

**Delaware Health Resources Board
Peninsula Regional Health System-Nanticoke affiliation
Review Committee Meeting Minutes
Thursday, August 8, 2019 2:00 PM
Thomas Collins Building, DDDS Training Room 101
540 S. Dupont Highway Dover DE 19901**

Review Committee Members Present: Mark Thomson Chair, Yrene Waldron and Dennis Klima

Staff Present: Latoya Wright and Joanna Suder

Call to Order and Welcome

The meeting of the Review Committee for Peninsula Regional Health System (Peninsula) was called to order at 2:10 p.m.

Review of Peninsula affiliation with Nanticoke Application

It was stated that in June 2019, Peninsula submitted a Certificate of Public Review (CPR) application seeking approval of a proposed affiliation agreement with Nanticoke Health System (Nanticoke). The public notice was sent out on June 21, 2019. There is no capital expenditure amount associated with this affiliation agreement. There were no requests for a public hearing. The application will have a 90-day review period. The deadline to review the application for a decision will be in September.

Project Summary and Background Information

Peninsula Regional Health System ("Peninsula") has submitted an application for a Certificate of Public Review ("CPR") seeking approval of a proposed affiliation between Peninsula and Nanticoke Health System ("Nanticoke"). Nanticoke is a not-for-profit 501 (c) (3) organization that provides acute care and general healthcare services in southern Delaware and Maryland's eastern shore. Nanticoke provides a broad range of inpatient and outpatient medical and surgical services to the local community through Nanticoke Memorial Hospital as well as a network of ambulatory locations and aligned physicians throughout Sussex County, Delaware and eastern Caroline County, Maryland. Nanticoke's primary service area includes Bridgeville, Georgetown, Laurel and Seaford, Delaware and surrounding communities.

For the past several years, Nanticoke has been exploring its strategic options, including whether some type of merger or acquisition with a third party would be in the best interest of Nanticoke and the Sussex County community. Nanticoke received a number of responses to its invitation. When reviewing those responses, the Board of Nanticoke considered a number of factors, including, but not limited to, the effects of a potential affiliation on the patients, medical staff members, and employees of Nanticoke; the effect on the community served by the Hospital; the short and long-term interests of Nanticoke and the resources and corporate culture of each respondent. In order to begin the affiliation process, Nanticoke and Peninsula executed a non-binding Letter of Intent ("LOI"). The LOI has allowed Nanticoke and Peninsula to begin the due diligence process and to enter into good faith negotiations of an agreement that is intended to describe the formal legal relationship between Nanticoke and Peninsula and other terms and conditions that will govern their relationship. As the affiliation is currently envisioned, Nanticoke

would become a member of the health system operated by Peninsula. The transaction will be structured as a membership substitution, and upon closing, Peninsula would become the sole corporate member of Nanticoke. All of Nanticoke's assets and liabilities would remain with Nanticoke, which would operate as part of Peninsula and would become a wholly owned subsidiary of Peninsula. No cash consideration will be paid to consummate the affiliation. For all of the reasons set forth above, Nanticoke fully supports Peninsula's application for a CPR. Nanticoke hopes that the Delaware Health Care Commission and the Delaware Health Resources Board will look favorably upon the application. Nanticoke believes an affiliation between the two organizations is in the best interests, short and long-term, of Nanticoke and the community it has proudly served since 1945.

Conformity of Project with Review Criteria

The Review Committee reviewed the CPR application and the responses to the seven criteria.

Criterion I: The relationship of the proposal to the Health Resources Management Plan.

Nanticoke is an existing provider that provides patient care services through Nanticoke Memorial Hospital, located in Seaford, Delaware, as well as a physician network with office locations throughout Sussex County, Delaware and in Federalsburg, Maryland. The physician network also operates three immediate care locations in Sussex County, Delaware. Nanticoke operates the only full service community hospital in its primary service area. Upon closing, Peninsula will become the sole corporate member of Nanticoke and Nanticoke will continue to be an existing nonprofit community hospital. The transaction does not add or subtract a health services provider, and it is in conformity with the Health Resources Management Plan.

