

**Department of Health and Human Services  
Division of Licensing and Regulatory Services  
State House Station #11, Augusta, Maine  
Preliminary Analysis**

**Date:** March 14, 2014

**Project:** Acquisition of Control of Miles Memorial Hospital, St. Andrews Hospital and Cove's Edge (2008) and Subsequent Acquisition of Control of Miles Memorial Hospital and Cove's Edge (2013).

**Proposal by:** Lincoln County Health Care (2008) and LincolnHealth (2013)

**Prepared by:** Larry Carbonneau, Manager, Health Care Oversight  
Richard S. Lawrence, Senior Health Care Financial Analyst

**Directly Affected Parties:**

Bath Iron Works, Boothbay Region Health & Wellness Foundation

**CON Recommendation:** Approval with Conditions

	<b>Proposed Per Applicant</b>	<b>Approved CON</b>
Estimated Capital Expenditure	\$ 37,512,783	\$ 37,512,783
Maximum Contingency	\$ 0	\$ 0
Total Capital Expenditure with Contingency	\$ 37,512,783	\$ 37,512,783
Pro-Forma Marginal Operating Costs	\$ (4,260,687)	\$ (4,260,687)

I. Abstract

**I. Abstract**

**A. From Applicant**

**Lincoln County Health Care**

“In January 2008 MaineHealth established Lincoln County Health Care as the sole corporate member of Miles Memorial Hospital, St. Andrews Hospital, Cove’s Edge and Lincoln County Medical Group. Lincoln County Health Care has been the immediate corporate parent of these entities from that time to the present. Lincoln County Health Care’s purposes are:

- To promote and support the provision of integrated health care services for the residents and visitors of Lincoln County and the nearby area;
- To oversee and coordinate activities of Miles Memorial Hospital, St. Andrews Hospital, Cove’s Edge and Lincoln County Medical Group; and
- To provide for the planning and development and deployment of cost-efficient and effective health care services among health care service organizations in the Lincoln County area.”

“Since its inception Lincoln County Health Care has been integrating health care delivery in Lincoln County and improving the quality and value of the services provided by Miles Memorial Hospital, St. Andrews Hospital, Cove’s Edge and Lincoln County Medical Group. There is a unified governance and management structure for the operating entities. Lincoln County access to physicians has been stabilized. Quality is being improved. Costs and charges are being controlled. Lincoln County residents and visitors are receiving improved care at lower charges due to the efforts of Lincoln County Health Care.”

“Since the reorganization became effective in January 2008, there has been a unified governance and management structure, which oversees and coordinates the activities of the operating entities. The boards of trustees of Lincoln County Health Care, Miles Memorial Hospital and St. Andrews Hospital have been identical in constitution. The management of Miles Memorial Hospital and St. Andrews Hospital has been integrated. The same persons who serve as senior executives of Miles Memorial Hospital hold the same positions as senior executives of St. Andrews Hospital. The same persons serve as Department Directors for both hospitals. This single integrated management structure has been at the core of Lincoln County Health Care’s ability develop an integrated health care delivery system in Lincoln County and to increase efficiency, improve quality and lower costs of the services provided. These benefits have been accruing to the communities served for six years. Further, the creation of a single employed physician group (Lincoln County Medical Group) has served to stabilize the physician work force across Lincoln County and particularly in the Boothbay Region.”

“Quality of care is being improved. The integration has created enough scale to develop a robust Quality and Performance Improvement Program that serves the hospitals, physician practices and senior living services. The creation of Lincoln County Health Care has strengthened and made sustainable our commitment to quality and community. Together as an integrated system for six

I. Abstract

years, Miles Memorial Hospital and St. Andrews Hospital have better served the residents of Lincoln County.”

“This commitment to quality is demonstrated by Miles Memorial Hospital in 2011 being one of the first 3 hospitals nationally to earn a Top Rural Hospital distinction by the Leap Frog Group. This group, representing many of the largest corporations in the country, ranks hospitals based on quality and patient safety. Their scoring is comprehensive and rigorous. It was an honor to receive this distinction once and we have just learned Miles has received it again for 2013. Quality, affordability and access will continue to improve with LincolnHealth’s ability to further enhance the integration of hospital programs and services.”

“Costs and prices are being controlled, and Lincoln County residents and visitors are experiencing lower charges as a result. Since the formation of Lincoln County Health Care, annual price increases and expense increases both average less than 2%, which benefits residents and visitors using our services. In the years preceding the formation of Lincoln County Health Care Miles Memorial Hospital and St. Andrews Hospital experienced annual increases in expenses averaging 8% and price increases averaging 6%.”

“In just the first two years of Lincoln County Health Care’s existence more than \$3,222,000 in cost savings was realized. The ability to share administration and clinical management functions between Miles Memorial Hospital and St. Andrews Hospital resulted in:

- \$287,000 decrease in annual wages and benefits for hospital administrative departments,
- \$632,000 decrease in annual wages and benefits for hospital clinical management and
- Additional savings were also realized in home health, long-term care and physician services”

Formation of LincolnHealth

“The integration of Miles Memorial Hospital and St. Andrews Hospital accomplished by the merger of the two entities:

- Consolidates 24-hour inpatient and emergency care at LincolnHealth’s Damariscotta Campus,
- Creates a higher quality and more sustainable model for delivering urgent and emergency care and inpatient care,
- Reduces the risk of erosion in quality due to low volume,
- Reduces LincolnHealth’s operating expenses by more than 9% and
- Allows LincolnHealth to reduce pricing by 7%, passing these savings along to Lincoln County residents and visitors.”

“The integration of St. Andrews Hospital and Miles Memorial Hospital allows all acute patients in Lincoln County to have better access to a broad array of specialists and highly technical care. The evolution of the practice of acute care requires the immediate availability of a team of health

I. Abstract

care providers. Under the new LincolnHealth, all emergency patients have immediate access to highly trained emergency physicians who are supported by a team of experienced emergency nurses, respiratory therapists, diagnostic imaging specialists and consulting physicians. Hospital Medicine physicians are in house 24 hours a day to support the emergency physicians and provide timely admission to the hospital when needed. The specialties of Pediatrics, Obstetrics and Gynecology, General Surgery, Orthopedic Surgery and Anesthesiology are all readily available to respond to emergencies in the hospital and the emergency department.”

“Importantly, integration of these two facilities allows for significant advances in the standardization and optimization of care for patients throughout Lincoln County. The consolidation of services also creates operational efficiencies which allow LincolnHealth to invest in the development of ambulatory services such as the Patient Centered Medical Home. These investments will allow LincolnHealth to more effectively deliver on its commitment to achieving the triple aim of an enhanced patient experience, decreased cost of care, and improved population health. Please see Exhibit 1-A.”

“In 2013, the boards of trustees of Lincoln County Health Care, Miles Memorial Hospital and St. Andrews Hospital determined that it was in the best interest of their respective missions to merge the two hospitals. The merger plan, which has already been executed, provided that Miles Memorial Hospital be merged into St. Andrews Hospital. Please see Exhibit 1-B.”

“The merger was structured in this way so as to permit the facilities and services of Miles Memorial Hospital to be covered by St. Andrews Hospital’s critical access hospital designation for Medicare and Medicaid purposes. The Centers for Medicare and Medicaid Services (CMS) has provided St. Andrews Hospital with preliminary approval in its regulatory parlance to “relocate” its service area to include Miles Memorial Hospital.”

“The details of the transaction are as follows:

- Effective 12:01 am October 1, 2013 Lincoln County Health Care merged Miles Memorial Hospital and St. Andrews Hospital. St. Andrews Hospital is the surviving entity and has undergone a name change to “LincolnHealth”.
- Ownership and control, for Certificate of Need purposes, of the entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, continues to reside with Lincoln County Health Care, the sole corporate member of LincolnHealth, and ultimately with MaineHealth, Lincoln County Health Care’s sole corporate member.
- The entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, has maintained its State of Maine hospital license, CMS’ provider agreement and Critical Access Hospital designation. The Department has issued a conditional license confirming that LincolnHealth’s services are broad enough to cover the services offered at the former Miles Memorial Hospital.

I. Abstract

- LincolnHealth is operating a maximum of 25 licensed acute care and swing beds and providing 24-hour emergency services at its Damariscotta campus (the former Miles Memorial Hospital campus). The St. Andrews Campus located in Boothbay Harbor continues to support LincolnHealth's delivery of outpatient and ambulatory care."

"There are no new incremental annual operating costs as a result this transaction. There are cost savings. As a result of this restructuring and rationalizing of services LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million. As a result of these savings and benefits, Lincoln County Health Care has announced price reductions in the amount of \$7.7 million effective October 2013, which will benefit Lincoln County employers, residents and visitors."

"The transaction is structured so that services previously offered at Miles Memorial Hospital's Damariscotta main campus and other sites are covered by the critical access hospital designation of St. Andrews Hospital. The Department actively facilitated this feature of the transaction. By letter of April 23, 2013, St. Andrews requested the Department's Director of Rural Health and Primary Care to certify that St. Andrews could relocate to Damariscotta and still be classified as a "necessary provider" critical access hospital. Please see Exhibit 1-C."

"By letter of May 24, 2013, the Director of the Department's Center for Disease Prevention and Control granted the request. Please see Exhibit 1-D. This enabled St. Andrews to seek CMS's permission to relocate to Damariscotta and retain its critical access designation. Please see Exhibit 1-E."

"By letter of June 23, 2013, which was also copied to the Department, CMS notified St. Andrews that it had granted preliminary approval of the relocation of St. Andrews Hospital to Miles Memorial Hospital's location in Damariscotta. Please see Exhibit 1-F."

