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February 11, 2016

Dr. Marissa J. Levine  
Commissioner, Virginia Department of Health  
109 Governor Street  
Richmond, VA 23219

**RE: Review of the Plan of Separation filed under the Application for a Letter Authorizing Cooperative Agreement by Mountain States Health Alliance and Wellmont Health System**

Dear Dr. Levine:

FTI Consulting ("FTI") has completed an independent review of the above referenced Plan of Separation between Wellmont Health System and Mountain States Health Alliance (collectively "The Parties") filed under the Application for a Letter Authorizing Cooperative Agreement. The remainder of this letter details the objectives of our review, the findings from our review, and the limitations of this letter.

Objective of the Analysis

The objective of our independent review of the Plan of Separation (the "Plan") was to assess if the Plan could be operationally implemented without undue disruption to essential health services provided by the Parties. To perform our work, FTI reviewed the following documents/materials:

- Community & Stakeholder Certificate of Public Advantage/Cooperative Agreement Pre-Submission Report, January 7, 2016.
- New Health System Alignment Policy.
- Cooperative Agreement, Commonwealth of Virginia, Application.
- Exhibit 18.1, Plan of Separation, Cooperative Agreement Commonwealth of Virginia, Application.

Background on FTI Consulting

Founded in 1982, FTI Consulting has over 4,400 professionals in 80 cities around the globe. We are a publicly company traded on the NYSE (FCN), and we have an enterprise value in excess of \$1.7 B. FTI has experts in 16 industry specialties who provide advisory services to all 10 of the world's top bank holding companies, 94 of the world's top 100 law firms, and 47 of the Fortune 100 corporations. FTI has been built to address the full range of interrelated issues that can affect enterprise value.



FTI's Health Solutions practice consists of over 300 professionals including clinicians, healthcare executives, strategists, and functional specialists located in 27 offices across the United States. Most of our Health Solutions executives have more than 25 years of experience leading health systems, hospitals, and physician organizations; designing and implementing enhanced performance programs; and performing complex healthcare operational and financial analyses.

We advise clients on all aspects of provider performance improvement and planning, and tailor our recommendations to focus on solutions that we believe are most appropriate for each specific client situation. We have also worked with clients as they look to combine services, as well as divest them. In the past three years, we have worked with over 180 healthcare industry clients (Health Systems, Medical Groups, Academic Medical Centers) on a variety of projects.

#### Findings from the Analysis

In reviewing the Pre-Submission Report and the Cooperative Agreement Application, FTI noted that the inpatient hospitals, other patient care facilities, and ancillary entities specifically included in the proposed combination by the Parties can be clearly delineated as to which Party "contributed" the facility to the new combined entity. This delineation can be used as part of a common basis for developing plans for returning contributed assets and services to their pre-consolidation competitive state should the Plan of Separation be triggered.

FTI reviewed the New Health System Alignment Policy, and noted the following:

- The New Health System will evaluate opportunities for alignment of clinical facilities and clinical services provided by the Parties based upon use of clinical and financial data, and inputs from physicians and other clinicians relevant to the service or facility which is the subject of the alignment.
- New Health System Management will identify the benefits and adverse effects of the proposed alignment.
- A New Health System Board Integration Committee will evaluate the proposals for alignment, including the data and inputs relied upon by Management, in formulating their recommendations for alignment.
- The New Health System Board Integration Committee will monitor the status of approved alignment efforts through periodic Management reporting. Furthermore, one year after the completion of the alignment, Management will provide a report to the New Health System Board identifying lessons learned, physician feedback, community benefits and financial impact.
- The alignment process and all related analyses, studies, inputs, reporting, and other monitoring activities can also be used in developing plans for returning contributed assets and services to their pre-consolidation competitive state should the Plan of Separation be triggered.

