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Office of The Attorney General  
**State of Connecticut**

**TESTIMONY OF  
ATTORNEY GENERAL GEORGE JEPSEN  
BEFORE THE PUBLIC HEALTH COMMITTEE  
MARCH 15, 2013**

Good morning Senator Gerratana, Representative Johnson and members of the Committee. I appreciate the opportunity to testify about Senate Bill 967, *An Act Concerning Expenses Relating to the Sale of Nonprofit Hospitals*.

Senate Bill 967, *An Act Concerning Expenses Relating to the Sale of Nonprofit Hospitals*, would amend Section 19a-486c(c) of the General Statutes to increase the maximum amount a purchaser of a nonprofit hospital may be billed for expenses my office incurs for professional services while reviewing a nonprofit hospital's application to transfer a material amount of its assets to a for-profit entity. Currently, my Office may bill the for profit purchaser up to \$300,000.00 per application for such costs. This bill proposes to increase that amount to \$500,000.00.

Under the statute, my Office is required to conduct a thorough legal and financial review of a proposed agreement to purchase a nonprofit hospital's assets. Absent consent of all parties to the proposed agreement, we are required to complete that review within 120 days. Our review requires us to deny an application if we determine, among other things, that: the transaction is illegal; the nonprofit failed to perform adequate due diligence when it entered the proposed agreement; the nonprofit failed to disclose conflicts of interest; the nonprofit hospital will not receive fair market value for its assets; any person manipulated the fair market value in a manner that caused the value of the assets to decrease; the financing of the transaction by the nonprofit would place its assets at an unreasonable risk; or any management contract is not for reasonable fair value. In addition, we must review all charitable gifts and bequests made to the nonprofit hospital to ensure that the proposed agreement does not result in the use of any such gifts or bequests in a manner that is inconsistent with donor intent.

The Sharon Hospital sale and conversion is our only experience with a full scale review under this statute to date. The current cap on expenses was enacted in 2003, following our Office's review of that transaction. At that time, based on the costs we incurred for professional services while reviewing the Sharon Hospital conversion, we proposed an increase to the current \$300,000.00 amount. When we proposed that amount, however, we could not have anticipated the number of transactions we now believe we are likely to review in a relatively short period of time. Nor did we anticipate the size and complexity of the transactions we are likely to face. It is entirely possible that during this calendar year alone we will be required to review, perhaps simultaneously, as many as four separate transactions involving hospitals with far greater assets

than Sharon Hospital. Each of these transactions will be much more complex and will require far more legal resources and financial expertise than the Sharon Hospital transaction required. In addition, the current cap on expenses has remained unchanged since 2003. Inflationary pressures alone, particularly for professional services, have rendered the \$300,000.00 cap inadequate.

At least four of my senior attorneys, as well as support staff, will devote substantial portions of their time to reviewing these transactions in order to ensure that nonprofit hospitals' charitable assets are preserved and protected. I am also committed to conducting our review expeditiously, so that the affected hospitals and the communities they serve will not suffer uncertainty and unnecessary regulatory delay. The additional resources requested will help to advance those goals, while also preserving my office's ability to handle its many other responsibilities.

For all of these reasons, I urge the Committee to act favorably on SB 967. My only request is that, in doing so, the Committee change the proposed language concerning the bill's effective date to provide that it is both effective from passage "and applicable to any application filed, pursuant to Conn. Gen. Stat. 19a-486a(c), on or after January 1, 2013." This will ensure that my Office will be able to bill the increased amount for all applications filed during the current calendar year, regardless of whether the application is filed before the bill becomes effective. It also will ensure that all proposed agreements submitted during this calendar year are treated fairly and equally. I have attached a proposed substitute bill to my testimony, which I believe accomplishes this result.

Thank you once again for the opportunity to testify in support of this proposal. Please feel free to contact me with any questions.

**OFFICE OF THE ATTORNEY GENERAL PROPOSED SUBSTITUTE FOR S.B. 967**

Proposed Substitute for Raised Bill No. 967

January Session, 2013

AN ACT CONCERNING EXPENSES RELATING TO THE SALE OF NONPROFIT HOSPITALS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subsection (c) of section 19a-486c of the general statutes is repealed and the following is substituted in lieu thereof (Effective from passage and applicable to any application filed, pursuant to Conn. Gen. Stat. 19a-486a(c), on or after January 1, 2013):

(c) The Attorney General may contract with experts or consultants to assist in reviewing the proposed agreement, including, but not limited to, assistance in independently determining the fair market value of the nonprofit hospital's assets. The Attorney General may appoint, or contract with, another person to conduct the review required by this section and make recommendations to the Attorney General. The Attorney General shall submit any bills for such contracts to the purchaser. The purchaser shall pay such bills [within thirty days of] not later than thirty days after receipt. Such bills shall not exceed [three] five hundred thousand dollars.

This act shall take effect as follows and shall amend the following sections:

Section 1

from passage and applicable to any application filed on or after January 1, 2013

19a-486c(c)

Statement of Purpose:

To increase the amount that a purchaser of a nonprofit hospital may be responsible for paying for the review of a proposed agreement.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]