Department of Health and Human Services
Division of Licensing and Regulatory Services
State House, Augusta, ME
Preliminary Analysis

Date: **March 31, 2009**

Project: **Proposal by an LLC to be formed; Bruce C. Coffin, Craig G. Coffin and Kenneth E. Bowden to purchase the assets of Katahdin Nursing Home in Millinocket, Maine. First Atlantic Healthcare will manage the facility.**

Prepared by: **Phyllis Powell, Certificate of Need Manager**
Larry Carbonneau, Healthcare Financial Analyst

Directly Affected Party: None

Recommendation: **Approve with Condition**

	Proposed Per Applicant	**Approved CON**
Estimated Capital Expenditure	$ 670,504	$ 670,504
Maximum Contingency	$ 26,666	$ 26,666
Total Capital Expenditure with Contingency	$ 697,170	$ 697,170
Pro-Forma Operating Costs	$ 2,376,197	$ 2,376,197
MaineCare Funding Pool Impact:	$ 0	$ 0
NF Allocated Costs Portion	$ 2,373,766	$ 2,373,766
RCF Allocated Costs Portion	$ 0	$ 0
Other Program Costs	$ 2,431	$ 2,431
Non-Reimbursable Costs	$ 0	$ 0
Total Program Costs	$ 2,376,197	$ 2,376,197
Estimated Costs to NF MaineCare System	$ 1,816,800	$ 1,816,800
Estimated New Costs to MaineCare System	$ 0	$ 0

I. Abstract

A. From Applicant

"Ronald C. Coffin, Craig G. Coffin and Kenneth W. Bowden through an LLC to be formed propose to purchase the assets of Katahdin Nursing Home. First Atlantic Healthcare (FAH) will manage the facility under agreement. Officers of FAH are Ronald C. Coffin, President, Kenneth W. Bowden CEO/Treasurer and Craig G. Coffin COO/Clerk."

"The purchase of the facility is a change of ownership CON request only without a current plan to renovate, expand nor change to licensed bed capacity."

II. Profile of the Applicant

A. From Applicant

"The applicant for this project is a yet to be formed LLC whose members are Ronald C. Coffin (majority member), Craig G. Coffin and Kenneth W. Bowden. Each of these individuals is well known to the Department and all have several years of experience owning, operating and managing healthcare facilities."

"First Atlantic Corporation, d.b.a. First Atlantic Healthcare, a Maine corporation currently manages fifteen facilities throughout Maine and if approved Katahdin would be number sixteen if it closes before the Marshall Health Center. Several managed locations are multi-level facilities that offer skilled care, long term care and residential/assisted living services. Also, the management group has experience offering programs for qualified individuals who present with mental illness."

"The following individuals comprise the senior executives at FAH:

Kenneth Bowden, CEO	17 years with FAH
Craig Coffin, COO	25 years with FAH
Vicki White, VP/Corporate Compliance Officer	15 years with FAH
Wanda Pelkey, CFO	11 years with FAH"

"The facilities managed by First Atlantic Healthcare are as follows":

Atlantic Rehab & Nursing. Calais, Maine	Collier's Rehabilitation & Nursing Center Ellsworth, Maine	Colonial Healthcare Lincoln, Maine	Dexter Healthcare Dexter, Maine
Falmouth By the Sea Falmouth, Maine	Freeport Place Freeport, Maine	Hawthorne House Freeport, Maine	Portland Center for Assisted Living Portland, Maine
Stillwater Healthcare Bangor, Maine	Ross Manor Bangor, Maine	Seal Rock Healthcare Saco, Maine	Seaside Healthcare Portland, Maine
Washington Place Calais, Maine	Marshall's Healthcare Machias, Maine	Woodlawn Rehabilitation and Nursing Center Skowhegan, Maine	

"The applicant refers the Bureau to the Division of Licensing and Certification for confirmation that each named entity has had only isolated deficiencies that have been corrected on a timely basis."

"Neither First Atlantic nor any of the principals has been barred from participation in the Medicare or Mainecare programs at any time or found guilty of any infractions that would eliminate their participation in this project."

II. Profile of the Applicant

"Profiles of the principals is as follows":

Ronald C. Coffin

"Mr. Coffin is Founder and President of First Atlantic Healthcare. He has been involved in healthcare services since 1964. A graduate of University of Maine and Boston University School of Law, Coffin has strong ties with Maine's long-term care community. From 1968 through 1984 he was the owner and operator of First Allied Corporation, which owned and operated nursing facilities in Maine, Massachusetts, Florida and California. First Allied was sold to Hillhaven corporation in 1984. One year later Mr. Coffin started First Atlantic Corporation the successor to First Allied."

"In the intervening years of 1985 through 2003, Mr. Coffin and First Atlantic Corporation/Healthcare have acquired and managed all of the facilities named above and additionally have operated and owned an institutional pharmacy known as Downeast Pharmacy and First Allied Home Health, a twelve office home health company which operated in Maine."

"Mr. Coffin's operations have a reputation for quality and sound fiscal management. Today, his enterprises employ nearly 1,500 individuals ranking on a combined basis in the top fifteen employers in Maine."

Kenneth W. Bowden

"Mr. Bowden serves as First Atlantic Corporation's Chief Executive Officer and is responsible for overall First Atlantic activities including management, consulting, development and regulatory compliance."

