide. The citation and \$8,500 penalty are currently being contested.

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.

In June 2007, during a recertification survey of St. Elizabeth Medical Center's Home Care, deficiencies were noted. In 2008, St. Elizabeth settled with the Department of Health (DOH). As part of the settlement, St. Elizabeth admitted to the existence of substantial evidence of violations in the following areas: policies and procedures of service delivery, patient assessment and plan of care and governing authority. A \$10,000 civil penalty was assessed of which \$5,000 was paid and the remaining \$5,000 was suspended providing St. Elizabeth did not violate certain terms and regulations within 3 years.

In January 2005, St. Elizabeth Medical Center was fined \$4,000 based on an investigation of a patient admitted to the hospital for a coronary artery bypass graft. An incision was made in the left leg to harvest a vein for bypass when it was discovered that the vein was not present due to a previous harvest.

In November 2005, Presbyterian Home was fined \$1,000 based on deficient practices relating to quality of care (specifically, pressure sores) noted during an inspection conducted in February 2005.

In January 2010, Presbyterian Home was fined \$10,000 based on deficient practices relating to quality of care (specifically, accidents) noted during an inspection conducted in October 2008.

In November 2011, Sitrin Health Care Center was fined \$6,000 based on deficient practices relating to quality of care (specifically, accidents and supervision, menus not meeting resident need, and administration) noted during an inspection conducted in August 2010.

During recent recertification inspections conducted in 2013, Presbyterian Home was issued a harm level deficiency and St. Luke's Home was issued an Immediate Jeopardy level deficiency for deficient practices relating to Advanced Directives/CPR/DNR and failure to provide continuous oxygen. The DOH will review both matters for a potential future enforcement action.

Recommendation

**From a programmatic perspective, approval is recommended.**

## Financial Analysis

### Business Plan of Efficiencies

In order to effect the change, a Business Plan of Efficiencies (BPOE) has been developed in order to define and develop the opportunities that come with the affiliation of Faxton-St. Luke's Healthcare (FSL) and St. Elizabeth Medical Center (SEMC) to create Mohawk Valley Health System (MVHS).

These opportunities can be grouped into two categories: Confirmed and Validated Opportunities (opportunities that have been identified and validated as opportunities which can be achieved as part of the affiliation) and Non-Validated Opportunities (Although identified, these opportunities will require additional discussion and validation post-transaction). In order to determine these opportunities, several distinct steps were undertaken:

- Assessment of the MVHS administrative of organization to identify functions that will become corporate or remain at the hospital level
- Development of individual departmental integration plans with the guidance and assistance of hospital senior leadership
- Development of detailed departmental assessments
- Quantitative assessment of hospital departments utilizing databases to identify opportunities for operational efficiency
- Qualitative interviews to identify opportunities to achieve potential integrative synergies



Once the report was developed the main areas that were determined to be impacted are as shown:

- Administrative functions: The geographic proximity of the two facilities will allow for consolidation of administrative functions.
- Support Services Functions:
  - The ability to centralize management in select support departments affords MVHS the ability to standardize policies and procedures system-wide while reducing unnecessary redundant functions and expense
  - Joint contracting for select support services provides MVHS the ability to renegotiate contracts and standardize functions between the two hospitals
- Clinical Service/Function Integration:
  - Clinical coordination, program alignment and the maximization of existing organizational resources
  - Redistribution of services among the existing Faxton, St. Luke's and St. Elizabeth campuses

Upon implementing the BPOE, it is expected that each of the three areas will have significant savings over the course of the first five to six years under the active parent. Each year is shown to have a confirmed savings, with an additional amount of possible savings. The total confirmed savings for the first five to six years, by function, is shown below:

- Administrative Functions: \$5.628 million confirmed savings / \$18.352 million possible savings.
- Support Functions: \$428,740 confirmed savings / \$4.339 million possible savings
- Clinical Functions: no confirmed savings / \$27.477 million possible savings

#### Operating Budget

The applicant has submitted the Inpatient and Outpatient operating budget, in 2013 dollars:

	<u>Current Year</u> <u>FSL &amp; SEMC</u>	<u>First Year</u> <u>Incremental</u>	<u>Cumulative</u> <u>Year 1</u>	<u>Third Year</u> <u>Incremental</u>	<u>Cumulative</u> <u>Year 3</u>
<u>Revenues:</u>					
Inpatient	\$260,288,215	\$1,559,789	\$261,848,004	\$12,526,551	\$272,814,766
Outpatient	231,735,205	1,388,684	233,123,889	11,152,419	242,887,624
Other Operating Revenue (A)	15,074,046	7,074,079	22,148,125	7,646,224	22,720,270
Non-Operating Revenue (B)	<u>7,226,228</u>	<u>1,073,680</u>	<u>8,299,908</u>	<u>1,260,845</u>	<u>8,487,073</u>
Total Revenue	\$514,323,694	\$11,096,232	\$525,419,926	\$32,586,039	\$546,909,733
<u>Expenses:</u>					
Operating	\$483,704,492	(\$2,510,710)	\$481,193,782	\$5,166,945	\$488,871,437
Capital	32,028,220	1,635,627	33,663,847	791,944	32,820,164
Total Expenses	\$515,732,712	(\$875,083)	\$514,857,629	\$5,958,889	\$521,691,601
Excess Revenue over Expenses	<u>(\$1,409,018)</u>	<u>\$11,971,315</u>	<u>\$10,562,297</u>	<u>26,627,150</u>	<u>\$25,218,132</u>

#### Other Operating and Non-Operating Revenues:

(A) Other Operating Revenues:	<u>Current Year</u>	<u>Year 1</u> <u>Incremental</u>	<u>Cumulative</u> <u>Year 1</u>	<u>Year 3</u> <u>Incremental</u>	<u>Cumulative</u> <u>Year 3</u>
Tuition Revenue	\$2,439,641	1,144,896	\$3,584,537	1,237,494	\$3,677,135
Managed Care Incentive Revenue	530,544	248,978	779,522	269,116	799,660
Cafeteria Sales	1,113,892	522,737	1,636,629	565,015	1,678,907
Parking Garage fees	127,438	59,805	187,243	64,642	192,080
Grant Revenue	2,788,409	1,308,569	4,096,978	1,414,405	4,202,814

Electronic Health Information Revenue	3,089,004	1,449,635	4,538,639	1,566,880	4,655,884
Miscellaneous Income	1,768,339	829,861	2,598,200	896,980	2,665,319
Rents	1,327,942	623,188	1,951,130	673,591	2,001,533
Assets Released From Restriction	817,979	383,868	1,201,847	414,915	1,232,894
Joint Venture Revenue	438,531	205,798	644,329	222,442	660,973
Sold Services	360,887	169,360	530,247	183,058	543,945
<u>Foundation Events</u>	<u>271,440</u>	<u>127,384</u>	<u>398,824</u>	<u>137,686</u>	<u>409,126</u>
Total Other Operating Revenue	\$15,074,046	\$7,074,079	\$22,148,125	\$7,646,224	\$22,720,270
<i>(B) Non-Operating Revenue:</i>	<i>Current Year</i>	<i>Year 1 Incremental</i>	<i>Cumulative Year 1</i>	<i>Year 3 Incremental</i>	<i>Cumulative Year 3</i>
Investment Income	\$3,377,312	\$2,948,820	\$6,326,132	\$3,075,976	6,453,288
<u>Contributions</u>	<u>3,848,916</u>	<u>(1,875,140)</u>	<u>1,973,776</u>	<u>(1,815,131)</u>	<u>2,033,785</u>
Total Non-Operating Income	\$7,226,228	1,073,680	\$8,299,908	\$1,260,845	\$8,487,073

Inpatient and outpatient utilization by payor source as of the current year and the first and third year is shown below. The applicant assumes utilization at the current levels:

<u>Payor</u>	<u>Inpatient</u>	<u>Outpatient</u>
Medicaid Fee-for-Service	17.98%	21.13%
Medicaid Managed Care	5.91%	4.55%
Medicare Fee-for-Service	43.50%	24.16%
Medicare Managed Care	5.83%	11.02%
Commercial Fee-for-Service	22.03%	34.36%
Commercial Managed Care	.17%	1.25%
Private	1.43%	1.56%
Other	3.15%	1.97%

#### Capability and Feasibility

There are no project costs associated with this application.

