

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

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Date Mailed: October 14, 2024

**STATE OF OREGON
OREGON HEALTH AUTHORITY
HEALTH POLICY AND ANALYTICS DIVISION**

In the Matter of the Proposed) Proposed Findings of Fact, Conclusions of
Material Change Transaction of) Law, and Order
**Three Rocks Healthcare, LLC, Signature)
Coastal, LLC and Signature Hospice Oregon) Transaction ID: 030
Coast, LLC**

This Order resolves the Notice of Material Change Transaction (the "Notice") filed by Three Rocks Healthcare, LLC ("Three Rocks") with respect to its proposed acquisition of Signature Coastal, LLC ("Signature Coastal") and Signature Hospice Oregon Coast, LLC ("Signature Hospice Oregon Coast") (the "Transaction"). (Three Rocks, Signature Coastal, and Signature Hospice Oregon Coast are sometimes referred to collectively as the "Entities.") The Entities filed the Notice with the Oregon Health Authority ("OHA") under the Health Care Market Oversight Program pursuant to Oregon Revised Statutes (ORS) 415.500 through 415.900 and Oregon Administrative Rules (OAR) 409-070-0000 through 409-070-0085.

On August 23, 2024, OHA confirmed receipt of a complete Notice of Material Change Transaction in compliance with OAR 409-070-0030 and 0045. Pursuant to ORS 415.501(5) and OAR 409-070-0055, OHA timely conducted a preliminary review of the proposed transaction. OHA's review analyzed the potential impact of the Transaction in four domains: cost, access, quality, and equity. The analysis followed guidelines and methods set out in the Health Care Market Oversight Analytic Framework (see <https://www.oregon.gov/oha/HPA/HP/HCMOPageDocs/OHA-HCMO-Analytic-Framework-FINAL.pdf>), which is grounded in the goals, standards, and criteria for transaction review and approval outlined in OAR 409-070-0000 through OAR 409-070-0085. OHA's analysis is posted to the HCMO website at <https://www.oregon.gov/oha/HPA/HP/Pages/HCMO-transaction-notices-and-reviews.aspx> and is incorporated herein by reference. A public comment period was open from August 23, 2024, to October 14, 2024. OHA received one public comment.

Now, therefore, upon due consideration of the circumstances, including the Notice of Material Change Transaction, documentation filed in support of the Notice of Material Change Transaction, databases maintained by OHA, websites of the Entities, press reports, academic research articles, and other publicly available reports, OHA enters the following Proposed Findings of Fact, Conclusions of Law, and Order.

FINDINGS OF FACT

OHA FINDS that:

1. On or about July 5, 2024, Three Rocks filed the Notice with OHA.
2. On or about July 17, 2024, OHA notified Three Rocks that the Notice was incomplete, provided guidance about submission requirements, and requested supplemental information to help inform its review of the Transaction.
3. On or about August 23, 2024, OHA notified Three Rocks Healthcare, LLC that it received a complete Notice. OHA commenced the preliminary review pursuant to OAR 409-070-0055.
4. OHA accepted public comments on the Transaction from August 23, 2024, through October 14, 2024. OHA received one public comments.
5. The Pennant Group, Inc. is a Delaware for-profit, publicly traded corporation that operates as a holding company of independent operating subsidiaries that provide healthcare services, focusing on home health, hospice care, and senior living communities. Pennant operates in 13 states, including Oregon, and operates 117 home health and hospice agencies and 54 senior living communities. Pennant's total 2023 revenues were approximately \$545 million.
6. Pennant currently owns two affiliate home health operations and two affiliate hospice operations in Oregon, which operate under the names Rogue River Healthcare, LLC and Connected Healthcare, Inc.
7. Three Rocks is a Nevada limited liability company and is a wholly owned subsidiary of Cornerstone Healthcare, Inc. ("Cornerstone"), a Nevada corporation. Cornerstone is a wholly owned subsidiary of Pennant.
8. Signature Group, LLC ("Signature") is an Oregon limited liability company that owns home health and hospice agencies operating in Oregon. Signature's total 2023 revenues were approximately \$78 million.
9. Signature Coastal, LLC ("Signature Coastal") is an Oregon limited liability company and wholly owned direct subsidiary of Signature Group, LLC.
10. Signature Hospice Oregon Coast, LLC ("Signature Hospice") is an Oregon limited liability company and wholly owned indirect subsidiary of Signature Group, LLC.
11. On July 5, 2024, certain subsidiaries of Pennant and certain subsidiaries of Signature entered into an Asset Purchase Agreement (the "Agreement") with the intent of Pennant's subsidiaries purchasing the agencies and operations of certain home health and hospice agencies owned by Signature's subsidiaries. This Agreement is separated into six different transactions, each of which underwent a separate review by OHA. In addition to the present transaction, the remaining five reviews are labelled as 028 Signature-Pennant NP2U, 029 Signature-Pennant Tigard, 031 Signature-Pennant Bend, 032 Signature-Pennant Eugene/Albany, 033 Signature-Pennant Medford.
12. In this Transaction, Three Rocks plans to purchase the assets of Signature Coastal and Signature Hospice.