I. Abstract

**B. CONU Discussion**

In response to the applicant's October 1, 2013 Letter of Intent (entitled "Request for Determination that the Transaction is Not Subject to Certificate of Need Review") CONU determined that the merger of Miles and SAH and the January 1, 2008 formation of LCHC are subject to review. The relevant language from the CONU October 23, 2013 response letter is included below:

"The Department of Health and Human Services has determined that the Transaction is subject to review under the Maine Certificate of Need Act of 2002, as amended, because the Transaction involves:

- . A transfer of ownership or acquisition of control pursuant to 22 M.R.S §329(1), and
- . A capital expenditure of \$10,000,000 or more pursuant to 22 M.R.S. §329(3)."

"Although additional information was provided in the context of determining whether or not this proposal was subject to review, further information and analysis may be needed to determine whether review would be necessary for the establishment of a new health service or services pursuant to 22 M.R.S. § 329(4)."

"Even though it pre-dates the current transaction, please be advised that the transaction in 2007 whereby MaineHealth formed Lincoln County Health Care and Lincoln County Health Care acquired ownership and control of Miles Memorial Hospital and St. Andrews Hospital would also be subject to review pursuant to 22 M.R.S. §329(1). As you state in your letter, "MaineHealth owns and controls Lincoln County Health Care and Lincoln County Health Care owns and controls Miles memorial Hospital and St. Andrews Hospital." We have not found – nor have you provided – any documentation establishing that MaineHealth or Lincoln County Health Care sought or received a non-applicability determination regarding that transaction."

The Health Care Oversight Program having responsibility for the enforcement of the Certificate of Need statute ultimately determined that the 2007 change in ownership of Miles Memorial Hospital and St. Andrews Hospital and the subsequent 2013 transactions conducted by LincolnHealth are in fact subject to review as a change in ownership or acquisition of control. The activities closing inpatient hospital services and emergency services as well as the reduction in hospital beds in Damariscotta while not reviewable separately, are germane to the determinations of the applicant's ability to provide adequate services in meeting the health needs of the area it proposes to serve and are considered on that basis in this analysis.

This analysis addresses both the 2008 formation of Lincoln County Health Care and the 2013 merger of Miles and St. Andrews Hospitals into LincolnHealth. The applicant for a 2007 application prior to the 2008 transaction should have been Lincoln County Health Care. A 2013 application for the "merger" should have listed LincolnHealth as the applicant. The notations are important to clearly specify the use throughout the document of the word "the applicant(s)", when used singly applicant (2007) refers to Lincoln County Health Care and applicant(2013) refers to LincolnHealth. Applicants refer to both. When the hospitals names are used as in this example, "Miles Hospital", it refers to the facility located in Damariscotta and any services they provided at the time discussed.

II. Fit, Willing and Able

**II. Fit, Willing and Able**

**A. From Applicant (2007)**

“Lincoln County Health Care is organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and in connection with Miles Memorial Hospital and St. Andrews Hospital, existing charitable corporations and their related charitable tax-exempt organizations. The purposes for which the Corporation was formed are as follows:

A. To promote and support the provision of integrated health care services for the residents and visitors of Lincoln County and the nearby area within a cost-effective system along a continuum from prevention to long term care for those in need regardless of race, religion, color, age, sex, disability, sexual orientation, national origin and social or economic status.

B. To oversee and coordinate activities of operating nonprofit hospitals and other related organizations in the Lincoln County area engaged in health care activities.

C. To provide for the planning and development and deployment of cost-efficient and effective health care services among health care service organizations in the Lincoln County area and otherwise to assist such organizations in the performance of their activities and pursuit of their charitable purposes.

D. To conduct such other activities which are permitted by Maine law for charitable public benefit corporations and are related to, helpful to, or appropriate to the pursuit of the Corporation’s primary purposes described in paragraphs (a), (b), and (c) above, and to engage in activities that benefit the Corporation’s parent and its subsidiary organizations so long as any of them is similarly operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Code.”

“**Service Area:** Lincoln County”

“**Licenses & Certifications**”

“Lincoln County Health Care’s operating entities - Miles Memorial Hospital, St. Andrews Hospital, Cove’s Edge and Lincoln County Medical Group – have provided these health care services for years in a manner that has been consistent with applicable licensing and certification standards. Any “Statements of Deficiencies” and site visit reports from the previous three years for St. Andrews Hospital and Miles Memorial Hospital are on file with the Department of Health and Human Services’ Division of Licensing and Regulatory Services.”

### **“Communications with State Officials since Inception of Lincoln County Health Care”**

“In 2007 MaineHealth, Miles Memorial Hospital and St. Andrews Hospital first informed State representatives of MaineHealth’s intent to establish a subsidiary, Lincoln County Health Care, as the sole corporate member of Miles Memorial Hospital, St. Andrews Hospital, Cove’s Edge and Lincoln County Medical Group. This message was communicated in a meeting with Trish Riley, Director of the Governor’s Office of Health Policy and Finance, and Catherine Cobb, Director of the Department’s Division of Licensing and Regulatory Services. At that time these officials expressed their support of the transaction and did not indicate in any fashion that Certificate of Need review and approval of the transaction might be required.”

“Relying in part on these indications of support, MaineHealth established Lincoln County Health Care as the sole corporate member of Miles Memorial Hospital, St. Andrews Hospital, Cove’s Edge and Lincoln County Medical Group. Lincoln County Health Care has been the immediate corporate parent of these entities from that time to the present. In the parlance of the certificate of need statute, MaineHealth owns and controls Lincoln County Health Care, and Lincoln County Health Care owns and controls the above named operating entities.”

“Since January 2008 MaineHealth and Lincoln County Health Care have declared Lincoln County Health Care as the parent company of Miles Memorial Hospital and St. Andrews Hospital in every MaineHealth-related Certificate of Need application filed with the Division of Licensing and Regulatory Services, every Miles Memorial Hospital and St. Andrews Hospital licensing renewal application filed with the Division of Licensing and Regulatory Services, every Miles Memorial Hospital and St. Andrews Hospital MaineCare Cost Report filed with the Department of Health and Human Services’ Division of Audits and every Maine Health Data Organization filing made by Miles Memorial Hospital and St. Andrews Hospital.”

### **From Applicant (2013)**

#### **“LincolnHealth**

35 Miles Street  
Damariscotta, Maine 04543”

**“Mission:** To ensure access to high quality, patient-centered and affordable care.”

**“Service Area:** Lincoln County”

#### **“Merger of Miles Memorial Hospital and St. Andrews Hospital”**

“Effective 12:01 am October 1, 2013 Lincoln County Health Care merged Miles Memorial Hospital and St. Andrews Hospital. St. Andrews Hospital is the surviving entity and has undergone a name change to “LincolnHealth”.

“Ownership and control of the entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, continues to reside with Lincoln County Health Care, the sole corporate member



of LincolnHealth, and ultimately with MaineHealth, Lincoln County Health Care's sole corporate member."

"The entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, has maintained its State of Maine hospital license, CMS' provider agreement and Critical Access Hospital designation. The Department has issued a conditional license confirming that LincolnHealth's services are broad enough to cover the services offered at the former Miles Memorial Hospital."

"LincolnHealth is operating a maximum of 25 licensed acute care and swing beds and providing 24-hour emergency services at its Damariscotta campus (the former Miles Memorial Hospital campus). The St. Andrews Campus located in Boothbay Harbor continues to support LincolnHealth's delivery of outpatient and ambulatory care."

"Please refer to Exhibit 2-A for both Lincoln County Health Care's pre-merger and post-merger organizational charts."

"Please refer to Exhibit 2-B and 2-C for Miles Memorial Hospital's and St. Andrews Hospital's pre-merger organizational charts and Exhibit 2-D for LincolnHealth's post-merger organizational chart."

#### **"Licenses & Certifications"**

"LincolnHealth is licensed by the State of Maine and certified to participate in Medicare. Any "Statements of Deficiencies" and site visit reports from the previous three years for St. Andrews Hospital and Miles Memorial Hospital are on file with the Department of Health and Human Services' Division of Licensing and Regulatory Services."

"Please refer to Exhibit 2-E: Division of Licensing and Regulatory Services letter granting LincolnHealth a conditional license, September 30, 2013."

#### **"Lincoln County Health Care and LincolnHealth"**

##### **"Fit, Willing and Able"**

"The Certificate of Need Act states: "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." (22 MRSA §335, sub-1 §7 A) LincolnHealth provides these services and is currently licensed by the State of Maine."

"Lincoln County Health Care and LincolnHealth are fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, the quality of the health care provided in the past by St. Andrews Hospital, Miles Memorial Hospital, Cove's Edge

and other MaineHealth members meeting industry standards. The strength and success of the integration of services made possible by the creation of Lincoln County Health Care is evident in both the financial performance of the system as well as in the high scores achieved in the quality metrics of organizations such as CMS, Anthem and Leap Frog. LincolnHealth provides the health care services that are being reviewed and licensed in the State and its services are consistent with applicable licensing and certification standards.”

## “MaineHealth

465 Congress Street  
Suite 600  
Portland, Maine 04101”

“<http://www.mainehealth.com>”

“MaineHealth’s vision is: *Working together so our communities are the healthiest in America.*”

“MaineHealth is a non-profit § 501(c) (3) health care corporation, with the purpose of developing a broad range of integrated health care services in Maine through member organizations, including hospitals and other health care provider organizations.”

### “Licenses, Certifications & Accreditations”

“MaineHealth’s current member affiliates’ licenses, certifications and accreditations are numerous with all being State Licensed, CMS Certified and several are Joint Commission accredited. MaineHealth has demonstrated that its member organizations are capable of delivering the proposed services at the proper standard of care. Any "Statements of Deficiencies" and site visit reports from the previous three years for all the health care facilities and services in which MaineHealth and its members have been involved are on file with the Department of Health and Human Services’ Division of Licensing and Regulatory Services.”

