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April 17, 2022

VIA E-MAIL AND OVERNIGHT MAIL

Mr. Michael Constantino, HFSRB Senior Project Manager Ms. April Simmons, HFSRB General Counsel Health Facilities and Services Review Board ("HFSRB" or "Board") 525 West Jefferson Street, 2nd Floor Springfield, Illinois 62761

Re: Quincy Medical Group Birth Center, Quincy, Illinois- Project #21-029, Response to State Board Staff Report

Dear Mr. Constantino and Ms. Simmons,

We appreciate the time and effort that went into the preparation of the Staff Report for Project No. 21-029 related to QMG's Birth Center Application. However, we believe there is relevant information that was not included in the staff analysis, which is imperative for the full and complete consideration of this project and its impact. Accordingly, we respectfully request that Board staff make certain revisions to the Staff Report, as set forth below.

The core issues we believe are missing from the report and which need to be addressed are:

- 1. While the Staff Report does correctly point out that there are no HFSRB standards for a Birth Center, it does not reflect that the application fails to meet the regulatory and licensing requirements that do exist for a Birth Center. We would respectfully request that the Staff Report be updated to reflect these deficiencies.
- 2. The Staff Report does not point out that the transfer agreements included with the application DO NOT comply with legal requirements for the Application to be considered by the Board. We would respectfully request that the Staff Report note the legal insufficiency of the transfer agreements included with the application.
- 3. The general information section of the Staff Report does reflect that the Applicant has been updated but does not provide crucial additional information related to this significant modification to the ownership and control structure for Applicant. We would respectfully request that the Staff Report be updated to state the basis for the modification at least include as an attachment the Applicant's own updated organizational chart.
- 4. The Staff report does not indicate that this project, if approved, will limit the Board's ability to approve another Birth Center for the remainder of all rural Illinois.

- a. The Staff Report does note that under the Alternative Healthcare Delivery Act there can be three facilities licensed in rural areas, but it does not point out that if this project is approved it would limit the Board's discretion and they could only approve another Birth Center if it was operated by a federally qualified health center. We would respectfully request that Staff Report more fully describe the limitations that approval of this project would place on the Board and healthcare providers throughout the state.
- b. Furthermore, Birth Center applicants under the Alternative Healthcare Delivery Act are encouraged to establish facilities in areas where the facility would increase access to care or where similar services may not be available. Neither of these goals are achieved by the proposed project. We would respectfully request that the Staff Report reflect Blessing Hospital's plan to establish a birth center within their facility, and the application's failure to increase access while existing services are available a mere 1.9 miles away.
- 5. This staff report makes no mention of the pending QMG application to establish a hospital. While we appreciate these are two separate applications, they inextricability linked by virtue of being proposed by the same organization, listing the same Applicant, and relying on the same patients to justify the projects. Approval of this project will fundamentally impact the delivery of this service in the planning area. We respectfully request that the Staff Report be updated to include an analysis of the impact of diverting patients from Blessing Hospital to the proposed QMG facilities.

The Replacement Transfer Agreements Do NOT Comply With Legal Requirements

We appreciate that Board staff correctly points out that "the Illinois Department of Public Health requires a transfer agreement with an Illinois Hospital before the Birth Center can begin operations." This project does not have that. It has presented a transfer agreement with a Missouri Hospital and with another Illinois hospital located more than 30 minutes away. However, as Board staff points out:

A birth center that is not operated under a hospital license shall be located within a ground travel time distance from the general acute care hospital with which the birth center maintains a contractual relationship, including a transfer agreement, as required under this paragraph, that allows for an emergency caesarian delivery to be started within 30 minutes of the decision a caesarian delivery is necessary.

