

August 30, 2013

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SENT VIA EMAIL AND OVERNIGHT MAIL

Paul Parker
Director, Center for Health Care Facilities Planning & Development
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

Dear Mr. Parker,

On behalf of our client, University of Maryland Shore Regional Health, Inc., enclosed please find a request for exemption from CON review for the relocation of hospice services as part of a consolidated system.

Sincerely,

Peter P. Parvis / MTB

Peter P. Parvis

Encl.

cc (with enclosures): Suellen Wideman, Esq.
Joel Riklin
Linda Cole
Sue Lyn Schramm
Sandra Benzer, Esq.
Amy Dilcher, Esq.
Kenneth Kozel

MEMORANDUM REQUESTING EXEMPTION FROM CERTIFICATE OF
NEED FOR THE ACQUISITION AND CONSOLIDATION OF THE
HOSPICE OPERATIONS OF SHORE HOME CARE AND HOSPICE
BY AND UNDER CHESTER RIVER HOME CARE AND HOSPICE

FACTS:

Chester River Home Care and Hospice (Chester River) and Shore Home Care and Hospice (Shore) have a common parent (University of Maryland Shore Regional Health, referred to herein as UM Shore Regional) and are part of a merged entity. In order to better provide hospice services to the residents of the four counties served by Chester River and Shore, the University of Maryland Medical System (UMMS), the ultimate parent of all of the entities, desires to use the organizational structure of Chester River (to be renamed Five Rivers Hospice) to provide services in the four counties currently served by the entities (Talbot, Caroline, Kent, and Queen Anne's Counties).

The proposal to formally integrate regional hospice services is the result of more than two years of discussion and evaluation by UM Shore Regional, Talbot Hospice Foundation and Caroline Hospice Foundation. The two limited license hospices and UM Shore Regional have worked cooperatively for many years and believe that they can better benefit the citizens of Talbot and Caroline counties through a closer affiliation that improves the public's access to high quality, efficient hospice care. Our intent is to combine these hospice operations in Talbot and Caroline counties under a new name, ***Five Rivers Hospice***, an affiliate of UM Shore Regional. Chester River, already a part of UM Shore Regional, provides hospice care in Kent County and portions of northern Queen Anne's County, and the care it provides will not be affected by the consolidation of services in Five Rivers Hospice. The majority of Queen Anne's County hospice care is covered by a CON through Hospice of Queen Anne's, an independent hospice which has existed collegially with Chester River for many years. The care provided by Hospice of Queen Anne's, a very fine organization, will not be affected by the services of Five Rivers Hospice.

A chart attached to this Memorandum demonstrates the relationships between the parties both before and after the reorganization of Shore's hospice activities under the structure of the current Chester River. The Talbot and Caroline limited hospices will not be a legal entity within the consolidated hospice operations under Five Rivers Hospice, retaining their own structure and mission, but their services will be more fully integrated with the Five Rivers Hospice operations. The resulting organization under the former Chester River organization structure will be renamed Five Rivers Hospice. In the near term, the doing-business-as name of Chester River will not change for its CON area. The name Five Rivers Hospice will reflect the CON area of Talbot and Caroline counties.

TREATMENT OF THE PROPOSAL UNDER THE COMMISSION'S REGULATIONS:

A hospice is defined as a health care facility. COMAR 10.24.01.01B(11)(vii). A certificate of need (CON) is required to develop a new health care facility or to change the services at an existing facility if the change results in the establishment of a new hospice program or home health program. We note that this transaction will not result in a new hospice program, so that this provision is not applicable.

A CON is not required for the acquisition of an existing health care facility under the provisions of COMAR 10.24.01.03A(1), which states that

At least 30 days before closing on a contractual arrangement to acquire a health care facility that exists pursuant to a Certificate of Need or other authority recognized by the Commission, the person acquiring the facility shall notify the Commission in writing, with a copy to the local health officer in each affected jurisdiction, of the intent to acquire the facility, and include the following information:

- (a) The health care services provided by the facility;
- (b) The bed capacity, or jurisdiction served, if a community-based service;
- (c) Complete data on admissions for the prior calendar year;
- (d) Gross operating revenue generated during the last fiscal year; and
- (e) Any other information, as required in the applicable chapter of the State Health Plan.

We believe that the proposal is eligible for treatment under this section and will be filing under separate cover a request for exemption under this provision of the law.

