

**BRIEFING MEMO**  
**Maine Medical Center**  
**Private Rooms and Universal Procedure Rooms**

**DATE:** September 18, 2017

**TO:** Ricker Hamilton, Acting Commissioner, DHHS

**THROUGH:** Sarah Taylor, Director, DLC

**FROM:** Larry D. Carbonneau, Manager, Health Care Oversight, DLC  
Richard S. Lawrence, Senior Health Care Financial Analyst, DLC

**SUBJECT:** MMC Capital Expenditures - Private Rooms and Universal Procedure Rooms

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**ISSUE ACTIVATED BY:** The referenced proposal requires Certificate of Need (CON) approval as defined in “The Maine Certificate of Need Act of 2002,” 22 M.R.S.A. §326 et seq., as amended.

**REGISTERED AFFECTED PARTIES:** None

**I. BACKGROUND**

Maine Medical Center (MMC) is the applicant in this Certificate of Need (CON) application. The proposal addresses three MMC campus priorities. Single room inpatient beds, operating rooms and interventional cardiac procedure spaces, and (not covered by CON) parking demand.

MMC, a non-profit 501c (3) organization, is a subsidiary of MaineHealth, a nonprofit organization located in Portland, Maine. MMC is licensed for 637 beds and 30 newborn bassinets. MMC is a State-licensed, federally certified, Joint Commission accredited hospital with its main campus located in Portland, Maine.

**II. PROJECT DESCRIPTION**

MMC’s objective with this project is to increase access to MMC inpatient services by building 128 universal private patient rooms and to increase access to MMC procedural services by building 19 universal procedure rooms and space for accompanying support functions. Increased parking needs will also be addressed.

**III. HIGHLIGHTS**

Letter of Intent dated:	September 13, 2016
Technical Assistance meeting held:	October 6, 2016
CON application filed:	March 14, 2017
CON certified as complete:	March 14, 2017
Public Hearing held:	June 14, 2017
Close of Public Record:	July 14, 2017
Preliminary Analysis released:	August 28, 2017
Close of Public Record:	September 15, 2017

#### **IV. PUBLIC COMMENTS RECEIVED IN RESPONSE TO THE PRELIMINARY ANALYSIS**

No public comments were received following the release of the preliminary analysis.

#### **V. CONU ANALYSIS**

##### **a) Fit, Willing and Able**

In order to determine if MMC is fit, willing and able, the CON Unit (CONU) reviewed four quality measures available at [www.medicare.gov](http://www.medicare.gov). These measures include: survey of patients' experiences, timely and effective care, complications, and readmissions and death. MMC's performance is compared with Maine and National averages. The results of this review follows:

Survey of patient experience data shows that MMC scores below Maine averages in nine out of eleven categories of patient survey results and above National averages in ten of eleven categories.

Timely and effective care data shows that MMC is consistent with, or slightly worse than Maine averages but lags behind National averages (where information is available).

Complications data shows that out of three measures of surgical complications, MMC scores no different than the National benchmark in one instance, better than the National benchmark in one instance and worse than the National benchmark in one instance. Out of five measures of health care associated infections, MMC scores worse than the National benchmark in two instances, no different from the National benchmark in two instances and better than the National benchmark in one instance.

Readmission/Death data show that MMC performed no better or worse than the national rate for complications, readmissions, or death for ten out of fourteen measures and better than the national rate for complications, readmissions, or death for four out of fourteen measures.

CONU utilized the Hospital Compare website to determine that MMC has an overall rating of 2 out of 5 stars which puts it in the bottom half of the national overall star ratings.

CONU also reviewed the latest federal and State surveys and verified that MMC is in compliance with State of Maine 10-144 C.M.R. Ch. 112, Rules for the Licensing of Hospitals.

#### **Deeming of Standard**

As provided for at 22 M.R.S.A. §335 (7)(A), if the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the requirements of this paragraph are deemed to have been met if the services previously provided in the State by the applicant are consistent with applicable licensing and certification standards.

Please see pages 9 through 21 of the preliminary analysis for the complete analysis of the fit, willing and able standard. Based on its analysis outlined above, the Division recommends that the commissioner find that the applicant is fit, willing and able to support this project.