The Staff Report describes an agreement with Hannibal Regional Hospital located in Hannibal, Missouri "approximately 30 minutes from the proposed location" (emphasis added) of the Birth Center and Memorial Hospital Association in Carthage, Illinois approximately 43 miles from Quincy. According to MapQuest, the drive time between the Quincy Mall and Hannibal Regional Hospital is 27 minutes. According to Google Maps the ideal, unimpeded drive time from the Quincy Mall to Hannibal Regional Hospital is 28 minutes. This drive out of state includes a trip across the Mississippi River and does not factor the possibility of a bridge closure or other delays

¹ The HFSRB approved Project #21-021, a Birth Center owned or operated by Hospital, which allows for the Board to approve two other Birth Centers, one owned or operated by a FQHC and one owned or operated by an independent group.

due to very common issues like an accident, ice on the bridge, or a flood of the Mississippi River. According to both MapQuest and Google Maps the other two routes from the Quincy Mall to the Hannibal hospital are 33 and 34 minutes, with no traffic or road problems. Additionally, according to MapQuest and Google Maps, the drive time between Quincy Mall and Memorial Hospital in Carthage is 40 minutes in ideal traffic conditions.

The Staff Report does not address the fact that neither of these transfer agreements meet the 30-minute requirement, nor is there any discussion about the inadequacy of the options in regards to patient safety. The Missouri facility is an out-of-state facility, as that term is defined in the Illinois Health Facilities Planning Act, 20 ILCS 3960/3 (the "Act"). As such, the Missouri facility explicitly does not constitute a health care facility as defined by Act and does not meet the Illinois definition of a Hospital (we assume the Board applies the definition of Hospital contained within the Illinois Hospital Licensing Act, 210 ILCS 85). The Illinois hospital clearly falls outside the 30-minute requirement and, moreover, is an 18-bed critical access hospital with only two obstetrics beds.

In addition, the Applicant's arguments presented regarding the requirements of EMTALA obligating Blessing Hospital are misplaced. If EMTALA requirements were sufficient to address the public health concern, there would be no need for this regulatory provision to exist This EMTALA argument is a rationalization by QMG to distract from the consequences of its decision not to communicate with Blessing or Board Staff regarding profound changes in its organizational structure and control. Such a lack of transparency and communication with both Blessing and Board Staff by QMG resulted in the rescission of the original transfer agreement submitted by QMG, which Blessing willingly provided in 2021, when the application for the Birth Center was thought to be QMG, the local physician group that Blessing has worked with for decades.

The Staff Report Does Not Reflect the Implications of the Recent Modifications to the Application

The general information section of the Staff Report regarding the Applicant has been updated to mention the recently filed modification; however, it does not underscore the significant changes to the ownership and control structure for the Applicant. The general information does not acknowledge the complex ownership and control structure between QMG and Duly Health and Care, which was first disclosed by the Applicant on April 6 (attached as Exhibit A) (the "Substitute Organization Chart"), nor does it reference the many factual questions raised by this structure as reflected in Blessing co-counsel's April 6 correspondence, including the extent of relationship between Duly Health and Care and private equity firm Ares Management (attached as Exhibit A).

While several of the outstanding structure and ownership questions posed in Blessing cocounsel's April 6 correspondence were answered by the Substitute Organization Chart, a number of essential ones remain. These include (but are not limited to) the following:

- What control does Duly have over QMG through the Duly Designated Physician's ownership in QMG? Although the percentage ownership is small, through a special membership class Duly could exert disproportionate approval or oversight authority in relation to key QMG decisions.
- How does Duly exercise control over QMG by now owning QMG's non-clinical assets and by providing management services through a "Business Support Services Agreement" (originally entitled a "Management Services Agreement")?

- Would the proposed Birth Center receive management or "business support" services through Duly? Are there any other ways in which Duly would directly or indirectly be involved in key Birth Center decisions?
- What exactly is the relationship between Duly and Ares Management?
- What exactly is the ownership and control structure that incorporates Ares Management into Duly's ownership, governance, financing and decision-making?

We respectfully request that the general information description be revised to reflect these important facts and outstanding questions, particularly in view of: (1) the untimely and very substantive modification to the application on the last day of public comment; and (2) the important factual and policy considerations that result. At a minimum, we ask that the Substitute Organization Chart submitted by applicant be attached to and cross-referenced in the Staff Report, and that Board staff assess whether the submission of this Substitute Organization Chart constituted a Type A Modification to the QMG Birth Center Application.