"A graduate of Ellsworth High School in 1973, he continued his education at the University of Maine at Orono, earning a Bachelor's degree in Accounting in 1977 and an M.B.A. in 1979. Employed by Ernst & Whinney from 1979 to 1981 in public accounting, many of his audit client's were from the health care field; including St. Mary's General Hospital, Penobscot Bay Medical Center and Northern Maine Medical Center to name a few."

"In 1981, Bowden joined St. Mary's as their Cost and Reimbursement Specialist where he had responsibility for preparation of that organization's annual operating budget and all cost reports. In addition to hospital operations he also had responsibility for Marcott Nursing Home, a 350-bed facility owned and operated by the Sisters of Charity. In 1984, Bowden became the first Chief Financial Officer at Jackson Brook Institute, a newly opened Psychiatric and Drug Rehabilitation Hospital located in South Portland, Maine. In 1991, he joined First Atlantic Corporation as Chief Financial Officer where his duties included financial oversight of the nursing, pharmacy and home health divisions. Promoted to Chief Executive Officer in 1995, he continues to serve in this capacity today."

"For more than 20 years, Mr. Bowden has been involved with healthcare services. He is a past board chair of Maine Healthcare Association and Goodwill Northern New England. Bowden is currently a member of the Council of Ministries at the Falmouth Congregational Church."

Craig G. Coffin

"Mr. Coffin is the company's Chief Operating Officer and as such he oversees all operational and development aspects of the company. A licensed Nursing Facility Administrator in Maine (license number AD 523) and Florida, Mr. Coffin began working in the field of geriatric healthcare in 1985. He has run several nursing facilities including the flagship facility Falmouth by the Sea from 1990 to 1993. He was instrumental in the development and construction of Ross Manor a 119 bed facility with 83 skilled and long term care beds, 24 Residential Alzheimer's beds and 12 Assisted living beds. In 1994 he joined the company's corporate offices and held the position of Vice-President. Promoted again in 1995 to the position of Chief Operating Officer, Coffin is responsible for all land acquisition, permitting, development and operations of the company. Most recently, he oversaw our development in Saco Maine."

"Born in Massachusetts and educated at Proctor Academy, Dean College and the Florida State College of Healthcare for his AIT program, he has for nearly 20 years, been involved with the provision, direction and management of healthcare to the elderly."

"Facilities under the management of First Atlantic Healthcare have had isolated deficiencies that have been corrected in a timely manner. As of the submission date all facilities under our management are in compliance with State and Federal licensing standards."

"We believe that under First Atlantic management the facility's past excellent regulatory compliance outcomes will be preserved in part through our intense regulatory compliance culture, which features our Regulatory Compliance Committee. This committee oversees peer reviews of all facilities to ascertain compliance with all licensing regulations and reports directly to our Corporate Compliance Officer, Vicki White,RN. The dual reporting nature of the peer review effort, first to the facility management team and second to our corporate office brings together immediate efforts for improvement and appropriate resources to insure compliance."

B. CONU Discussion

i. Criteria

Relevant criteria for inclusion in this section are specific to the determination that the applicant is fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant's control meets industry standards;

ii. Analysis

Katahdin Nursing Home, Inc. is located at 22 Walnut Street in Millinocket, Maine. Its licensed administrator is Betty Pomeroy. Phillip and Ester Cyr are the owners. It is currently licensed for 36 beds, with no level IV residential care beds. The beds are all Medicare and MaineCare certified. Its current license was issued November 6, 2008 with an expiration of August 31, 2009. A new license will be required as a result of this transaction.

The facility has had one recurring issue on past surveys. Recurring issues centered on the lack of a quality assurance plan and follow-thru. This issue was discussed with current ownership who felt that the greatest issue was that while his family owns other nursing facilities, this one in particular was owned by he and his wife and was managed separately. Representatives of the applicant stated that like their other facilities, a quality assurance program would be implemented and in-service training would be standardized to include this facility. This issue was not present in the 2008 survey that was completed on August 29, 2008. Patient metrics indicate that this facility provided influenza and pneumoccal vaccination to a higher percentage of patients than the state average. Likewise high-risk patients had less pressure sores than the state average but this facility had a significantly higher percentage of residents that had lost too much weight. It is expected that First Atlantic will be able to improve this area of concern by their several quality initiatives.

Katahdin Nursing Home serves the Millinocket, East Millinocket and Medway areas. Its nearest competitors are Colonial Health Care located in Lincoln, 26 miles to the south and Mountain Heights Health Care located 26 miles to the north in Patten. Cummings Health Care is several miles farther south in Howland. Charles A. Dean Hospital in Greenville and Hibbard Nursing Home located in Dover-Foxcroft are located primarily to the Southwest and more than 40 miles away. While it would appear that there are several alternatives, comments made at the public information meeting indicated that the persons attending the meeting felt that Colonial Health Care in Lincoln was the primary alternative. Colonial Health Care is operated and owned by the applicants. Both facilities charge private pay patients approximately the same amount. The private-pay rate at Katahdin is $220 daily while the NF private-pay rate is $215 at Colonial.

Mr. Cyr noted at the public information meeting that he had been reducing the licensed capacity of the Katahdin nursing facility for some time. Most public comments at the public information meeting related to the excellent condition of the facility and the treatment of residents.

