EXHIBIT D

Health Strategies & Solutions Report dated March 6, 2008

Commonwealth of Massachusetts
Office of the Attorney General
Boston, MA

Review of the
Caritas Christi Health Care System

Progress Report

March 6, 2008

HEALTH STRATEGIES
& SOLUTIONS, INC.

Table of Contents

	Page
Executive Summary	3
Priority Issues Facing Caritas Christi Health Care System	
Role, Structure, and Effectiveness of Governance	14
Role of Caritas St. Elizabeth's Medical Center	19
Future of Caritas Carney Hospital	27
Operating Performance of the Caritas Physician Network	33

The opinions and conclusions stated in this report are based on data and information obtained from independent sources. Health Strategies and Solutions, Inc. cannot guarantee the accuracy of that data and information, and consequently makes no warranties or representations concerning its opinions and conclusions to the extent they are at all dependent upon the accuracy of that data and information. The contents of this report should not be viewed as in any way a complete evaluation of the Caritas Christi Health Care System. This report is limited to review of selected issues. Health Strategies and Solutions, Inc. provided review, analysis, and recommendations regarding those issues, and its report should be read in that context, and only in that context.

Executive Summary

Executive Summary: Introduction and Engagement Process

Health Strategies & Solutions, Inc. (HS&S), was engaged to provide the Office of the Attorney General of the Commonwealth of Massachusetts with consultative assistance to perform a review of the Caritas Christi Health Care System (CCHCS). The process to date has involved the following:

- Data compilation and analysis
- Interviews by HS&S with representatives from
  - CCHCS leadership
  - Local health centers
  - Other MA hospitals and health systems
  - Insurance companies
- Review of previously completed consulting reports and discussion with staff that completed those reports

Executive Summary: CCHCS Financial Performance

- CCHCS has been able to generate positive income from operations in four of the past five fiscal years. However, while aggregate total operating revenue has been approximately $5 billion over the past five fiscal years, the aggregate total income from operations has been less than $40 million. This amounts to a negligible operating margin (approximately .8%) that is not sufficient for the organization to thrive. It is an accepted standard that hospitals and health systems must generate operating margins of at least 3% (and higher in states other than MA) to fund ongoing capital and operating initiatives.
- Because CCHCS has not been able to generate sufficient margins over the past 10 years, the organization has had to delay or forego capital and reinvestment initiatives. While this has occurred, competitors in the challenging Greater Boston marketplace have substantially improved their financial, operating, and market positions.

Executive Summary: CCHCS Financial Performance

- Caritas plans a debt restructuring in which the organization will obtain additional funds of approximately $100 million that will be utilized to fund capital initiatives. This will involve a leveling of debt service payments that will reduce CCHCS's debt payments by an estimated total of $55 million over the next seven years.

Executive Summary: CCHCS Executive Leadership

- In the period from 2004 to 2006, CCHCS had three changes at the chief executive level. Since 2006, the health system has been under the direction of an interim president and chief executive officer.
- The governing body of CCHCS is currently in the process of recruiting a new chief executive for the health system.
  - The initial phase of this executive search process was not successful. CCHCS selected and made an offer to a candidate; however, the selected candidate declined the offer.
- CCHCS needs strong, dynamic leadership whose accountability and reporting obligation is only to the CCHCS Board of Governors. It is critical that the current executive recruitment process be successful and that the new leadership be effective, visionary, and stable for the foreseeable future.

Executive Summary: Other Priority Issues for CCHCS

- In addition to executive leadership and finances, the following priority issues are addressed in this report:
  - Role, structure, and effectiveness of CCHCS governance
  - Role of Caritas St. Elizabeth's Medical Center and its ability to provide tertiary level health care services
  - Future of Caritas Carney Hospital as an acute care hospital
  - Operating performance of the Caritas Physician Network

Executive Summary: Role, Structure, and Effectiveness of CCHCS Governance

- CCHCS requires a top flight governance system in order to compete in the Greater Boston marketplace
- CCHCS governance system which concentrates power at the diocesan level is inconsistent with best practices for not for profit health care governance
- Lack of Board of Governors independence and authority negatively impacts the ability to attract and retain strong board members and executive leadership
- Diocese must relinquish direct and indirect control over strategic, operational, and financial matters and focus only on moral and ethical issues
- HS&S understands that a committee convened several months ago by CCHCS and the Diocese has recommended changes in governance in the form of amended and restated bylaws which were recently submitted to the Attorney General for review and comment. It is our understanding that the Diocese has approved the changes and that they are currently being reviewed by the Attorney General.

