



State of New Jersey
DEPARTMENT OF HEALTH
PO BOX 360
TRENTON, N.J. 08625-0360

www.nj.gov/health

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

CATHLEEN D. BENNETT
Commissioner

May 8, 2017

VIA ELECTRONIC AND FIRST CLASS MAIL

Radha A. Savitala
Deputy General Counsel
Prime Healthcare
3300 E. Guasti Road
Ontario, CA 91761

Re: Transfer of Ownership – The Memorial Hospital of Salem County
CN# FR 16-0201-17-01
Acquisition Cost: \$15,000,000
Expiration Date: May 8, 2022

Dear Ms. Savitala:

I am approving the certificate of need (CN) application submitted on February 1, 2016, pursuant to N.J.A.C. 8:33-3.1, for the transfer of The Memorial Hospital of Salem County's (Salem Hospital's or Hospital's) ownership, from Salem Hospital Corporation, a subsidiary of CHS/Community Health Systems, Inc.(CHS) to Prime Healthcare Foundation-Salem Hospital, LLC (Prime Salem or Applicant), a Delaware limited liability company. Prime Healthcare Foundation, Inc. (PHF), a Delaware not-for-profit corporation, is the sole member of Prime Salem. PHF currently operates fourteen not-for-profit hospitals in six different states. Six of the fourteen hospitals were acquired in 2016, and none of PHF's hospitals have transferred ownership or closed. PHF is wholly-owned by Prime Healthcare Holdings, Inc., which also owns Prime Healthcare Services, Inc. (Prime Healthcare). According to the applicant, Prime Healthcare will not be involved in the ownership or operation of Salem Hospital. The PHF Board of Directors will serve as the Prime Salem Board of Managers. Prime Salem will operate Salem Hospital as a not-for-profit general hospital. A transfer of ownership of an entire general hospital is subject to the full CN review process, in accordance with N.J.A.C. 8:33-3.3(a)(1). I evaluated this application according to the standards set forth in statute (N.J.S.A. 26:2H-1 et seq.) and by administrative rule (N.J.A.C. 8:33). I am satisfied that the application submitted by Prime Salem is consistent with those requirements. The application is being approved at the acquisition cost noted above.

This CN approval is limited to the transfer of ownership of Salem Hospital, a general acute care hospital, located at 310 Woodstown Road, Salem, NJ, with 126 beds. The bed composition includes 114 Medical/Surgical and 12 Adult ICU/CCU beds. The Hospital's service complement will continue to include Acute Hemodialysis, one Cystoscopy Room, five Mixed Use Operating Rooms (ORs), one Sleep Center, one Fixed Computerized Axial Tomography (CAT) unit, one Mobile Lithotripter, one Fixed Magnetic Resonance Imager (MRI), and one Mobile Positron Emission Tomography (PET) unit. Prime Salem is committed to continuing Salem Hospital's designation as a Primary Stroke Center.

Salem Hospital has experienced sustained operating losses and reduction in patient volume for several years. The New Jersey Health Care Facilities Financing Authority provided information indicating that Salem Hospital has incurred operating losses for over ten consecutive years and has experienced an accumulated net asset deficiency and declining occupancy. The Department of Health (Department) utilization data confirms that Salem Hospital's volumes have increasingly declined from 2010 through 2015. According to Applicant, after significant consideration of its alternatives, CHS, the current owner of Salem Hospital, has determined that a transfer of the Hospital's assets to Prime Salem will strengthen the Hospital, positioning it to meet the health care needs of the residents of Salem County in the most optimal manner. The application notes that the only option to the transfer of ownership of Salem Hospital is the closure of the Hospital, which CHS considered and determined to be an unacceptable option given the absence of available acute care services in the area.

Prime Salem states that the Hospital's affiliation with a strong partner will provide the necessary infusion of capital that will enhance the functional and operational efficiencies at Salem Hospital, will attract additional talented medical staff, and will provide the strategic leadership and assets needed for Salem Hospital to continue its mission to provide quality affordable care for the residents of Salem and surrounding areas. According to Prime Salem, this transfer of ownership will ensure that the residents of the Salem Hospital service area continue to have access to critically needed health services. Prime Salem's offer to acquire the Hospital will allow the continuation of Salem Hospital's mission to the community. Prime Salem believes that, because Salem Hospital is aligning itself with a system of hospitals that is poised to meet the challenges Salem Hospital faces, the proposed transfer of ownership will allow the Hospital to better face those challenges.