“Please refer to Exhibit 2-F: MaineHealth.”

## **B. CONU Discussion**

### **i. CON Standards**

Relevant standards 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.

*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.*

**ii. CON Analysis**

**A. Lincoln County Health Care Acquisition of Control (2007)**

Management and officers of Lincoln County Healthcare (LCHC) will be the operators of LincolnHealth. There have been few changes in management during this time period. To determine now, if LCHC is fit, willing and able to operate the two hospitals in a manner consistent with the applicable standard would be irrelevant given the passage of time and since as indicated Lincoln County Health has operated the two hospitals within regulatory guidelines. Records available from the Medical Facilities unit indicate that seven investigated complaints were processed regarding St. Andrews Hospital during 2004-2006 with two complaints regarding EMTALA being substantiated. In 2007-2013, seven additional investigated complaints have been received with none being substantiated. During the 2004-2006 time period Miles Hospital had seven unsubstantiated complaints. Miles was the subject of 17 complaint investigations, in 2007-2013 all complaints were unsubstantiated.

**B. LincolnHealth (2013)**

LincolnHealth is the new name for what was St. Andrews Hospital. Under the CON statute, this organization is acquiring control of Miles Memorial Hospital and Cove's Edge.

In order to determine if the applicant (LincolnHealth) is fit, willing and able, CONU reviewed three measures of quality for Miles Memorial Hospital and St. Andrews Hospital. This is done because the acquiring organization must demonstrate the capacity to continue the practices of the acquired facilities. In this instance, the officers in charge of the facilities will be transitioning to the new organization as well. These quality measures are available at <http://www.hospitalcompare.hhs.gov>.

Patient Survey Results:

The Centers for Medicare & Medicaid Services (CMS), along with the Agency for Healthcare Research and Quality, developed the HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems) Survey, also known as Hospital CAHPS®, to provide a standardized survey instrument and data collection methodology for measuring patients' perspectives on hospital care. The HCAHPS Survey is administered to a random sample of patients continuously throughout the year. The following chart summarizes results for Miles Memorial Hospital and St. Andrews Hospital compares them to Maine averages and National averages.

<b>Patient Survey Results</b>	<b>Miles</b>	<b>Maine Average</b>	<b>National Average</b>
Patients who reported that their nurses "Always" communicated well.	85%	82%	78%
Patients who reported that their doctors "Always" communicated well.	84%	83%	81%
Patients who reported that they "Always" received help as soon as they wanted.	76%	71%	67%
Patients who reported that their pain was "Always" well controlled.	73%	74%	71%
Patients who reported that staff "Always" explained about medicines before giving it to them.	69%	69%	64%
Patients who reported that their room and bathroom were "Always" clean.	76%	79%	73%
Patients who reported that the area around their room was "Always" quiet at night.	55%	57%	61%
Patients at each hospital who reported that YES, they were given information about what to do during their recovery at home.	89%	89%	85%
Patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest).	81%	74%	70%
Patients who reported YES, they would definitely recommend the hospital.	82%	77%	71%

Miles Memorial Hospital is at or above the Maine average in 7 out of 10 categories and at or above the national average in 9 out of 10 categories.

<b>Patient Survey Results</b>	<b>St. Andrews</b>	<b>Maine Average</b>	<b>National Average</b>
Patients who reported that their nurses "Always" communicated well.	90%	82%	78%
Patients who reported that their doctors "Always" communicated well.	88%	83%	81%
Patients who reported that they "Always" received help as soon as they wanted.	54%	71%	67%
Patients who reported that their pain was "Always" well controlled.	91%	74%	71%
Patients who reported that staff "Always" explained about medicines before giving it to them.	89%	69%	64%
Patients who reported that their room and bathroom were "Always" clean.	80%	79%	73%
Patients who reported that the area around their room was "Always" quiet at night.	15%	57%	61%
Patients at each hospital who reported that YES, they were given information about what to do during their recovery at home.	99%	89%	85%
Patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest).	85%	74%	70%
Patients who reported YES, they would definitely recommend the hospital.	67%	77%	71%

St. Andrews Hospital is at or above the Maine average in 7 out of 10 categories and at or above the national average in 7 out of 10 categories.

Timely and Effective Care:

These quality measures show how often or how quickly hospitals give recommended treatments known to get the best result for people with common conditions.

II. Fit, Willing and Able

<b>Timely Heart Attack Care</b>	<b>Miles</b>	<b>Maine Average</b>	<b>National Average</b>
Average number of minutes before outpatients with chest pain or possible heart attack got and ECG. <i>A lower number of minutes is better</i>	<b>3 Min.</b>	<b>6 Min.</b>	<b>7 Min.</b>

	<b>Miles</b>	<b>Maine Average</b>	<b>National Average</b>
Outpatients with chest pain or possible heart attack who got aspirin within 24 hours of arrival. <i>Higher Percentages are better</i>	<b>100%</b>	<b>99%</b>	<b>96%</b>

<b>Effective Heart Failure Care</b>	<b>Miles</b>	<b>Maine Average</b>	<b>National Average</b>
Heart failure patients given discharge instructions <i>Higher Percentages are better</i>	<b>98%</b>	<b>97%</b>	<b>94%</b>
Heart failure patients given an evaluation of Left Ventricular Systolic (LVS) function <i>Higher Percentages are better</i>	<b>100%</b>	<b>100%</b>	<b>99%</b>

<b>Timely Surgical Care</b>	<b>Miles</b>	<b>Maine Average</b>	<b>National Average</b>
Surgery patients who were given an antibiotic at the right time (within one hour before surgery) to help prevent infection <i>Higher Percentages are better</i>	<b>96%</b>	<b>99%</b>	<b>98%</b>
Surgery patients whose preventive antibiotics were stopped at the right time (within 24 hours after surgery) <i>Higher Percentages are better</i>	<b>98%</b>	<b>97%</b>	<b>97%</b>
Patients who got treatment at the right time (within 24 hours before or after their surgery) to help prevent blood clots after certain types of surgery <i>Higher Percentages are better</i>	<b>100%</b>	<b>99%</b>	<b>98%</b>

II. Fit, Willing and Able

<b>Effective Surgical Care</b>	<b>Miles</b>	<b>Maine Average</b>	<b>National Average</b>
Outpatients having surgery who got the right kind of antibiotic <i>Higher Percentages are better</i>	<b>100%</b>	<b>97%</b>	<b>97%</b>
Surgery patients who were taking heart drugs called beta blockers before coming to the hospital, who were kept on the beta blockers during the period just before and after their surgery <i>Higher Percentages are better</i>	<b>100%</b>	<b>99%</b>	<b>97%</b>
Surgery patients who were given the right kind of antibiotic to help prevent infection <i>Higher Percentages are better</i>	<b>99%</b>	<b>99%</b>	<b>99%</b>
Surgery patients whose urinary catheters were removed on the first or second day after surgery <i>Higher Percentages are better</i>	<b>100%</b>	<b>98%</b>	<b>97%</b>

<b>Effective Surgical Care</b> <i>(Continued from previous page)</i>	<b>Miles</b>	<b>Maine Average</b>	<b>National Average</b>
Patients having surgery who were actively warmed in the operating room or whose body temperature was near normal by the end of surgery <i>Higher Percentages are better</i>	<b>100%</b>	<b>100%</b>	<b>100%</b>

II. Fit, Willing and Able

<b>Timely Emergency Department Care</b>	<b>Miles</b>	<b>Maine Average</b>	<b>National Average</b>
Average time patients spent in the emergency department, before they were admitted to the hospital as an inpatient <i>Lower number of minutes is better</i>	<b>318 Minutes</b>	<b>290 Minutes</b>	<b>275 Minutes</b>
Average time patients spent in the emergency department, after the doctor decided to admit them as an inpatient before leaving the emergency department for their inpatient room <i>Lower number of minutes is better</i>	<b>147 Minutes</b>	<b>110 Minutes</b>	<b>97 Minutes</b>
Average time patients spent in the emergency department before being sent home <i>Lower number of minutes is better</i>	<b>114 Minutes</b>	<b>121 Minutes</b>	<b>137 Minutes</b>
Average time patients spent in the emergency department before they were seen by a healthcare professional <i>Lower number of minutes is better</i>	<b>23 Minutes</b>	<b>28 Minutes</b>	<b>27 Minutes</b>
Average time patients who came to the emergency department with broken bones had to wait before receiving pain medication <i>Lower number of minutes is better</i>	<b>49 Minutes</b>	<b>55 Minutes</b>	<b>59 Minutes</b>

Miles Memorial Hospital is consistently at or above Maine and National averages for effective heart attack care, effective heart failure care, timely surgical care, effective surgical care and timely emergency department care.

Information regarding St. Andrews Hospital averages for effective heart attack care, effective heart failure care, timely surgical care, effective surgical care and timely emergency department care is not available or the number of cases is too small to make comparisons with Maine and National averages.



II. Fit, Willing and Able

Readmissions, Complications and Deaths:

Patients who are admitted to the hospital for treatment of medical problems sometimes get other serious injuries, complications, or conditions, and may even die. Some patients may experience problems soon after they are discharged and need to be admitted to the hospital again. These events can often be prevented if hospitals follow best practices for treating patients.