First Atlantic Corporation is well known to the Department and since its founding in 1985, has shown itself to be a steady and reliable provider of care. It has had several projects for CON review since 2005 including:

- The development and opening of Seal Rock Healthcare in Saco, Maine;
- The acquisition of Marshall Healthcare in Machias, Maine; and
- The renovation and addition of capacity at Seaside Healthcare in Portland.

The Lincoln facility (Colonial) of First Atlantic, because of its proximity, was reviewed for its complaints and findings. Its proximity would suggest that supervision of the facilities would be the most similar as compared to First Atlantic facilities located downeast or in York County. Colonial's most pervasive complaint is issues with patient rights regarding notification of benefits. It was considered widespread but its potential was for minimal harm. Colonial staffing hours were much closer to the average than Katahdin's where CNA averages exceeded the state staffing ratio by 1 FTE.

CONU concludes that the applicant has shown that it provides services needed in the communities where its facilities are located. By operating their other facilities in compliance with regulatory guidelines, the applicant has also demonstrated their ability to continue this level of care at this nursing facility in Millinocket, Maine.

iii. Conclusion

CONU recommends that the Commissioner find that the applicants are fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant's control meets industry standards.

III. Capital Expenditures & Financing

A. From Applicant

“As noted in the project description, we propose an asset purchase equal to the current net book value at the time of closing. Therefore, our project does not result in material non-reimbursable basis – a key concern when considering the effect on proposed budgets and overall feasibility.”

“Capital costs for the project are summarized below and the signed Purchase and Sale Agreement, as amended is enclosed as Exhibit I for further clarification of terms and conditions. The purchase price is as follows:”

Real Property at net book value in the aggregate of approximately $600,000.

“We estimate total project capital costs will be $600,000. First year annual operating costs will amount to approximately $2,200,000. Utilization will be 95%. Management services of the new project will commence on the date the transaction closes.”

“The assumptions contained in our financial pro forma are integral to an understanding of the predicted outcomes and any user of the statements is advised to be fully familiar with these critical assumptions before drawing conclusions. Outcomes can and do change from time to time and the applicant is not by way of this application or its submissions guaranteeing that past events will prove to be predictors such that the project’s outcomes will be those as presented. However, our forecasts, to the extent that actual events unfold as portrayed, are likely reasonable.”

“We do not see any significant changes at this time in the cost of rendering services at Katahdin. Based upon our pro forma financial statement, we expect the project to be budget neutral.”

“Our financial pro-forma, which is an exhibit to this application, demonstrates the feasibility of the project in the near term. As to longer time horizons, Katahdin is like all rural health providers - very susceptible to funding decisions by regulators and legislatures. Also its small size retards the ability to gain any reasonable economy of scale. As example of the small size relative to costs, Katahdin finished its most recent fiscal year reporting costs in excess of MaineCare rates as follows: Direct care $3 per day and Routine care $10 per day. These outcomes place Katahdin at risk.”

“However on the question of future financial success in this small home, it is the Department rather than the applicants who can better assess long-term-viability. The applicant is vitally interested in the answer however! That said, certainly any project that has as its basic feature 100% reimbursable basis is in the best position to weather adverse changes in State budget decisions. Our proposal fits this axiom well.”

B. CONU Discussion

i. Criteria

Relevant criteria for inclusion in this section are specific to the determination that the economic feasibility of the proposed services is demonstrated in terms of the:

a. Capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and

b. The applicant's ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state and locan licensure and other applicable or potentially applicable rules.

ii. Analysis

First year operating expenses are projected to be $2,376,197 including $2,431 in non-reimbursable therapy expenses, and $0 miscellaneous non-reimbursable costs. The total of reimbursable costs is $2,373,766. The applicant expects to finance the acquisition with 100% financing of the asset costs.

Financial Ratio Analysis

There are four areas of financial ratio analysis related to the ability of the project to be successful. These ratios are profitability, liquidity, and capital structure and activity ratios.

Profitability: These ratios show how well the nursing facility does in achieving an excess of revenues over expenditures or providing a return. Generating revenue in excess of expenditures is important to secure the resources necessary to update plant and equipment, implement strategic plans, or respond to emergent opportunities for investment. Losses, on the other hand, threaten liquidity, drain other investments, and may threaten the long-term viability of the organization. The profitability ratios reported here include the operating margin, which measures the profitability from operations alone, the net margin (called total margin in some sources), which measures profitability including other sources of income, and the return on total assets. The operating margin is expected to be 0.20%. This is due in part to MaineCare revenue accounting for only 76.3% of revenues but 83% of the total number of days. Expected rates are $170.99 per day for MaineCare and $248 for Medicare stays and a private-pay rate of $220 daily.

III. Capital Expenditures & Financing

Katahdin Nursing Home

	Days	Percent	Revenue	Percent
MaineCare	10,625	83%	$1,816,800	76%
Medicare	461	4%	$114,745	5%
Private Pay	1,731	14%	$381,194	16%
Other	0	0%	$68,159	3%
Total	12,817	100%	$2,380,898	100%

In addition to a modest return on assets, the facility is expected to have a modest 0.67% return on assets. Because there is limited equity in this facility as proposed, the return on equity is expected to be 26.8% based on average equity in the first operating year.