<u>The Staff Report Does Not Reflect The Board's Discretion to Evaluate the Proposed Location of this Birth Center and the Limited Availability of Birth Centers in Rural Illinois</u>

While the Board staff correctly points out that its established process lacks a need methodology or utilization standards for Birth Centers, the core statutory and regulatory purpose of the Board still applies, and some assessment of those principles reflected in the Board's purpose should be included regarding this project. There is a risk that the Board could interpret the lack of established HFSRB standards for the Birth Center as reflecting either a lack of standards or a lack of discretion.

We respectfully suggest that the Board should be advised regarding the importance of its regulatory purpose, especially for a project such as this without established need methodology or utilization standards, so as to properly evaluate a discretionary project such as this. Consider the Board's regulatory purpose:

The health facilities and services review program shall be administered with the goal of maximizing the efficiency of capital investment and the objectives of:

- 1) Promoting development of more effective methods of delivering health care;
- 2) Improving distribution of health care facilities and services and ensuring access to needed health care services for the general public, the medically indigent and similar underserved populations;
- 3) Controlling the increase of health care costs;
- 4) Promoting planning for health care services at the facility, regional and state levels;
- 5) Maximizing the use of existing health care facilities and services that represent the least costly and most appropriate levels of care; and
- 6) Minimizing the unnecessary duplication of health care facilities and services.

77 Ill. Admin. Code 1130.130(c)(1)-(6), Purpose.

We respectfully request that the Staff Report be revised to clarify three important points:

- (1) The Board has discretion to determine if the proposed Birth Center will advance the orderly and economic development of health facilities in Illinois and to further the duties outlined in its regulations. This is particularly relevant when the source of the services is diversion of the service line from one healthcare facility to another, thus calling into question whether this truly maximizes the use of existing healthcare facilities (Section 1130.130(c)(5)) or will result in an unnecessary duplication of service (Section 1130.130(c)(6)); and
- (2) The Board has discretion to determine if the proposed Birth Center promotes responsible health planning (Section 1130.130(c)(4)). It would appear to make no sense from a health planning perspective to place the *only independent Birth Center* in rural Illinois 1.9 miles from a community hospital because it does nothing to increase access to care. The proposed Birth Center will not increase access to the region and in fact limits accessibility in other rural parts of Illinois where independents groups desire to establish such a facility; and
- (3) We respectfully request that the Staff report clarify that, if approved, this Birth Center will leave only one other potential Birth Center to be approved for the remainder of all rural Illinois, and that facility will have to be related to an FQHC. This is fundamentally important in evaluating whether the Project will improve distribution of health care facilities and services thereby increasing access to needed health care services for the general public, the medically indigent and similar underserved populations (Section 1130.130(c)(2)).

It is essential for the Board that an evaluation of its established regulatory purposes, which do apply to this project, be reflected in the Staff Report.

This Project Diverts Births from Blessing Hospital to QMG

The proposed Birth Center project is designed to divert births away from Blessing hospital to this facility. The Staff Report does indicate that the Applicants propose to provide 125 birthing procedures by their 2nd year of operation but does not describe the negative impact that would have on Blessing Hospital. This Birth Center project alone proposes to siphon 12% of the total births performed at Blessing Hospital.² At some point, it reaches a tipping level where this local community hospital no longer maintains the volume of child births necessary to effectively serve the community. As the HFSRB members know, repetition matters in the development of skills, maintenance of expertise, and this is particularly true regarding the delivery of children. This is a significant point the staff report should reflect, especially considering the regulatory purposes of the HFSRB, See 77 Ill. Admin. Code 1130.130(c), outlined more fully above. We respectfully request that the Staff Report include data on the impact this proposed project would have on area facilities and acknowledge that as a result of another pending application there are additional considerations to be made when evaluating this project.

Given the legislative intent and regulatory decision to include these issues as part of the purpose of this Board's consideration of a project of this nature, it would be inconsistent for these issues to remain unexplored. Should the record be devoid of any discussion of these issues or clarity as to

 $^{^{2}}$ Based on the 1049 total births performed at Blessing Hospital in 2020.

how it were resolved there would be no meaningful means by which to evaluate and assess the determination of the Board and its application of its discretion. It is imperative for the Board members to articulate how this project is or is not consistent with the Purpose of this Board in voting on this application if these issues are not clarified within its staff's findings. We believe the Board members would benefit from reviewing a revised Staff Report addressing the various issues outlined in this letter.