<u>Measures</u>	<u>Miles</u>
Death Rate for Heart Attack Patients	ND
Death Rate for Heart Failure Patients	ND
Rate of Readmission for Heart Failure Patients	ND
Death Rate for Pneumonia Patients	ND
Rate of Readmission for Pneumonia Patients	ND
Rate of readmission after hip/knee surgery	ND
Rate of readmission after discharge	ND
Rate of complications for hip/knee replacements	ND
Serious surgical complications	ND
Catheter Associated Urinary Tract Infections	ND
Clostridium difficile infections (Intestinal Infections)	ND

**Note:**

ND = no different than the national rate

The results above indicate that Miles Memorial Hospital measures regarding readmissions, complications and death are no different than the national rate.

Measures regarding readmissions, complications and death are not available for St. Andrews Hospital or the number of cases is too small to make a valid comparison to the national rate.

Miles Memorial Hospital Federal Survey

The latest full Federal Survey was conducted on 9/1/2011. A summary statement of deficiencies is on file at CONU. A plan of correction was submitted by the provider for all deficiencies by 10/6/2011.

St. Andrews Hospital Federal Survey

The latest full Federal Survey was conducted on 2/11/2011. A summary statement of deficiencies is on file at CONU. A plan of correction was submitted for all deficiencies by 3/15/2011. A follow-up survey was conducted on 4/25/2011 and no deficiencies were noted.

Two nursing homes will be under the control of LincolnHealth.

II. Fit, Willing and Able

Cove's Edge, Inc. is a 76 bed SNF/NF located at 26 Schooner Street, Damariscotta, Maine. Cheryl Dobbelsteyn is the licensed administrator. The license was issued on November 14, 2013 and is valid from December 1, 2013 to November 30, 2014.

The Gregory Wing of St. Andrews Village is licensed for 6 SNF beds and 24 NF beds as well as 11 Level IV PNMI beds. This facility is located at 145 Emery Lane, Boothbay Harbor, Maine. Wendy Van Duzer Roberts is the licensed administrator. The license was issued on April 4, 2013 and is valid from April 1, 2013 through March 31, 2014.

A review of Cove's Edge last completed survey data available at Medicare.gov website revealed the following ratings:

<b>Cove's Edge Nursing Home Compare Ratings</b>	
<b>Category</b>	<b>Rating</b>
Overall	Much Above Average
Health Inspections	Above Average
Staffing	Not Available
Quality Ratings	Much Above Average

Cove's Edge scored above average and much above average in 3 out of 4 categories rated by CMS with an overall rating of "much above average". During the last survey, completed on 9/12/2013, four (4) deficiencies were found. These deficiencies were all Level 2 deficiencies which indicate minimal harm or potential for actual harm to some residents.

Inspectors determined that the facility failed to:

- . Allow the residents the right to participate in the planning or revision of the residents care plan.
- . Provide care by qualified persons according to each resident's written plan of care
- . Provide necessary care and services to maintain the highest level of well-being of each resident.
- . Make sure that each resident's drug regimen is free from unnecessary drugs and each residents entire drug/medication is managed and monitored to achieve highest well-being.

All deficiencies were corrected by October 18, 2013.

II. Fit, Willing and Able

A review of Gregory Wing’s last completed survey data available at Medicare.gov revealed the following ratings:

<b>Gregory Wing Nursing Home Compare Ratings</b>	
<b>Category</b>	<b>Rating</b>
Overall	Above Average
Health Inspections	Above Average
Staffing	Above Average
Quality Ratings	Above Average

Gregory Wing scored “above average” in 4 out of 4 categories rated by CMS with an overall rating of “above average”. During the last survey, completed on October 18, 2012 three (3) deficiencies were found. These deficiencies were all Level 2 deficiencies which indicate minimal harm or potential for actual harm to some residents.

Inspectors determined that the facility failed to:

- . At least once a month, have a licensed pharmacist review each resident’s medication(s) and report any irregularities to the attending doctor.
- . Make sure each resident received an accurate assessment by a qualified health professional.
- . Conduct initial and periodic assessments of each resident’s functional capacity.

All deficiencies were corrected by November 5, 2012.

**Deeming of Standard**

As provided for at 22 M.R.S. § 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. Miles Memorial Hospital, St. Andrews Hospital, Coves Edge, Inc. and Gregory Wing of St. Andrews Village have been under the same corporate parent since January 1, 2008. Because they failed to apply for a Certificate of Need, CONU finds that deeming this standard is not applicable. Regardless, St. Andrew’s, Miles, Coves Edge and the Gregory Wing have been providers of hospital and nursing home services at their current locations. The services provided by the applicant are consistent with applicable licensing and certification standards.

**iii. Conclusion**

**CON RECOMMENDATION:** 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 applicants or a related party under the applicant’s control meets industry standards.

### **III. Economic Feasibility**

#### **A. From Applicant (2007)**

##### **“Lincoln County Health Care”**

- 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.”**

“Please refer to Exhibit 3-A: Lincoln County Health Care’s audited financial statements. These documents demonstrate Lincoln County Health Care’s ability to govern and manage Miles Memorial Hospital, St. Andrews Hospital, Cove’s Edge and Lincoln County Medical Group. Lincoln County Health Care has been the immediate corporate parent of these entities since January 1, 2008.”

- B. **“The applicant’s ability to establish and operate the project in accordance with existing and reasonable anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules.”**

“The Certificate of Need Act states: “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 subparagraph 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.” (22 MRSA §335, sub-1 §7 B)”

“Lincoln County Health Care’s operating entities - Miles Memorial Hospital, St. Andrews Hospital, Cove’s Edge and Lincoln County Medical Group – have provided these health care services for years in a manner that has been consistent with applicable licensing and certification standards.”

#### **From Applicant (2013)**

##### **“LincolnHealth”**

- 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.”**

“Please refer to Exhibit 3-A: Lincoln County Health Care’s audited financial statements. These documents demonstrate Lincoln County Health Care’s ability to support LincolnHealth financially over its useful life.”

“The merger of Miles Memorial Hospital and St. Andrews Hospital was undertaken in the goodfaith belief that a CON is not necessary because there is no change in ownership and no

III. Economic Feasibility

capital expenditure. Certain aspects of this transaction are irreversible and attempts to dissolve this merger would have devastating impact on health care in Lincoln County.”

“An essential component of this change was CMS approval for LincolnHealth (formerly St. Andrews Hospital) to relocate to Damariscotta while maintaining Critical Access Hospital status. Specific requirements had to be met to qualify for this approval. These requirements will not be met in any attempt by LincolnHealth to relocate back to Boothbay Harbor. Critical Access Hospital status will be lost for both hospital campuses. Miles Memorial Hospital has surrendered its hospital license and terminated its provider agreement with CMS. Miles had Sole Community Hospital status with Medicare; it would not re-qualify for that status today.”

“The combined impact of losing both CAH status and SCH status would impact health care reimbursement in Lincoln County by about \$8 million per year. Such a reduction in reimbursement would be unsustainable. It would adversely impact local access to health care services and the affordability of those services. Both of these impacts run contrary to the stated intent of the CON law.”

“Possible actions to preserve as much as possible of Lincoln County Health Care could include:

- Rollback of last month’s 7.1% price reduction, plus an additional 5% price increase,
- Significant curtailment of services offered in the Boothbay Region,
- Significant staff lay-offs,
- Inability to continue developing Patient Centered Medical Homes for primary care,
- Increased dependence on emergency room visits by the population,
- Elimination of voluntary wellness programs offered in the community and/or
- Reduction or elimination of certain specialty physician services in Lincoln County.”

**B. “The applicant’s ability to establish and operate the project in accordance with existing and reasonable anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules.”**

“The Certificate of Need Act states: “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 subparagraph 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.” (22 MRSA §335, sub-1 §7 B)”

“LincolnHealth is licensed and certified, and, previously as St. Andrews Hospital and Miles Memorial Hospital, has been providing services of this scale and scope for years.”

“As a result this transaction there are cost savings. LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million. As a result of these savings and benefits Lincoln County Health Care has announced price reductions in the amount of \$7.7 million effective October 2013, which will benefit Lincoln County employers, residents and visitors.”

III. Economic Feasibility

“The merger and attendant consolidation of 24-Hour acute care onto a single campus allow LincolnHealth to reduce pricing by 7% and operating expenses by more than 9%. To demonstrate this LincolnHealth developed FY14 financial projections for standalone operations of Miles Memorial Hospital and St. Andrews Hospital and compared those consolidated projections to LincolnHealth’s FY14 financial projection.”

“Miles Memorial Hospital (*Hospital Operations*)

	<b>FY14 Projection</b>
<b>Gross Revenues</b>	
Inpatient - Hospital	\$34,679,932
Outpatient - Hospital	57,054,897
Swing - Hospital	17,228
Physician Services	17,870,999
Village Revenue	-
<b>TOTAL GROSS PATIENT SERVICES REVENUE</b>	<b>\$109,623,056</b>
<b>Deductions from Revenue</b>	
Charity Care	\$3,365,636
Contractual Adjustments	47,247,923
Other Deductions	<u>917,018</u>
<b>TOTAL DEDUCTIONS FROM REVENUE</b>	<b>\$51,530,577</b>
<b>NET PATIENT SERVICE REVENUE</b>	
(After Contractual Adjustments & Free Care)	\$58,092,479
Provisions for Bad Debt	<u>3,471,316</u>
<b>NET PATIENT SERVICE REVENUE NET OF</b>	
<b>PROVISION FOR BAD DEBT</b>	<b>\$54,621,163</b>
Other Operating Revenue	741,799
Net Assets Released for Operations	<u>52,217</u>
<b>TOTAL UNRESTRICTED REVENUE &amp; OTHER</b>	
<b>SUPPORT</b>	<b>\$55,415,179</b>
<b>Operating Expenses</b>	
Salaries	\$14,674,880
Benefits	4,776,471
Non-Medical Supplies	610,491
Medical Supplies	3,573,257
Contract Labor	529,850
Purchased Services	5,804,926
Professional Fees	13,272,674
Facility Costs	2,017,193
Insurance	227,076
State Taxes	1,221,719
Other	452,303
Interest	209,397
Depreciation & Amortization	<u>1,671,949</u>
<b>TOTAL DIRECT EXPENSES</b>	<b><u>\$49,042,185</u></b>