Executive Summary: Role of Caritas St. Elizabeth's Medical Center

- The previous CCHCS administration developed a "System Forward" strategy which identified Caritas St. Elizabeth's as the tertiary/quaternary referral center hub of CCHCS. Current CCHCS management understands that this is not a practical strategy.
- Caritas St. Elizabeth's has insufficient resources and capabilities to compete successfully for a wide range of tertiary care services in the highly competitive Greater Boston marketplace
- Caritas St. Elizabeth's should function as a community teaching hospital, with continued emphasis (and development of advanced capabilities) in two to three major service lines where it can be competitive
- CCHCS has initiated a process to develop a contemporary strategic plan for Caritas St. Elizabeth's

Executive Summary: Future of Caritas Carney Hospital as an Acute Care Hospital

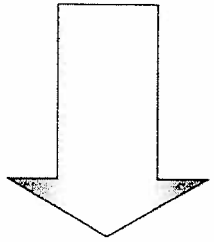
- Caritas Carney Hospital has a long history of poor financial performance, low inpatient occupancy, and an aging and out of date physical plant with significant pent-up capital needs (these issues pre-date the involvement of CCHCS)
- Sufficient general acute medical-surgical inpatient beds exist to accommodate the needs of residents of Caritas Carney Hospital's service area
- There appears to be a strong and continuing need for the behavioral health services provided by Caritas Carney Hospital for adults and children. Caritas Carney Hospital should consider the feasibility of transitioning to a behavioral health services facility, while retaining selected primary care, urgent care, and diagnostic services.
- CCHCS has engaged a consulting firm to identify and evaluate strategic alternatives for Caritas Carney's future

Executive Summary: Operating Performance of Caritas Physician Network

- The Caritas Physician Network had an operating loss of nearly $30 million in FY 2007 and is budgeted to lose approximately $15 million in FY 2008
  - $10 million of the FY 2007 loss was due to accounting adjustments/reconcilements from the previous year
- Caritas Physician Network should evaluate all physician contracts and compensation arrangements in comparison to industry medians and benchmarks by specialty
- Caritas Physician Network should proceed with plans to implement a new compensation structure for employed physicians, with greater emphasis on physician productivity (e.g., based on relative value units)
  - CCHCS leadership is in the process of formalizing an incentive-based compensation model of this nature with the goal of reducing operating subsidies to physicians

Executive Summary - Conclusion

In order for CCHCS to be viable going forward, the issue of executive leadership as well as the other priority issues covered in this report must be successfully addressed



Failure to successfully address these issues in a timely manner will result in deterioration of CCHCS' competitive and financial positions

Priority Issue:
Role, Structure, and Effectiveness of CCHCS Governance

Priority Issue: CCHCS Governance

ISSUE BACKGROUND

- HS&S concerns about CCHCS' governance include:
  - Power concentration at diocesan level, inconsistent with best practices for not for profit community hospital governance
    - This concentration of power impacts the ability to select and retain a CEO as well as Board members
  - Potential for significant diocesan involvement in non-mission business issues of CCHCS, where diocesan expertise appears to be extremely limited
  - Likely inability to attract top board members to organization with such limited real influence of system governing board
  - Lack of clarity between system Board of Governors and local Boards of Trustees regarding roles and responsibilities

Priority Issue: CCHCS Governance

ISSUE BACKGROUND (continued)

- Board meeting minutes suggest legalistic, report oriented, and retrospective board meetings at all levels
- Board meetings do not appear to deal with key and prospective issues facing the organization
- Board self-evaluations (consistent with minutes), describe desire for more timely and robust discussion
- Diocese has apparently heard these concerns before (previously completed consulting studies addressed much of this)
- The executive structure at Caritas has seen an extraordinary level of transition and instability which has and will, if it continues, hinder growth and development of the organization

CCHCS requires a top flight governance system in order to compete in the Greater Boston marketplace

Recommendations to Address CCHCS Governance

- Limit diocesan involvement to appropriate issues
  - Mission, vision, and values changes
  - Religious directive issues
- All other reserve powers should be held exclusively by the system Board of Governors, including appointment and evaluation of the CEO as well as appointment, re-appointment, and removal of its own members
- Local Boards of Trustees key responsibilities should include quality improvement and community relationships
- Local Boards of Trustees must also become intimately involved in overseeing the financial performance of their organizations, under the guidance provided by the approved budget by the Board of Governors
- The Executive Committee should play a limited role to facilitate a more robust Board of Governors meeting