A review of financial indicators is important because they can present a fair and equitable representation of the financial health of an organization and assist in presenting appropriate comparisons. This provides a sound basis for determining whether the facility has the ability to commit the financial resources to develop and sustain the project. Facilities need to perform at financially sustainable levels in order to carry out their public-interest missions. An adequate operating margin is a key indicator of the financial health of a facility. Of great concern to CONU is the determination of the reasonableness of the methodology the applicant has used in determining the appropriateness of the timing and scope of the project. Over time, capital expenditures can and need to be made in order to meet the goals expressed in the State Health Plan. CONU evaluates the applicant's ability to organize and respond to its challenges in improving and maintaining the health care system. The applicant projects an operating surplus of $4,701 but is projecting that net operating income (adding back interest and depreciation) is $180,892. This is expected to increase liquidity to acceptable levels. Expected surplus is reasonable given the assumptions. If achievable, this level of surplus would allow the facility enough cash flow to maintain operations.

Liquidity: Current ratios and acid test ratios are indicators of the ability of a facility to meet its short-term obligations. This liquidity alleviates the need for decision making to be focused on short term goals and allows for more efficient planning and operations of a nursing facility. The acid test ratio is generally considered to be a more stringent measure because it recognizes only the most liquid assets as resources available for short-term debt; the current ratio assumes that inventory and accounts receivable can be liquidated sufficiently to meet short-term obligations.

Days in accounts receivable and average payment period also are used to monitor liquidity. Respectively, they indicate the average length of time the nursing facility takes

to collect one dollar of receivables or pay one dollar of commercial credit. Together, they can provide a cursory indication of cash management performance. The expected current ratio at the end of the first operating year is projected to be 1.91. This is with a projected Days in Patient Account Receivable of 36 days which is reasonable given the recent change to MaineCare payment practices of monthly remittance starting in June 2009.

Days Cash on Hand is a ratio that is an industry accepted, easily calculated, method to determine a facility's ability to meet cash demands. Days Cash on Hand is only 7 days. This should be considered a minimum for the monthly operations since 75% of the revenue comes from one source. The average payment period is calculated to be 24 Days. This helps show that cash should be adequate because the payment periods are reasonable and not stretched to the point that terms are affected by creditors.

Activity and Capital Structure: Activity ratios indicate the efficiency with which an organization uses its resources, typically in an attempt to generate revenue. Activity ratios can present a complicated picture because they are influenced both by revenues and the value of assets owned by the organization. The total asset turnover ratio compares revenues to total assets. Total assets may rise (or fall) disproportionately in the year of heavy (dis)investment in plant and equipment, or decrease steadily with annual depreciation. Thus, it is helpful to view total asset turnover at the same time as age of plant. Debt service coverage is reviewed in greater detail. Debt Service coverage measures the ability of a nursing facility to cover its current year interest and balance payments.

As previously noted equity financing as presented by the applicant for this acquisition is expected to be 0% because of the plan to finance 100% of this project. At the end of the first year, equity financing is expected to be 4% due to retained earnings. Debt service coverage is projected to be 2.79 times the debt service. Cash flow to total debt is 16%. Fixed Asset financing is 100% at the acquisition point and because of depreciation is expected to be 121% at the end of the first operating year.

Debt service coverage is the most widely used capital structure ratio. Debt service coverage minimums are often seen as loan requirements when obtaining financing. Debt service coverage is the ratio of earnings plus depreciation and interest expense to debt service requirements. The projected debt service (2.79x) is adequate for operations. With a large increase in fixed asset financing, operations will be more expensive than with a less leveraged operation.

Efficiency Ratios: Efficiency ratios measure various assets and how many times annual revenues exceed these assets.

III. Capital Expenditures & Financing

Financial Performance Indicators

Efficiency	2005	2006	2007	2008
Total Asset Turnover	1.72	2.28	2.40	1.83
Fixed Asset Turnover	2.62	2.78	2.99	2.68
Current Asset Turnover	5.04	12.87	12.43	9.10

Total asset turnover (TAT) provides an index of the number of operating revenue dollars generated per dollar of asset investment. Higher values for this ratio imply greater generation of revenue from the existing investments of assets. TAT is expected to be 2.76, while fixed asset turnover is expected to be 4.26 and current asset turnover is 8.57%. This is expected in a facility with significant initial financing of operations.

Staffing

As part of the purchase and sale agreement the seller disclosed that the corporation has not had any discussions regarding changing staffing ratios.

Changing Laws and Regulations

CONU staff is not aware of any imminent or proposed changes in laws and/or regulations that would impact the project. The First Atlantic Healthcare organization has the organizational strength to adjust to reasonable changes in laws and/or regulations. The projection reflects the ability of the facility to operate in light of the recent change in the timing of reimbursement from MaineCare.

iii. Conclusion

CONU recommends that the Commissioner determine that the applicants have met their burden to demonstrate: (1) the capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and (2) the applicant's ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules.

IV. Needs to be Met

A. From Applicant

"The Southwest Rural Health Research Center reports the following information in their Policy brief: Nursing Homes in Rural America":

- One-fifth (23%) of the elderly live in rural areas; 26% of those aged 75 and older live in rural areas.
- Compared to the elderly in metropolitan areas, rural elderly…
  - On average are older.
  - Rate their health as worse.
  - Tend to have more limitations in physical functioning.
  - After age 75 – are more likely to live alone.
  - Are more likely to be poor.
  - Have higher use of nursing home care.
  - Rural residents were more likely to have some type of dementia and were least likely to have access to Alzheimer's Special Care Units.
- National census data from 2000 indicates that there is 58.1 nursing facility beds per 1,000 persons 65 and older in small towns (rural locales).