CONTRIBUTION MARGIN	6,372,994
LCH Allocations	<u>6,095,235</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>\$277,759</b>

**St. Andrews Hospital (*Hospital Operations*)**

**Gross Revenues FY14 Projection**

Inpatient - Hospital	\$36,161
Outpatient - Hospital	12,344,289
Swing - Hospital	3,567,443
Physician Services	-
Village Revenue	-
<b>TOTAL GROSS PATIENT SERVICES REVENUE</b>	<b>\$15,947,893</b>

**Deductions from Revenue**

Charity Care	\$428,773
Contractual Adjustments	3,831,050
Other Deductions	<u>78,776</u>
<b>TOTAL DEDUCTIONS FROM REVENUE</b>	<b>\$4,338,599</b>

<b>NET PATIENT SERVICE REVENUE</b> (After Contractual Adjustments & Free Care)	<b>\$11,609,294</b>
---	---------------------

Provisions for Bad Debt	<u>393,443</u>
-------------------------	----------------

<b>NET PATIENT SERVICE REVENUE NET OF PROVISION FOR BAD DEBT</b>	<b>\$11,215,851</b>
--	---------------------

Other Operating Revenue	445,227
-------------------------	---------

Net Assets Released for Operations	<u>31,729</u>
------------------------------------	---------------

<b>TOTAL UNRESTRICTED REVENUE &amp; OTHER SUPPORT</b>	<b>\$11,692,807</b>
---	---------------------

**Operating Expenses**

Salaries	\$3,073,335
Benefits	985,454
Non-Medical Supplies	122,614
Medical Supplies	412,967
Contract Labor	235,505
Purchased Services	1,221,119
Professional Fees	1,213,877
Facility Costs	611,172
Insurance	65,250
State Taxes	304,713
Other	124,470
Interest	152,747
Depreciation & Amortization	<u>732,165</u>

<b>TOTAL DIRECT EXPENSES</b>	<b>\$9,255,390</b>
------------------------------	--------------------

<b>CONTRIBUTION MARGIN</b>	<b>\$2,437,418</b>
----------------------------	--------------------

LCH Allocations	<u>2,237,174</u>
-----------------	------------------

<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>\$200,244</b>
--------------------------------------	------------------

III. Economic Feasibility

**Comparative Projection: Miles & St. Andrews Combined vs LincolnHealth merger**

<b>Gross Revenues</b>	MMH &SAH	LincolnHealth	Difference
Inpatient - Hospital	34,716,093	32,460,731	(2,255,362)
Outpatient - Hospital	69,399,186	63,018,608	(6,380,578)
Swing - Hospital	3,584,671	1,659,171	(1,925,500)
Physician Services	17,870,999	17,870,999	-
Village Revenue	-	-	-
<b>TOTAL GROSS PATIENT SERVICES REVENUE</b>	<b>125,570,949</b>	<b>115,009,509</b>	<b>(10,561,440)</b>
<b>Deductions from Revenue</b>			
Charity Care	3,794,409	3,317,239	(477,170)
Contractual Adjustments	51,078,973	44,733,753	(6,345,220)
Other Deductions	995,794	947,267	(48,527)
<b>TOTAL DEDUCTIONS FROM REVENUE</b>	<b>55,869,176</b>	<b>48,998,259</b>	<b>(6,870,917)</b>
<b>NET PATIENT SERVICE REVENUE (After Contractual Adjustments &amp; Free Care)</b>	<b>69,701,773</b>	<b>66,011,250</b>	<b>(3,690,523)</b>
Provisions for Bad Debt	3,864,759	3,154,275	(710,484)
<b>NET PATIENT SERVICE REVENUE NET OF PROVISION FOR BAD DEBT</b>	<b>65,837,014</b>	<b>62,856,975</b>	<b>(2,980,039)</b>
Other Operating Revenue	1,187,026	839,144	347,882
Net Assets Released for Operations	83,946	67,615	16,331
<b>TOTAL UNRESTRICTED REVENUE &amp; OTHER SUPPORT</b>	<b>67,107,986</b>	<b>63,763,734</b>	<b>(2,615,826)</b>
<b>Operating Expenses</b>			
Salaries	17,748,215	16,606,308	(1,141,907)
Benefits	5,761,925	5,535,343	(226,581)
Non-Medical Supplies	733,106	664,008	(69,098)
Medical Supplies	3,986,224	4,222,032	235,808
Contract Labor	765,355	401,138	(364,217)
Purchased Services	7,026,045	6,962,527	(63,518)
Professional Fees	14,486,551	13,162,159	(1,324,392)
Facility Costs	2,628,365	2,351,145	(277,220)
Insurance	292,326	362,752	70,426
State Taxes	1,526,432	255,521	(1,270,911)
Other	576,773	574,763	(2,010)
Interest	362,144	147,020	(215,124)
Depreciation & Amortization	2,404,114	2,792,172	388,058
<b>TOTAL DIRECT EXPENSES</b>	<b>58,297,574</b>	<b>54,036,887</b>	<b>(4,260,687)</b>
<b>CONTRIBUTION MARGIN</b>	<b>8,810,412</b>	<b>9,726,847</b>	<b>916,435</b>
LCH Allocations	8,332,409	8,974,648	642,239
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>\$478,003</b>	<b>\$752,199</b>	<b>\$274,196</b>



III. Economic Feasibility

**B. CONU Discussion**

**i. CON Standards**

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

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.

*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 subparagraph 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.*

**ii. CON Analysis**

a. Lincoln County Health Care and LincolnHealth.

Because the organization of Lincoln County Health Care was completed prior to the application for a CON, CONU will not deem this standard to be met. Consequently, the financial stability of the two hospital organizations will be assessed. The two hospitals represent nearly all of the assets of the new LincolnHealth and therefore should reflect the operations of LincolnHealth when combined. Therefore, the CONU will analyze both the 2007 and 2013 transaction together.

In order to assess the financial stability of Miles Memorial Hospital and St. Andrews Hospital, 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 II and Maine Health Data Organization Hospital Financial Data Definitions available on MHDO's website <http://mhdo.maine.gov/imhdo/>. National trend and forecast information was obtained from the 2012 Almanac of Hospital Financial and Operating Indicators.

**PROFITABILITY RATIOS**

CONU determined that it was necessary to evaluate the financial fitness of the two hospitals by investigating commonly used profitability ratios. Further investigation would be warranted if there were ambiguity in the information provided related to the ability of the separate entities to operate cooperatively based on past financial performance. CONU used three profitability ratios to measure the applicant's ability to produce a profit (excess of revenue over expenses). Hospitals cannot be viable in the long term without an excess of revenues over expenditures.

III. Economic Feasibility

Cash flow would not be available to meet normal cash requirements needed to service debt and investment in fixed or current assets. Profitability has a large impact on most other ratios. For example, low profitability may adversely affect liquidity and sharply reduce the ability to pay off debt.

**Operating margin:** The operating margin is the most commonly used financial ratio to measure a hospital's financial performance.

This ratio is calculated as follows:

*Operating Income/Total Operating Revenue*

<b>Operating Margin</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Miles Memorial	-1.13%	1.61%	-.37%	1.57%	4.29%
St. Andrews	1.33%	-3.55%	-5.89%	-.22%	2.26%
All Maine Hospital Median	2.37%	1.61%	2.08%	0.98%	2.34%
National Median	NAV	NAV	NAV	NAV	NAV

**Net Operating Income (Loss):** Net operating income is calculated by subtracting operating expense from operating revenue. This measure is used to look at how a hospital's net operating income performed in comparison with last years' figure and whether or not there is a positive or negative trend in the future.

<b>Net Operating Income (Loss)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Miles Memorial	\$(544,375)	\$822,071	\$(181,313)	\$797,277	\$2,385,940
St. Andrews	\$261,992	\$(712,703)	\$(1,176,280)	\$(42,347)	\$424,036
All Maine Hospital Median	\$1,354,376	\$720,298	\$1,419,993	\$762,435	\$1,549,111
National Median	NAV	NAV	NAV	NAV	NAV

**Return on Equity:** This ratio defines the amount of excess revenue over expenses and losses earned per dollar of equity investment. Most not-for-profit hospitals received their initial, start-up equity capital from religious, educational, or governmental entities, and today some hospitals continue to receive funding from these sources. However, since the 1970s, these sources have provided a much smaller proportion of hospital funding, forcing not-for-profit hospitals to rely more on excess revenue over expenses and outside contributions. Many analysts consider the Return on Equity measure a primary indication of profitability. A hospital may not be able to obtain equity capital in the future if it fails to maintain a satisfactory value for this ratio. This ratio was calculated as follows: *Excess of Revenue over Expenses/Fund Balance-Unrestricted*

<b>Return on Equity</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Miles Memorial	-.07%	8.63%	-4.96%	4.78%	8.87%
St. Andrews	7.93%	-4.01%	-6.78%	3.46%	6.39%
All Maine Hospital Median	9.16%	7.12%	5.01%	4.51%	8.28%
National Median	8.30%	4.60%	5.50%	6.20%	6.40%

III. Economic Feasibility

**Trends for Return on Equity:** Return on Equity saw continued improvement in 2010 nationally. Larger hospitals continue to out-perform smaller ones. Hospitals with a lower operating margin show lower overall values as lower total margin and less financial leverage combine to reduce Return on Equity.

**Forecast:** Return on Equity values should show a slight increase in the short term. Continued improvement will only be possible if hospitals can realize increased asset efficiency, especially in the area of fixed assets.