However, there are other provisions of the law that would permit the transaction without a CON. We are filing this request for exemption under those provisions in the event that the Maryland Health Care Commission (Commission) determines that the acquisition exemption is not available, and we request a determination by the Commission that the transactions described in this Memorandum do not require a CON.

Specifically, a CON is required for the move of an existing hospice to another site, unless the relocation is: "Of an existing health care facility owned or controlled by a merged asset system, subject to the provisions of Regulation .03C or .04A(2) of this chapter, whichever is applicable." COMAR 10.24.01.02A(2)(b). The proposal would fall under this provision if it is not treated as an acquisition. The intent of the proposal is to consolidate hospice services, so that a single entity will assume the service areas of two currently separate hospices. The applicable provisions are discussed below.

First, relocations are permitted without a CON among components of a merged system to a site within the primary service area of the relocating facility, as defined in the State Health Plan, but not across County lines. Md. Code, Health-Gen. § 19-120(g)(2)(iii)(1); COMAR 10.24.01.03.D(1). The requestor must file notice with the Commission at least 45 days before the proposed relocation, which results in published notice, and the relocation cannot:

- (a) Change the type or scope of health care services offered; and
- (b) Require a capital expenditure for its construction that exceeds the capital review threshold, adjusted for inflation, except as provided in §I of this regulation.

COMAR 10.24.01.03D(2)–(3). In the present situation, the relocation is within the counties in which the entities are licensed to provide hospice services. As noted, the proposal will not change the type of services offered, offer any new services, or require any capital expenditure.

The other provision which permits the move of a health care facility within a merged system without a CON is if the relocation is to a site outside the primary service area of the facility to be relocated but within the service area of the merged system if 45 days' notice is filed with the Commission and the Commission, in its sole discretion, and in accordance with the criteria adopted by regulation, finds that the relocation is

- i) in the public interest,
- ii) is not inconsistent with the State health plan, and
- iii) will result in the more efficient and effective delivery of health care services

Md. Code, Health-Gen. § 19-120(g)(2)(iii)(2); *see also* 10.24.01.04B(6). Additionally, COMAR 10.24.01.04A(2) requires that the relocation of the existing health care facility does not change the type or scope of health care services offered and does not require a capital expenditure for its construction that exceeds the capital review threshold, adjusted for inflation, except as provided by COMAR 10.24.01.03I. As noted above, these requirements are met.

The statute and regulations define consolidation and merger as follows:

“Consolidation” and “merger” include increases and decreases in bed capacity or services among the components of an organization that:

- (i) Operates more than one health care facility; or
- (ii) Operates one or more health care facilities and holds an outstanding certificate of need to construct a health care facility.

Md. Code, Health-Gen. § 19-120(a)(2).

DISCUSSION:

The requirements for exemption for movement of components within a merged or consolidated system are discussed below:

1. The entities are part of a consolidated system.

UMMS is the parent entity of all of the component entities. Prior to July 1, 2013, the UMMS entities on the eastern shore were part of two subsidiary organizations. University of Maryland Medical System Corporation (UMMS) was the sole member of Shore Health System, Inc. (SHS) and Chester River Health System, Inc. (CRHS).

- SHS owns and operates the Memorial Hospital at Easton and Dorchester General Hospital, which function as divisions of SHS (i.e., the hospitals are not separate legal entities).
- SHS is the parent entity of Care Health Services, Inc. , which operates the Shore Home Care and Hospice as a d/b/a and Shore Clinical Foundation, Inc.

- CRHS is a holding company that owns several subsidiaries. It is the parent entity of Chester River Hospital Center, Inc., Chester River Home Care and Hospice, LLC and Chester River Manor, Inc.

Following the reorganization,

- CRHS, Chester River Hospital's current parent/holding company, was renamed University of Maryland Shore Regional Health, Inc. ("UM Shore Regional").
- UM Shore Regional serves as the intermediary parent of SHS.
- UM Shore Regional serves as the parent entity of SHS and its subsidiaries and CRHS' subsidiaries. UMMS remains as sole member of UM Shore Regional, but operational responsibilities for the eastern shore entities will fall under UM Shore Regional.

Therefore, the hospice entities are part of a consolidated system. See the attached charts depicting the structure.