"The national data is a close fit to the information concerning Katahdin and the communities it serves."

"Katahdin Nursing Home is located in Millinocket Maine forty-five minutes north of Bangor. The 36-bed facility serves Millinocket and East Millinocket and occasionally the surrounding town of Medway. It is important to note that Lincoln (a town of 5,221 persons with 17.3% over the age of 65), which is 30 minutes away, also serves Millinocket and East Millinocket in addition to Lincoln proper. Including Lincoln in the bed analysis is critical to an accurate appraisal of needed beds in this area. This area is home to approximately 13,700 individuals according to the 2000 census with approximately 5,200 living in Millinocket proper in addition those living in Lincoln."

"Millinocket is forty-five minutes from Bangor to the south and forty-five minutes from Lincoln to the east. The home resides in a rural, northern setting known for its place in Maine's logging and paper making industries. Today, tourism is an added element of the local economy and is becoming more pronounced for its economic impact on the area. The home is one of the largest service sector employers and makes a significant contribution to the town's tax base. The following demographic information about Millinocket is taken from Wikipedia."

> "According to the United States Census Bureau, the town has a total area of 18.3 square miles (47.4 km²), of which, 15.9 square miles (41.2 km²) of it is land and

IV. Needs to be Met

2.4 square miles (6.2 km²) of it (13.17%) is water. Millinocket Lake is drained by the West Branch Penobscot River and Millinocket Stream. Millinocket Lake and Mount Katahdin, elevation 5,270 feet (1,606 m), are in the northwest.
The town is crossed by State Routes 11 and 157. It borders the town of East Millinocket to the east.

As of the census[1] of 2000, there were 5,203 people, 2,295 households, and 1,556 families residing in the town. The population density was 327.5 people per square mile (126.4/km²). There were 2,679 housing units at an average density of 168.6/sq mi (65.1/km²). The racial makeup of the town was 98.52% White, 0.10% Black or African American, 0.54% Native American, 0.37% Asian, 0.02% from other races, and 0.46% from two or more races. Hispanic or Latino of any race were 0.23% of the population.
There were 2,295 households, out of which 25.7% had children under the age of 18 living with them, 55.7% were married couples living together, 9.1% had a female householder with no husband present, and 32.2% were non-families. 28.3% of all households were made up of individuals and 14.5% had someone living alone who was 65 years of age or older. The average household size was 2.25 and the average family size was 2.69.

In the town the population was spread out with 21.1% under the age of 18, 4.9% from 18 to 24, 25.0% from 25 to 44, 29.7% from 45 to 64, and 19.4% who were 65 years of age or older. The median age was 44 years."

"According to data obtained from the Southwest Rural Health Research Center (SWRHRC), Nationally there are 58.1 NF residents per 1,000 people 65 and older living in small towns in 2000. As exhibit III demonstrates, one would expect as many as 91 licensed NF beds based upon 95% occupancy in this region using area demographics which include Lincoln and the 58.1 resident standard. Katahdin when combined with Colonial is the only freestanding Nursing Facility provider in this area and with 36 nursing facility beds; Katahdin's current licensed capacity falls within this standard. Further, like many communities served by rural healthcare providers, Millinocket has a significant population living below the poverty line and as noted above, a significant percentage of those are over the age of 65, the age group most likely to rely on Government support for health care services. Like the national data for rural locations, ninety percent (90%) of Millinocket's revenues are derived from government payers demonstrating that these communities are highly dependent on government financing for their health care needs and highly dependent on Katahdin to provide it."

"It may well be that in the future, a regional approach to providing services will be needed as securing licensed staff to administrate the facility is difficult and size of facility does not lend itself to economy. As tax payer revenues become more scarce the survival of rural facilities will likely depend on special designations such as rural hospitals enjoy or face consolidation."

IV. Needs to be Met

"Please refer to Exhibit IV for complete information taken from the 2000 census and the SWRHRC."

"The evidence demonstrates public need for 36 nursing facility beds in the general area that is 50 minutes driving time from Millinocket." First Atlantic Healthcare has been involved with several quality initiatives over the past years. All of the efforts are on-going.

Clinical Needs

First Atlantic "began working with the Northeast Health Care Quality Foundation many years ago. With their guidance we have focused on five quality improvement areas. These are restraint reduction, pressure ulcer reduction, pain management, depression and consistent assignments. This has been very rewarding for all of our facilities. We have made significant improvements in all areas as an organization. We have been able to raise awareness and provide continuing education to staff, residents and families."

"We have been involved with American Health Care Association's efforts with Advancing Excellence. We have members on sub-committees working with the LANE (Local Area Network of Excellence) through Maine Health Care Association. Along with this MHCA has established a Quality Improvement Committee. We also have members on this committee. In addition we continue to pursue AHCA's Quality First program."

"As part of our customer satisfaction effort, we are participating in the national MyInnerview satisfaction survey process. This is an annual survey for residents, families and employees that is completely anonymous. The surveys are sent to a national company and analyzed by them. A report is sent to each of our facilities with a multitude of data to enhance our product and services."

"The Department of Health and Human Services established a Pressure Ulcer Reduction Task Force. We also are involved in this effort."

"There is an active group of infection control nurses and para-professionals that meet regularly. This is the APIC group. (Association of Professionals in Infection Control) This group has made great strides in the management of Multi-Drug Resistant Organisms. One of our nurses is on the Board for this association."