Recommendations to Address CCHCS Governance (continued)

- Membership on the Board of Governors should be diverse, and favor leading community members as opposed to a high percentage of diocesan members
- The Board of Governors, in its oversight role, must take appropriate steps to bring about executive and management stability to Caritas
- CCHCS should undertake a comprehensive review of its governance practices to insure it meets best practices at a detailed level, as recommended and outlined in ***Principles for Good Governance and Ethical Practice-A Guide for Charities and Foundations***, published by the Panel on the Nonprofit Sector in October, 2007. This will likely include board size, leadership succession planning, development, improved operations, and role and responsibilities(1).

(1) HS&S understands that a committee convened several months ago by CCHCS and the Diocese has recommended changes in governance in the form of amended and restated bylaws which were recently submitted to the Attorney General for review and comment. It is our understanding that the Diocese has approved the changes and that they are currently being reviewed by the Attorney General.

Priority Issue: Role of Caritas St. Elizabeth's Medical Center

Priority Issue:
Role of Caritas St. Elizabeth's Medical Center

ISSUE BACKGROUND

- The previous CCHCS administration developed a "System Forward" strategy which identified Caritas St. Elizabeth's as the tertiary/quaternary referral center hub of CCHCS. This was a hub and spoke model that attempted to have other CCHCS member hospitals and affiliated physicians refer their tertiary level patients to Caritas St. Elizabeth's.
  - This strategy failed because Caritas St. Elizabeth's does not function as, nor is it clinically prepared or capable of being a tertiary/quaternary center. The strategy was further flawed due to the geographic distance between Caritas St. Elizabeth's and other system hospitals, as well as the inability and unwillingness of physicians to change their referral patterns.
- Current CCHCS management understands that this is not a practical strategy

Priority Issue:
Role of Caritas St. Elizabeth's Medical Center

ISSUE BACKGROUND (continued)

- The failed hub and spoke strategy also created physician and management resentment (from other CCHCS hospitals), which has reportedly contributed to some physicians leaving the organization
- Moreover, the region has an extensive array of nationally ranked tertiary/quaternary care providers with more advanced clinical capabilities and greater resources

Caritas St. Elizabeth's has insufficient resources and capabilities to compete successfully for a wide range of tertiary care services in the Greater Boston marketplace

Priority Issue:
Role of Caritas St. Elizabeth's Medical Center

ISSUE BACKGROUND (continued)

- CCHCS representatives report that a significant number of primary care and specialist physicians have left Caritas St. Elizabeth's over the past few years, leaving the hospital under-supplied in key areas. This exodus has apparently been disproportionately higher than departures from the other CCHCS hospitals.
  - A number of these physician departures are attributed to a change of focus within the Caritas Physician Network and/or low productivity on the part of the respective physicians
  - The medical staff departures from Caritas St. Elizabeth's have contributed to recent declines in utilization (refer to the following page for additional detail)

Caritas St. Elizabeth's Medical Center
Utilization Summary, FY 2005- FY 2007

Inpatient Summary	FY 2005	FY 2006	FY 2007	% Change '05-'07
Patient Days	76,885	70,231	66,366	(13.7%)
Total Discharges	17,009	15,731	14,780	(13.1%)
Average Length of Stay	5.0	4.9	4.9	(2.0%)
Open Heart Surgery Cases	318	259	277	(12.9%)
Outpatient Summary				
Total ED Visits	30,179	29,081	28,418	(5.8%)
Clinic Visits	75,511	82,624	82,711	9.5%
Outpatient Surgical Procedures	4,997	4,579	3,863	(22.7%)

Source data provided by Caritas Christi Health Care System, 2008

Priority Issue:
Role of Caritas St. Elizabeth's Medical Center

ISSUE BACKGROUND (continued)

- Caritas St. Elizabeth's operating margins for FY 2005 through FY 2007 have been low, ranging from 1.1% to 2.0% (refer to the following page for additional detail)
  - Physician employment and contractual arrangements are a significant drain to Caritas St. Elizabeth's financial performance. An estimated 200 CCHCS employed physicians practice at Caritas St. Elizabeth's. Consequently, a substantial portion (over $15 million in FY 2007) of the operating losses for the physician network are attributed to Caritas St Elizabeth's.