**b) Economic Feasibility**

In order to assess the financial stability of MMC, the CONU used financial ratios to measure profitability, liquidity, capital structure and asset efficiency. Financial ratios were obtained from the Maine Health Data organization Hospital Financial Information Part 1 and Maine Health Data Organization (MHDO) Hospital Financial Data Definitions available on MHDO's website <http://mhdo.maine.gov/imhdo/>. Additional information was obtained from the 2017 Almanac of Hospital Financial and Operating Indicators. MMC meets or exceeds Maine performance averages in 8 out of 11 measures and exceeds National Averages in 6 out of 8 measures.

Moody's Investors has rated MMC's Maine Health and Higher Educational Facilities Authority's \$27,000,000 Ser. 2015A Reserve Fund Resolution Bonds as A1 with a stable outlook. This is an upper-medium grade and subject to low credit risk. This rating could be slightly downgraded subsequent to the addition of \$300,000,000 in debt associated with this project.

The Bureau of Insurance provided a written assessment of the impact of the project on the cost of insurance in the State. Based on their analysis the impact of this project on the cost of insurance will be an increase of between .1% and 1.9%. Given the magnitude of recent increases in insurance costs and the uncertainties associated with the Affordable Care Act, this increase has been deemed by the Bureau to not have a significant impact on commercial insurance costs.

MRS Title 22, Chapter 103-A §338 (D) states that the Commissioner may consult with persons with relevant skills and experience regarding the need to replace, renovate or upgrade health care facilities to meet current and future needs. The Commissioner engaged Navigant Consulting, Inc. to develop relevant analyses to assist the CONU in conducting this analysis.

Navigant conducted an extensive review of MMC's finances regarding the economic feasibility. Navigant's comments are summarized below:

- MMC is financially stable and Navigant anticipates that they can finance the proposed project without any long-term negative impacts on MMC's financial performance.
- While at the higher end, the project is within the expected range of expenditure for a project of its scope and complexity in a geographically constrained area, e.g. need to build on top of existing structures as compared to greenfield location.
- There is some concern regarding the accuracy of the relatively large 7% increase in net patient revenues projected for FY 2022, despite a very moderate 0.8% increase in patient volume. If revenues were to grow at a more modest 4% annual rate it is projected that the operating margin would decline to slightly above breakeven. Fortunately, if this scenario arises the organization would still be generating cash from operations because the bulk of increased expense is depreciation.

**Deeming of Standard**

As provided for at 22 M.R.S.A. §335 (7)(B), if the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the applicant is deemed to have fulfilled the requirements of this standard if the services provided in the State by the applicant during the most recent 3-year period are of similar size and scope and are consistent with applicable licensing and certification standards.

Please see pages 22 through 32 of the preliminary analysis for the complete analysis of the economic feasibility standard. Based on its analysis and supported by the analysis of its consultants, Navigant and the Bureau of Insurance the Division recommends that the Commissioner find that the applicant has the financial capability to support this project.

**c) Public Need**

MMC demonstrated that this project will address specific health problems as measured by health needs in the area to be served by the project. The construction of 128 new universal private patient rooms will increase their functional capacity by mitigating infection control, behavioral, gender, building maintenance and room sharing restrictions. Increased procedure room availability will reduce MMC's 90% utilization rate and will bring it more in line with the industry standard of a 75- 85% utilization rate.

The design of the private rooms and universal procedure rooms will positively impact health status indicators and allow MMC to adapt to changing care delivery models to meet the ever changing needs of the population.

The services affected by the project will be accessible to all residents of the area proposed to be served. Although overall healthcare volumes are expected to decline over the next decade, MMC believes that patients who require higher acuity care will continue to utilize MMC. MMC's share of inpatient discharges has increased over the past several years, MMC's case mix index is increasing and nationally complex healthcare services are becoming concentrated at larger hospitals. The demand for complex and emergent surgical and cardiovascular service is projected to increase due to an aging Maine population.

Throughout the CON application MMC lists numerous benefits resulting from this project that will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project.