UM Shore Regional's primary service areas include the counties of Kent, Queen Anne's, Talbot, Caroline and Dorchester. Dorchester County is not within the service area of the hospice entities, but each of the other counties is currently served by, either in whole or in part, the existing hospices and will be served by the consolidated hospice under Five Rivers Hospice. No new counties are being added to the current approvals held by the two hospice entities, and Five Rivers Hospice will merely consolidate the hospice activities of two licensed hospices which are part of a consolidated system under a single entity.

2. A pre and post organizational chart of the hospice consolidation is attached. Chester River (to be renamed Five Rivers Hospice) will be the hospice [structure] that survives on the organizational chart and provides services in all of the counties currently served.
3. There are no outstanding public body obligations, nor is any public debt affected by the transaction.
4. The applicant believes that there are significant benefits to the communities currently served that will result from the consolidation, explained below, so that the proposed consolidation is fully in the public interest and will result in the more efficient and effective delivery of health care services, as required by the regulations.

This consolidation of UM Shore Regional hospice services will not only enable more complete and cohesive delivery of hospice services, but will allow Five Rivers Hospice to care for a wider range of patients than in the past. The reorganization of hospice services regionally will permit:

- Easier access to all hospice services in Talbot and Caroline Counties.
- Expedited admission processes for hospice services.

- Equal service for all residents within the four county area, including admission to the 6-bed Easton residential hospice facility owned by Talbot Hospice Foundation and leased to Five Rivers Hospice which will operate the facility. As further explained below, this approach will maintain a role for Talbot Hospice Foundation and Caroline Hospice Foundation (which will remain independent and are not part of the legal structure of UM Shore Regional or Five Rivers Hospice) while maintaining this valuable service in the community.
- Enhanced ability to care for patients with significant medical needs, including those who require skilled nursing care.
- Improved contact with families, patients and referring medical professionals, with one identity as a source for all hospice information, services and access to staff.
- Expansion of non-medical pre-hospice services throughout the Five Rivers Hospice service area for patients not eligible for hospice admission. This non-reimbursed social support service is currently provided by Talbot Hospice Foundation and is available only to residents of Talbot County. Five Rivers Hospice will expand these non-medical services to Caroline County as well.

In addition to the planned improvements in hospice access and in the range of services available, this affiliation will also enable the uninterrupted operation of the existing 6-bed hospice residential facility owned by Talbot Hospice Foundation on Cynwood Drive in Easton. As of January 1, 2014, new Maryland State regulations require that any hospice house must be operated by a provider with a general hospice license; limited license hospices, such as Talbot Hospice Foundation and Caroline Hospice Foundation, may not operate a hospice house. (See COMAR 10.07.22 Hospice Care Programs: Hospice House Requirements.) Under the proposed affiliation, Five Rivers Hospice, a medical hospice with a general license, will lease the facility from Talbot Hospice Foundation and will operate those beds, ensuring that this service is not lost to the community. The Caroline Hospice Foundation facility will continue to be utilized for administrative staff purposes, bereavement counseling and community education programs on hospice-related programs. As noted above, both of the existing limited hospice providers will continue to maintain their existing structure and status, but it is anticipated that the entities will cooperate fully to offer better services in the four county area. The cooperation and agreements by the entities will be far more efficient than an effort by the two limited hospices to gain general hospice status, which would require a CON and significant increases in expense.

The proposed structure will permit patients in the four counties to continue to be served every day without fail. Hospice services in Kent and Queen Anne's Counties will continue without change, provided by the former Chester River Hospice (now a branch of Five Rivers Hospice) and by Hospice of Queen Anne's, an independent hospice not related to UM Shore Regional or Five Rivers Hospice.