LIQUIDITY RATIOS

CONU used three liquidity ratios to measure the main operating units' ability to meet short-term obligations and maintain cash position. This is a substitute for measuring the combined unit's financial ability. A poor liquidity ratio would indicate that a hospital is unable to pay current obligations as they come due.

**Current Ratio:** Current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations. The ratio is mainly used to determine if the hospital is able to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). From an evaluation standpoint, high values for the Current Ratio imply a high likelihood of being able to pay short term obligations. A ratio under 1 suggests that the hospital would be unable to pay off its obligations if they came due at that point.

This ratio is calculated as follows: *Total Current Assets/Total Current Liabilities*

Current Ratio	2007	2008	2009	2010	2011
Miles Memorial	1.191	1.52	.933	2.327	2.982
St. Andrews	.984	1.155	1.181	1.152	1.367
All Maine Hospital Median	1.88	1.49	1.65	1.68	1.6
National Median	2.13	2.05	2.11	2.19	2.1

\*Without Board Designated/Undesignated Investments

**Current Ratio Trends:** Northeast hospitals have values for the Current Ratio that has been consistently lower than those of other regions. This is a direct result of relatively weak operating profitability. Continued erosion of margins in this region may impair the short-term liquidity positions of the weakest hospitals and may force some defaults.

**Forecast:** Little change in current ratios is expected over the next five years. Values will continue to fluctuate around 2.0.

**Days Cash on Hand:** Days cash on hand is a common measure that gives a snapshot of how many days of operating expenses a hospital could pay with its current cash available. High values for this ratio usually imply a greater ability to meet short term obligations and are viewed favorably by creditors.

III. Economic Feasibility

This ratio is calculated as follows: *Cash & Investments + Current Assets who's Use is Limited/Total Advertising + Salaries & Benefits + Other Operating Expenses + Interest/365 days*

Days Cash on Hand (Current)	2007	2008	2009	2010	2011
Miles Memorial	13.4	24.3	36.3	38.2	8.6
St. Andrews	25.4	45.3	29.2	49.6	31.7
All Maine Hospital Median	26.7	15.9	33.3	32.5	26.2
National Median	26.8	24.6	34.7	26.7	25.4

**Trends for Days Cash on Hand:** Values for Days Cash on Hand (Current) continue to increase because of hospitals caution with their cash positions. A reasonable norm for most hospitals would be 20 days of cash on hand for short-term working capital purposes.

**Forecast:** Days Cash on hand should remain steady or slightly increase as hospitals solidify their cash positions. The majority of hospitals should not expect any difficulty in maintaining short-term liquidity positions.

**Average Payment Period:** This ratio provides a measure of the average time that elapses before current liabilities are paid. Creditors regard high values for this ratio as an indication of potential liquidity problems.

This ratio is calculated as follows: *Total Current Liabilities/total Advertising + Salaries & Benefits + Other Operating Expenses + Interest/365*

Average Payment Period*	2007	2008	2009	2010	2011
Miles Memorial	198	63.4	99.0	51.6	43.3
St. Andrews	90.6	93.6	74.0	112.7	98.3
All Maine Hospital Median	50.8	54.3	59.9	60.5	62.8
National Median	49.8	51.2	50.5	48.6	50.2

\*Current Liabilities

**Trends for Avg. Payment Period:** Median values in Average payment Period continued to decrease in 2010. Northeast hospitals have the highest values for Average Payment Period, which is consistent with their relatively low values for the Current Ratio.

**Forecast:** Overall Average Payment Period values should remain unchanged in the short term.

III. Economic Feasibility

CAPITAL STRUCTURE RATIOS

CONU used three capital structure ratios in order to measure the individual hospital's capacity to pay for any debt. By evaluating the individual hospitals capacity it can provide information as to how the combined entity may operate. The hospital industry has radically increased its percentage of debt financing over the past two decades making this ratio vitally important to creditors who determine if a hospital is able to increase its debt financing. The amount of funding available to a hospital directly impacts its ability to grow.

**Debt Service Coverage:** This ratio measures the amount of cash flow available to meet annual interest and principal payments on debt. A DSCR of less than 1 would mean a negative cash flow. This ratio is calculated as follows: *Excess of Revenue over Expenses + Depreciation + Interest/Interest + Previous Years Current LTD*

<b>Debt Service Coverage</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Miles Memorial	2.869	5.107	1.919	4.571	7.865
St. Andrews	3.130	1.442	1.101	2.230	2.681
All Maine Hospital Median	3.82	3.43	2.92	2.68	4.11
National Median	3.82	2.86	3.1	2.8	3.18

**Trends for Debt Service Coverage:** Debt Service coverage fell again in 2010 after 2009's decrease. Some of the changes on a regional basis are more striking and variable indicating that local economic experience is more variable. The Northeast showed an increase while all other regions showed a decrease.

**Forecast:** Debt Service Coverage should stabilize or increase somewhat over the next few years. Values are predicted to remain between 2.8 and 3.0.

**Cash Flow to Total Debt:** This coverage ratio compares a company's operating cash flow to its total debt. This ratio provides an indication of a hospitals ability to cover total debt with its yearly cash flow from operations. The retirement of debt principal is not a discretionary decision. It is a contractual obligation that has definite priority in the use of funds. Therefore, a decrease in the value of the Cash Flow to Total Debt ratio may indicate a future debt repayment problem. The higher the percentage ratio, the better the company's ability to carry its total debt.

This ratio is calculated as follows: *Excess of Revenue over Expenses + Depreciation/Total Current Liabilities + Total Non- Current Liabilities*

<b>Cash Flow to Total Debt</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Miles Memorial	5.08%	21.85%	6.05%	25.89%	40.53%
St. Andrews	15.5%	3.82%	2.99%	10.34%	13.93%
All Maine Hospital Median	22.54%	17.06%	15.00%	15.14%	20.51%
National Median	22.70%	15.70%	17.40%	19.50%	19.00%

III. Economic Feasibility

**Trends for Cash Flow to Total Debt:** Median Cash Flow to Total Debt continued to increase in 2010 although values still remain under 2007. Northeast hospitals continue to have the lowest median cash flow to total debt of any region. This results from both lower profitability and higher indebtedness as compared with other regions.

**Forecast:** Cash Flow to Total Debt should continue to have modest gains during the next few years.

**Fixed Asset Financing:** This ratio defines the proportion of net fixed assets (gross fixed assets less accumulated depreciation) financed with long-term debt. This ratio is used by lenders to provide an index of the security of the loan. Decreasing values are favorable. This ratio is calculated as follows: *Long Term Debt/Net Plant, Property & Equipment*

Fixed Asset Financing	2007	2008	2009	2010	2011
Miles Memorial	38.17%	37.15%	29.93%	29.58%	27.84%
St. Andrews	47.04%	58.29%	58.26%	59.51%	58.80%
All Maine Hospital Median	49.49%	52.37%	54.22%	47.59%	46.06%
National Median	52.50%	60.30%	49.80%	48.20%	50.80%

**Trends in Fixed Asset Financing:** Median values for the Fixed Asset Financing Ratio continued to decrease in 2010 after a five year 2008 high.

**Forecast:** Fixed Asset Financing Ratios are expected to remain stable during the next five years as hospitals curtail their growth in new capital expenditures and reduce their reliance on long-term debt.

ASSET EFFICIENCY RATIOS

CONU used two asset efficiency ratios. These efficiency ratios for the individual hospitals can elucidate the efficiency of the combined entity. Since the two applicants are operating the same two hospital groups, this evaluation can be transferred to both applicants. These ratios measure the relationship between revenue and assets.

**Total asset turnover ratio:** Provides an index of the number of revenue dollars generated per dollar of asset investment. Higher values for this ratio imply greater generation of revenue from a limited resource base and are sometimes viewed as a positive indication of efficiency. This ratio is affected by the age of the plant being used by the hospital. Increasing values are favorable. This ratio is calculated as follows: *Total Operating Revenue + Total non-operating Revenue/Total Unrestricted Assets*

Total Asset Turnover	2007	2008	2009	2010	2011
Miles Memorial	0.994	1.604	1.368	1.321	1.308
St. Andrews	0.763	0.664	0.707	0.672	0.660
All Maine Hospital Median	1.17	1.2	1.23	1.21	1.21
National Median	1.08	1.08	1.07	1.05	1.07

III. Economic Feasibility

**Trends in Total Asset Turnover:** Total Asset Turnover values have remained generally constant over the past five years with a slight decline in 2010.

**Forecast:** Total Asset Turnover should improve over the next five years.

**Fixed Asset Turnover Ratio:** Measures the number of revenue dollars generated per dollar of fixed asset investment. High values for this ratio may imply good generation of revenue from a limited fixed asset base and are usually regarded as a positive indication of operating efficiency. This ratio is calculated as follows: *Total Operating Revenue/Net Plant, Property, & Equipment*

Fixed Asset Turnover	2007	2008	2009	2010	2011
Miles Memorial	2.898	3.101	2.586	2.819	3.158
St. Andrews	1.102	0.961	0.994	1.036	1.029
All Maine Hospital Median	2.9	2.78	2.72	2.63	2.96
National Median	1.97	1.87	1.95	1.96	NAV

**Trends in Fixed Asset Turnover:** Fixed Asset Turnover is relatively unchanged in 2010, declining slightly.

**Forecast:** Fixed Asset Turnover ratios should remain stable during most of the next few years.

**CONU Summary of Financial Ratios:** Below are charts summarizing the percentage of time Miles Memorial and St. Andrews meets or exceeds Maine or National medians:

MILES MEMORIAL	RATIO	MAINE	NATIONAL
Profitability	Operating Margin	60.00%	NAV
Profitability	Net Operating Income	60.00%	NAV
Profitability	Return on Equity	60.00%	40.00%
Liquidity	Current Ratio	60.00%	40.00%
Liquidity	Days Cash on Hand	40.00%	40.00%
Liquidity	Avg. Payment Period	20.00%	20.00%
Capital Structure	Debt Service Coverage	60.00%	60.00%
Capital Structure	Cash Flow to Total Debt	60.00%	60.00%
Capital Structure	Fixed Asset Financing	0.00%	0.00%
Asset Efficiency	Total Asset Turnover	80.00%	80.00%
Asset Efficiency	Fixed Asset Turnover	80.00%	80.00%

NAV-Not available

III. Economic Feasibility

Miles Memorial meets or exceeds Maine median measurements of profitability an average of 60% of the time and National medians (where available) 40% of the time. Miles Memorial meets or exceeds Maine median measurements of liquidity an average of 40% of the time and National medians 33.3% of the time. The facility meets or exceeds Maine and National median measurements of capital structure an average of 40% of the time and meets or exceeds Maine and National median measurements of asset efficiency 80% of the time.