Prime Salem's application clearly expresses its strong commitment to the continuity of services in Salem County for years to come. The transfer of ownership, as opposed to closure of the Hospital, will preserve access to health care services for the community, including the medically indigent and medically underserved populations. However, the application noted that Prime Salem would assess the need to add or reduce services at Salem Hospital along with the Salem community. I note that at the February 2, 2017 State Health Planning Board (SHPB) meeting, Prime Representative,

Bryan Burklow, referenced discussions about new services that Prime Salem might add. He further referenced the Department's February 2017 Certificate of Need Call for Applications for Adult Acute Care Psychiatric Beds, noting that Prime Salem thinks "this is a service that's desperately needed in Salem County" and that they "would quickly look to explore the opportunities for filing another [CN] to try and expand services if given the opportunity." In addition to Prime Salem's proposal to continue operating Salem Hospital as a general acute care hospital following the transfer of ownership and maintaining the existing service levels and licensed bed complement at Salem Hospital's existing location in Salem County, Prime Salem also plans to hire substantially all current Hospital employees who are employed at Salem Hospital. Prime Salem also has made a commitment in its application to "make a substantial investment in new state of the art equipment and information technology which will make Salem Hospital more efficient and allow physicians, clinical staff and support personnel to have access to the state of the art (and more efficient) equipment while delivering quality patient care to the community." It further states "An affiliation with a strong partner will provide the necessary infusion of capital that will enhance the functional and operational efficiencies at Salem Hospital."

For the reasons that follow, I am approving, with conditions, the application submitted for the transfer of ownership of Salem Hospital to Prime Salem. My decision to approve this CN application is consistent with the recommendation of the State Health Planning Board (SHPB), which unanimously recommended approval of CN# FR 16-0201-17-01 at its February 2, 2017 meeting. In reaching this decision, I considered the CN application for the transfer of ownership of Salem Hospital, completeness questions and responses, the public hearing transcript, written comments and exhibits, the Department staff recommendations, and the SHPB recommendations. The referenced materials are incorporated and made a part of this final decision.

Public Hearing

As part of the review process, the SHPB is required to hold at least one public hearing in the service area of the health care facility within 30 days of the application being declared complete by the Department. A public hearing occurred on Wednesday, January 18, 2017, at Salem Community College, 460 Hollywood Avenue, Carney's Point, in Salem County with sixty people in attendance. Eleven speakers provided comments, all in support of the transfer of the Hospital to Prime Salem. One physician spoke of the urgency to approve the transfer of ownership of the Hospital to prevent any additional loss of Hospital physicians and staff. An HPAE member requested that conditions, similar to those imposed for recent hospital transfers of ownership to the Prime System, be imposed on the approval of the transfer of ownership of Salem Hospital.

New Jersey Senate President Stephen Sweeney and New Jersey Assembly Deputy Speaker John Burzichelli both spoke at the February 2, 2017 meeting of the

SHPB in support of the transfer of ownership of the Hospital to Prime Salem. However, Senator Sweeney and Assemblyman Burzichelli also raised a significant issue regarding the Salem Health And Wellness Foundation (Foundation), which was established in 2002 as a public charity for the purpose of promoting the health and wellness of Salem County residents. The Foundation was funded with the \$32,207,639 in proceeds from the sale of the Hospital to CHS. Over the years, through investments, Foundation funding grew and, in 2013, the Salem Health And Wellness Foundation granted approximately \$52,552,657 to the Morris County-based Community Foundation of New Jersey. Senator Sweeney noted that he and Assemblyman Burzichelli had worked closely with the Attorney General and the Governor to enact a statutory process involving the Office of the Attorney General and the Superior Court that would address the concerns expressed by the two Legislators. That statute, N.J.S.A. 26:2H-7.11(h)(4), provides:

[u]pon notice to, and upon the recommendation of, the Attorney General, in the case of a nonprofit hospital previously acquired at any time after November 2, 2000 by any person or entity other than a [charitable] corporation . . . , which is subsequently acquired by a charitable entity that operates a nonprofit hospital that in purpose, form and function is equivalent to the previously acquired nonprofit hospital and serves the same population served by the previously acquired nonprofit hospital, any remaining charitable assets that were placed in a nonprofit charitable entity . . . shall be subject to review by the Superior Court to determine whether allocating such assets to the nonprofit charitable entity acquiring the previously acquired nonprofit hospital would be more consistent with the previously acquired nonprofit hospital's original purpose.