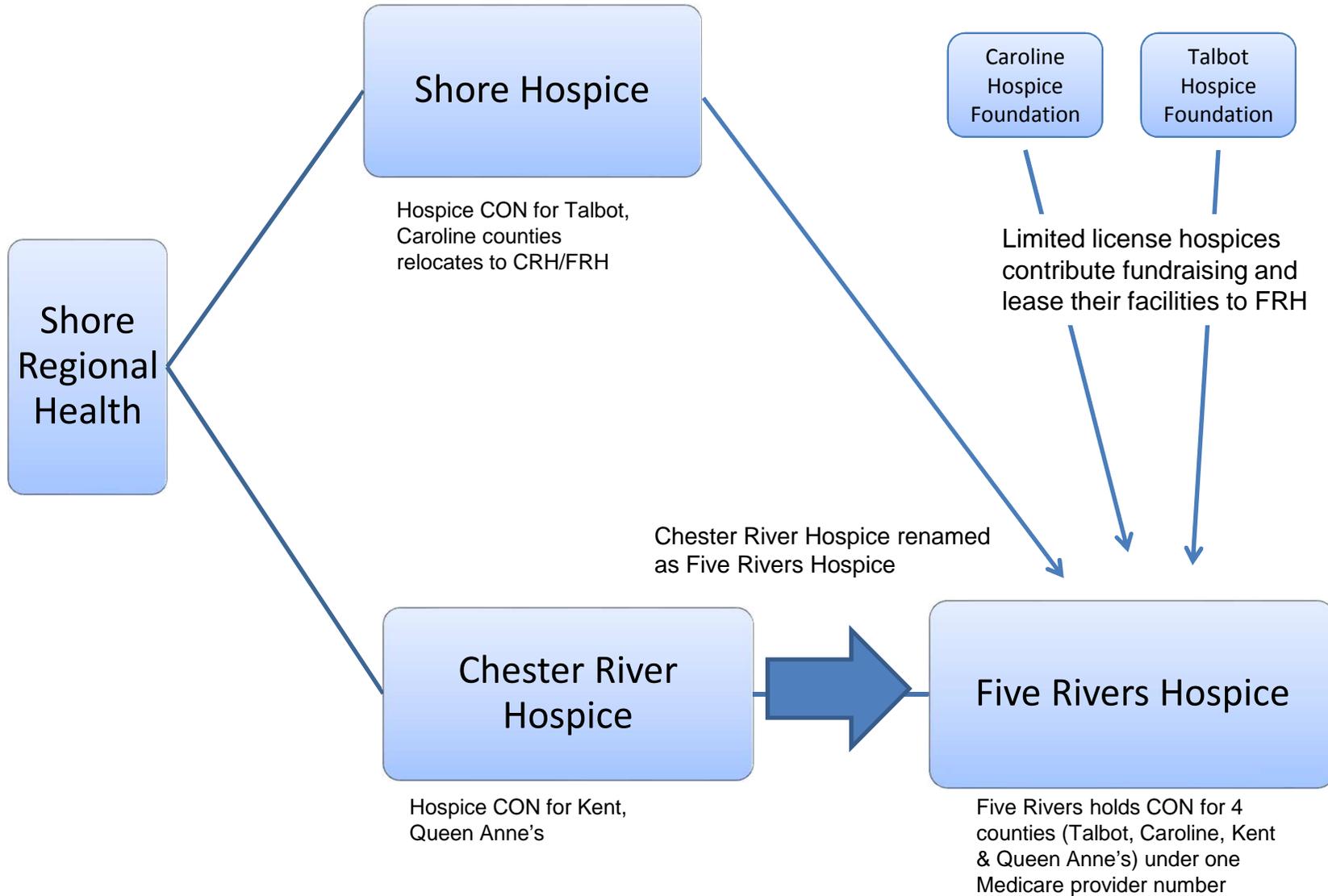
5. The proposal is not inconsistent with the State Health Plan on hospice services.

Revisions to the current State Health Plan (SHP) on hospice services are currently proposed as a new rule. Nothing in this proposal is inconsistent with either the existing or proposed SHP on hospice services. The two hospices being consolidated will continue to serve the communities for which they are currently approved. Five Rivers Hospice will take over the operations (but not the ownership) of the Talbot Hospice Foundation residential facility in Easton so that the service remains available to the residents currently served, thus ensuring a full panoply of hospice services that would otherwise be restricted due to the change in licensure law. The consolidated entity is not proposing any new service that requires a CON (such as an inpatient facility) or any expansion into a new county. Therefore, the proposed consolidation of existing hospice services is not inconsistent with, and furthers the goals of, the SHP on hospice services.

