

North Carolina Department of Health and Human Services  
Division of Health Service Regulation  
Certificate of Need Section

2704 Mail Service Center • Raleigh, North Carolina 27699-2704  
<http://www.ncdhhs.gov/dhsr/>

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Craig R. Smith, Section Chief  
Phone: (919) 855-3873  
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October 19, 2012

Robert L. Wilson, Jr.  
Smith Moore Leatherwood  
PO Box 27525  
Raleigh, NC 27611

**Exempt from Review – Acquisition of Facility**

Facility: Valdese General Hospital, Inc.  
Acquisition by: Grace Hospital, Inc.  
County: Burke  
FID #: 943519

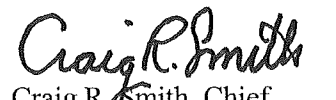
Dear Mr. Wilson:

In response to your letter of October 11, 2012, the above referenced proposal is exempt from certificate of need review in accordance with N.C.G.S 131E-184(a)(8). Therefore, Grace Hospital, Inc. may proceed to acquire the above referenced health service facility without first obtaining a certificate of need. However, you need to contact the Acute and Home Care Licensure and Certification Section of the Division of Health Service Regulation to obtain instructions for changing ownership of the existing facility. Note that pursuant to N.C.G.S. §131E-181(b): *“A recipient of a certificate of need, or any person who may subsequently acquire, in any manner whatsoever permitted by law, the service for which that certificate of need was issued, is required to materially comply with the representations made in its application for that certificate of need.”*

It should be noted that this Agency's position is based solely on the facts represented by you and that any change in facts as represented would require further consideration by this Agency and a separate determination. If you have any questions concerning this matter, please feel free to contact this office.

Sincerely,

  
Les Brown  
Project Analyst

  
Craig R. Smith, Chief  
Certificate of Need Section

cc: Acute and Home Care Licensure and Certification Section, DHSR





# SMITH MOORE LEATHERWOOD

*WR*

October 11, 2012

**VIA HAND DELIVERY**

Mr. Craig R. Smith  
Chief  
Mr. Les Brown  
Project Analyst  
Certificate of Need Section  
Division of Health Service Regulation  
Department of Health and Human Services  
2704 Mail Service Center  
Raleigh, North Carolina 27699-2704

Re: Notice of Exemption for Merger of Valdese General Hospital, Inc. into Grace Hospital, Inc.

Dear Mr. Smith and Mr. Brown:

We are legal counsel representing Blue Ridge HealthCare System, Inc. ("Blue Ridge"). As you know, Carolinas HealthCare System affiliate Blue Ridge has multiple facilities in North Carolina, including Grace Hospital in Morganton and Valdese Hospital in Valdese. Both hospitals are located in and serve the citizens of Burke County, North Carolina. This letter is to provide you with written notice of a proposed merger of Valdese General Hospital, Inc. ("Valdese") into Grace Hospital, Inc. ("Grace Hospital"), which will result in the surviving entity Grace Hospital, to be known as "Blue Ridge HealthCare Hospitals, Inc.," having two campuses, one in Morganton and Valdese, and operating as a multi-campus hospital under a single license and single CMS Certification Number ("CCN"). The proposed merger constitutes an acquisition of an existing health service facility pursuant to N.C. Gen. Stat. § 131E-184(a)(8), and is therefore exempt from Certificate of Need ("CON") review.

**Proposed Transaction**

The proposed transaction will consist of three major steps: (i) the merger of Valdese into Grace Hospital; (ii) the termination of Valdese's provider agreement at the time of the merger; and (iii) the addition of a campus in Valdese, North Carolina to Grace Hospital, to be operated under Grace Hospital's license and CCN. The anticipated effective date of the proposed transaction is December 1, 2012.