Assemblyman Burzichelli requested two conditions that he and Senator Sweeney wished to be included in the approval of the transaction: (1) that Prime Salem make a full commitment to operate the Hospital as an acute care hospital, and (2) "that [Prime Salem] follow the procedures established in the statute to [e]ffect a full return of the assets remaining from the original transaction, presently in two foundations, one in Morris County and one in Salem County, totaling almost \$50 million." Assemblyman Burzichelli noted that "this is money we strongly believe belongs to this hospital and considering the uncertainty of what's to happen in hospital reimbursements coming forward, we think the return of this money to this hospital is essential and must be aggressively pursued." Assemblyman Burzichelli added that "we further request as part of the condition, that a special master be appointed to facilitate and follow and process the flow of this money back to the hospital." Senator Sweeney stressed that "the foundation's money belongs with the hospital The foundation was created for healthcare. This hospital has been run into the ground. It's going to take an enormous amount of investment to get it up to a place where we can bring people back."

At its February 2, 2017 meeting, the SHPB unanimously recommended approval of this application with conditions.

Analysis

N.J.S.A. 26:2H-8, as well as N.J.A.C. 8:33-4.9(a), provide for the issuance of a CN only where the action proposed in the application for such certificate is necessary to provide required health care in the area to be served, can be economically accomplished and maintained, will not have an adverse economic or financial impact on the delivery of health services in the region or statewide, and will contribute to the orderly development of adequate and effective health care services. In making such determinations, I must take into consideration: (a) the availability of facilities or services which may serve as alternatives or substitutes; (b) the need for special equipment and services in the area; (c) the possible economies and improvement in services to be anticipated from the operation of joint central services; (d) the adequacy of financial resources and sources of present and future revenues; (e) the availability of sufficient manpower in the several professional disciplines; and (f) such other factors as may be established by regulation.

As to the specifics of this application, N.J.S.A. 26:2H-8(a) requires that I consider the availability of facilities or services which may serve as alternatives or substitutes. The Applicant has documented that it and the current owner, CHS, believe that the transfer of ownership of Salem Hospital is the only alternative to closure of the Hospital. The transfer of ownership is the least disruptive alternative to maintaining the current level of care and services in the area, and it will preserve access to health care services for the Salem Community, including the medically indigent and medically underserved populations. I have also taken into consideration that only one other general hospital, Inspira Medical Center-Elmer (Inspira-Elmer) is located in Salem County. Inspira-Elmer is located 17.5 miles from Salem Hospital, and all other New Jersey hospitals in the area are located greater than 17.5 miles from Salem Hospital. I find that the proposed transfer of ownership, as opposed to closure of Salem Hospital, will preserve appropriate access to health care services for the community, including the medically indigent and medically underserved population.

I also find that the requirement at N.J.S.A. 26:2H-8(b) to consider the need for special equipment and services in the area would be met in this case. Prime Salem has documented its intention to continue to the extent possible to offer the same services that are currently licensed at the facility and maintain all equipment and services necessary to operate the Hospital. Future adjustments will be based on an assessment of the health care needs of the region, determined in conjunction with the Salem community, with expansion of identified gaps in services and elimination of duplicated services. Prime Salem intends to bring its national non-profit health care experience to the Hospital to improve the quality and delivery of existing health services and programs previously operated by CHS.

With respect to N.J.S.A. 26:2H-8(c) regarding the possible economies and improvement in services to be anticipated from the operation of joint central services, there are economies of scale to be realized by this acquisition. For example, PHF operates at least fourteen other general hospitals, and according to the application, it has a demonstrated history of implementation of successful operation strategies. Prime Salem suggests that it will, in conjunction with community leaders and Salem Hospital medical staff, identify those specialties, if any, that are needed at Salem Hospital and other area hospitals and will work with Salem Hospitals' medical staff to identify and recruit specialists. Prime Salem further notes that it will bring operational efficiencies to Salem Hospital's Emergency Department (ED), which will increase access to care for the community and decrease time paramedics and EMTs are required to wait in the ED, thus allowing for efficient patient care. Prime Salem also will implement a community outreach program designed to meet the primary care needs of the community so that members of the community may receive primary care in the community rather than in the ED.

N.J.S.A. 26:2H-8(d) requires consideration of the adequacy of financial resources and sources of present and future revenues. A financial analysis of Prime Salem's application undertaken by the Department indicates that the Applicant will have sufficient resources to implement and sustain the project. The application notes that its method of financing the \$15 million purchase of Salem Hospital will be from available funds from PHF. According to completeness responses, PHF had over \$46 Million in cash and cash equivalents and short-term investments of \$130 Million as of December 31, 2014. Based on the Applicant's representations, I find that continuation of the operating losses at Salem Hospital could put the future of the Hospital at risk and lead to the Hospital's closure. I believe that Salem Hospital's transfer to Prime Salem will afford it an opportunity to maintain and grow needed services.