Caritas St. Elizabeth's operating margin, while positive, is insufficient to fund necessary investments in programs and facilities. The hospital's total net assets were slightly lower as of 9/30/07 than they were as of 9/30/05.

Caritas St. Elizabeth's Medical Center
Financial Summary, FY 2005 - FY 2007

Statement of Operations	FY 2005	FY 2006	FY 2007
Total Revenues	$354.1M	$365.1M	$374.3M
Total Expenses	$347.6M	$361.0M	$366.9M
Operating Income (Loss)	$6.5M	$4.1M	$7.3M
Non-Operating Gains, Net	$2.2M	$5.0M	$5.3M
Net Income (Loss)	$8.8M	$9.1M	$12.6M
Balance Sheet	09/30/05	09/30/06	09/30/07
Total Current Assets	$55.8M	$55.6M	$52.3M
Total Assets	$264.0M	$265.3M	$261.3M
Total Current Liabilities	$62.9M	$65.3M	$64.7M
Total Liabilities	$168.2M	$166.2M	$166.2M
Total Net Assets	$95.9M	$99.1M	$95.2M

Source: Data provided by Caritas Christi Health Care System, 2008.

Recommendations to Address the Role of Caritas St. Elizabeth's Medical Center

- Caritas St. Elizabeth's should function as a community teaching hospital, with continued emphasis (and development of advanced capabilities) in two to three major service lines where it can be competitive
  - CCHCS leadership perceives one opportunity to be in the area of cardiovascular services
  - Caritas St. Elizabeth's should focus on its core service area, for the most part competing with local hospitals for patients
  - HS&S understands that CCHCS has initiated a process to develop a contemporary strategic plan for Caritas St. Elizabeth's
- Financial losses resulting from employment of or contractual arrangements with physicians should be addressed as a top priority (refer to operating performance of the Caritas Physician Network)

Priority Issue:
Future of Caritas Carney Hospital as an Acute Care Hospital

Priority Issue: Future of Caritas Carney Hospital as an Acute Care Hospital

ISSUE BACKGROUND

- Caritas Carney has a long history of poor financial performance, low inpatient occupancy, and an aging and out of date physical plant (these issues pre-date the involvement of CCHCS)
- Caritas Carney plays a relatively minor role in the provision of acute inpatient care even within its own primary service area
- Competition in Caritas Carney's traditional patient service area has increased
  - Caritas Carney's inpatient market share declined between 2004 and 2006 and is projected to have declined again in 2007
- Inpatient market share is very fragmented in Caritas Carney's primary service area and three hospitals had a higher inpatient market share than Caritas Carney (refer to the following page for additional detail)

Caritas Carney Hospital: Inpatient Market Share, 2006(1)

Hospital	Primary Service Area	Secondary Service Area	Total Market Share
Caritas Carney Hospital	11.0%	2.4%	7.7%
Boston Medical Center	18.1%	14.7%	16.8%
Brigham & Women's Hospital	11.3%	18.8%	14.1%
Beth Israel Deaconess Medical Center	7.7%	11.8%	9.2%
South Shore Hospital	6.4%	9.3%	7.5%
Quincy Hospital	12.6%	2.3%	8.7%
Tufts New England Medical Center	5.7%	2.8%	4.6%
Milton Hospital	6.8%	1.3%	4.7%
Caritas St. Elizabeth's Medical Center	2.0%	3.4%	2.5%
Other Hospitals	18.5%	33.2%	24.0%

(1) Market share calculated excludes normal newborns & neonates.
Source data provided by Caritas Christi Health Care System, 2007.

Priority Issue: Future of Caritas Carney Hospital as an Acute Care Hospital

ISSUE BACKGROUND (continued)

- Several neighborhood health centers which previously utilized Caritas Carney now refer patients to other hospitals. Nonetheless, some health centers cite Caritas Carney's low cost structure and range of specialty services, including child and adult behavioral health, as reasons for their current utilization of the hospital.
- Sufficient general acute care medical and surgical beds exist in the region to accommodate the needs of the residents of Caritas Carney's service area, however, there appears to be a need for the behavioral health services that Caritas Carney provides for adults and children
- Caritas Carney is a major employer in Dorchester and is viewed as a very important part of the community

Priority Issue: Future of Caritas Carney Hospital as an Acute Care Hospital

- Small hospitals like Caritas Carney find it very difficult to reverse significant downward trends in market share
- If Caritas Carney's inpatient medical-surgical market share continues on its recent downward trend, it will only be able to efficiently operate 64 medical-surgical beds (at 80% occupancy) in 2012
- Even if Caritas Carney maintains its inpatient market share at current levels, it will only be able to efficiently operate 82 adult medical-surgical beds in 2012

