



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET ITEM NUMBER:	BOARD MEETING:	PROJECT NUMBER:
C-02	August 25, 2015	E-04-015
EXEMPTION APPLICANT(S): Memorial Regional Health Services, Inc., Memorial Group, Inc., Metro-East Services, Inc. d/b/a/ Memorial Hospital-East, and BJC Healthcare.		
FACILITY NAME and LOCATION: Memorial Hospital-East, Shiloh		

I. The Transaction

The applicants (Memorial Regional Health Services, Inc., Memorial Group, Inc., Metro-East Services, Inc. d/b/a/ Memorial Hospital-East, and BJC Healthcare) are proposing a change of ownership of Metro-East Services, Inc. d/b/a/ Memorial Hospital-East. This change of ownership is the result of a strategic affiliation between Memorial Group, Inc. and BJC Healthcare. The proposed strategic affiliation would be structured as a membership addition. Memorial Group, Inc. and BJC Healthcare would be the two corporate members of Memorial Regional Health Services, Inc., an Illinois not-for-profit corporation. Memorial Regional Health Services, Inc. will serve as the parent corporation of Metro-East Services, Inc. d/b/a/ Memorial Hospital-East. The operating entity/licensee and the owner of the site is Metro-East Services, Inc. There is no acquisition price and the fair market value of the transaction is \$124,560,931. The anticipated completion date is November 1, 2015.

II. The Applicants

Memorial Group, Inc. is an Illinois not for profit corporation and is the sole corporate member of Protestant Memorial Medical Center, Inc.

Memorial Regional Health Services, Inc. is an Illinois not for profit corporation incorporated May 14, 2015. Memorial Group, Inc. and BJC Healthcare would be the two corporate members of Memorial Regional Health Services, Inc. Memorial Regional Health Services, Inc. will serve as the parent corporation of Memorial Hospital in Belleville and Memorial Hospital-East in Shilo.

Metro-East Services, Inc. d/b/a Memorial Hospital, Inc. is an Illinois not for profit corporation that will operate a 94 bed acute care hospital in Shilo, Illinois. Memorial Hospital – East was approved as Permit #11-017 on June 28, 2011. The permit has been obligated and the expected completion date is June 30, 2017.

BJC HealthCare, a Missouri not-for-profit corporation, located in St. Louis Missouri is one of the largest nonprofit health care organizations in the United States. BJC HealthCare owns and operates 12 hospitals in Missouri and Illinois, most of which are located in the St. Louis metropolitan area. BJC HealthCare has two academic hospitals, Barnes-Jewish Hospital and St. Louis Children's Hospital. BJC has a long-standing strong affiliation with Washington

University's School of Medicine. BJC HealthCare owns Alton Memorial Hospital in Alton, Illinois.

III. The Facility

Memorial Hospital – East is a 94 bed acute care hospital that was approved on June 28, 2011 by the State Board. The expected completion date is June 30, 2017. The permit has been obligated, therefore under current State Board rules this change of ownership is not considered a transfer of a permit. 20 ICCS 3960.6 states *“In connection with a change of ownership, the State Board may approve the transfer of an existing permit without regard to whether the permit to be transferred has yet been obligated, except for permits establishing a new facility or a new category of service.”*

