Memorandum

To: File 13-041, 13-042, 13-043, 13-044

Participants: Mary Skinner, Partner, Sidley and Austin; Jack Axel, President Axel & Associates, Inc.

From: Mike Constantino, Project Reviewer

Date: 10/22/2013 **Time:** **1:30-1:45 pm**

Re: Post-Permit Requirements relating to Projects # 13-041, 13-042, 13-043 and 13-044

On October 15, 2013, I conducted a technical assistance telephone conference with Mary Skinner and Jack Axel to discuss the post permit requirements of the change of ownership of the projects listed above. I concluded the permit holders are required to submit the final cost report but do not need to submit an audit of the cost of the transaction. The cost of the transaction for each hospital was allocated based upon the methodology below.

- **Stock Acquisition:**
  Tenet Healthcare Corporation ("Tenet") is acquiring 100% of the stock of Vanguard Health Systems, Inc., ("Vanguard") for $1.8B in cash, and as a consequence of the acquisition will assume Vanguard's outstanding debt, as discussed below. The applicant has confirmed that its most recent audited financial statements confirmed that it had cash or equivalents in excess of the imputed purchase price of the Illinois hospitals being acquired in this stock acquisition. A total of 17,027 beds are located in the Vanguard hospitals, system-wide. As a result, $256,155 has been allocated to each bed located in a Vanguard hospital *($1.8B/ 17,027 = $256,155).*
- **Assumption of Vanguard Debt:**
  Tenet will assume responsibility for $2.5B in outstanding Vanguard debt. This debt will not be held at the individual hospital level. However, and consistent with technical guidance provided by IDPH staff for purposes of the Illinois CON applications, a portion of that debt will be attributed to each of the Illinois hospitals. Consistent with the methodology discussed above, the debt to be assumed by Tenet is allocated at the rate of $355,771 per bed *($2,500,000,000/17,027 = $355,771).*

Because the transaction was a stock transaction and the methodology to estimate FMV of the facilities was determined to be reasonable and no actual capital costs were incurred it appears reasonable that the audit requirements be waived for these change of ownership.