Without significant improvement in operating and financial performance, Caritas Carney will continue to be a drain on (limited) system resources

Recommendations to Address Future of Caritas Carney Hospital as an Acute Care Hospital

- Caritas Carney should maintain (and perhaps seek to expand) its inpatient psychiatry/substance abuse services
- Given its operating and facility constraints, its declining market share, its relatively low inpatient census, and the competitive environment in which it operates, Caritas Carney should consider the feasibility of transitioning to a behavioral health services facility, while retaining selected primary care, urgent care, and diagnostic services
  - HS&S understands that CCHCS has engaged a consulting firm to identify and evaluate strategic alternatives for Caritas Carney's future

Priority Issue:
Operating Performance of the Caritas Physician Network

Priority Issue: Operating Performance of the Caritas Physician Network

ISSUE BACKGROUND

- CCHCS owned, operated, and contracted physician activities are comprised of multiple components:
  - Caritas Physician Network, the employer of nearly 400 physicians
  - Seven sponsored independent practice associations (IPA's), totaling approximately 1,300 affiliated, non-employed, physicians
    - IPA's are organized to compete for patient care business in the region they serve
    - Each IPA is connected to a member hospital of CCHCS
  - A variety of other employment and contractual arrangements between and among the health system, system hospitals, and physicians

Priority Issue: Operating Performance of the Caritas Physician Network

ISSUE BACKGROUND (continued)

- Caritas Physician Network operating losses have been extensive (approximately $30 million in FY 2007)
  - $10 million of the FY 2007 loss was due to accounting adjustments/reconcilements from the previous year. However, physician losses may be understated as additional funding/subsidies for physician services are accounted for on each hospital's books.
- CCHCS staff oversees all physician activity and contracting and has negotiated contracts giving CCHCS the responsibility for 130,000 contracted lives at specified rates
- Leadership of CCHCS reports that recruitment and retention of physicians is difficult, resulting in some vacancies and turnover

Priority Issue: Operating Performance of the Caritas Physician Network

ISSUE BACKGROUND (continued)

- To date, employed physician compensation is market based and is not linked to productivity measures commonly used, such as relative value units (RVU's)
  - CCHCS leadership recognizes this and is in the process of formalizing an incentive-based compensation model with the goal of reducing operating subsidies to physicians
- While CCHCS negotiates payment rates for all physicians, in practice, IPA members may reject agreed-upon rates
  - CCHCS leadership reports that in the most recent round of contract negotiations, all physicians accepted the negotiated rates
- CCHCS has reportedly been unable to date to secure $6 million in available (annual) pay for performance incentives from insurers

Priority Issue: Operating Performance of the Caritas Physician Network

Per Physician Operating Losses

- Of the approximately 400 employed physicians in the Caritas Physician Network, almost one-half are affiliated with Caritas St. Elizabeth's, with the rest distributed among other system hospitals
- Losses for these employed physicians in FY 2007 were approximately $30 million, or $75,000 employed per physician
- The FY 2008 budget calls for a $15 million loss, or $37,500 per physician; however, this may not include all losses as hospital budgets include some physician expenses/subsidies as well

A future target for CCHCS is a $25,000 loss per employed physician

Recommendations to Address Operating Performance of the Caritas Physician Network

- Evaluate all physician contracts and compensation arrangements in comparison to industry medians and benchmarks by specialty
- Proceed with plans to implement a new compensation structure for employed physicians, with greater emphasis on physician productivity (e.g., based on relative value units)
  - Mandate pay for performance quality metrics as conditions of employment
- Consider decentralization of employed physicians' financial performance/results to each hospital thereby allowing each hospital to determine its own employed physician needs
- Review Tufts Medical School relationship to seek assistance in faculty recruitment and retention in return for providing significant student and resident teaching services for Tufts

Recommendations to Address Operating Performance of the Caritas Physician Network

- Assess the potential to link the CCHCS IPA's and the Caritas Physician Network with other physician networks to strengthen market presence and competitive position in a market dominated by a small number of large physician groups
- Modify reporting/accounting systems and structure so that there is considerably greater transparency of financial and operational performance indicators
  - This also has potential to enhance the accuracy of performance measurement and should facilitate decision making that will lead to improved performance