GALLAGHER
EVELIUS & JONES LLP
ATTORNEYS AT LAW

ELLA R. AIKEN
eaiken@gejlaw.com
direct dial: 410 951 1420
fax: 410 468 2786

December 21, 2015

Ms. Ruby Potter
ruby.potter@maryland.gov
Health Facilities Coordination Officer
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

VIA EMAIL and HAND DELIVERY

Re: Recovery Centers of America – Earleville—Intermediate Care Facilities
314 Grove Neck Road OPCO, LLC
Matter No. 15-07-2363

Dear Ms. Potter:

Enclosed are six copies of the "Response to Additional Information Questions Dated December 7, 2015" with respect to the above-referenced CON application. Also enclosed is a CD containing searchable PDF files of the responses and exhibit, as well as a with a WORD version of the responses.

I hereby certify that a copy of this submission has also been forwarded to the appropriate local health planning agency as noted below.

Sincerely,

Ella R. Aiken

ERA:blr
Enclosures
cc: Kevin McDonald, Chief, Certificate of Need
Paul Parker, Director, Center for Health Care Facilities Planning & Development, MHCC
Joel Riklin, Program Manager
Suellen Wideman, Esq., Assistant Attorney General, MHCC
Stephanie Garrity, Health Officer, Cecil County (w/ enclosures)
Marta D. Harting, Esq.
John J. Eller, Esq.
JP Christen, Chief Operating Officer, Recovery Centers of America
Edmund J. Campbell, Jr., Esq.
Andrew L. Solberg, A.L.S. Healthcare Consultant Services
Thomas C. Dame, Esq.

#547663
013522-0004

Recovery Centers of America—Earleville
314 Grove Neck Road OPCO, LLC
Establishment of Alcohol and Drug Abuse
Intermediate Care Facility in Cecil County, Maryland
Docket No. 15-07-2363

Responses to Additional Information Questions Dated December 7, 2015

---

1. **Revised Project Description: The November 30th revised project description states that the total square footage of Manor House and addition will equal 76,859 square feet. Table B conflicts with that, stating that the Total Square Footage after Project Completion will be 95,126 sq. ft. Please clarify, and reflect the corrected information in the corrected application to be filed.**

Applicant Response

The information set forth in Table B (95,126 square feet) is correct, and the information in the former project description is incorrect. The project description in the corrected application contains the correct information.

2. **Table B shows that close to 11,000 sf would be renovated for the proposed detox facility, yet Table E, the Project Budget, does not include any budgeted amount for renovations to detox (unlike the Table E filed in May, which did). The same issue exists for Table D, which shows no renovation cost. Please explain.**

Applicant Response

Tables B and D in the corrected application do not include any renovated space for the proposed detox facility. The proposed detox facility will consist entirely of new construction. Former Tables B and D contained an allocation of renovated space to the proposed detox facility because some of the services to be provided in the renovated space may support patients in the proposed detox facility. However, Applicant has determined to remove the allocation in the corrected application because the entirety of the renovated space will be constructed to support the residential component of the Earleville facility regardless of whether the proposed detox facility is approved.

3. **Table E shows the equity contribution decreasing from over $6 million to about $4.2 million, even as total project cost escalates from about $17.4 million to about $30.8 million. Please explain the reason for the decrease.**

Applicant Response

The decrease in equity contribution reflects that Deerfield Management Company, L.P. ("Deerfield") and the Applicant have restructured Deerfield's investment in the proposed project by increasing the debt component and reducing the equity contribution. Deerfield's total debt commitment for the project is $26,593,809.

4. Please provide some documentation from a financial institution indicating that the applicant will be able to obtain a mortgage loan of about $26.6 million for the Earleville facility.

Applicant Response

Deerfield will provide debt financing for this proposed project as well as two other projects RCA is proposing in Upper Marlboro, Maryland (Melwood) and Waldorf, Maryland (Billingsley). Attached as **Exhibit 38** is a letter from Deerfield confirming its commitment of more than $67 million in financing for RCA's three Maryland projects. The financing will be allocated as follows:

	Earleville	Melwood	Billingsley	Combined
Financing	$26,593,809	$18,129,890	$22,889,406	**$67,613,105**

5. Questions related to Table G:

a) Charity care declines precipitously as a % of total revenue and/or expenses. Apparently the basis that RCA has figured it on has changed. Please explain.

Applicant Response

As modified, the charity care commitment was not reduced. RCA calculates its charity care commitment as a percentage of net operating revenue for all services, including the residential services that are not subject to the CON requirement. For purposes of calculating charity care, RCA values each day of detox / assessment level care at $860, and each day of residential level care at $724.