With respect to feasibility, it is noted that the applicant indicates they cannot sustain present structural inefficiencies or the resulting operating deficits, over the long-term.

The applicant indicates that by implementing the proposed active parent structure under MVHS, and obtaining the described economies of scale, as well as eliminating some duplicative areas within their operations, they will be able to return their operations to a sustainable performance level within the next several years. Their budget appears reasonable.

Working capital for the merged entities (MVN) and (SEMC) will be derived from the net assets of the combined operation. MVHS shall have a budget and sufficient operating funds to function independently in order to accomplish its corporate purposes, mission, vision, and values. The hospitals intend that MVHS will receive funds for ongoing operations from any one or a combination of sources, consistent with the requirements of the Code applicable to tax exempt organizations, including, without limitation: (a) MVHS's operations; (b) contributions from FSL, SEMC, any FSL Affiliate, or any SEMC Affiliate; and (c) assessment of reasonable corporate fees for the value of services rendered to FSL, SEMC, the FSL Affiliates, and the SEMC Affiliates. MVHS shall determine and assess contributions from FSL, SEMC, the FSL Affiliates, and the SEMC Affiliates in a fair and equitable manner at all times.

BFA Attachment M is MVHS' pro-forma balance sheet that shows operations will start off with \$177,964,498 in positive equity.

BFA Attachment B is the 2009-2012 certified financial statements for Mohawk Valley Network, Inc. and Subsidiaries. The statement shows that MVN was operating with a positive average working capital and a positive average net asset position and generated an average net operating loss of \$1,347,711 and an average net income of \$7,435,471, for the period 2009-2012. MVN, however, experienced a loss in 2010. The explanation for the loss is detailed below. The average net income that is shown is due to MVN selling off its wholly owned for-profit subsidiary, Faxchil Realty, Inc., and its wholly owned for-profit subsidiary, Centrex Clinical Laboratories, Inc. The overall gain in connection with the sale was approximately \$30,762,000 in 2009 and \$792,000 in 2010. If this sale did not happen MVN would have recorded a loss of \$1,619,050 in 2009 and \$3,044,883 in 2010.

BFA Attachment C is the internal financial statement through 8/31/2013 for Mohawk Valley Network, Inc. and Subsidiaries. The statement shows MVN was operating with a positive working capital and a positive net asset position and generated a net operating loss of \$5,441,401 for the period 1/1/2013-8/31/2013 and a net income of \$499,461. The explanation for the loss is detailed below.

BFA Attachment D is the 2009-2012 certified financial statements for Faxton-St. Luke's Healthcare and Consolidated Subsidiaries. The statement shows that the facility was operating with an average positive working capital and an average positive net asset position and generated an average net operating income of \$369,111 and an average net income of \$9,213,989 for the period 2009-2012. The facility however, experienced a loss in 2010. The explanation for the loss is detailed below.

The sale referenced in BFA Attachment B is also shown in the financials for Faxton-St. Luke's Health Care as FSL is a subsidiary of MVN. The facility would have also have had a net loss in 2009 of \$906,398 and in 2010 of \$2,625,101 without the sale. The average net operating income for the period 2009-2012, without the sale, is \$369,111.

BFA Attachment E is the internal financial statement through 8/31/2013 for Faxton-St. Luke's Healthcare and Consolidated Subsidiaries. The statement shows that the facility was operating with a positive working capital and a positive net asset position and generated a net operating loss of \$3,031,870 for the period 1/1/2013-8/31/2013. The explanation for the loss is detailed below.