There were discussions surrounding the definition of sole corporate member and member as the result of the affiliation agreement. Staff will send a follow up request to Peninsula for clarification.

Criterion II: The need of the population for the proposed project.

It is the intent of the newly integrated health system to have Nanticoke continue to provide services after the affiliation as it did the day prior to the affiliation. This affiliation is in the best interest of the communities presently served by Nanticoke and Peninsula because it will improve access to quality health care services, enhance recruitment of personnel, and maintain and enhance medical services for the under-insured and under-served populations. While the development of a definitive long-term plan will await the completion of the affiliation transaction, it is the intent of the new health care system to facilitate the coordination of health care services throughout the respective service areas of Nanticoke and Peninsula. The map below depicts Nanticoke's primary and secondary service areas. Seventy two percent of Nanticoke's inpatient admissions are from the Primary Service Area and 35% of all inpatient discharges are from Seaford, DE. Nanticoke's secondary service area accounts for the next 15% of the annual discharges. Since 1945, Nanticoke has been providing exceptional health care to the residents of western Sussex County. Nanticoke operates the only full service community hospital in its primary service area, which has a growing population of more than 20,000.

The Review Committee discussed the growth in population as it relates to Sussex County. Staff will send the Delaware Population Projections report to the Committee for further detail regarding age cohorts per county.

Criterion III: The availability of less costly and/or more effective alternatives to the proposal of Delaware, including alternatives involving the use of resources located outside the State.

Nanticoke is an existing provider. Upon closing, Peninsula will become the sole corporate member of Nanticoke and Nanticoke will continue to provide health care services to the community as it did prior to the affiliation. Nanticoke evaluated other alternatives and determined that an affiliation with Peninsula is in the best interests of Nanticoke and the community it serve.

The Review Committee inquired about the other health care systems considered during the affiliation process. Staff will send a follow up to Peninsula requesting the other health care systems as an alternative to Nanticoke.

Criterion IV: The relationship of the proposal to the existing health care delivery system.

Since 1945, Nanticoke has been providing exceptional health care to the residents of western Sussex County. As an existing provider, Nanticoke has long established relationships to the existing health care delivery system. In addition, Peninsula has been providing services to the region since 1897 – the first hospital on Maryland’s Eastern Shore and lower Delaware. For over thirty years, Peninsula has had physical locations across lower Delaware. Over 20% of Peninsula’s volume is Delaware residents and nearly 25% of the revenue is associated with Delaware residents. Peninsula will continue to expand the mission of both organizations and improve the health of the community. There are no anticipated impacts on the existing providers.

Nanticoke and Peninsula have longstanding referral arrangements with other providers to ensure appropriate continuity of care, accessibility and related considerations to enhance quality. It is the intent of the new health system to maintain and improve on the provision of health services in the respective service areas of the parties. With regard to quality, it is worth noting that Nanticoke is an IBM Watson Top 100 hospital and Peninsula has been awarded CMS’s five star rating, the Healthgrades Top 250 Hospitals in America and Leapfrog’s A rating. These quality and safety ratings are examples of the policies and processes that will be shared between the parties to improve the delivery of health care services in the region.

The Review Committee discussed the possibility of the affiliation process affecting the physician network. Staff will send a follow up to Peninsula for clarity.

Criterion V: The immediate and long-term viability of the proposal in terms of the applicant’s access to financial, management and other necessary resources.

Peninsula’s audited financial statements demonstrate that Peninsula has the resources – financial and human capital – to maintain a strong and viable health care system. It is the intent of this affiliation to continue providing exceptional health care services to the region currently being served by Nanticoke and Peninsula.