"Many years ago First Atlantic Healthcare established a company-wide multi-disciplinary group called the Regulatory Compliance Committee. This committee is responsible for Best Practices in our facilities and conducting annual Peer Review surveys. It also provides oversight for the Continuous Quality Improvement systems in all our First Atlantic homes."

IV. Needs to be Met

B. CONU Discussion

i. Criteria

Relevant criteria for inclusion in this section are specific to the determination there is a public need for the proposed services as demonstrated by certain factors, including, but not limited to:

- Whether, and the extent to which, the project will substantially address specific health problems as measured by health needs in the area to be served by the project;
- Whether the project will have a positive impact on the health status indicators of the population to be served;
- Whether the services affected by the project will be accessible to all residents of the area proposed to be served; and
- Whether the project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project;

ii. Analysis

The CONU informed the Office of Elder Services (OES) about the proposal and provided the office with copies of the application. Representative of OES noted the high occupancy rate at the facility.

The applicant developed an analysis of the specific area that the facility is located in. The transaction will not specifically address health problems in the area as the nature of the transaction is an acquisition of the facility. However, First Atlantic is involved with several quality initiatives and including this facility in the programs present in the other facilities is expected to improve the health of the residents. More specifically, the applicant is concentrating on five quality improvement areas. These are restraint reduction, pressure ulcer reduction, pain management, depression and consistent assignments. Depression is often a cause of weight loss and is a specific area of concentration for First Atlantic.

First Atlantic participates in several quality initiatives that should serve the residents of this area well.

iii. Conclusion

CONU recommends that the Commissioner find that the applicants have met their burden to show that there is a public need for the proposed project as demonstrated by certain factors.

V. Alternatives Considered

A. **From Applicant**

"The proposed ownership transfer is by sale of assets at State net book value, which will result in minimal changes to payment rates. Thus, citizens of the state of Maine are not called upon to underwrite additional funding."

"We believe that the services we propose in our application do not contradict the state health plan developed by the Department."

"Attached, as Exhibit VI is our project financial statement pro-forma including the pro-forma cost report, which illustrates its financial feasibility. As the pro-forma demonstrates, with the desired room rates all of the costs typically associated with a nursing facility are met. The proposal does not contain features that are likely to materially change the historic level of operating costs. We have no plans to change the current charge structure at the facility as a result of this ownership transfer request. As noted above, our purchase price is set at the net book value of the property and as an asset purchase we believe that this project stands the best chance of dealing with challenges over the long haul. However, as we have previously noted, regulators are in direct control of the financial feasibility of the facility over the long term assuming that historic levels of cost and census is maintained. Since our review of national statistics suggests that the Katahdin facility has the appropriate capacity for a rural, small town and given that the population is growing older in greater numbers than at present, we expect that facility demand will be appropriate to the bed offering over time. In short, demand is expected to be firm, costs will be well managed at historic levels and thus the real question emerges:

What will funding be at levels that ensure solvency? Again the answer lies more with regulators, governors and legislators. The best we can conclude in answer to this question is to say simply that rural healthcare providers are vital for elderly in their service areas and the need will remain as demand for long-term-care increases due to an ill and aging population."

"The purchase price per bed of our project is approximately $16,667. The alternative, which would be a new replacement facility, is likely to cost nearly $100,000 per bed or more. Therefore, we do not feel that there is a less costly or more effective alternate of reasonably meeting identified health service needs of the project given the facts as they exist today."

V. Alternatives Considered

B. CONU Discussion

i. Criteria

Relevant criteria for inclusion in this section are specific to the determination that the proposed services are consistent with the orderly and economic development of health facilities and health resources for the State as demonstrated by:

- The impact of the project on total health care expenditures after taking into account, to the extent practical, both the costs and benefits of the project and the competing demands in the local service area and statewide for available resources for health care;
- The availability of state funds to cover any increase in state costs associated with utilization of the project's services; and
- The likelihood that more effective, more accessible or less costly alternative technologies or methods of service delivery may become available;

ii. Analysis

The applicant points out that while the area supports a small number of nursing beds, that capacity could not be easily transferred. Comments made at the public information meeting indicated that the residents of Katahdin Nursing Home's service area often find it necessary to consider Colonial Health Care in Lincoln, but would prefer to find services located in Millinocket. There is a need for these services in this area.

A new facility would be cost prohibitive and combining services in another town would prove to be a significant hardship to residents who depend on the services provided at this facility. The applicant recently built a new facility in York County and the cost of the replacement facility was over $100,000 per bed.

The impact on total health care expenditures will be minimal with this proposal. There is a minimal impact on costs to the state and state funds are available for the services to be supplied through the MaineCare program. This cost has to be neutral due to statutory requirements not allowing additional costs to the system unless specifically allocated by the legislature or funded through the MaineCare Funding Pool. Based on the pro-forma developed for this project it is reasonable to expect the project to be neutral.

The proposed services are consistent with the orderly and economic development of the area because an in-state operator of nursing facilities will assume operations. The proposed operator is capable of assuring continued operations. Since the transaction is structured as a purchase of the assets at the state book value, the transaction does not impact the MaineCare budget. This is because reimbursement rules require the assets to continue on their current depreciation schedules (Principles of Reimbursement 44.29.2). Additionally, since the need is demonstrated, in part, by the continued strong occupancy rate, it is essential to ensure the transition of the facility so that services will continue.