Very truly yours,

BENESCH, FRIEDLANDER, COPLAN & ARONOFF LLP

Juan Morado Jr.

Mark. J. Silberman

EXHIBIT A



150 N. Riverside Plaza, Suite 3000, Chicago, IL 60606 - (312) 819-1900

April 6, 2022

Rebecca M. Lindstrom 312.463.6217 rlindstrom@polsinelli.com

Via E-Mail Illinois Health Facilities and Services Review Board 525 West Jefferson Street (2nd Floor) Springfield, Illinois 62761

> Re: Quincy Medical Group Hospital, Project No. 20-044 **Updated Organizational Chart**

Dear Illinois Health Facilities and Services Review Board:

Please find enclosed an updated organizational chart in relation to Attachment 4 of the QMG Hospital permit application. It is our understanding that all requested and required information has been submitted.

Rebecca M. Lindstrom

Enclosure

cc: Mike Constantino, Supervisor, Project Review Section



QUINCY MEDICAL GROUP STRUCTURE CHART

(UPDATED TO REFLECT ASTC, BIRTHING CENTER AND FUTURE HOSPITAL OPERATIONS)

Prepared for Illinois Health Facilities & Services Review Board

April 6, 2022

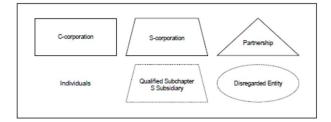
mwe.com

McDermott Will & Emery

Attachment 4

046

TAX LEGEND

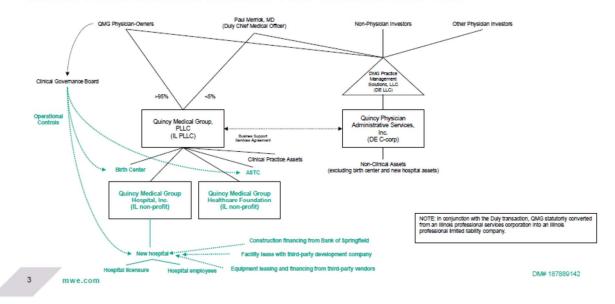


The summary of certain federal income tax considerations contained herein is for general information purposes only and is not intended to be tax advice. This discussion relies upon the relevant provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the regulations thereunder, and the judicial and administrative interpretations thereof. These authorities are subject to change, retroactively and/or prospectively and any such changes could affect the validity of this discussion.

DM# 187889142

Attachment 4 046

CONTEXT FOR ASTC, BIRTHING CENTER AND NEW HOSPITAL DEVELOPMENT WITHIN THE BROADER DULY/QMG CORPORATE STRUCTURE



Attachment 4

046



Attachment 4

046



April 6, 2022

VIA EMAIL AND OVERNIGHT MAIL

Ms. Debra Savage Chair Illinois Health Facilities and Services Review Board ("Board" or "HFSRB") 525 W. Jefferson St., Second Floor Springfield, IL 62761

ArentFox Schiff LLP

Prudential Tower 800 Boylston Street Boston, MA 02199

617.973.6100 MA 617.367.2315 FA

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Anne M. Murphy
Partner
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Re: Quincy Medical Group ("QMG") Certificate of Need ("CON") Application (Project #021-029) (the "QMG Birth Center Application" or "Project")

Dear Ms. Savage:

I am writing in my capacity as outside legal counsel to Blessing Health System based in Quincy, Illinois ("BHS"), which operates Blessing Hospital and other health care services and facilities (BHS and Blessing Hospital referred to collectively as "Blessing"). As you know, Blessing opposes the QMG Birth Center Application. We also want to explain to the Board that our recent decision to rescind the transfer agreement necessary for this Project to proceed is directly related to our concerns about QMG's new ownership and control structure.

This letter is the second time in connection with the QMG Birth Center application we have approached the Board to express concerns about Quincy Medical Group's apparent December 2021 change of corporate control (the "QMG/Duly Transaction"). Rather than reiterate the backdrop in detail, I refer you to our previous letter on this topic, dated February 10, 2022.