ST. ANDREWS	RATIO	MAINE	NATIONAL
Profitability	Operating Margin	0.00%	NAV
Profitability	Net Operating Income	60.00%	NAV
Profitability	Return on Equity	60.00%	0.00%
Liquidity	Current Ratio	0.00%	0.00%
Liquidity	Days Cash on Hand	60.00%	60.00%
Liquidity	Avg. Payment Period	0.00%	0.00%
Capital Structure	Debt Service Coverage	20.00%	0.00%
Capital Structure	Cash Flow to Total Debt	0.00%	0.00%
Capital Structure	Fixed Asset Financing	80.00%	60.00%
Asset Efficiency	Total Asset Turnover	0.00%	0.00%
Asset Efficiency	Fixed Asset Turnover	0.00%	0.00%

NAV-Not available

St. Andrews meets or exceeds Maine median measurements of profitability an average of 40% of the time and National medians (where available) 0% of the time. St. Andrews meets or exceeds Maine median measurements of liquidity an average of 20% of the time and National medians an average of 20% of the time. The facility meets or exceeds Maine median measurements of capital structure an average of 33.3% of the time and meets or exceeds National median measurements of capital structure an average of 20% of the time. St. Andrews meets or exceeds Maine and National median measurements of asset efficiency an average of 0% of the time.

**Lincoln County Health Care**

LCHC provided information about three major categories of annual savings achieved through the formation of Lincoln County Health Care in 2008.

- 1) Salary and Benefits annual savings of \$589,000 due to consolidating senior leadership functions.
- 2) Program Integration annual savings of \$706,000 due to consolidation of long term care, development functions, surgical services and home health.
- 3) Goods and Services annual savings of \$314,500 due to reductions in contracts, audit fees, insurance, medical supplies and food products.



### III. Economic Feasibility

Since the formation of Lincoln County Health Care savings of over \$8,000,000 have been achieved. Since the two hospitals have demonstrated the financial feasibility of the individual hospitals, CONU is willing to assume that the hospitals would have performed similarly had the application been filed on a timely basis.

#### **LincolnHealth**

Combining the two hospitals into a single entity, LincolnHealth, is expected to reduce operating costs by \$6.3 million and receive additional reimbursement of \$5.2 million due to LincolnHealth's pending status as a critical access hospital. (Critical Access Hospitals receive enhanced payments for Medicare and MaineCare patients which make up a larger percentage of patients in rural hospitals. Failure to receive approval for critical access status could have significant adverse effects on financial projections.) Effective October 2013 Lincoln County Health Care has announced price reductions of \$7.7 million dollars. An analysis of Lincoln County Health Care, Inc. 2012 audited financial statements shows that they have over \$3,000,000 in cash and investments. This coupled with the financial strength of their parent company (MaineHealth) will allow them to support operations in the event that financial projections do not meet expectations.

#### **Nursing Home Operations**

Gregory Wing of St. Andrews Village and Cove's Edge have provided nursing home services for many years. There will be no changes to the licensed capacity or changes to services provided as a result of this transaction. As of February 21, 2012 there is a pending request to update the license for Gregory Wing from a 6-bed distinct unit skilled nursing wing with 24 nursing beds to 30 dually licensed SNF/NF beds. This change was prompted, in part, by the call for additional rehabilitation options on the Boothbay Peninsula at the Public Hearing. Lincoln County Health Care has operated two nursing homes since its inception on January 1, 2008. As stated above no changes to the size and scope of operations are planned as a result of this transaction. Cove's Edge will continue to operate as a 76 SNF/NF and Gregory Wing of St. Andrews will remain 6 beds SNF and 24 bed NF facility pending the change in licensure.

#### **Changing Laws and Regulations**

Certificate of Need Unit staff is not aware of any imminent or proposed changes in laws and regulations that would affect the project, except for federal health care reform as part of the Affordable Care Act (ACA). The impact of health reform as part of the ACA has not been determined.

#### **Deeming of Standard**

As provided for at 22 M.R.S. §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. Since LCHC did not file a timely application prior to 2008, CONU is not accepting the applicability of deeming to either project.

III. Economic Feasibility

St. Andrews received preliminary CMS approval to relocate and combine with Miles Memorial Hospital on June 27, 2013. A final Certificate of Need determination can only be made after the relocation is completed and receives final approval from CMS.. If the new combined entity, LincolnHealth does not receive approval and retain its Critical Access status designation the underlying assumptions regarding financial projections will not remain valid. As stated earlier Critical Access Hospitals receive enhanced MaineCare and Medicare reimbursement. This would also remove the cap of 25 beds which could affect the licensed or certified bed capacity approved in the certificate of need. Due to these uncertainties CONU is proposing the following condition:

Condition: The applicant is to report on the status of final Critical Access approval for LincolnHealth every 90 days until final approval is received or denied beginning with the date the Certificate of Need was approved.

**iii. Conclusion**

CON RECOMMENDATION: 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 with the inclusion of the condition above.

## **IV. Public Need**

### **A. From Applicant (2007)**

#### **Lincoln County Health Care**

**“Community Health Needs: The project will substantially address specific health problems as measured by health needs in the area to be served by the project.”**

“Lincoln County Health Care’s defined service area is Lincoln County. Until October 1, 2013 Miles had Sole Community Hospital status with CMS. LincolnHealth (formerly St. Andrews Hospital) continues to be designated a Critical Access Hospital by CMS.”

**“Access to Care: The services affected by the project will be accessible to all residents of the area proposed to be served.”**

“All services provided by Miles Memorial Hospital and St. Andrews Hospital prior to the formation of Lincoln County Health Care were accessible to all residents and visitors to Lincoln County. Nothing changed after the formation of Lincoln County Health Care.”

**“Quality of Care: The project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project”**

“The integration has created enough scale to develop a robust Quality and Performance Improvement Program that serves the hospitals, physician practices and senior living services. The creation of Lincoln County Health Care has strengthened and made sustainable our commitment to quality and community. Together as an integrated system for six years, Miles Memorial Hospital and St. Andrews Hospital have better served the residents of Lincoln County.”

“This commitment to quality is demonstrated by Miles Memorial Hospital in 2011 being one of the first 3 hospitals nationally to earn a Top Rural Hospital distinction by the Leap Frog Group. This group, representing many of the largest corporations in the country, ranks hospitals based on quality and patient safety. Their scoring is comprehensive and rigorous. It was an honor to receive this distinction once and we have just learned Miles has received it again for 2013. Quality, affordability and access will continue to improve with LincolnHealth’s ability to further enhance our integration of programs and services.”

**From Applicant (2013)**

**LincolnHealth**

**“Community Health Needs: The project will substantially address specific health problems as measured by health needs in the area to be served by the project.”**

“LincolnHealth’s defined service area is Lincoln County. The Department’s Maine Center for Disease Control and Prevention has determined that LincolnHealth is a necessary provider of healthcare services, which qualifies it to be designated a Critical Access Hospital. Please refer to Exhibit 1-C.”

“The Centers for Medicare and Medicaid Services has granted preliminary approval for the proposed relocation of LincolnHealth to Damariscotta. Please refer to Exhibit 1-E.”

**“Access to Care: The services affected by the project will be accessible to all residents of the area proposed to be served.”**

“All services currently provided by Miles Memorial Hospital and St. Andrews Hospital prior to the merger and provided by LincolnHealth after the merger are accessible to all residents and visitors to Lincoln County. Nothing has changed.”

**“Quality of Care: The project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project”**

“The integration of Miles Memorial Hospital and St. Andrews Hospital accomplished by the merger of the two entities results in the consolidation of 24-hour inpatient and emergency care at LincolnHealth’s Damariscotta campus. This consolidation creates a higher quality and more sustainable model for delivering urgent and emergency care and inpatient care while reducing the risk of erosion in quality due to low volume.”

**“Lincoln County Health Care and LincolnHealth”**

**“Health Status: The project will have a positive impact on the health status indicators of the population to be served.”**

“Both of these transactions are one aspect of Lincoln County Health Care’s integrated approach to chronic disease management and health status improvement. Lincoln County Health Care, LincolnHealth, Cove’s Edge and Lincoln County Medical Group participate in MaineHealth’s health status improvement, clinical integration and quality improvement initiatives, which should over time impact utilization positively. Management of populations with chronic diseases has become a major focus of MaineHealth’s clinical integration initiatives.”

“Please see Section VII. Service Utilization for further information on these MaineHealth initiatives.”