With respect to N.J.S.A. 26:2H-8(e), regarding the availability of sufficient manpower in the several professional disciplines, I am satisfied that there will be sufficient qualified personnel because Prime Salem has committed to retain substantially all the Hospital's current employees when the transfer of ownership is completed. In addition, Prime Salem has committed to actively recruit new physicians and encourage those physicians who previously utilized the Hospital to once again return to provide care. Part of Prime Salem's plan is to work in conjunction with community leaders and their own medical staff, as well as surrounding hospitals, to identify health care needs for more specialized services and recruit appropriate medical staff to fill any service gaps.

N.J.S.A. 26:2H-8(f) requires consideration of such other factors as may be established by administrative rule. Therefore, I have taken into consideration the applicable administrative rules governing the services subject to full review (i.e., N.J.A.C. 8:33-1.1 et seq.). Prime Salem is in compliance with the access requirements

set forth in N.J.A.C. 8:33-1.1 et seq. and N.J.A.C. 8:33-4.10(a). Specifically, the Applicant will continue to maintain its commitment to the community to preserve access to health care for the residents, including the medically indigent and medically underserved populations. Prime Salem states that it will provide care in accordance with N.J.S.A. 26:2H-18.64 and N.J.A.C. 8:43G-5.2(c) regarding the provision of health care services regardless of the patient's ability to pay or payment source. The Applicant further states that PHF's hospitals have provided \$488 million in charity care.

N.J.A.C. 8:33-4.9(a) requires a demonstration by the Applicant that this transfer of ownership shall not have an adverse impact on the population being served in regards to access and quality of care. The Applicant indicates that the transfer of ownership of Salem Hospital will preserve and enhance the financial viability of the Hospital and allow it to continue as a general acute care hospital providing the same level of health care services in the community. Prime Salem also intends to continue to serve the same payer mix, thereby maintaining all the established bridges to access and care. I find that denial of the CN transfer of ownership application would adversely affect the patients in the Salem Community, who have historically received care and services at Salem Hospital, including the medically indigent and underinsured, because the Hospital is a major provider of emergency and urgent care for those populations.

I find that Prime Salem has provided an appropriate project description, information as to the financial impact of the transfer of ownership, including operating costs and revenues, services affected, equipment involved, source of funds, utilization statistics, and justification for the proposed project (N.J.A.C. 8:33-4.10(b)), assurance that all residents of the area, particularly the medically underserved, will have access to services (N.J.A.C. 8:33-4.10(a)), and assurance that it will meet appropriate licensing and construction standards (N.J.A.C. 8:43G-1.1 et seq. and N.J.A.C. 8:33-4.10(d)). Prime Salem has also demonstrated a track record of substantial compliance with Department's licensing standards as required by N.J.A.C. 8:33-4.10(d).

As to the Foundation funds, I agree that they belong to the Hospital and the Salem County community it serves. It is indeed commonplace—and for good reason—that foundation funds track with a hospital through a transfer of ownership. It should be no different here. However, I must acknowledge that the statutory pathway to effectuate a return of the funds in this scenario is through the Superior Court, upon the recommendation of the Attorney General, and not through the Department of Health. I strongly urge the Attorney General to support the return of the funds and work with Prime Salem as appropriate. And, while I would have much preferred to know that such a process is already underway, it is my understanding that the process cannot take place until the transfer of ownership is complete.

Approval With Conditions

Based on the foregoing, I am approving the application for the transfer of ownership of Salem Hospital to Prime Salem with conditions. My decision to approve this transfer of ownership is based on my belief that the operation of Salem Hospital under the proposed new ownership would be beneficial to the population in its service area and will preserve access to health care services for the community, including the medically indigent and medically underserved population. As previously noted, I also agree with Senator Sweeney and Assemblyman Burzichelli that the Foundation funds belong to the Hospital and the Salem County community it serves. Indeed, the Foundation was formed from the proceeds of the Salem Hospital sale to CHS for the express purpose of promoting the health and wellness of Salem County residents. Therefore, pursuant to the Department's authority to oversee the financial condition of hospitals and to participate in measures to resolve a hospital's financial distress or potential financial distress, I make it a condition to this CN approval for Prime Salem to take the necessary steps to ensure the return of the Foundation funds from both the Morris County and Salem County Foundations to the Hospital, provide quarterly progress reports in that regard to the Department, and report its progress in obtaining a return of the Foundation funds to the Advisory Board. In addition, I am requiring that Prime Salem provide public progress reports regarding its efforts to return the Foundation funds during its annual public meetings. The return of these funds will help ensure the continued viability of Salem Hospital and its delivery of care, including to the medically indigent and medically underserved population in its service area.