13. The Entities receive most of their revenue from Medicare Advantage plans and Original Medicare which uses rates that are set by the federal government. Medicaid and commercial plans comprise a small percentage of the entities' revenue.
14. Pennant states that its subsidiary, Pennant Services, Inc., negotiates regional contracts for their home health agencies.
15. The home health care market is highly consolidated in the primary service area around Lincoln City. In addition to Signature, two other home hospice agencies serve Lincoln City. Pennant does not operate in Lincoln City.
16. The Entities state that once the Transaction closes, Mount Hood will "roll the existing seller payers' contracts onto new paper with new ownership demographics to allow the agency to continue to provide patient care." Further, Pennant states that post-closing, Pennant will add a commercial payer that currently does not have a contract with Signature.
17. The Entities state that Pennant's "extensive experience, expertise, and passion for home health and hospice services will result in high-quality care that meets or exceeds the national and state standards and regulations."

CONCLUSIONS OF LAW

1. The Notice is supported by the required documentation and meets the requirements of the Health Care Market Oversight Program rules for approval with respect to acquisitions of health care Entities pursuant to ORS 415.500 through 415.900 and OAR 409-070-0000 through 409-070-0085.
2. OHA finds that:
 - a. The material change transaction is unlikely to substantially reduce access to affordable health care in Oregon.
 - i. The entities involved in the transaction have significant market share for services provided in Oregon, but the transaction is unlikely to increase consolidation. The proposed transaction is not expected to change the level of services available to the community or the types of services offered to patients, as long as the entities continue to accept patients with Medicaid and Medicare Advantage plans.

ORDER AND CONDITIONS

Based on the foregoing Findings of Fact and Conclusions of Law it is hereby ORDERED that:

1. The transaction is hereby APPROVED WITH CONDITIONS upon the basis of the information contained in the Notice of Material Change Transaction to date.
2. The transacting parties shall complete the Transaction consistent with the notice and as conditionally approved by OHA.
3. The transacting parties shall adhere to the representations made in the notice and subsequent filings with OHA.