RCA believes it is clinically inappropriate to provide charity care for eligible patients' only for detox services. Thus, the Applicant has committed to provide charity care for the entire course of detox and residential treatment, although there is no requirement that RCA provide charity care for residential treatment at ASAM level III.5. In fact, if the total charity care that RCA has committed to provide was applied to detox services only, RCA's commitment would amount to almost 25% of patient days, exceeding the requirement set forth in Standard .04D(1)(c). Using the financial projections for 2017 as an example, RCA's commitment of $1,509,228 in charity care is equivalent to approximately 1,755 patient days (1,509,228 ÷ 860 = 1,754.91), which is 24.6% of the total projected patient days for detox services in that year (see Table F, line 2(i)).

b) Contractual allowances amount to more than 72% of total revenue for the facility as a whole and for detox. Using the table below, please state the assumptions regarding charges and payment by payor.

Applicant Response

The Applicant has not yet entered any contracts with payers, so it cannot calculate the amount of contractual allowances by each payer. The Applicant used the following assumptions and support to derive projected revenue and contractual allowances:

- The daily charge for detox services is $3,500, and the daily reimbursement rate is $860.
- The daily charge for residential services is $2,900, and the daily reimbursement rate is $724.
- As shown in Table 14, submitted in RCA's August 31, 2015 responses to completeness questions, the average reimbursement rate for Maryland in 2013 was $872, and the neighboring state average reimbursement rate was $1,072.

c) Administrative/office expenses more than double, from $1.8 million to $3.8 million. What makes up this cost center? Please explain the doubling of these costs, which would seem to be more fixed than variable.

Applicant Response

The "Administrative/office expenses" line increased based upon the addition of more residential beds, and additional revenue. This amount includes an allocation of RCA's corporate office expenses, which is spread across all RCA facilities and is calculated based upon the proportion of the Applicant's revenue to all RCA facilities. The amount is not related to site specific administration expenses.

6. Table J of the May 18 version of the application showed operating expenses of $4.8 million (2018) with 32.4 FTES devoted to detox (Table L). The November 30th revision shows operating expenses of $3.9 million with 26.3 FTES devoted to detox. Both projections were for 21 detox beds, but in the November 30 modification patient days rose from 7,094 to 7,665. These changes should be explained.

Applicant Response

Salaries and wages (including benefits) included in Tables G & H include the cost of positions 100% dedicated to detox patients, positions 100% dedicated to residential patients and positions that are shared between both detox and residential. The following positions are 100% dedicated to detox: case managers, LPNs, and RNs. There are also case managers, LPNs and RNs 100% dedicated to the residential patients in addition to certain therapists. The remaining positions listed on Table L are shared between the detox and residential patients. The cost of the shared positions is allocated to the detox component of the facility in schedules J, K and L based on the percentage of detox beds to total beds in the facility.

The May 18, 2105 Modified Application included 14.67 detox dedicated FTEs, which has remained unchanged in the November 30, 2015 modification. Due to the increase in residential beds, the number of FTEs dedicated to residential patients increased from 15.13 to 50.04, and the number of FTEs shared increased from 41.29 to 59.83. The number of shared FTEs

allocated to detox patients in Table L decreased from 17.70 in the May 18 submission to 11.63 in the November 30 submission, representing approximately 43% and 19%, respectively, of the total shared FTEs which approximates the percentage of detox beds.

The operating expenses and FTEs declined for detox in connection with the November 30 modification because the addition of 59 residential beds caused more of the expense of the shared positions to be borne by the residential bed component of the facility. The following summarizes the allocation of FTEs for the May 18 Modified Application and the November 30 modification:

Description of FTEs	May 18 Modified Application	November 30 Modification
Detox Only	14.67	14.67
Residential Only	15.13	50.04
Shared Positions	41.29	59.83
TOTALS	71.09	124.54

The allocation of the shared positions to the detox beds decreased from 42.86% under the May 18 Modified Application (21 of 49 total beds) to 19.44% under the November 30 modification (21 of 108 total beds). Thus, the total FTEs for detox in the May 18 Modified Application was 14.67 detox only positions plus an allocation of 17.70 of the shared positions (41.29 x 42.86%), which equals 32.37. The total FTEs for detox in the November modification was 14.67 detox only positions plus an allocation of 11.63 of the shared positions (59.83 x 19.44%), which equals 26.30.

7. Please explain how overhead costs, such as facility expenses, marketing, liability insurance, legal, etc. are allocated on Table J.

Applicant Response

Certain operating expenses, including salaries/FTEs, are shared between the detox and residential components of the facility, while some resources are devoted 100% to one or the other. Any FTEs that are devoted 100% to detox beds were included at 100% of their value in Tables J & L, which did not change from the May 18, 2015 Modified Application to the November 30, 2015 Modification. However, the majority of FTEs and operating expenses for the facility are shared, including the overhead facility costs. These expenses were allocated to the detox beds (as shown in Tables J and L) based on the percentage of detox beds in the proposed facility (approx. 19.4%). This percentage decreased from the May 18 submission (21 of 49 vs. 21 of 108) resulting in a decrease of operating expenses and FTEs from that submission to the November 30 submission.