Finally, the new owner has additional financial resources to draw upon in case of emergency or crisis, or a shift in market trends.

iii. <u>Conclusion</u>

CONU recommends that the Commissioner find that the applicants have met their burden to demonstrate that the proposed project is consistent with the orderly and economic development of health facilities and health resources for the State.

VI. State Health Plan

A. From Applicant

The applicant provided no comments under this criteria.

B. CONU Discussion

i. Criteria

Relevant criterion for inclusion in this section are specific to the determination that the project is consistent with the State Health Plan.

ii. Introduction

The analysis of this section is by State Health Plan Priority.

iii. Analysis

PRIORITY: The applicant is redirecting resources and focus toward population-based health and prevention.

A. From Applicant

"We are interested in energy conservation and plan to evaluate the facility on the basis of insulation, ambient heat loss and heat source efficiency. Currently the facility is heated using fuel oil and solar collectors to preheat water. The solar system is old and replacement parts are no longer available so at some future point we will evaluate whether to replace the solar system or not. Currently, due to the risk of injury the facility does not operate the system in the winter because of the risk of injury (keeping snow clear and the potential to fall off the roof while doing so). Currently, we are conducting energy audits at other FAC homes and what we learn there we hope to implement if feasible in Millinocket."

"We believe that the services we propose in our application do not contradict the state health plan developed by the Department."

"As noted above First Atlantic is committed to compliance, which is one indicator of providing services that will have a positive impact on the health status of consumers. In addition, and as noted in prior submissions, our organization participated in Northeast Health Care Quality Foundation's pilot project known as STAR – Setting Targets Achieving Results - designed to implement best practices, track indicators and improve outcomes in the areas of pressure sore prevention/treatment, pain management, physical restraints and depression. We have been pleased with the results and state wide a

reduction in negative outcomes in all domains has been seen. More information on this program can be found at www.nhcqf.org."

B. CONU Discussion

The applicant has expressed its desire to consider conservation alternatives with regards to the facility's environmental impact. In recent hospital CONU acquisition proposals, the MeCDC has declined to review stating that acquisitions have no impact on health considerations. While the MeCDC does not have to review nursing facility applications, it appears likely that the rational for not reviewing hospital acquisitions would apply here also.

The applicant participates in STAR monitoring presented by the Northeast Health Care Quality Foundation for its Nursing Home Quality Initiative. This initiative presents approaches to monitor 6 items. These items are as follows:

1. Physical restraints
2. High-risk pressure ulcers
3. Depression
4. Chronic care pain
5. Post-acute care pain
6. Post-acute care pressure ulcers

Since the applicant did not present any actual results or goals, it is recommended that an approval include a condition addressing the presentation of a plan that addresses these metrics: what current levels are at their facilities; their goals for all their facilities; and annual progress reports for two years in accomplishing these goals.

iv. Conclusion

CONU recommends that the Commissioner find that the project is consistent with the State Health Plan priorities.

VII. Outcomes and Community Impact

A. From Applicant

"We believe Katahdin's integration into our company will provide demonstrable improvements in quality and outcomes for the following reasons:"

"As noted above we follow NHQF's effort to reduce negative outcomes in four defined areas. The effort entails implementation of best practices, tracking results against prescribed standards to ascertain variation, employ root cause analysis to understand variations and act on what is learned to improve processes leading to improvement/desired outcomes. "

"We are continuing to implement electronic medical records that will among other things provide secure access to vital health information in the event of a disaster. Katahdin will greatly benefit from this change in clinical software. In truth there has been little in the way of productivity enhancements in our profession over time even as the documentation requirements have increased. Electronic charting departs from this trend in several significant ways. Here are but a few worth mentioning:"

- "Information must flow TO and FROM the staff members. Collecting data might have many useful purposes, but unless accurate and timely information is also flowing to the caregiver, predictably enhancing quality of care is hard to achieve. Electronic charting is real time documentation making information retrieval easy and reliable for front line workers. Said again, accurate, real time information is key to quality, especially from shift-to-shift and our dedication to this effort gains ground on improving clinical outcomes."

- "All modules share charting information and progress notes eliminating duplication and the potential for transcription error or contradictory data."

- "Vital documentation such as incidents, critical lab values, the MAR, physician orders, weight loss, and acute condition changes to name but a few will be reported instantly and automatically to the Director of Nursing and Unit Managers among others within the organization when it occurs, not just when requested in some graphic summary or report after the fact."

- "Our system is easy to use and does not require any prior computer knowledge or typing skills to operate."

"Lastly and as noted above, FAH utilizes its Regulatory Compliance Committee to facilitate peer reviews in all of our facilities and to provide a mechanism for

communicating compliance information throughout our company. Because we place such emphasis on this committee and require every Administrator and DON to serve on it and on peer review teams we believe our leadership teams are always in command of the appropriate knowledge they need to set policy and systems into motion that generate appropriate outcomes."

Please see our Mission and Values statement, which is included as Exhibit V.

It is the foundation of our company culture and it speaks directly to our quest for therapeutic interventions that are curative, comforting and dynamic. As well, it speaks to consumer satisfaction and quality of residential environments that are homey, clean and appropriate for consumer needs thus enabling providers under our banner to become the place of choice in the communities we serve.