4. No later than six (6) months after the transaction closes, Three Rocks or the applicable subsidiary must develop and begin implementing a strategic plan to address and improve patient satisfaction quality scores and submit such plan to OHA. This plan must include the metrics published by the Home Health Care Consumer Assessment of Healthcare Providers and Systems (HCAHPS):
 - a. How often the home health team gave care in a professional way
 - b. How well did the home health team communicate with patients
 - c. Did the home health team discuss medicines, pain, and home safety with patients
 - d. How do patients rate the overall care from the home health agency
 - e. Would patients recommend the home health agency to friends and family
5. No later than one (1) year after the transaction closes, and annually thereafter for a period of five (5) years, Three Rocks Healthcare or the applicable subsidiary must submit a report to OHA summarizing all actions taken during the reporting year to improve the HCAHPS scores.
6. For a period of at least five (5) years, unless requested by a Payer, Three Rocks Healthcare, the applicable subsidiary, or corporate parent must not expressly or implicitly condition the participation of or impose any contract terms, including prices or other conditions, with any payer. This includes:
 - a. Engaging a payer in all-or-nothing contracting by expressly or impliedly requiring the payer to maintain a contract with all affiliates of Pennant in order to have a contract with a single affiliate of Pennant; and
 - b. Explicitly or implicitly penalizing a payer for contracting with third-party home health or hospice agencies, including setting significantly higher than existing contract prices or out-of-network fees for any or all of Pennant affiliate locations.
7. For a period of at least five (5) years, the Three Rocks Healthcare entity must continue accepting patients covered by Medicaid, including Oregon Health Plan coverage by any coordinated care organization, regardless of status as dually covered in Medicare and Medicaid.
8. For a period of at least two (2) years, the Three Rocks Healthcare entity must continue accepting patients covered by Medicare Advantage plans in effect since 2024 and previously accepted by Signature Coastal, LLC and Signature Hospice Oregon Coast, LLC. Locations of the entity must continue to participate in all Medicare Advantage networks in the same network status or tier as prior to the transaction.
9. The Entities shall notify OHA within one (1) business day following completion of the Transaction by email to hcmo.info@oha.oregon.gov.

This Order will be posted to the Health Care Market Oversight Program website at <https://www.oregon.gov/oha/HPA/HP/Pages/health-care-market-oversight.aspx>.

OHA reserves the right to enforce the Conditions set forth herein to the fullest extent provided by the law. In addition to civil penalties and any legal remedies available, OHA shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of these Conditions.

OHA is required to analyze and publish the Entities' compliance with Conditions placed on the Transaction and to assess the impact of the Transaction under ORS 415.501(19) and (20). OHA is required to publish its analyses and conclusions. Per OAR 409-070-0080, OHA may require the Entities to provide any information, reports, analyses, and documentation needed to monitor and assess the impact of the Transaction.

NOTICE OF RIGHT TO REQUEST A HEARING

You are entitled to a hearing as provided by the Administrative Procedures Act (chapter 183, Oregon Revised Statutes), ORS 415.019, and OAR 137-070-0075. You are entitled to be represented by an attorney at the hearing. Legal aid organizations may be able to assist a party with limited resources. The Oregon Health Authority will be represented by an Assistant Attorney General from the Oregon Department of Justice.

To request a contested case hearing, your request must be in writing and must be received within fifteen (15) days from the date this Final Order was personally served, mailed, or electronically transmitted to you, based on the date at the top of this document.

A request sent by U.S. mail is “received” on the date it is postmarked. Your request may also be emailed. Your request should be sent to:

hcmo.info@oha.oregon.gov

or

Health Care Market Oversight Program
421 SW Oak St
Suite 850
Portland, OR 97204

If you submit a request for a contested case hearing, you will be notified of the time place of the hearing. Information on the hearing process will be provided to you in accordance with ORS 183.413(2). Any hearing will be conducted by an administrative law judge from the Office of Administrative Hearings, assigned as required by ORS 183.635.

If you fail to request a hearing within the time allowed, if you request a hearing and subsequently withdraw your request for a hearing, if you request a hearing and fail to appear for the hearing, or if a hearing is scheduled and you later notify OHA that you will not appear at the specified time and place, you will have waived your right to a hearing, and this proposed order will become a final order by default. If OHA issues a final order by default, it designates its file on this matter, including all materials that you have submitted relating to this matter, as the record in this case for purposes of proving a prima facie case.

Dated this 14 day of October, 2024



Sarah Bartelmann, MPH
Health Care Market Oversight Program Manager
Oregon Health Authority

NOTICE TO ACTIVE DUTY SERVICEMEMBERS. Active-duty service members have a right to stay these proceedings under the federal service members Civil Relief Act. For more information contact the Oregon State Bar at 00-452-8260, the Oregon Military Department at 503-584-3571, or the nearest United States Armed Forces Legal Assistance Office through <http://legalassistance.law.af.mil>. The Oregon Military Department does not have a toll-free telephone number.