BFA Attachment F is the 2009-2012 certified financial statements for St. Elizabeth Medical Center. The statement shows that the facility was operating with an average positive working capital and an average positive net asset position and generated average net operating income of \$11,436 for the period 2009-2012. The facility, however, experienced a loss in both 2010 and 2012. The explanation for the losses are detailed below.

BFA Attachment G is the internal financial statement through 8/31/2013 for St. Elizabeth Medical Center. The statement shows that the facility was operating with a positive working capital and a negative net asset position and generated a net operating loss of \$4,484,263 for the period 1/1/2013-8/31/2013. The explanation for the loss is detailed below.

BFA Attachment H is the 2009-2012 certified financial statements for St. Luke's Home Residential Health Care Facility, Inc. The statement shows that the facility was operating with an average positive working capital and an average positive net asset position and generated an average net operating loss of \$1,216,320 for the period 2009-2012. The explanation for the loss is detailed below.

BFA Attachment I is the internal financial statement through 8/31/2013 for St. Luke's Home Residential Health Care Facility, Inc. The statement shows that the facility was operating with a positive working capital and a positive net asset position and generated a net operating loss of \$1,039,411 for the period 1/1/2013-8/31/2013. The explanation for the loss is detailed below.

BFA Attachment J is the 2009-2012 certified financial statements for Visiting Nurse Association of Utica and Oneida County, Inc. The statement shows that the facility was operating with an average positive working capital and an average positive net asset position and generated an average net operating loss of \$302,537 for the period 2009-2012. The explanation for the loss is detailed below.

BFA Attachment K is the internal financial statement through 8/31/2013 for Visiting Nurse Association of Utica and Oneida County, Inc. The statement shows that the facility was operating with a negative working capital and a positive net asset position and generated a net operating loss of \$750,862 for the period 1/1/2013-8/31/2013. The explanation for the loss is detailed below.

BFA Attachment L is the internal financial statement through 8/31/2013 for Mohawk Valley Home Care. The statement shows that the facility was operating with a positive working capital and a positive net asset position and generated a net operating income of \$22,551 for the period 1/1/2013-8/31/2013. The previous years financial statements are included in the overall financial position of MVN, no separate financial statements were created for Mohawk Valley Home Care.

A primary cause of the deterioration in the hospital finances is revenue stagnation. The combined net patient revenue for FSL and SEMC rose from about \$454 million to \$457 million from 2010 to 2012. This is an increase of less than one percent over two years. There are numerous causes of this stagnation.

- Both hospitals have experienced a shift in their payor mix away from commercially insured patients towards Medicaid and uninsured patients.
- SEMC experienced a 13% decrease in acute care commercial discharges from 2010 to 2012, compared to a 2.7% decline in acute care Medicaid discharges. During this same period, acute care charity discharges at SEMC almost doubled.
- Similarly, FSL experienced a 17% decline in acute care commercial discharges and a 6% increase in acute care Medicaid discharges from 2010 to 2012.
- FSL estimates that reductions in payments for Medicare and Medicaid dual eligibles reduced revenues to FSL by \$1 million between 2010 and 2012.
- Medicaid reimbursement reductions further reduced revenues to FSL by \$600 thousand between 2010 and 2012, and Sequestration has resulted in approximately 3.5 million in additional reductions in Medicare reimbursements in 2013.
- At SEMC, Medicaid reductions resulted in reduced revenues of \$1 million, and Sequestration has resulted in an additional reduction in Medicare reimbursements of \$1 million.

According to the applicant, increased outpatient facility competition is also having an impact on the hospitals. Recent outpatient facility entry in the region includes a gastrointestinal ambulatory surgery center (ASC), a urology clinic in Utica specializing in radiation oncology services, and an eye care ASC in Rome. FSL estimates these facilities led to revenue declines of nearly \$6 million from 2011 to 2012. While SEMC does not provide radiation oncology services, it estimates that its revenue decline from these facilities was \$3.2 million from 2011 to 2012.