This transfer of ownership will strengthen the financial viability of Salem Hospital, and I believe that this approval will not have an adverse impact on the other existing hospital in Salem County or those in the surrounding counties. I concur with the seller, CHS, and the proposed buyer, Prime Salem, that closure of Salem Hospital would disrupt and decrease access to hospital services for the Salem community. My decision to approve this application also factors in the Applicant's plan to stabilize and/or grow admissions at the Hospital and allow Salem Hospital to meet the health care needs of the community by: (1) negotiating with health insurers on new contracts that will lead to increased access to patients at Salem Hospital; (2) planning to recruit new physicians to Salem Hospital and encouraging physicians who previously utilized the Hospital to once again utilize Salem Hospital to meet the health care needs of their patients; (3) committing that, in conjunction with community leaders and Salem Hospital medical staff, Prime Salem will identify specialties, if any, that are needed at Salem Hospital and surrounding hospitals; (4) proposing to increase operational efficiencies in the Hospital's ED and increasing access to care for the community; and (5) committing to implement a community outreach program designed to meet the primary care needs of the community so that they may receive primary care in the community as opposed to using the Hospital's ED to receive primary care services.

For the reasons set forth in this letter and noting the recommendations of the SHPB, I am approving Prime Salem's application for the transfer of ownership of Salem Hospital subject to the following conditions:

1. The Applicant shall file a licensing application with the Department's Division of Certificate of Need and Licensing (Division) to execute the transfer of the ownership of the assets of Salem Hospital to Prime Salem.
2. The Applicant agrees to retain substantially all the current employees at Salem Hospital. Six months after licensure, Prime Salem shall document to the Division the number of full-time, part-time and per diem employees retained and provide the rationale for any workforce reductions.
3. Within 60 days of licensure, the Applicant shall the notify the Division, in writing, specifically who is responsible for the safekeeping and accessibility of all Salem Hospital's patients' medical records (both active and stored) in accordance with N.J.S.A. 8:26-8.5 et seq. and N.J.A.C. 8:43G-15.2.
4. Within twelve months of licensure, and annually thereafter for five years, Prime Salem shall provide the Division with a written report detailing:
 - a. Its plan to reduce unnecessary and duplicative services and excess inpatient beds, if any;
 - b. Its plan for addressing the need to expand or add ambulatory care services; and
 - c. Capital improvement plans, including physical plant improvements, equipment upgrades and additions (including IT), and other capital projects.
5. Prime Salem shall follow the process established in N.J.S.A. 26:2H-7.11(h)(4) to effect a full return of the assets remaining from the original transaction, presently held by two foundations, the Salem County-based Salem Health and Wellness Foundation and the Morris County-based Community Foundation of New Jersey, totaling approximately \$50 million. Within 90 days of licensure, and quarterly thereafter until resolved, Prime Salem shall provide the Division with a written report detailing its efforts and progress in following the process established in N.J.S.A. 26:2H-7.11(h)(4) to effect a full return of the assets.
6. Prime Salem shall invest in programs designed to improve public health, community health services, and health and wellness and, within twelve months of licensure, shall provide the Division with a written sustainability plan detailing how it intends to ensure the financial viability of such programs. Prime Salem's investment in such programs shall be coordinated with its development and

implementation of the Community Health Needs Assessment (CHNA) referenced in Condition 12.

7. Prime Salem shall operate Salem Hospital for at least a five (5) year period as a general acute care hospital following the effective date of Prime Salem's licensure as the licensed operator of the Hospital. This condition shall be imposed as a contractual condition of any subsequent sale or transfer, subject to appropriate regulatory or legal review, by Prime Salem within the five-year period.
8. Prime Salem shall operate Salem Hospital as a general hospital, in compliance with all regulatory requirements, and shall continue all clinical services currently offered at Salem Hospital and for Salem Hospital patients. Any changes involving either a reduction, relocation out of Salem Hospital's current service area, or elimination of clinical services or community health programs offered by Salem Hospital's former ownership shall require prior written approval from the Department and shall be subject to all statutory and regulatory requirements.
9. Prime Salem shall continue compliance with N.J.A.C. 8:43G-5.21(a), which requires that "[a]ll hospitals . . . provide on a regular and continuing basis, out-patient and preventive services, including clinical services for medically indigent patients, for those services provided on an in-patient basis." Documentation of compliance shall be submitted to the Department within 30 days of the issuance of the license and quarterly thereafter for a period of five years.
10. Prime Salem shall comply with federal Emergency Medical and Active Labor Act (EMTALA) requirements and provide care for all patients who present themselves at Salem Hospital without regard to their ability to pay or payment source, in accordance with N.J.S.A. 26:2H-18.64 and N.J.A.C. 8:43G-5.2(c), and shall provide unimpaired access to all services offered by the Hospital.
11. The value of indigent care provided by Salem Hospital shall be determined by the dollar value of documented charity care, calculated at the prevailing Medicaid rate, and shall not be limited to the amount of charity care historically provided by Salem Hospital.
12. Within 60 days of licensing, Prime Salem shall establish a Local Governing Board for the Hospital responsible for (a) representing the Acute Care Hospital in the community and taking into account the views of the community in its deliberations; (b) participating in Prime Salem's community outreach programs; (c) supervising the Hospital's Charity Care policies and practices; (d) monitoring financial indicators and benchmarks; (e) monitoring quality of care indicators and benchmarks; and (f) developing and implementing a CHNA that aligns itself with "Healthy New Jersey 2020," the State's health improvement plan and health promotion and disease prevention agenda for the decade.