We do not anticipate any changes as a result of the project on fees charged by other persons to the public. Any likely impact is identified in our pro-forma, which is included in this proposal.
Currently, our facilities are clinical sites for professional training programs throughout the State. Katahdin is likely to join this group if at all possible and we expect to work collaboratively with the local hospital to ensure well-trained staff in the area.

B. CONU Discussion

i. Criteria

Relevant criterion for inclusion in this section are specific to the determination that the project ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers.

ii. Analysis

First Atlantic has a care program that is administered centrally and is in operation in its numerous facilities. They will implement an electronic medical record which should reduce errors and provide for more detailed care while remaining Medicaid neutral.

The basic operations of the facility will remain the same. The applicant stated they have no planned changes in staffing. Outcomes should be more specifically detailed and as a result of a condition for approval in Section VI (iii)(B) will be included in follow-up reports.

iii. Conclusion

CONU recommends that the Commissioner find that the applicants have met their burden to demonstrate that this project will ensure high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers.

VIII. Service Utilization

A. From Applicant

"The project is expected to neither increase nor decrease competition in a manner that is likely to impact the supply of services locally available in the market served by Katahdin. As noted earlier, this proposal does not change the number of beds or the complement of services now offered. As competition is not expected to change as a result of the project, the impact on system wide cost of health care is anticipated to be minimal. In the future there may be a time when consolidation of services is cost effective and an alliance with another facility may cost effectively broaden services in the region."

"The services offered at Katahdin will be accessible to all qualified residents in the proposed service area. In addition, no plans to further reduce the capacity of the facility are included in this CON request. We do however comment on the concern that the facility is less economical then if the services were offered in a setting that could leverage non-variable costs. It may be necessary to look at this in the future to insure an appropriate number of beds to serve the intended populations. See Exhibit III for more information."

B. CONU Discussion

i. Criteria

Relevant criterion for inclusion in this section is specific to the determination that the project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum.

ii. Analysis

The application does not change the number of beds available in the area. Because of the capacity of the facility, it is unlikely that this project would have an impact on utilization since the facility has been operating at approximately 95% occupancy.

iii. Conclusion

CONU recommends that the Commissioner find that the applicants have met their burden to demonstrate that the project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum.

IX. Funding in MaineCare Nursing Facility Fund

A. From Applicant

The applicant did not address this criterion.

B. CONU Discussion

i. Criteria

Relevant criteria for inclusion in this section are related to the needed determination that the project can be funded within the MaineCare Nursing Facility Fund.

ii. Analysis

Since this application is for an acquisition of assets at their state book value, the acquisition should be accomplished without a cost to the MaineCare system. This project should have no impact on MaineCare funding based on no changes in the depreciation schedule and no capital expenditures being proposed. Therefore, MaineCare funding from the MaineCare funding pool is not necessary.

iii. Conclusion

CONU comments that the project is exempt from funding by the MaineCare Nursing Facility Fund.

X. Timely Notice

A. From Applicant

The applicant did not specifically comment on this section.

B. CONU Discussion

Letter of Intent filed:	December 1, 2008
Subject to CON review letter issued:	January 9, 2009
Technical assistance meeting held:	Applicant Waived Rights for Meeting
CON application filed:	December 15, 2008
CON certified as complete:	December 15, 2008
Public Information Meeting Held:	January 27, 2009
Public Hearing held:	N/A
Comment Period Ended:	February 26, 2009

XI. CONU Findings and Recommendations

Based on the preceding analysis, including information contained in the record, the CONU recommends that the Commissioner make the following findings and recommendations:

A. That the applicant is fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant's control meets industry standards.

B. The economic feasibility of the proposed services is demonstrated in terms of the:

1. Capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and

2. The applicant's ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules;

C. The applicant has demonstrated that there is a public need for the proposed services as demonstrated by certain factors, including, but not limited to;

1. The extent to which the project will substantially address specific health problems as measured by health needs in the area to be served by the project;

2. The project has demonstrated that it will have a positive impact on the health status indicators of the population to be served;

3. The project will be accessible to all residents of the area proposed to be served; and

4. The project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project;

D. The applicant has demonstrated that the proposed services are consistent with the orderly and economic development of health facilities and health resources for the State as demonstrated by:

1. The impact of the project on total health care expenditures after taking into account, to the extent practical, both the costs and benefits of the project and the competing demands in the local service area and statewide for available resources for health care;

2. The availability of State funds to cover any increase in state costs associated with utilization of the project's services; and

3. The likelihood that more effective, more accessible or less costly alternative technologies or methods of service delivery may become available was not demonstrated by the applicant;

In making a determination under this subsection, the commissioner shall use data available in the state health plan under Title 2, section 103, data from the Maine Health Data Organization established in chapter 1683 and other information available to the commissioner. Particular weight must be given to information that indicates that the proposed health services are innovations in high quality health care delivery, that the proposed health services are not reasonably available in the proposed area and that the facility proposing the new health services is designed to provide excellent quality health care.

E. The applicant has demonstrated that the project is consistent with and furthers the goals of the State Health Plan;

F. The applicant has demonstrated that the project ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers;

G. The applicant has demonstrated that the project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum; and

H. That the project need not be funded within the Capital Investment Fund.

For all the reasons contained in the preliminary analysis and in the record, CONU recommends that the Commissioner determine that this project should be **approved with one condition.**

1. The applicant will present a plan that addresses quality metrics as presented in the STAR program, including current metrics at their facilities and their goals for all their facilities as well as annual progress reports for two years in accomplishing these goals.