In a nutshell, we believe the QMG/Duly Transaction resulted in Duly Health and Care, formerly known as DuPage Medical Group, assuming significant control over QMG. We also believe Duly, in turn, has very substantial financial backing from and control by Ares Management. Ares Management is one of the largest private equity firms in the United States. If QMG is, in fact, now indirectly controlled by a private equity firm - as we believe is the case – it raises profound concerns about the Project that have yet to be acknowledged by the applicants or addressed by the Board.

Despite our persistent efforts, reflected in numerous FOIA requests to the Board, we have not received sufficiently detailed information about the QMG/Duly Transaction, or the impact it would have on operation of the proposed QMG Birth Center. QMG and its representatives have been unwilling to provide answers to questions that we have now posed multiple times.

AFDOCS/25569518.1

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Based on the almost complete lack of transparency regarding the QMG/Duly Transaction, Blessing reluctantly decided to rescind the transfer agreement that QMG included as a necessary element of the Birth Center Application.

Blessing signed the transfer agreement in September 2021, months before the QMG/Duly Transaction was finalized. While Blessing had initial concerns about this possible change in control, it was speculative at that point, and Blessing had no way of knowing that QMG would refuse over the next six months to provide any details about the corporate deal once it closed. But QMG did refuse to provide any meaningful information about its new corporate relationship with Duly, or about Duly's relationship with Ares Management. To use QMG's own somewhat glib characterization, it is willing to show all of us superficial corporate name change information, but is unwilling to tell us, or anyone else, about the terms of the corporate "marriage" triggering that name change in the first place¹.

We appreciate the Board's efforts in insisting on a Type A Modification to the application, and in holding a public hearing on March 18 in response to that modification. However, neither the modification nor the public hearing revealed the key features of the QMG/Duly Transaction.

The applicants have doggedly characterized our inquiry as being satisfied by the superficial Type A Modification, and by Board staff's conclusion that Duly need not be a co-applicant to the QMG Birth Center Application. In doing so, they choose to miss our central point – the QMG/Duly Transaction was not disclosed in the QMG Birth Center Application and the particulars of that transaction have yet to be disclosed in the public domain.

This information is essential to the understanding of this project and its applicants. If this is a private equity backed effort by a large multi-state organization to establish a birth center in rural Illinois, both the Board and the public need to know it. This is especially important because the appeal of the birth center model is to expand access to innovative care for all women, including poor and medically underserved women.

Our broad understanding of the QMG/Duly Transaction, which we have developed primarily by reviewing materials produced in response to our FOIA requests and that are separately in the public domain, is as follows²:

- The former Quincy & Surgeons Clinic, S.C., an Illinois professional service corporation, converted to Quincy Physicians & Surgeons Clinic, PLLC, an Illinois professional limited liability company ("Converted QMG Entity").
- As part of the QMG/Duly Transaction, ownership in QMG was modified, so that a UnityPoint – Designated Physician no longer owns 40% of QMG. Instead, a Duly –

¹ See Transcript of Public Hearing on QMG Birth Center Application (March 8, 2022) ("Public Hearing Transcript") at pp. 10-11, 27.

² <u>See</u> attached slides, prepared by QMG representatives, and produced by HFSRB in response to FOIA 21-19. AFDOCS/25569518.1



Designated Physician now owns an unspecified percentage of the Converted QMG Entity. The QMG Birth Center Application does not reflect Duly ownership in the Converted QMG Entity.

- As part of the QMG/Duly Transaction, QMG transferred all or most of its "non-clinical assets" (which we assume means assets other than patient and clinical records) to a 100% Duly – controlled management company known as "Quincy Physician Administrative Services, Inc.") (the "Duly Management Company"). The QMG Birth Center Application does not reflect this.
- 4. In addition, the Converted QMG Entity entered into a management services agreement with the Duly Management Company, through which we assume the Duly Management Company manages a wide range of QMG operations. The QMG Birth Center Application does not reflect this.

QMG would directly own and control the birth center. Duly appears to exert significant control over QMG through the QMG/Duly Transaction. And private equity firm Ares Management appears to exert significant financial and other control over Duly.