**Current Structure**

Grace Hospital and Valdese are members of Blue Ridge, an integrated health care delivery system. The sole member of Grace Hospital is Grace Community Council. The sole member of Valdese is Carolinas Hospital Network, Inc., a subsidiary of Carolinas HealthCare System ("CHS"). Therefore, CHS controls Valdese through its sole membership in Valdese. Grace Hospital and Valdese operate

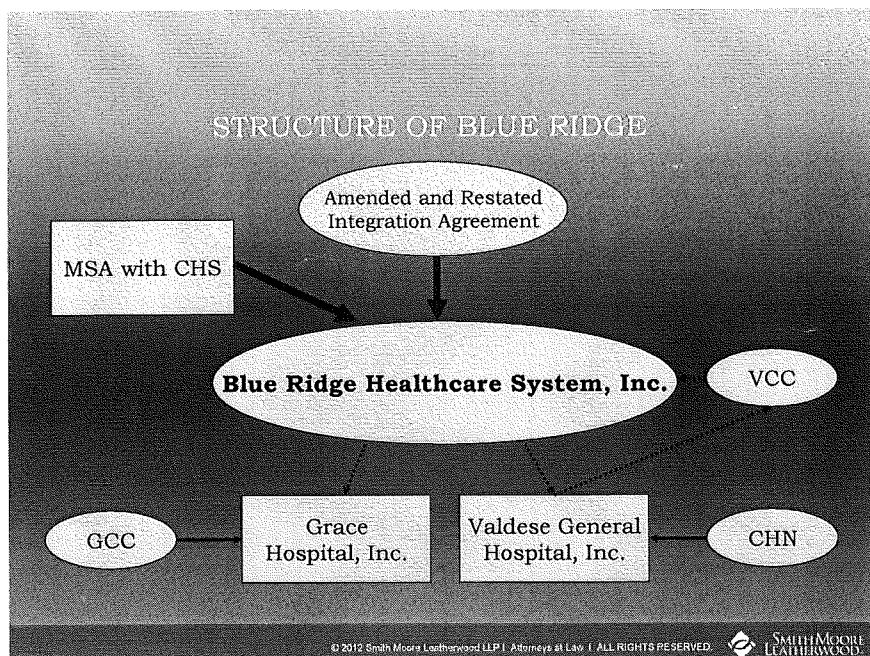
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Mr. Craig R. Smith  
Mr. Les Brown  
October 11, 2012  
Page 2

under a joint governance structure pursuant to the Blue Ridge Amended and Restated Integration Agreement. CHS is the manager of Blue Ridge, pursuant to a Management Services Agreement (“MSA”). This current structure is visually represented by the following diagram:

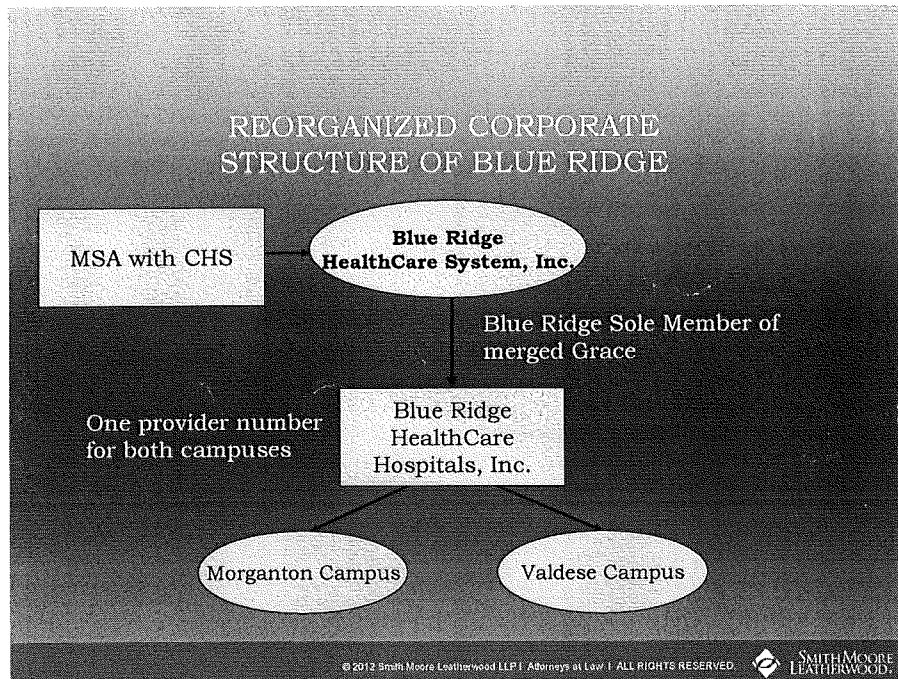


### Proposed Transaction

Valdese will merge into Grace Hospital, and become a second campus of Grace Hospital. All facilities/physical plants, equipment, and other assets currently owned by Valdese will be transferred to the ownership of Grace Hospital. Following the merger, Blue Ridge will become the sole member of Grace Hospital, to be known as “Blue Ridge HealthCare Hospitals, Inc.,” and the Grace Community Council and Carolinas Hospital Network, Inc. will cease being the sole members of Grace and Valdese, respectively. Valdese will be operated as a campus of a single, licensed acute care hospital, under one provider number. Blue Ridge anticipates “rebranding” the Grace Hospital and Valdese campuses as “CMC-Blue Ridge” with signage indicating “CMC-Blue Ridge, Morganton Campus” and “CMC-Blue Ridge, Valdese Campus” upon the conclusion of the transactions, but the licensed and certified provider will be Grace Hospital. The reorganized structure is visually represented by the following diagram:



Mr. Craig R. Smith  
Mr. Les Brown  
October 11, 2012  
Page 3



### Discussion

The purchase, lease, or acquisition of a health service facility or portion thereof, or a controlling interest in the health service facility, qualifies as a new institutional health service. N.C. Gen. Stat. § 131E-176(16)l. However, the CON Act provides as follows:

Except as provided in subsection (b), the Department shall exempt from certificate of need review a new institutional health service if it receives prior written notice from the entity proposing the new institutional health service, which notice includes an explanation of why the new institutional health service is required, for any of the following:

[. . .]

(8) To acquire an existing health service facility, including equipment owned by the health service facility at the time of acquisition.

N.C. Gen. Stat. § 131E-184(a)(8) (emphasis added). The acquisition of Valdese and its equipment and assets by Grace Hospital through the merger and reorganization process described above, and the change



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Mr. Craig R. Smith  
Mr. Les Brown  
October 11, 2012  
Page 4

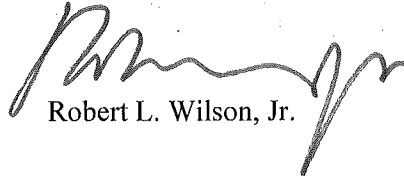
in control that will result in Blue Ridge becoming the sole member of Grace Hospital, fit squarely within the exemption to CON review provided by N.C. Gen. Stat. § 131E-184(a)(8).

The merger of Valdese into Grace Hospital and the concurrent changes in the control structure of Grace Hospital come with multiple benefits for the community. Operating Valdese as a campus of Grace Hospital will allow for a uniform approach to quality initiatives, greater patient flow, and increased efficiencies and cost savings. The same services will be provided by both hospital campuses after the merger as are currently being offered, and the merger will not result in a reduction in services or access to patients. In this age of dwindling hospital reimbursement and rigorous new federal requirements applicable to hospitals, it is important for the health and survival of these facilities that they be able to reorganize as described above, to allow for a leaner, more efficient and streamlined health care delivery system in Burke County. Should Blue Ridge decide to pursue any project on either campus that would be considered a new institutional health service, Blue Ridge will submit an appropriate CON application seeking review and approval of such project.

We would appreciate receiving written confirmation from you that this project is exempt under N.C. Gen. Stat. § 131E-184(a)(8). Should you have any questions or need any further information, please let us know.

Very truly yours,

SMITH MOORE LEATHERWOOD LLP



Robert L. Wilson, Jr.

cc: Thomas L. Eure, Esq.

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