IV. Public Act 99-0154

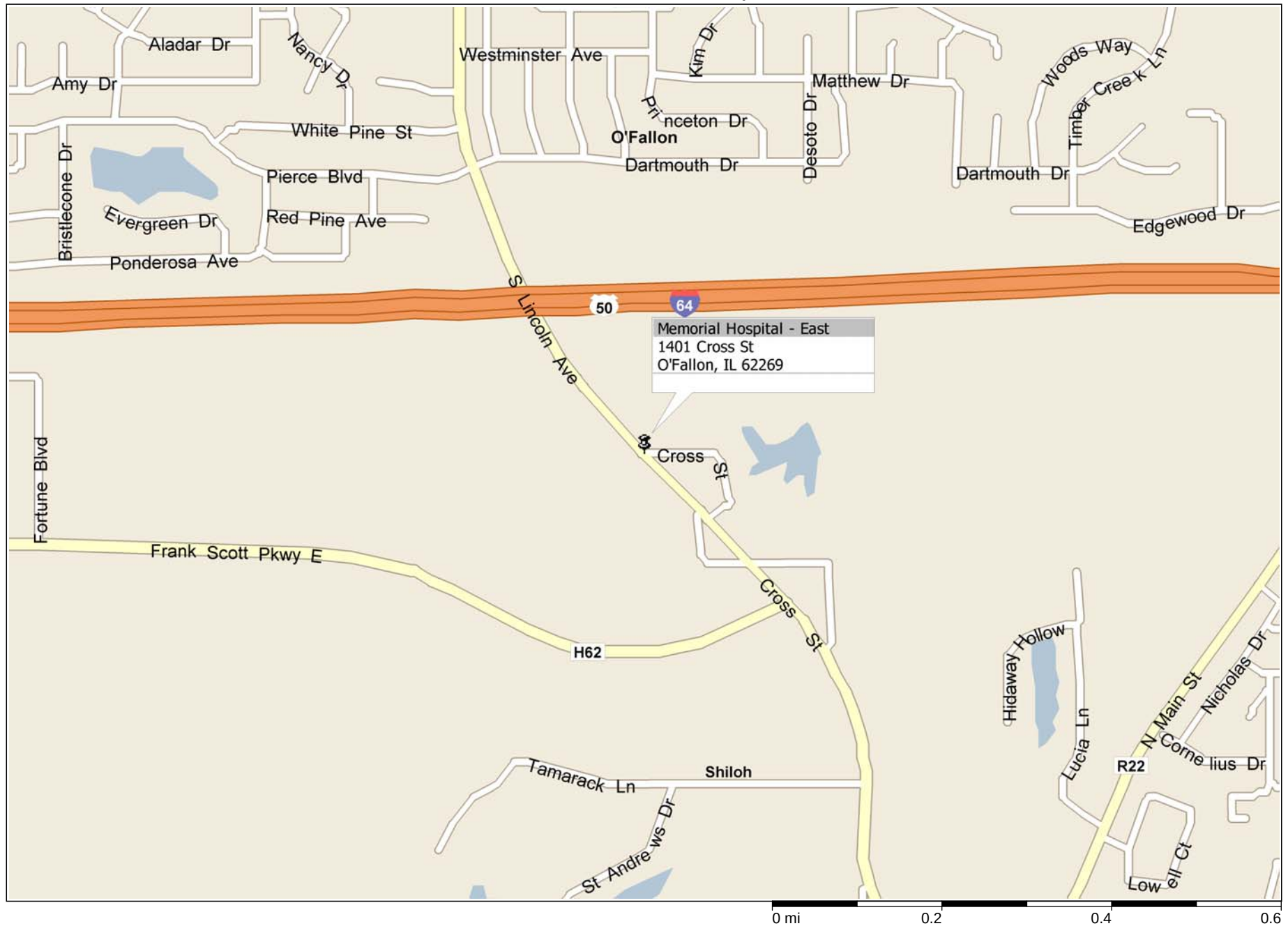
Public Act 99-0154 became law July 29, 2015 and is effective immediately. This Act states that an application for a change of ownership need not contain

- a signed transaction document so long as the application contains the following:
 - name and background of the parties;
 - structure of the transaction;
 - person who will be the licensed or certified entity both prior to and after the transaction;
 - fair market value of assets transferred;
 - purchase price or other consideration for the assets.
- the applicant must submit a statement to the State Board within 90 days after the closing date of the transaction certifying that the transaction has been completed in accordance with the key terms contained in the application for change of ownership.
- If the key terms change a new application for change of ownership must be filed with the State Board.
- The **State Board cannot impose any conditions or restrictions**, including;
 - the time period for a subsequent change of ownership; or
 - a commitment to continue to offer a service for a specified period of time after the change of ownership occurs.
- An exemption shall be approved when information required by the Board by rule is submitted.(20 ILCS 3960/6 (a))

V. Other Information

Attached to the end of this report is the permit letter for Permit #11-017- Memorial Hospital-East and the Memo of Understanding between Memorial Group, Inc. and BJC Healthcare.

#E-004-015 - Memorial Hospital - East



MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (“MOU”) is made and entered by and between Memorial Group, Inc., an Illinois not-for-profit corporation (“Memorial”), and BJC Health System, a Missouri nonprofit corporation doing business as BJC HealthCare (“BJC”). For purposes of this MOU, Memorial and BJC may each be referred to individually as a “Party”, and are collectively referred to as the “Parties”.

BACKGROUND

A. The Parties have engaged in discussions regarding a proposed strategic affiliation involving the joint ownership and operation of the hospitals, including Memorial Hospital located in Belleville, Illinois and Memorial Hospital-East located in Shiloh, Illinois, and other health care facilities that are currently owned by Memorial and its subsidiaries (the “Strategic Affiliation”).

B. The Parties desire to set forth in this MOU certain non-binding terms reflecting their mutual understanding with regard to various aspects of the Strategic Affiliation.