The Local Governing Board shall adopt bylaws and maintain minutes of monthly meetings. Prime Salem shall submit to the Division, on a quarterly basis, a current working description of the Local Governing Board's authorities, roles and responsibilities, governance authority, and shall clearly define those in comparison to its working relationship with the PHF Board. On an annual basis, Prime Salem shall provide the Division with the Local Governing Board's roster and advise the Division of any significant changes to the Local Governing Board's policies governing Board composition, governance authority, and Board appointments made during each year that the Hospital is in operation. The Local Governing Board shall maintain suitable representation of the residing population of Salem Hospital's service area who are neither themselves employees of nor related to employees or owners of, any parent, subsidiary corporation, or corporate affiliate. A member of the Advisory Board established pursuant to Condition 18 shall be an ex-officio member of the Local Governing Board.

13. Within 30 days of licensing, Prime Salem shall provide the Division with an organizational chart of the Hospital and each service that shows lines of authority, responsibility, and communication between Prime Salem and Hospital management and the Local Governing Board.
14. Every twelve months for the next five years, starting on the date a license is issued to Prime Salem, Prime Salem shall report to the Division the progress on the implementation and measured outcomes of the following initiatives noted in the application to improve the operational efficiency and quality of care at Salem Hospital, and shall present the most current report to the public in layperson terms at the Hospital's Annual Public Meeting:
 - a. Negotiations with health insurers on new contracts to increase access for patients at Salem Hospital;
 - b. Efforts to fill service gaps, to actively recruit new physicians, and to encourage those physicians who previously utilized the Hospital to once again return to provide care;
 - c. The plan to work in conjunction with community leaders and their own medical staff as well as surrounding hospitals to identify health care needs for more specialized services and recruit appropriate medical staff to fill any service gap and its progress in implementing the plan;
 - d. Plans to increase the operational efficiencies of the ED by decreasing "wall time" (the time paramedics and EMT's are required to wait in the ED) to increase overall community access and its progress in implementing the plan;

- e. Plans to implement a community outreach program to provide more accessible primary care in an effort to change the community culture of using the ED as a primary care provider, thereby allowing the ED to function as intended for the delivery of emergency care and its progress in implementing the plan; and
 - f. Plans to expand outpatient services and reduce or eliminate duplicative services and excess inpatient beds.
15. Within 90 days of licensure, Prime Salem shall develop and participate in a Community Advisory Group (CAG) to provide ongoing community input to the Hospital's CEO and the Hospital's Local Governing Board on ways that Prime Salem can meet the needs of the residents in its service area. This would include participating in the development and updating of the CHNA referred to in Condition 12.
- a. Prime Salem shall determine the membership, structure, governance, rules, goals, timeframes, and the role of the CAG in accordance with the primary objectives set forth above, and within 60 days from the date of formation of the CAG, shall provide a written report setting forth that information to the Hospital's Local Governing Board, with a copy to the Division and subject to the Division's approval.
 - b. Prime Salem may petition the Department to disband the CAG not earlier than three years from the date of licensure and on a showing that all the requirements in this condition have been satisfied for at least one year.
16. For the initial five years following the transfer of ownership, Prime Salem shall submit annual reports to the Division detailing:
- a. The investments it has made during the previous year at the Hospital. Such reports shall also include a detailed annual accounting of any long- or short-term debt or other liabilities incurred on the Hospital's behalf and reflected on the Prime Salem balance sheet;
 - b. The transfer of funds from the Hospital to any parent, subsidiary corporation, or corporate affiliate. Such reports shall also detail the amount of funds transferred, in order to document that assets and profits reasonably necessary to accomplish the health care purposes remain with the Hospital. Transfer of funds shall include, but not be limited to, assessment for corporate services, transfers of cash and investment balances to centrally controlled accounts, management fees, capital assessments, and/or special one-time assessments for any purpose;