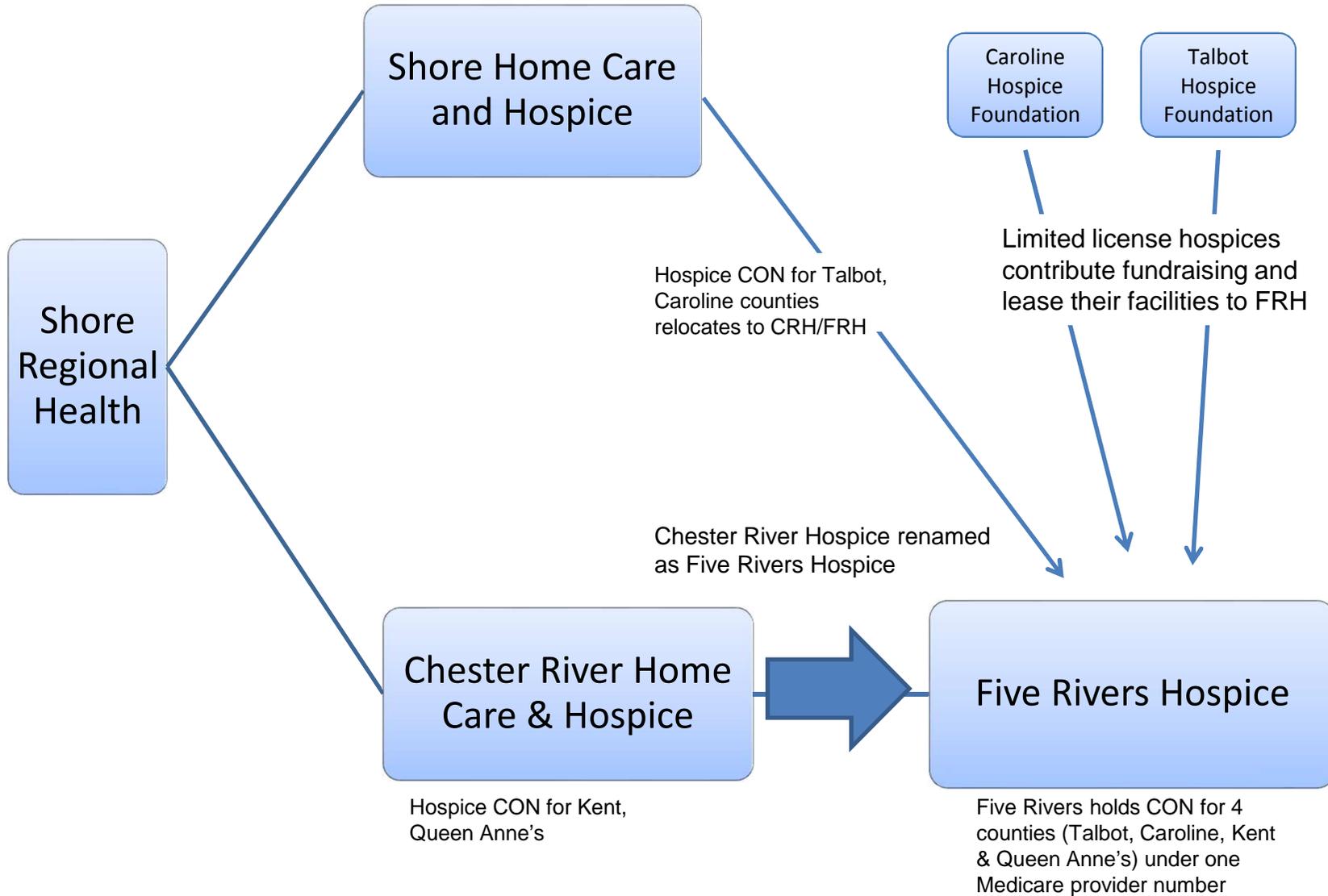
CONCLUSION:

The University of Maryland Medical System, University of Maryland Shore Regional Health and the affected hospices respectfully request that the Maryland Health Care Commission find that the proposed consolidation be approved without the need for a certificate of need. The entities intend to effectuate the consolidation as soon as approval is received, and therefore request approval at the October Commission meeting.