NON-BINDING TERMS

1. **Purposes.** The purpose of the proposed Strategic Affiliation will be to improve the manner which health care services are provided to the residents of the communities served by Memorial. The Parties anticipate that the Strategic Affiliation will create a stronger regional health delivery system that will, among other things, improve access to clinical expertise, facilitate the sharing of clinical and non-clinical “best practices,” and provide economies of scale that will reduce costs for both patients and providers.

2. **Organizational Structure.** The proposed Strategic Affiliation will be structured as a membership substitution, whereby (i) BJC and Memorial will form and become the members of a new Illinois not-for-profit corporation - Memorial Regional Health Services, Inc. (“MRHS”), and (ii) MRHS will, in turn, replace Memorial as the common parent corporation of each of the entities that are currently direct subsidiaries of Memorial (the “Memorial Subsidiaries”).

3. **Governance.** MRHS will be governed by a Board of Directors (the “MRHS Board”). At the time of the closing of the proposed Strategic Affiliation, BJC and Memorial will each appoint an equal number of directors to the MRHS Board for the staggered terms set forth in the MRHS governing documents, and thereafter, the members of the MRHS Board will be appointed in accordance with the MRHS governing documents. BJC and Memorial, as the corporate members of MRHS, will each hold certain reserved powers with respect to the governance and operation of MRHS. In addition to the MRHS Board, Memorial Hospital and Memorial Hospital-East will be governed by a board of directors which will retain certain responsibilities with respect to the hospitals, including medical staff credentialing, oversight of implementation of operating and capital budgets, maintaining accreditation with applicable accreditation body(ies), and patient care quality and safety.

The Parties have executed this Memorandum of Understanding to be effective as of April 27, 2015.

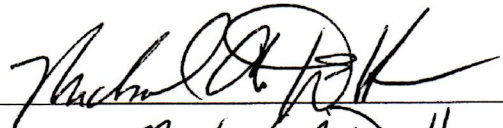
Memorial Group, Inc.

By: _____

Print Name: _____

Title: _____

BJC Health System d/b/a BJC HealthCare

By: _____

Print Name: Michael A. De Haven

Title: Senior Vice President

The Parties have executed this Memorandum of Understanding to be effective as of April 27, 2015.

Memorial Group, Inc.

By: Mark J. Turner

Print Name: MARK J. TURNER

Title: PRESIDENT & CEO

BJC Health System d/b/a BJC HealthCare

By: _____

Print Name: _____

Title: _____

4. **Capital Commitments.** BJC will agree to make capital and operating investments in the facilities and operations of MRHS (the “MRHS Facilities”) in an amount sufficient to ensure that the hospitals and other health care facilities operated by MRHS remain preferred providers of health care to the local community. BJC’s total contribution to MRHS and the MRHS Facilities will be supported by a mutually agreed upon valuation.

5. **Service Commitments.** BJC would agree to recognize MRHS as its hub hospital provider in MRHS’s primary service area. As a hub provider, the Hospitals operated by MRHS will provide the highest levels of service by BJC affiliated hospital providers in MRHS’s primary service area and will be the conduit through which patients in MRHS’s primary service area access BJC hospitals. BJC would also agree to operate and maintain the Memorial hospital facilities as full-service acute care hospitals for a defined period of time and maintain Memorial’s core services at both such hospital facilities.

6. **Charity Care Commitments.** The Parties agree that the Memorial Subsidiaries would continue to provide access to care for indigent and uninsured patients in accordance with a mutually-agreeable charity care policy for MRHS.

7. **Identification of Memorial.** All signage and logos used by MRHS and the Memorial Subsidiaries will continue to use the name “Memorial.” The BJC name and brand would be incorporated into all signage and logos in a manner that is mutually agreed upon by the Parties.

8. **Governing Law.** This MOU shall be construed and enforced in accordance with the laws of the State of Illinois.

9. **Non-Binding Nature.** The provisions of this MOU are intended to set forth certain mutual understandings between the Parties with respect to the proposed Strategic Affiliation, but each Party acknowledges that this MOU is not intended to create or constitute a legally binding obligation between BJC and Memorial, and neither BJC nor Memorial shall have any liability to the other Party with respect to the provisions hereof until a definitive agreement and other related documents (collectively, the “Definitive Agreement”) are prepared, authorized, executed and delivered by and between the Parties. The omission of certain terms from this MOU shall not be construed so as to diminish the importance or the materiality of such term, and the Parties acknowledge that, in addition to the proposed terms contained in this MOU, additional material terms remain to be resolved.

10. **Counterparts.** This MOU may be executed in two or more counterparts, each of which shall be deemed to be an original copy of this MOU, and all of which, when taken together, shall be deemed to constitute one and the same instrument.

[Signature page follows.]