Sequestration has added additional strain to the financial situation in 2013. Overall, FSL has lost \$3.5 million from operations through June, which is an annualized loss of \$7 million. SEMC expects losses similar to 2012. SEMC lost more than \$2 million through June 2013, which is an annualized loss of over \$4 million.

St. Luke's Home (SLH) has experienced losses primarily due to less than optimal occupancy rates, and a higher Medicaid payer mix than years past. SLH, as a result of the HEAL 20 Grant for \$8,008,000 (to decertify 82 skilled nursing beds: 40 beds at St. Luke's Home and 42 beds at Allen Calder Skilled Nursing, adding 10 ADHCP slots, and renovations to convert space and expand the staff cafeteria and dining area), is debt free. As a result of this, SLH can expect positive cash flow even with an annual \$800,000 operating loss.

FSL and SEMC have taken action over the past four years in an attempt to make the facilities profitable, or at least break. These include the following:

St. Elizabeth Medical Center

**2011:**

- Eliminated 24 FTE positions, including layoffs
- Froze the defined benefit Pension Plan for Non-Union employees
- Additional supply chain savings: \$470,000

**2012:**

- Eliminated 53 FTE positions, including layoffs
- Froze the defined benefit Pension Plan for UFCW Union employees
- Additional supply chain savings: \$825,000
- Capital Purchases frozen
- Confirmed plan to close School of Radiography in 2014

**2013:**

- Eliminated 67 FTE positions, including layoffs
- Froze the defined benefit Pension Plan for NYSNA Union employees

Faxton-St. Luke's Healthcare

**2010 to 2012:**

- Achieved total annual savings of \$15.7 million
- Eliminated 256 FTE positions
- Implemented weekly review process for all staffing requests

**2013:**

- January to June: achieved \$5.5 million in annualized savings
- Additional staffing reductions and benefit changes
- Supply pricing and utilization improvements
- July to December: Initiated plan to save additional \$10.2 million in annualized savings
- 91.3 FTE reductions
- Non-salary expenses improvements

It appears the applicant has demonstrated the capability to proceed in a financially feasible manner, and approval is recommended.

Recommendation

**From a financial perspective, approval is recommended.**

## Attachments

BFA Attachment A	Organization Chart, Mohawk Valley Health System.
BFA Attachment B	2009-2012 Financial Summary for Mohawk Valley Network, Inc. and Subsidiaries
BFA Attachment C	1/1/2013-8/31-2013 Internal Financial Summary for Mohawk Valley Network, Inc. and Subsidiaries
BFA Attachment D	2009-2012 Financial Summary for Faxton-St. Luke's Healthcare
BFA Attachment E	1/1/2013-8/31/2013 Internal Financial Summary Faxton St. Luke's Healthcare and Subsidiaries
BFA-Attachment F	2009-2012 Financial Summary for St. Elizabeth Medical Center
BFA-Attachment G	1/1/2013-8/31/2013 Internal Financial Summary for St. Elizabeth Medical Center
BFA-Attachment H	2009-2012 Financial Summary for St. Luke's Home Residential Healthcare Facility, Inc.
BFA-Attachment I	8/31/2013 Internal Financial Summary for St. Luke's Home Residential Healthcare Facility, Inc.
BFA-Attachment J	2009-2012 Financial Summary for Visiting Nurse Association of Utica and Oneida County, Inc.
BFA-Attachment K	8/31/2013 Internal financial summary for Visiting Nurse Association of Utica and Oneida County, Inc.
BFA-Attachment L	8/31/2013 Internal Financial Summary for Mohawk Valley Home Care
BFA-Attachment M	Pro-forma Balance Sheet for Mohawk Valley Health Systems.