QMG representatives have critiqued us rather forcefully as to our understanding of the QMG/Duly Transaction³, but at no point have they offered any meaningful detail about it. Moreover, much of what has been produced for us, in several Board FOIA productions, redacts or excludes details that would allow us to speak with greater certainty about the particulars of the structure of the Duly/QMG Transaction. As we have stated previously, any misunderstanding we may have is a direct result of the lack of detail from applicants.

We have done what we can to bring the QMG/Duly Transaction into the light of day. It now rests with the Board itself to seek additional information about the QMG/Duly Transaction, which clearly should be evaluated in the review of the QMG Birth Center Application.

When the Board considers this QMG Birth Center Application on April 26, it certainly has the right and, we believe, the affirmative obligation to ask the following questions of QMG representatives in order to evaluate the merits of the Project, and the qualifications, background and character of the applicants:

- Does Duly now own a percentage of the Converted QMG Entity?
 - a) Is this through a designated Duly physician?
 - b) What percentage ownership does Duly hold?

³ See Transcript of Public Hearing on QMG Birth Center Application (March 18, 2022) ("Public Hearing Transcript") at pp. 26-29.
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- c) What specific approval or direct authority powers does Duly hold in connection with the QMG? Does Duly hold a particular class of membership that gives it certain approval or direct authority rights in relation to QMG? For example, does Duly have approval power over certain expenditures or strategic initiatives of QMG? Can Duly direct certain actions by QMG?
- 2. What was the aggregate value received by QMG in connection with the QMG/Duly Transaction?
- 3. Are there any future performance benchmarks associated with the QMG/Duly Transaction that create financial, profitability, revenue, cost reduction or related incentives for the Converted QMG Entity or its owners?
- 4. What assets were transferred from QMG to the Duly Management Company?
 - a. What value did QMG receive in exchange for those assets?
 - b. What assets remain with the Converted QMG Entity?
 - c. Are the transferred assets now leased back to the Converted QMG Entity and, if yes, on what financial and business terms?
 - d. Will the Birth Center-related assets be transferred to the Duly Management Company?
- 5. Has the Converted QMG Entity entered into a management contract with the Duly Management Company? Will the terms of this management cover Birth Center operations?
 - a. What are the financial terms of this arrangement?
 - b. What is the scope of the management services provided to QMG under management contract? Do they include:
 - billing and collections, revenue cycle management
 - clinical or non-clinical staffing
 - iii. quality improvement
 - iv. performance improvement
 - v. strategic planning
 - vi. service expansion or reduction
 - vii. cost-containment efforts
 - viii. space and equipment leasing
 - ix. payer contracting
 - x. information technology and EHR
 - xi. insurance coverage



- 6. QMG has represented that it will retain clinical independence⁴. Will the Duly Management Company have any involvement in QMG's activities related to quality assurance, clinical protocols or best practices, risk management, clinical staffing patterns or complement, or electronic health records management? What about the clinical activities related to the Birth Center?
- What relationship does the Duly Management Company, DMG IL Investments II, LLC or DMG Practice Management Solutions, LLC have, directly or indirectly, with Ares Management?
- 8. What is the overall financial, ownership and control relationship between Duly and Ares Management?

We ask the Board to pose these questions to the applicants and insist upon detailed answers, in order to fulfill the Board's responsibility under the Act to: (1) undertake an evidence-based analysis of the Project, its impact on the community and the safety net; and (2) appropriately evaluate the "qualifications, background and character of the applicant to provide a proper standard of health care service to the community." 5

Thank you for your time and consideration.

Very truly yours,

Anne M. Murphy

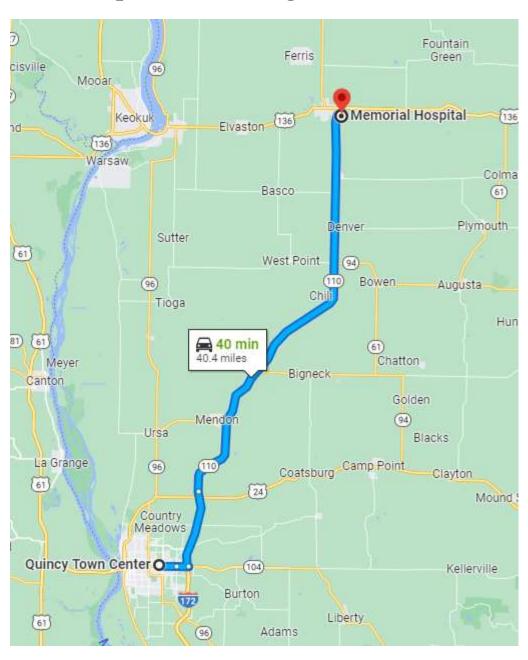
Cc: April Simmons, General Counsel for the Board Michael Constantino, Supervisor, Project Review Section for the Board

⁴ Public Hearing Transcript at p. 10.