**Navigant Analysis Public Need:**

Navigant completed an extensive review of MMC's health service area in the *Theory of the Portland and Maine Market* section of their independent cost analysis. This section includes a demographic analysis of MMC's service area, information on total health care expenditures in the region, and a summary of key drivers of the health care industry (government, payers, employers and providers). Their conclusions are summarized below:

Provider consolidation is likely to produce “Haves and Have Nots”

- Maine Health is a market leader both in Portland and Statewide and has been pursuing a strategic growth direction.
- Providers not consolidated/ing, not integrated/ing, and capital poor are vulnerable.

Payers are aligning with providers in new value-based relationships

- Payers are still highly consolidated although more fragmented than providers.
- Anthem holds market share lead.

Employers have not been a key driver of new health care delivery models historically

- This may change as employers become dissatisfied with rising cost of health care.

Maine as a State has not been aggressive in moving to new payment models for Medicaid

- No Medicaid expansion.
- Medicaid managed care has not evolved to transfer risk from the State.

Navigant’s independent cost analysis further addresses the impact of the project on health status indicators and indicators of quality and outcomes. Their conclusions follow:

- The project is expected to positively impact health status indicators of the population served by MMC by increasing access to services and providing demonstrable improvements in quality and patient safety outcome measures through the benefits of single occupancy patient rooms. Single bed rooms are becoming the U.S. standard of care, particularly in hospitals providing high-acuity, complex care.
- The proposed project positions MMC to meet its expected demand by increasing patient access to MMC inpatient and procedural services.

CONU agrees with the position of the applicant and Navigant that there is a need for more available beds at Maine Medical Center. The applicant has the right to propose a methodology to meet those needs. In this particular case, the applicant has chosen not to complete the floor labeled C4 for budgetary and financial reasons at this time. Based on the analysis above, CONU would recommend approval of this floor of 32 single-bed capacity floor, based on the application submitted. It is likely that MMC will determine, in the intervening five years of this project that the hospital would need to complete the buildout of this floor. Accordingly, in order to avoid a new CON application to complete this floor, which can and has been easily included in this application analysis by CONU, we are proposing to increase the award amount by \$21.275 million (\$19.7 estimate plus allowable 8% contingency) on the condition that these funds cannot be appropriated until the CONU is notified in writing at least 30 days before the completing construction / outfitting of this floor (C4) commences.

**Condition:** If the holder of this certificate determines it will complete the C4 floor at any time before 3 years are completed after the project is fully operational, the holder will inform the CONU in writing of its decision to complete construction / outfitting the C4 floor as described in the application, at least 30 days before this portion of the project commences.

Please see pages 33 through 62 of the preliminary analysis for the complete analysis of the public need standard. The Division recommends that the Commissioner find the applicant is meeting a need by proposing this project.

**d) Orderly and Economic Development**

MMC provided a detailed analysis of its primary, secondary and tertiary service areas and included utilization data for inpatient beds and universal procedure rooms. This data shows that the increase in proposed services outlined in MMC's CON application are a necessary component of health care in Maine. Total projected 1<sup>st</sup> through 3<sup>rd</sup> year operating costs in the CONU financial model show minimal additional cost. The 4<sup>th</sup> and 5<sup>th</sup> year operating expenses rise between 1.3% and 4.1% as new services are brought online beginning in 2022. Increased use of MaineCare funds will be mostly due to inflation or changes in volume unrelated to this transaction through the 5<sup>th</sup> year of this project.

State funds should not be materially impacted by this transaction. Based on historical and projection utilization, increased utilization due to this project should be minimal.

The applicant considered and rejected several alternatives:

- A) Full replacement of the hospital. This alternative was too costly at \$1.5 billion.
- B) Upgrade MMC's existing building. This alternative would not provide sufficient capacity nor needed infrastructure to meet current and future demand for services.
- C) Increased utilization of the Scarborough Surgery Center. This alternative is not available at all times due to the need for specialized equipment and the patient's clinical status. In addition, CMS policies identify a number of procedures that will not be reimbursed if performed in an outpatient setting.