- c. All financial data and measures required pursuant to N.J.A.C. 8:31B and from the financial indicators monthly reporting; and
 - d. A list of completed capital projects itemized to reflect both the project and its expenditure.
17. Within 15 business days of approval of this application, Prime Salem shall provide a report to the Division detailing its plans for communications to Salem Hospital's staff, the community, including but not limited to elected officials, clinical practitioners, and EMS providers, concerning the approval of the transfer of ownership and the availability of fully-integrated and comprehensive health services.
18. Prime Salem shall take steps to ensure transparency, provide quality care to patients, and provide assurances to the Department of its continued financial viability. Within 90 days of licensure, Prime Salem shall designate an Advisory Board, which shall be comprised of at least three individuals. Three individuals shall be selected by Salem Hospital and two individuals may be selected by the Commissioner of Health. The Advisory Board shall meet quarterly to (a) review and assess Prime Salem's capital investments, (b) evaluate Prime Salem's compliance with the charity care policies, and (c) review and assess Prime Salem compliance with State and Federal laws, statutes, regulations, administrative rules, and directives and the impact on community health care access and quality, and all conditions in any approval letter, and report such findings to the Department. Department staff may attend meetings of the Advisory Board.

Prime Salem shall agree to release, discharge and hold harmless members of the Advisory Board from any and all claims, liability, demands, causes of action or suits that may be made by or on behalf of Prime Salem, direct and indirect parent companies, direct and indirect subsidiary companies, companies under common control with any of the foregoing, affiliates and assigns, and all persons acting by, through, under, or in concert with them, that arise out of or are incidental to acts, omissions or reports issued in good faith by the Advisory Board, in accordance with this Condition. This release shall not apply to any loss, damage, liability or expense incurred as a result of any unlawful or malicious acts or omissions by any member of the Advisory Board.

The Advisory Board shall: (i) be independent of any Prime entity, having no current or previous familial or personal relationship to any Prime entity, its principals, board members and/or managers, or be owned by any Prime entity in whole or in part and (ii) shall be acceptable to the Department. A member of the Advisory Board shall serve as an ex-officio, non-voting member of the Local Governing Board referenced above in Condition 12.

The Advisory Board shall also monitor the following, and these findings shall be reported semi-annually, in writing, to both the Hospital's Local Governing Board and the Department:

- Levels of uncompensated care for the medically indigent;
- ED admissions;
- Provision of clinic services;
- Compliance with standard practices related to coding of diagnoses;
- Rationale for termination of insurance contracts;
- Insurance participation and policies related to out-of-network charges;
- Compliance with Department licensing requirements related to staffing ratios and overtime, and Department of Labor and Workforce Development's Division of Wage and Hour requirements;
- Compliance with all other CN conditions within the required timeframes required by each condition, including, but not limited to, its efforts, progress, and results in effecting a full return of the Foundation assets remaining from the original transaction, presently held by two foundations, the Salem County-based Salem Health and Wellness Foundation and the Morris County-based Community Foundation of New Jersey, totaling approximately \$50 million.

Prime Salem shall provide information to the Advisory Board upon request and in the form requested. The Advisory Board shall be active for a minimum period of at least two years or until the process to return Foundation funds is completed, whichever is later. The Advisory Board shall provide all reports, findings, projections, and operational or strategic plans to the Department and Prime Salem Local Governing Board for assessment. In the event Prime Salem does not fulfill the commitments set forth in this Condition, the failure may be considered a licensing violation subject to maximum penalty and/or license revocation.

19. Prime Salem shall post on the Hospital's website annual audited financial statements within 180 days of the close of the Hospital's fiscal year and shall post quarterly unaudited financial statements within 60 days of the close of the Hospital's fiscal quarter. All annual and quarterly statements shall be prepared in accordance with Generally Accepted Accounting Principles. With respect to the posting of quarterly unaudited financial statements, Prime Salem may include disclaimer language regarding the unaudited nature of the Quarterly Financial Statements on its website where such statements are posted.
20. Within 60 days of posting its Audited Annual Financial Statements to its website, Prime Salem shall hold an Annual Public Meeting in New Jersey, pursuant to N.J.S.A. 26:2H-12.50, and shall make copies of those audited annual financial statements available at the Annual Public Meeting. The Advisory Board referenced in Condition 18 shall be invited to attend the Annual Public Meeting to

hear concerns expressed by community members. Prime Salem shall develop mechanisms for the meeting that address the following:

- a. An explanation, in layperson's terms, of the audited annual financial statement;
- b. A report and explanation, in layperson's terms, detailing its efforts, progress, and results in effecting a full return of the Foundation assets remaining from the original transaction, presently held by two foundations, the Salem County-based Salem Health and Wellness Foundation and the Morris County-based Community Foundation of New Jersey, totaling approximately \$50 million.
- c. An opportunity for members of the local community to present their concerns to Prime Salem and the Advisory Board regarding local health care needs and Hospital operations;
- d. A method for Prime Salem to publicly respond, in layperson's terms, to the concerns expressed by community members at the Annual Public Meeting; and
- e. Prime Salem shall develop these methods (a through d above) within 90 days of the date of this approval letter and provide them to the Division.