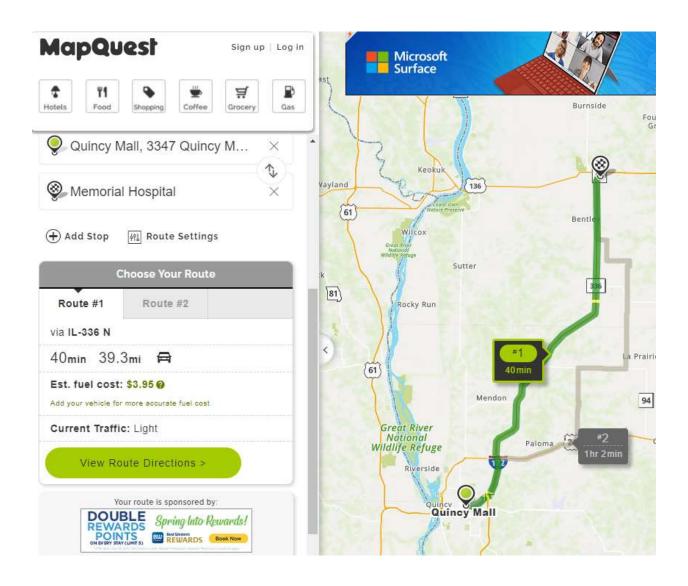
^{5 20} ILCS 3960/2, 6(d). AFDOCS/25569518.1

EXHIBIT B

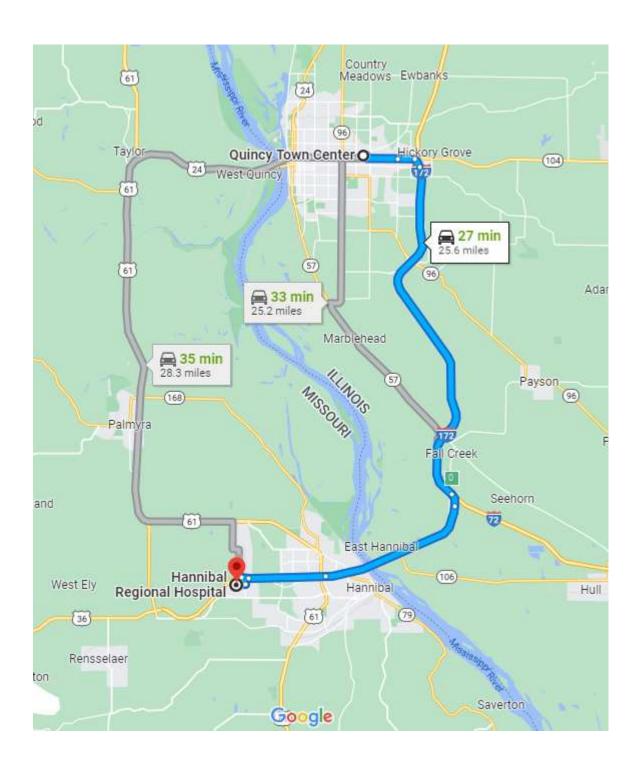
Google Map of Driving Directions from Quincy Town Center (proposed site of QMG Birth Center) to Memorial Hospital in Carthage, Illinois



MapQuest Driving Directions from Quincy Town Center (proposed site of QMG Birth Center) to Memorial Hospital in Carthage, Illinois



Google Map of Driving Directions from Quincy Town Center (proposed site of QMG Birth Center) to Hannibal Regional Hospital in Hannibal, Missouri.



MapQuest Driving Directions from Quincy Town Center (proposed site of QMG Birth Center) to Hannibal Regional Hospital in Hannibal, Missouri.