Hospice Affiliation and Regional Hospice Structure



Hospice Affiliation and Regional Hospice Structure





MidShore Regionalization Corporate Structure

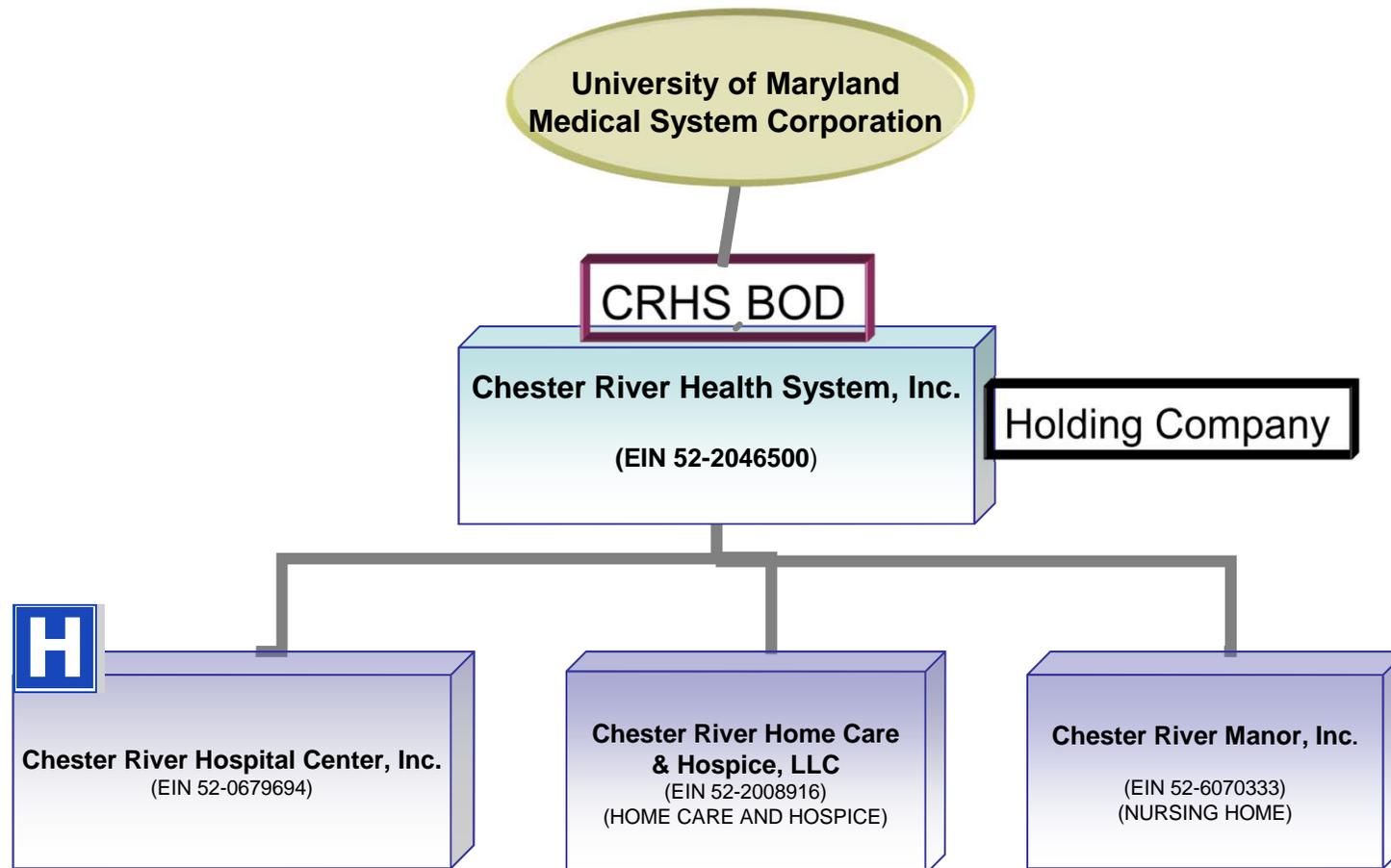
as of August 22, 2013



Corporate Structures of Shore Health and Chester River Prior to July 1, 2013

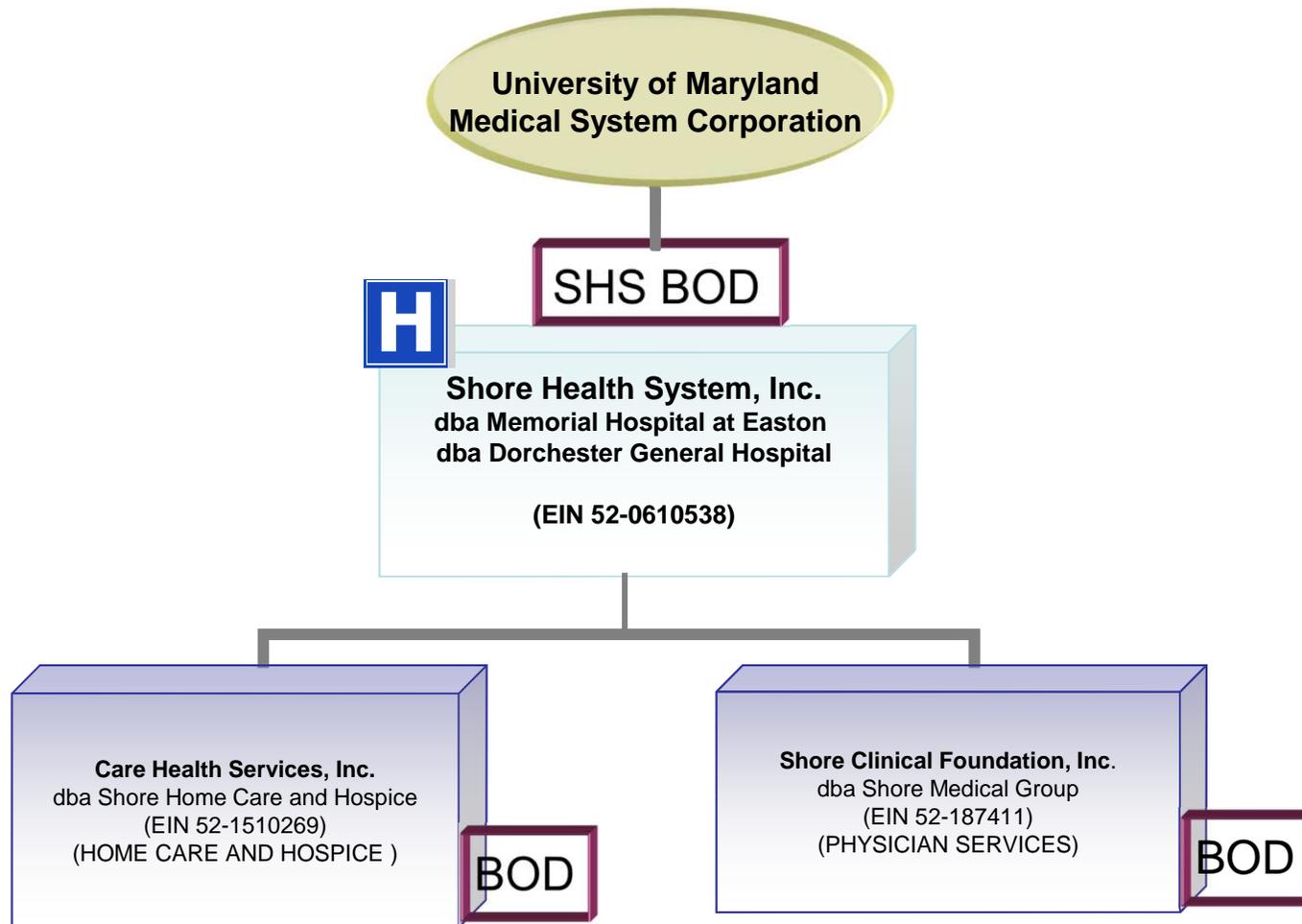
- University of Maryland Medical System Corporation (UMMS) is the sole member of Shore Health System, Inc. (SHS) and Chester River Health System, Inc. (CRHS)
- SHS owns and operates the Memorial Hospital at Easton and Dorchester General Hospital, which function as divisions of SHS (i.e., the hospitals are not separate legal entities)
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- CRHS is a holding company that owns several subsidiaries. It is the parent entity of Chester River Hospital Center, Inc., Chester River Home Care and Hospice, LLC and Chester River Manor, Inc.

CRHS Structure Prior to July 1, 2013



Note: CRHS BOD acts as the boards for all of the subsidiaries.

SHS Structure Prior to July 1, 2013



Note: SHS has separate boards for each of its subsidiaries



CORPORATE STRUCTURE AS OF JULY 1, 2013



Changes to Corporate Structure as of July 1, 2013

- ***Renamed*** CRHS, Chester River Hospital's current parent/holding company, to University of Maryland Shore Regional Health, Inc. ("UM Shore Regional")
- ***Inserted*** UM Shore Regional as the intermediary parent of SHS
- ***End result*** - UM Shore Regional is the parent entity of SHS and its subsidiaries and CRHS' subsidiaries. UMMS remains as sole member of SHS and UM Shore Regional

Corporate Structure as of July 1, 2013

UM Shore Regional Health Inc.

