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CONTACT: Martha Mallonee, Upper Chesapeake Health, 443-643-4219,
mdm.01@ex.uchs.org
Joan Shnipper, University of Maryland Medical System, 410-328-6776,
jshnipper@umm.edu

Upper Chesapeake Health and the University of Maryland Medical System Establish Path to Merger

July 1, 2009 -- The Boards of Directors of Upper Chesapeake Health System (UCH) and the University of Maryland Medical System (UMMS) today announced a strategic affiliation that is expected to lead to a full merger by 2013 and would infuse millions of dollars into the Harford County economy through expanded medical services, job creation and new construction. UCH officials said the affiliation is in response to the needs of a growing and aging population in northeast Maryland who want their medical care, including specialty care, to be available close to home.

The affiliation of these two not-for-profit health systems will enable UCH to accomplish several key goals in the coming years. These goals include accessing capital to expand inpatient and ambulatory services and achieving greater cost savings for supplies and equipment by being part of a larger medical system. UMMS' close relationship with the University of Maryland School of Medicine will help attract physicians to Harford County. Such recruitment will help UCH expand programs, especially in light of a projected physician shortage.

Upper Chesapeake Health, which includes Upper Chesapeake Medical Center in Bel Air and Harford Memorial Hospital in Havre de Grace, has experienced significant growth in patient volumes in recent years. Patient demand is expected to continue to grow as a result of the decision by the Base Realignment and Closure (BRAC) Commission to transfer thousands of jobs and create many new ones in Maryland, many of them in Harford County.

The agreement followed a detailed business analysis conducted by both parties during the past year. This work examined opportunities and challenges UCH will face in the future and assessed how an affiliation with UMMS could successfully address those issues.

As part of its agreement, UCH ended its financial arrangement with St. Joseph Medical Center, which had held a minority ownership in UCH since 1998. UMMS has acquired

St. Joseph's ownership interest and will appoint two new board members to the UCH Board to replace the former St. Joseph's representatives.

The affiliation agreement also sets out a process to potentially lead to a full merger by approximately 2013. The timetable calls for UMMS to provide UCH with financial resources to support growth in clinical programs and services starting this October, subject to completion of due diligence. A year later, UMMS would provide a second round of funding, again to support growth in clinical programs and services. The final phase, a potential full merger, would occur in 2013, when UMMS would issue debt to be used for expanding facilities at UCH's two hospital campuses. UCH planners anticipate a need to expand the number of inpatient beds at both Upper Chesapeake Medical Center and Harford Memorial Hospital, although planning is still in a preliminary stage.

Lyle E. Sheldon, FACHE, president and CEO of UCH, noted that the relationship between UCH and UMMS, while always strong, has grown in recent years. Physicians affiliated with UMMS and the University of Maryland School of Medicine now staff UCH's two emergency departments. Further, collaborations between the parties in the areas of cancer and stroke care are expanding.

Sheldon views the proposed affiliation as a prudent response to the needs and expectations of a growing and aging population in Harford County. "UCH is committed to working with its current physicians to meet the changing needs of the community. We also recognize the need to continue to attract more physicians to practice in the region, including primary care doctors and specialists. We must continue to provide state-of-the-art facilities where physicians can provide exceptional care, including care that might now require transferring patients to hospitals outside of Harford County," Sheldon said.

"In choosing University of Maryland Medical System, we have selected a partner that is best positioned to help us meet those goals. UMMS has a proven record of successfully partnering with community-based hospitals and health care systems. UMMS has a strong partnership with the University of Maryland School of Medicine. Together, the University of Maryland School of Medicine and the University of Maryland Medical Center train more than half of our state's physicians. UMMS has a very strong bond rating, which is essential to accessing capital markets affordably, and they can offer us expertise through shared services in

critically important areas such as finance, information technology and supply chain management," Sheldon explained.

Robert Chrencik, president and CEO of the University of Maryland Medical System, noted that the affiliation with UCH helps further his organization's goal of creating a statewide network of care that encompasses community-based health providers such as UCH, tertiary health providers such as University of Maryland Medical Center, and cutting-edge medical research performed by the University of Maryland School of Medicine faculty.

UMMS is expected to play a key role in helping UCH develop new clinical services and expand medical specialties, including some not currently available in UCH's service area of Harford and western Cecil Counties. "As the population we serve grows and ages, the demand for specialty medical services will also grow," Sheldon said. "Our goal with this agreement is to offer as many specialized services locally as possible." The specific plans surrounding the clinical services expansion will be developed after UCH and UMMS have received input from the current providers of care in the community.

Upper Chesapeake Health, a not-for-profit health system, which includes Upper Chesapeake Health Foundation in addition to the two medical campuses, is the leading health care system and largest private employer in Harford County, with 3,000 employees, more than 550 medical staff and 286 licensed beds. UCH also has a partnership with Sheppard Pratt Health System. Last year, UCH handled more than 24,000 inpatient admissions, more than 92,000 emergency department visits and more than 150,000 outpatient visits.

The University of Maryland Medical System, a not-for-profit health system, is a nine-hospital network that includes the University of Maryland Medical Center, whose major components include the R Adams Cowley Shock Trauma Center, the University of Maryland Marlene and Stewart Greenebaum Cancer Center and the University of Maryland Hospital for Children; Kernan Orthopaedics and Rehabilitation Hospital, University Specialty Hospital, Maryland General Hospital, Baltimore Washington Medical Center, Shore Health System (Memorial Hospital at Easton and Dorchester General Hospital), Chester River Health System and Mt. Washington Pediatric Hospital, which is owned in partnership with the Johns Hopkins Health System. As the third-largest private employer in the Baltimore metro area, the University of Maryland Medical System generates nearly \$3.5 billion in economic activity in Maryland and

has \$2.1 billion of operating revenues. UMMS employs 15,000 people, has more than 1,900 licensed beds and over 90,000 annual admissions.

The University of Maryland School of Medicine was the nation's first public medical school. Located on the University of Maryland's Baltimore campus, the School of Medicine works closely with the University of Maryland Medical Center to provide excellent medical education, conduct innovative biomedical research and administer the best patient care and community service to Maryland and beyond. The School of Medicine employs 2,685 faculty members in 25 academic departments. Its top tier research and education programs include the new University of Maryland Center for Stem Cell Biology and Regenerative Medicine and the Institute for Genome Sciences. The School of Medicine currently educates 1,270 students. Its research grants totaled \$377 million in fiscal 2008, and ranks 19th among the 130 U.S. medical schools in research grant and contract expenditures, and 7th among the 76 public medical schools in the U.S.

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