There were discussions on how the affiliation process will improve Nanticoke’s access to capital. The Review Committee requested further information regarding Peninsula’s ability to clarify they

have the financial resources and human capital to sustain the affiliation agreement. Staff will send a follow up to Peninsula.

Criterion VI: The anticipated effect of the proposal on the costs of and charges of healthcare.

Since this application seeks approval of the proposed integration of Nanticoke into a new health system with Peninsula, there are no historical statements of revenues and expenses for the future newly integrated health system. The transaction is not expected to close until January 2020 and the parties are engaged in due diligence. Therefore, Peninsula is not able to project the first two years of full operations. Nanticoke and Peninsula are existing providers, no direct effects on the costs and charges of health care are anticipated in the short term. Over time, it is anticipated that the affiliation will lead to cost efficiencies through enhanced purchasing power, improved recruitment of physician and other providers, shared corporate structure, improved quality, enhanced patient experience and better management of the population health.

There were discussions surrounding the billing for clients after the affiliation transaction. Will the client's bills apply to Delaware or Maryland reimbursement? Also after the affiliation process, will the staffing payroll for employees continue out of Delaware or Maryland? Staff will send a follow up to Peninsula.

Criterion VII: The anticipated effect of the proposal on the quality of health care.

The Review Committee discussed that Nanticoke is Medicaid certified. Peninsula operates physician practices in Delaware and is also certified by Medicaid. Historically, Nanticoke has been running between 25% to 23% of gross revenue attributed to Medicaid. Nanticoke and Peninsula are both Joint Commission accredited.

Other Review Considerations

The Review Committee discussed both organizations have a history in Delaware of providing health services to Medicaid patients and the medically indigent. Post-closing, it is Peninsula's intent to maintain and enhance the provision of health care services for all residents of western Sussex County, regardless of payor source. Nanticoke provides a broad range of inpatient and outpatient medical and surgical services to the local community through Nanticoke Memorial Hospital as well as a network of ambulatory locations and aligned physicians throughout Sussex County, Delaware and eastern Caroline County, Maryland. Peninsula likewise provides health care services that promote a continuum of care in its service areas. Peninsula provides a full scope of services that rival those offered in much larger metropolitan areas.

The Review Committee requested additional information as it relates to the application.

Follow up questions were sent to Peninsula:

- In the application, it states Peninsula will become the sole corporate member of Nanticoke. What does sole corporate member mean?
- The application states the transaction will be structured as a member substitution. What is a member substitution?
- The application states that all of Nanticoke's assets and liabilities will remain with Nanticoke. After the affiliation is complete, can there be a transfer of assets to Peninsula?

- Who were the four health systems considered during the affiliation process?
- Does this affiliation agreement include the physician network?
- After the affiliation, please explain the Medicaid, Medicare and Commercial billing arrangements. Will billing apply to Delaware or Maryland? What state will be billed?
- Please clarify further, what the definitive long-term plan will be after the affiliation transaction.
- What does Peninsula anticipate for gross revenue for Delaware Medicaid?
- Please provide a chart comparison for Nanticoke and Peninsula for all payer sources to include Medicare, Medicaid and Commercial gross revenue.
- What state will taxes be filed? Are the taxes payable to Maryland or Delaware?
- How will this affiliation improve Nanticoke's access to capital? If Peninsula were to grant a loan to Nanticoke, is the interest rate known?
- Has studies been completed to determine which services are done in Maryland or Delaware?
- After the affiliation, is the payroll and benefits for staff at Nanticoke going to be in Delaware or Maryland? Please clarify.
- Please explain Criterion V in detail regarding Peninsula's ability to demonstrate that they have the financial resources and human capital to maintain a strong viable health system.
- How does the affiliation agreement impact the Nanticoke foundation? What happens with the funds and assets of the Nanticoke foundation?

Next Steps

Staff will send the follow up questions to Peninsula for responses. The next review committee meeting will be scheduled to continue the review process.

Adjourn

The meeting adjourned at 3:15 p.m.