**DATE:** August 1, 2015

**TO:** Mary C. Mayhew, Commissioner, DHHS

**THROUGH:** Phyllis Powell, Director, DLRS

**FROM:** Larry D. Carbonneau, Manager, Health Care Oversight, DLRS

 Richard S. Lawrence, Senior Health Care Financial Analyst, DLRS

**SUBJECT:** Acquisition of Control of Maine Coast Hospital

**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**

Eastern Maine Healthcare Systems (“EMHS”) is the applicant in this Certificate of Need (“CON”) application. The proposal is to change the membership of Maine Coast Healthcare Corporation (“MCHC”) and its affiliate, Maine Coast Regional Health Facilities, which does business as Maine Coast Memorial Hospital (“MCMH”).

EMHS provides healthcare services to communities throughout Maine. Based on revenues, EMHS is the second largest healthcare system in Maine. EMHS’ core services include acute care medical-surgical hospitals, an acute psychiatric hospital, physician practices, ambulatory care centers, nursing homes, home care agencies, and ground and air emergency care transport services. Member hospitals and other affiliates work collaboratively to ensure the highest quality care.

MCMH is a 64-bed hospital located in Ellsworth, Maine. Ellsworth is at the center of commercial activity for nearly 60,000 residents of Hancock and Western Washington Counties. MCMH opened in 1956. MCMH admits about 2,700 inpatients annually and its physicians perform more than 4,000 surgeries

**II. PROJECT DESCRIPTION**

MCHC shall become the sole member of MCMH. EMHS will also become the Class B member of MCMH with MCHC becoming its Class A member. MCMH will remain the sole member of its affiliates including Maine Coast Healthcare Foundation (the Foundation) and Maine Coast Medical Realty.

MCMH will continue to operate in its current form as a Maine non-profit 501(c) (3) tax-exempt fully licensed acute care hospital. The day-to-day operation of MCMH will continue, subject to certain joint powers reserved to EMHS, including EMHS approval of certain MCMH financial and service initiatives, as set forth more specifically in the Agreement. Subject to the terms of the Agreement, MCMH will continue to offer the current its current array of health care services.

**III. HIGHLIGHTS**

Letter of Intent dated: February 9, 2015

Technical Assistance meeting held: March 18, 2015

CON application filed: April 24, 2015

CON certified as complete: April 24, 2015

Public Hearing held: June 1, 2015

Close of Public Record: July 1, 2015

Preliminary Analysis released: July 1, 2015

Close of Public Record: July 31, 2015

**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**

1. **Fit, Willing and Able**

EMMC and Maine Coast performed no better or worse than the national rate for readmissions, complications or death.

Both EMMC and MCMH are 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.

1. **Economic Feasibility**

The applicant submitted data measuring both EMMC and Maine Coast’s performance against Maine and National measures of profitability, liquidity, and capital structure and asset efficiency. CONU verified these measures using data from the Maine Health Data Organization for 2009 through 2013. In summary, EMMC exceeds Maine and National measures in most instances while Maine Coast lags behind in several areas. EMMC has outlined several initiatives which will take place post-affiliation which will enhance Maine Coast’s financial position.

**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.

Maine Coast lags State and National averages in measures of profitability, capital structure and asset efficiency. The 2012 through 2014 financial results indicate that Maine Coast was experiencing increasing losses from operations. These conditions illustrate the need for Maine Coast to affiliate with a larger health care system. EMHS has the resources necessary to improve Maine Coast’s financial position. As described by the applicant several initiatives are planned post affiliation:

1. Revenue cycle improvements,
2. Health care cost savings,
3. Supply cost savings,
4. Insurance savings,
5. Capital contributions for an upgraded electronic medical record system and other information technologies,
6. Performance improvement efforts,
7. Participation in population health (accountable care) strategies.

These initiatives are projected to result in over $8,000,000 in savings over the next three years.

Proposed Condition

In order to determine if projected savings materialize, CONU recommends that the applicant report cost savings attributable to the acquisition for a period of three years.

1. **Public Need**

EMHS was a participant in the OneMaine Health Collaborative which includes EMHS, MaineGeneral Health and MaineHealth. The purpose of the OneMaine Health Collaborative was to advance health services planning and integration.

The OneMaine Health Collaborative sponsored a report entitled Community Health Needs Assessment 2010. The report identifies health status, barriers to care, and other demographic and social issues affecting Maine healthcare consumers.