Finally, FTI reviewed the Plan of Separation filed in the Cooperative Agreement Application itself, and noted the following:

- The specified intention of the Plan is to set out the process by which the Parties would effect an orderly separation of the New Health System created under the Cooperative Agreement, in the event that the Commissioner determines it is necessary to revoke the Cooperative Agreement previously granted to the Parties, as set forth in Code of Virginia section 15.2-5384.1.H.
- The Plan of Separation calls for the retention of a consultant with expertise in provider operations and competition in the healthcare industry to assist in complying with any revocation order issued by the Commissioner of the Virginia Department of Health.
  - The Consultant will be asked to analyze the competitive conditions in the market(s) subject to the Commissioner's revocation order, and to identify the specific steps necessary to return the market(s) to their pre-consolidation competitive state. The Consultant will also be asked to take into account the data submitted in the Cooperative Agreement Application showing the structure of the geographic service area at the time of the consolidation.
  - The Consultant will assist the Parties in developing a plan to be submitted to the Commissioner for divestiture of assets and operations and any other actions that would be appropriate under then-current market circumstances designed to restore, to the extent reasonably practicable, competitive conditions to their pre-consolidation competitive state or otherwise remedy the competitive concerns identified by the Commissioner.
  - The final plan for divestiture and other actions must be approved by the Commissioner. FTI notes that the final plan will include a number of reasonable and prudent components outlined below in this letter, but not limited to:
    - Divestiture, into a separate and independent enterprise, of those facilities and other assets of the New Health System that are necessary to establish competition with said enterprise and restore, to the extent reasonably practicable, competitive conditions as they existed immediately prior to the merger in the markets subject to the revocation order.
    - Enablement of physician and non-physician employees of the Parties to be recruited to and employed by the owner of the divested assets, without regard to then-existing contractual restrictions on such recruitment or employment.
    - Enablement of any physician to be recruited to, under contract with, and/or extended medical staff privileges by the owner of the divested assets, without regard to then-existing contractual restriction on such recruitment, contractual relationships, or staff privileges.
    - Assignment of any third-party contracts necessary to maintain ongoing, uninterrupted operation of the divested assets, along with cooperation and assistance in obtaining any third-party approvals that are required for such assignments.
    - Provision, as needed, of transitional services for up to six months to the owner of the divested assets in the areas of administration, operations, information technology and clinical care, to ensure that the new competitive entity

provides health care services with substantially the same level of quality and efficiency as the Parties.

- Maintenance of the same level of administrative, operational and clinical quality of all assets and operations that existed on the day before receipt of the Commissioner's revocation order through the period until obligations under the Plan of Separation expire.
- FTI noted that, under the Plan of Separation, the Commissioner has the ability to trigger the use of an independent third-party monitor, funded by the Parties, should the Commissioner determine that the use of such would be beneficial.
- A Trustee can also be named by the Commissioner under the Plan of Separation to take over the process of implementing the divestiture plan should the plan not be executed within 240 days after the revocation order is issued.
- FTI further noted that the Plan of Separation must be updated on an annual basis, and that an evaluation and/or analysis of the Plan of Separation must also be conducted by an independent third party, knowledgeable in the healthcare industry and provider operations, on an annual basis.

Based on our experience as healthcare industry consultants, the above observations, and the findings derived from our review of the relevant documents, we believe that the Pre-Submission Report, The New Health System Alignment Policy, the Cooperative Agreement Application, and The Plan of Separation can serve as the basis for an effective process to restore competition to the pre-consolidation competitive state through an orderly transition that can be operationally implemented without undue disruption to the essential health services provided by the Parties so long as all appropriate clinical, operational, legal and other applicable guidelines and statutes are also followed.

#### Limitations of This Letter

This letter is only intended for the use by the Parties and the Commissioner of the Virginia Department of Health in preparing, filing and evaluating a Cooperative Agreement application and should not be used for any other purpose. This letter is based on the performance of the procedures described herein, and is limited to assessing whether the Plan of Separation (and other related documents as noted) can be operationally implemented without undue disruption to essential health services provided by the Parties.

Consistent with the current Virginia Cooperative Agreement Application guidelines, this letter is based on a one-year time horizon. Our understanding is that one year following the combination, the Plan of Separation and this letter would need to be updated.

FTI does not give, and this letter does not constitute, legal advice. This letter is current as of its date, and FTI has no duty to update it. Among other matters, later changes in market conditions may affect the views expressed in this letter.

Sincerely,

*FTI CONSULTING*

FTI Consulting, Inc.