RESOLUTION

RESOLVED, that the Public Health and Health Planning Council, pursuant to the provisions of Section 2801-a of the Public Health Law, on this 12th day of December, 2013, having considered any advice offered by the Regional Health Systems Agency, the staff of the New York State Department of Health, and the Establishment and Project Review Committee of this Council and after due deliberation, hereby proposes to approve the following application to establish Mohawk Valley Health system as the active parent/co-operator of Faxton-St. Luke's Healthcare, St. Elizabeth Medical Center, St. Luke's Home RHCF, VNA of Utica and Oneida County and Mohawk Valley Home Care, and with the contingencies, if any, as set forth below and providing that each applicant fulfills the contingencies and conditions, if any, specified with reference to the application, and be it further

RESOLVED, that upon fulfillment by the applicant of the conditions and contingencies specified for the application in a manner satisfactory to the Public Health and Health Planning Council and the New York State Department of Health, the Secretary of the Council is hereby authorized to issue the approval of the Council of the application, and be it further

RESOLVED, that any approval of this application is not to be construed as in any manner releasing or relieving any transferor (of any interest in the facility that is the subject of the application) of responsibility and liability for any Medicaid (Medicaid Assistance Program -- Title XIX of the Social Security Act) or other State fund overpayments made to the facility covering the period during which any such transferor was an operator of the facility, regardless of whether the applicant or any other entity or individual is also responsible and liable for such overpayments, and the State of New York shall continue to hold any such transferor responsible and liable for any such overpayments, and be it further

RESOLVED, that upon the failure, neglect or refusal of the applicant to submit documentation or information in order to satisfy a contingency specified with reference to the application, within the stated time frame, the application will be deemed abandoned or withdrawn by the applicant without the need for further action by the Council, and be it further

RESOLVED, that upon submission of documentation or information to satisfy a contingency specified with reference to the application, within the stated time frame, which documentation or information is not deemed sufficient by Department of Health staff, to satisfy the contingency, the application shall be returned to the Council for whatever action the Council deems appropriate.

NUMBER:

FACILITY/APPLICANT:

132204 E

Mohawk Valley Health System

APPROVAL CONTINGENT UPON:

1. Submission of Approval from the Office of Mental Health. [PMU]
2. Submission of a photocopy of the fully executed Restated Certificate of Incorporation of Mohawk Valley Network, Inc., acceptable to the Department. [CSL]
3. Submission of a photocopy of the amended bylaws of Mohawk Valley Network, Inc. t/b/k/a Mohawk Valley Health System, acceptable to the Department. [CSL]
4. Submission of a photocopy of the fully executed Restated Certificate of Incorporation of St. Elizabeth Medical Center, acceptable to the Department. [CSL]
5. Submission of a photocopy of the amended bylaws of St. Elizabeth Medical Center, acceptable to the Department. [CSL]
6. Submission of a photocopy of the fully executed Restated Certificate of Consolidation of Faxton-St. Luke's Healthcare, acceptable to the Department. [CSL]
7. Submission of a photocopy of the amended bylaws of Faxton-St. Luke's Healthcare, acceptable to the Department. [CSL]
8. Submission of a photocopy of the fully executed Restated Certificate of Incorporation of St. Luke's Home Residential Health Care Facility, Inc., acceptable to the Department. [CSL]
9. Submission of a photocopy of the amended bylaws of St. Luke's Home Residential Health Care Facility, Inc., acceptable to the Department. [CSL]
10. Submission of a photocopy of the fully executed Restated Certificate of Incorporation of Visiting Nurse Association of Utica and Oneida County, Inc., acceptable to the Department. [CSL]
11. Submission of a photocopy of the amended bylaws of Visiting Nurse Association of Utica and Oneida County, Inc., acceptable to the Department. [CSL]
12. Submission of a photocopy of the executed Articles of Organization of Mohawk Valley Home Care, LLC, and any amendments thereto, acceptable to the Department. [CSL]
13. Submission of a photocopy of the amended and executed operating agreement of Mohawk Valley Home Care, LLC, acceptable to the Department. [CSL]

APPROVAL CONDITIONAL UPON:

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

Documentation submitted to satisfy the above-referenced contingencies (4 copies) should be submitted within sixty (60) days to:

Barbara DelCogliano  
Director  
Bureau of Project Management  
NYS Department of Health  
Empire State Plaza  
Corning Tower, Room 1842  
Albany, New York 12237