EMHS envisions transforming the full spectrum of care delivery systems with a defined goal of providing the “right care at the right time in the right place.” EMHS has a goal of reducing total cost for patients and payers and being a leader and driving force in establishing sustainable, locally distributed care delivery.

Maine Coast’s mission is “Improving our communities with excellence in health care.”

Maine Coast has outlined 12 risk factors and initiatives to deal with them in their most recent community benefit plan (on file at CONU). In many cases these initiatives mirror what EMHS is striving for. These initiatives are based on the 2010 Community Health Needs Assessment that EMHS co-sponsored. Maine Coast has demonstrated a strong commitment to identifying and addressing the health needs in its service area. Maine Coast spent almost $12 million dollars on community benefit expenditures in FY 2013.

This project will have a positive impact on the health status indicators of the population to be served. As costs of services continue to rise at Maine Coast, affiliation with EMHS will allow it to take advantage of EMHS’s scale and scope. Cost reductions can be achieved through affiliation with a larger system. Affiliation creates the ability to eliminate duplication of effort and lower overhead. Maine Coast’s small service area and relatively low census will hinder its long run viability. Affiliation with a larger system will allow it to share clinical and administrative services while allowing continued access to specialty services. The services affected by this project will be accessible to all residents of the area proposed to be served. The proximity of Maine Coast to EMMC and Blue Hill regionally will be beneficial to current patients of Maine Coast. The goal of this affiliation is to create access to high quality care at the lowest cost throughout Maine.

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

1. **Orderly and Economic Development**

This project should result in a net decrease in overall health care expenditures. Improvements in the revenue cycle should also improve Maine Coast financial status. Maine Coast’s total service area covers almost all of Hancock and western Washington County. This is primarily a rural area and parts of the service area are considered medically underserved with shortages of both Primary Care and Dental Health Professional shortage areas. EMHS primary service area includes the health service areas that contain eight EMHS hospitals and surrounding areas that contribute 69% of EMHS hospital admissions. Their secondary service area includes eleven additional health service areas which contribute an additional 27% of EMHS hospital admissions.

State funds should not be materially impacted by this transaction. There should not be any increased utilization of these services because of this proposed transaction.

Some transactions like the one proposed are subject to the Hart-Scott-Rodino Act. The Act established the federal premerger notification program, which provides the FTC and the Department of Justice with information about large mergers and acquisitions before they occur.

The Act employs a size of transaction test to determine which mergers are subject to its constraints. EMHS and legal counsel have determined that this transaction does not meet the size of transaction test.

Affiliating with EMHS was considered the best alternative for all stakeholders. It is unlikely that more effective, more accessible or less costly alternative technologies or methods of service delivery will become available.

1. **Outcomes and Community Impact**

Maine Coast’s clinical outcomes will be enhanced from participation in EMHS’s population health status improvement initiatives, clinical integration and quality improvements initiatives and programs. Both EMHS and Maine Coast review quality measures quarterly.

The applicants provided a significant amount of demographic and statistical information regarding both EMHS and Maine Coasts primary and secondary service areas and the services provided in these areas. Maine Coast’s affiliation with EMHS will result in no new health services added in the area. As a result, the project will not negatively affect the quality of care delivered by existing service providers.

Proposed Condition

In order to ensure that anticipated improvements in quality and outcome measures occur, CONU recommends that EMHS and Maine Coast report improvements in quality and outcome measures for a period of three years from the affiliation date.

1. **Service Utilization**

This application involves the affiliation of Maine Cost with EMHS and does not result in the addition of new health services or the expansion of existing services. This affiliation will improve quality outcomes, address identified community needs, encourage clinical integration and improve the health status of the population in Maine Coast’s service area. The joint Maine Coast/EMHS focus on community-centered primary care will decrease inappropriate and unnecessary hospitalizations and Emergency Department utilization. This will have a positive impact on patient care.

**VI. CONCLUSION**

For all the reasons set forth in the Preliminary Analysis and in the record, CONU concludes that the review standards have been satisfied. CONU recommends the approval of the CON.

**VII. RECOMMENDATION**

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

**Condition**

* The applicant is to report cost savings attributable to the transaction for three years following the commencement of the CON.

**Condition**

* The applicant is to report improvements in quality and outcome measures for three years following the commencement of the CON.