Navigant Analysis Orderly and Economic Development:

Navigant's comments are summarized below:

- The project will not result in inappropriate or unintended increased expense to the State as the State sets the price for services for which it is the payer, i.e. Medicaid.
- The capital investment will create new permanent healthcare jobs in the Portland area in addition to the positions required for construction.

Please see pages 63 through 69 of the preliminary analysis for the complete analysis of the orderly and economic development standard. Based on its analysis the Division recommends that the Commission find that the applicant has met the current standard.

**e) Outcomes and Community Impact**

MMC's procedure rooms and existing inpatient rooms are operating at an unsustainably high utilization rate while demand for these services continues to increase. Replacing and modernizing aging infrastructure will increase the likelihood of higher quality outcomes. The applicant describes numerous quality and outcome initiatives that it is currently pursuing throughout this application.

Patients and referring physicians from throughout Maine and northern New England utilize MMC due to its clinical capabilities and outcomes. As illustrated in previous sections of this analysis, while overall health care utilization continues to decline, MMC's utilization continues to rise. This project is addressing a current need and should not cause a shift in market share that would adversely affect the quality of care delivered by existing service providers or other facilities.

### Navigant Analysis Outcomes and Community Impact

Navigant listed many high quality outcomes associated with this project. Navigant's conclusions are summarized below:

- Private rooms reduce the risk of infections, reduce patient transfers, reduce length of patient stay and reduce the likelihood of falls for elderly patients. Enhanced hospital design will have many therapeutic benefits, including increased privacy, lower noise level, and fewer sleep disturbances. This will ultimately lead to greater patient satisfaction and higher quality outcomes.

CONU agrees with the applicant and Navigant that there is a likelihood of higher quality outcomes arising from this project and will monitor this by implementing the following condition:

**Condition:** The applicant is to report improvements in quality and outcome measures for services affected by the project on an annual basis, within 90 days of its fiscal year end, beginning with the time period when the CON was approved until a full three years have elapsed since the date of project completion.

Please see pages 70 through 74 of the preliminary analysis for the complete analysis of the outcome and community impact standard. Based on its analysis the Division recommends that the Commission find that the applicant has met the current standard

#### **f) Service Utilization**

MMC is undertaking this project to meet an existing health care need to improve access to inpatient services by increasing the number of private patient rooms. MMC's current licensed capacity of 637 beds will not be changed until future need requires it. In addition, new procedure rooms will be built to modernize and expand capacity. This project does not result in the addition of new health services or the intended expansion of existing services. MMC works with third-party payers and insurers to avoid unnecessary surgeries through a utilization review

process. MMC participates in MaineHealth's population-based initiatives (health status improvement, clinical integration and quality improvement) which will have a positive impact on utilization.

The applicant refers to Milliman Care Guidelines (MCG). MCG is a tool developed to support and document effective care. This process is achieved by identifying quality care practices. These practices marshal treatment resources, and when properly utilized avoid the overuse of medical resources. These tools should provide an evidence-based foundation for care management, case management and utilization review.

#### Navigant Analysis Service Utilization:

In order to complete this section of their analysis, Navigant confirmed internal CON and MMC projections. Navigant's conclusions are summarized below:

- Based upon Navigant's independent analysis, the project will not result in inappropriate or unintended increases in health care utilization.

CONU agrees with the applicant and Navigant that this project is not likely to result in an inappropriate increase in service utilization. In order to monitoring this CONU is implementing the following condition:

Condition: The applicant is to report operating room utilization and inpatient room utilization for facilities affected by the project on an annual basis, within 90 days of its fiscal year end, beginning with the time period when the CON is approved until a full three years have elapsed since the date of project completion.

Please see pages 75 through 79 of the preliminary analysis for the complete analysis of the outcome and community impact standard. Based on its analysis the Division recommends that the Commission find that the applicant has met the current standard

## **VI. CONCLUSION**

For all the reasons set forth in the Preliminary Analysis and in the record, CONU concluded that the review standards have been satisfied. .

## **VII. RECOMMENDATION**

CONU recommends that this application be **Approved with conditions.**