21. After the transfer is implemented:

- a. Prime Salem shall use its commercially reasonable best efforts to negotiate in good faith for in-network HMO and commercial insurance contracts, with commercially reasonable rates based on the rates that HMOs and commercial insurance companies pay to similarly situated in-network hospitals in the southern New Jersey region.
- b. Prime Salem shall convene periodic meetings with the Department and the Department of Banking and Insurance (DOBI) to review and evaluate any issues arising in contract negotiations within the first year of licensure that may result in of increases out-of-network coverage. At a minimum, Prime Salem shall have monthly contact with the existing HMO and commercial insurers. If the existing HMO and commercial insurers fail to respond to requests for negotiations, then Prime Salem shall notify the Department and DOBI to request assistance.
- c. Within 10 days of licensure, Prime Salem shall post on the Hospital's website the status of all insurance contracts related to patient care between the Hospital and insurance plans, including all insurance plans with which Salem Hospital contracted at the time of submission of this CN application, April

2013. Prime Salem shall also provide notices to patients concerning pricing and charges related to coverage during termination of plans.
- d. Within the first year of licensure, Prime Salem shall notify the Department of the status of notices to terminate any HMO or commercial insurance contract that will expand out-of-network service coverage. Prime Salem shall meet with representatives from the Department and DOBI to discuss the intent to terminate such contract, willingness to enter into mediation, and shall document how it will provide notice to patients and providers, as well as the impact that such action is reasonably expected to have on access to health care.
 - e. During the first year from the date of licensure, Prime Salem shall report to the Department, for each six-month period, the Hospital's payer mix and the number and percent of total Hospital admissions that came through the emergency department. For four years, thereafter, Salem Hospital shall report the aforesaid information to the Department on an annual basis.
21. In accordance with the provisions of N.J.S.A. 26:2H-18.59h, Prime Salem shall "offer to its employees who were affected by the transfer, health insurance coverage at substantially equivalent levels, terms and conditions to those that were offered to the employees prior to the transfer." This condition does not prohibit good faith contract negotiations in the future.
 22. Prime Salem shall maintain compliance with the United States Department of Health and Human Services Standards for Culturally and Linguistically Appropriate Services in Health and Healthcare. Compliance shall be documented and filed with the Division with annual licensing renewal.
 23. For at least five years, Prime Salem shall not enter into any contract or other service or purchasing arrangements, or provide any corporate allocation, or equivalent charge to affiliated organizations within Prime Healthcare or PHF, except for contracts or arrangements to provide services or products that are reasonably necessary to accomplish the health care purposes of the Hospital and for compensation that is consistent with fair market value for the services actually rendered, or the products actually provided.
 24. Prime Salem shall submit any proposed plan including documented compliance with law and regulations as it relates to out-of-network cost sharing with patients to DOBI prior to the implementation. Prime Salem shall not implement any out-of-network cost sharing plans if DOBI objects thereto.
 25. Prime Salem shall comply with requirements of the New Jersey Department of Labor and Workforce Development's Division of Wage and Hour Compliance that

address conditions of employment and the method and manner of payment of wages.

26. Prior to licensure, Prime Salem shall identify a single point of contact to report to the Division concerning the status of all of the conditions referenced within the time frames noted in the conditions.
27. All of the conditions shall also apply to any successor organization to Prime Salem that acquires Salem Hospital within five years from the date of CN approval.

Failure to satisfy any of the aforementioned conditions of approval may result in sanctions, including license suspension, monetary penalties and other sanctions in accordance with N.J.S.A. 26:2H-1 et seq. and all other applicable requirements. Acceptance of these conditions will be presumed unless written objections are submitted to the Department within 30 days of receipt of this letter. Upon receipt of such objections, this approval will be deemed suspended and the project shall be re-examined in light of the objections.

We look forward to working with you and helping you to provide quality care to the patients of Salem Hospital. If you have any questions concerning this Certificate of Need, please do not hesitate to contact John Calabria, Director, at (609) 292-8773.

Sincerely,



Cathleen D. Bennett
Commissioner

c: John A. Calabria, DOH