8. This modification increases the number of residential III.5 treatment beds proposed at this facility from 21 to 87. Combined with RCA's other pending applications, the number of these beds in Maryland would increase by 259 if all were approved. Has RCA done a scientific demand study that supports the

likelihood that these beds would meet the occupancy percentages projected in the modification, especially given the reliance on self-pay (80.5% for the whole facility, 69% for detox – meaning that the residential treatment would approach a 90% self-pay mix)?

Applicant Response

In addition to the need analysis for the detox beds the Applicant has presented in connection with this CON review, RCA also engaged a consultant to prepare a feasibility study in connection with securing private equity and debt investments in the proposed facility. The study is confidential and proprietary. Based on the study, RCA is confident that the increase in residential ASAM level III.5 beds from 28 to 87 does not exceed the demand for these beds, which are not subject to CON review. Indeed, the unmet demand for residential beds in Maryland far exceeds the 259 additional residential beds proposed to be established by RCA. In the very unlikely event the Applicant is unable to achieve financially feasible occupancy levels, the Applicant will reduce the number of residential beds in the facility.

I hereby declare and affirm under the penalties of perjury that the facts stated in this Corrected Modified CON Application and its attachments, and Response to Completeness Questions dated December 7, 2015, are true and correct to the best of my knowledge, information, and belief.

December 21, 2015
Date

J.P. Christen
Chief Operating Officer
Recovery Centers of America

#537072
013522-0001

I hereby declare and affirm under the penalties of perjury that the facts stated in this Corrected Modified CON Application and its attachments, and Response to Completeness Questions dated December 7, 2015, are true and correct to the best of my knowledge, information, and belief.

December 21, 2015
Date

Susan Cambria
Executive Director
Recovery Centers of America

#545361
013522-0001

I hereby declare and affirm under the penalties of perjury that the facts stated in this Corrected Modified CON Application and its attachments, and Response to Completeness Questions dated December 7, 2015, are true and correct to the best of my knowledge, information, and belief.

December 21, 2015
Date

Kevin McClure
Chief Financial Officer
Recovery Centers of America

I hereby declare and affirm under the penalties of perjury that the facts stated in this Corrected Modified CON Application and its attachments, and Response to Completeness Questions dated December 7, 2015, are true and correct to the best of my knowledge, information, and belief.

December 21, 2015
Date

John Evans
Facilities Manager
Recovery Centers of America

#537070
013522-0001

I hereby declare and affirm under the penalties of perjury that the facts stated in this Corrected Modified CON Application and its attachments, and Response to Completeness Questions dated December 7, 2015, are true and correct to the best of my knowledge, information, and belief.

December 21, 2015

Date

David Tyler
Principal
Healthcare Advisory Services
Grant Thornton LLP

#537079
013522-0001

I hereby declare and affirm under the penalties of perjury that the facts stated in this Corrected Modified CON Application and its attachments, and Response to Completeness Questions dated December 7, 2015, are true and correct to the best of my knowledge, information, and belief.

December 21, 2015
Date

Thomas E. Hall
Thomas Hall
Architect
Thomas E. Hall & Associates Inc.

#537068
013522-0001

EXHIBIT 38

DEERFIELD

780 Third Avenue
37th floor
New York, NY 10017

T: 212-551-1600
www.deerfield.com

Jonathan Isler
Chief Financial Officer
Deerfield Management Company, L.P.
780 Third Ave, 37th Floor
New York, NY 10017

December 8, 2015 CONFIDENTIAL TREATMENT REQUESTED

Mr. Ben Steffen
Health Facilities Coordination Officer
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

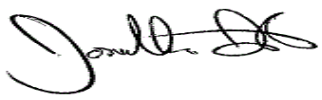
Re: *$231.5 million financing*

Dear Mr. Steffen,

At the request of our partner, Recovery Centers of America, we would like to confirm to the Commission that Deerfield Management entered into a financing transaction with Recovery Centers of America on May 12, 2015. Pursuant to this transaction, Deerfield Private Design Fund III, L.P. has agreed to provide Recovery Centers of America with up to $231.5 million in financing. Such amount includes over $67 million dollars specially earmarked for the acquisition and construction of the three subject properties in Maryland. We look forward to helping address what we believe to be a shortage of addiction treatment beds within the state of Maryland. Please feel free to reach out to one of our partners, Leslie Henshaw (212.922.1345), who is managing this investment on the firm's behalf should you require further clarification.

Sincerely,

DEERFIELD MANAGEMENT COMPANY, L.P. (Series C)
By: Flynn Management LLC, its General Partner



_____

Name: Jonathan Isler
Title: CFO & Authorized Signatory