IV. Public Need

**B. CONU Discussion**

**i. CON Standards**

The relevant standard 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. CON Analysis**

Determining both the applicants' ability to meet the standards relevant to this section relies on a thorough discussion of the service area. This analysis begins with an evaluation of the St. Andrews Service area for inpatient services. These services existed prior to 2008 and remained in some fashion through 2010. MHDO data used for this analysis indicated 19 admissions in 2011. This data also can explain how the Miles Hospital location (Damariscotta) has been able to meet the needs of residents and visitors to the Boothbay peninsular region where more than 80% of inpatients at St., Andrews received services in 2006.

CONU began its analysis by reviewing inpatient utilization trends in the St. Andrews Service. This data was obtained from the Maine Health Data Organization (MHDO). CONU looked at four years of data: 2006, and 2009 through 2011. 2006 data was used to establish a baseline for services prior to the formation of Lincoln County Health Care.

Based on this data, CONU identified the St. Andrews service area as the communities of Boothbay, Boothbay Harbor, East Boothbay, Edgecomb, West Boothbay, Trevett and Southport.

Nearly 85% of the admissions to the Boothbay facility in 2006 were from patients who gave their address as one of communities. These 355 admissions comprise less than 43% of the admissions to hospitals in Maine of residents of the service area community. CONU looked at where residents of this area received inpatient services. The results are contained in the following tables:

<b>2006</b>	<b>St. Andrews</b>	<b>Miles</b>	<b>MidCoast</b>	<b>Pen Bay</b>	<b>MMC</b>	<b>TOTAL</b>
Boothbay	78	30	22	2	58	190
Boothbay Harbor	181	45	41	1	62	330
East Boothbay	35	11	13	1	25	85
Edgcomb	6	35	33	4	25	103
Trevett	10	7	3	1	11	32
West Boothbay	11	3	7	0	10	31
Southport	34	12	9	0	14	69
<b>TOTAL</b>	<b>355</b>	<b>143</b>	<b>128</b>	<b>9</b>	<b>205</b>	<b>840</b>
<b>% of TOTAL</b>	<b>42.26%</b>	<b>17.02%</b>	<b>15.24%</b>	<b>1.07%</b>	<b>24.40%</b>	<b>100.00%</b>

The 2006 data reveals that prior to the establishment of Lincoln County Health Care 42.26% of the patients in the St. Andrews service area received inpatient services at St. Andrews and 33.33% received services at surrounding hospitals. Nearly 24.40% of the inpatient services were provided by Maine Medical Center in Portland.

<b>2009</b>	<b>St. Andrews</b>	<b>Miles</b>	<b>MidCoast</b>	<b>Pen Bay</b>	<b>MMC</b>	<b>TOTAL</b>
Boothbay	61	34	48	2	49	194
Boothbay Harbor	159	47	40	4	83	333
East Boothbay	24	15	10	1	22	72
Edgcomb	13	46	20	1	26	106
Trevett	10	7	3	0	12	32
West Boothbay	22	2	6	1	5	36
Southport	22	8	14	0	19	63
<b>TOTAL</b>	<b>311</b>	<b>159</b>	<b>141</b>	<b>9</b>	<b>216</b>	<b>836</b>
<b>% of TOTAL</b>	<b>37.20%</b>	<b>19.02%</b>	<b>16.87%</b>	<b>1.08%</b>	<b>25.84%</b>	<b>100.00%</b>

<b>2010</b>	<b>St. Andrews</b>	<b>Miles</b>	<b>MidCoast</b>	<b>Pen Bay</b>	<b>MMC</b>	<b>TOTAL</b>
Boothbay	22	76	55	9	54	216
Boothbay Harbor	35	99	56	0	75	265
East Boothbay	6	11	11	1	26	55
Edgcomb	1	58	22	1	24	106
Trevett	3	17	7	0	21	48
West Boothbay	2	9	4	0	13	28
Southport	8	20	3	1	29	61
<b>TOTAL</b>	<b>77</b>	<b>290</b>	<b>158</b>	<b>12</b>	<b>242</b>	<b>779</b>
<b>% of TOTAL</b>	<b>9.88%</b>	<b>37.23%</b>	<b>20.28%</b>	<b>1.54%</b>	<b>31.07%</b>	<b>100.00%</b>

<b>2011</b>	<b>St. Andrews</b>	<b>Miles</b>	<b>MidCoast</b>	<b>Pen Bay</b>	<b>MMC</b>	<b>TOTAL</b>
Boothbay	5	63	52	2	69	191
Boothbay Harbor	8	106	63	3	54	234
East Boothbay	3	19	17	0	16	55
Edgcomb	0	40	29	1	24	94
Trevett	1	6	7	0	8	22
West Boothbay	2	5	6	1	8	22
Southport	0	23	10	1	29	63
<b>TOTAL</b>	<b>19</b>	<b>262</b>	<b>184</b>	<b>8</b>	<b>208</b>	<b>681</b>
<b>% of TOTAL</b>	<b>2.79%</b>	<b>38.47%</b>	<b>27.02%</b>	<b>1.17%</b>	<b>30.54%</b>	<b>100.00%</b>

The 2009 through 2011 tables show a shift in utilization from St. Andrews to Miles and Mid Coast. Pen Bay and MMC's utilization remained relatively stable. CMS will ultimately determine if final approval will be granted for LincolnHealth's CAH status. Of critical importance is the realization that in 2006, 59.28% of the peninsular residents received inpatient services at either the Boothbay or the Damariscotta facilities. By 2011, only 41.26% of peninsular residents received services at Boothbay or Damariscotta. By 2011, the peninsular residents who received inpatient services at MidCoast hospital increased from 15.24% to 27.02%. CONU believes that any termination of services which would necessitate persons receive services outside Boothbay/Damariscotta area are not within the scope of review of CON. Therefore, the reduction in inpatient stays, from residents of the region, are exemplary of patient choice or permitted reductions in services outside the purview of CON review.

Critical Access Hospital Status

On June 27, 2013 Centers for Medicare and Medicaid Service (CMS) gave preliminary approval for the relocation of St. Andrews Hospital from Boothbay Harbor to Damariscotta, the site of the former Miles Memorial Hospital. Miles Memorial surrendered its provider agreement. St. Andrews was renamed LincolnHealth.

IV. Public Need

When a necessary provider CAH relocates its facility and begins providing services in a new location, the CAH can maintain its provider designation only if the CAH:

- 1). Serves at least 75 percent of the same service area that it served prior to its relocation;
- 2). Provides at least 75 percent of the same services that it provided prior to the relocation;
- 3). Is staffed by 75 percent of the same staff (including medical staff, contracted staff, and employees) that were on staff at the original location.

After the CAH has been in operation at the new location for a reasonable period of time (e.g., 6 months to 1 year), the CAH must submit evidence to confirm that the 75 percent requirement is met as a matter of fact rather than projection.

Due to many years of operating losses St. Andrews has discontinued or scaled back services over the past several years (including surgery and maternity services) forcing patients to seek care elsewhere. This is part of a larger trend of a shift in services from rural to urban areas due to a wider array of services offered in urban centers. Larger hospitals are able to charge less for services due to a more favorable payor mix. Urban areas have more large employers that offer private insurance and fewer elderly as a percentage of population. Rural hospitals rely much more heavily on MaineCare and Medicare which only pay a percentage of actual cost. This results in costs being shifted to privately insured patients. Further complicating the situation is the potential for State and Federal cutbacks in these programs. The lingering effects of the economic downturn mean that fewer patients are seeking treatment. Lincoln County Health Care has stated that the number of both inpatients and outpatients throughout the "system" are down between 10 and 12% over the past several years. The MHDO data confirms this assertion for the peninsular residents as from 2006 to 2011 there has been a 19% decrease in inpatient admissions attributable to residents of this area.

The increasing complexities of health care delivery, financing and reimbursement make it difficult, if not impossible, for a small organization to meet community needs as an independent organization. Nationally over 50% of community hospitals are in health care systems. In Maine 60% of hospitals are part of a system. The rationale for establishing formal affiliations includes achievement of financial and clinical economies of scale, avoidance of duplication of services, and access to capital at favorable rates. The benefits of the applicants affiliating with MaineHealth are described throughout this application.

LincolnHealth has implemented many system-wide initiatives to provide inpatient, outpatient, chronic and acute health care services to the people of Lincoln County, Maine. The applicant submitted a copy of MaineHealth's Community Benefit Report as part of the Certificate of Need application. This publication describes in detail the many ongoing community programs conducted by the MaineHealth network. This project will substantially address specific health problems as measured by health needs in the Lincoln County area specifically a high incidence of smoking related diseases, diabetes, substance abuse problems and mental health issues.



#### Emergency Department Services

Of vital importance to many of the persons commenting on these two projects is the impact on the availability of emergency care. As part of this application, LincolnHealth has changed the availability of emergency care. 24-hour emergency care was discontinued at the St. Andrews campus and relocated to the Miles Hospital campus. 24-hour emergency care has been replaced by the St. Andrews Urgent Care Center which operates from 8 a.m. to 8 p.m. Lincoln County Health Care predicts that services will cost approximately 30% less while the same trained physicians and nurses who staffed the emergency room will be on site. Patients with non-life threatening injuries can be treated at the Urgent Care Center (This is expected to serve the needs of more than 80% of the patients previously seen at the St. Andrews Emergency Department). The applicant had stated that most critically ill patients were transported to another medical center for treatment. This part of the health care delivery model has not changed. In its response to public comments regarding the reorganization of Lincoln County Health Care MaineHealth submitted the following information:

“It is important to note that every critically ill or injured patient that was being seen in the St. Andrews Emergency Department required transportation to another facility for definitive care. In fact the most critically ill or injured patients were and continue to be the most likely patients to travel the farthest to receive definitive care only available at a tertiary or quaternary medical center such as Maine Medical Center.”

“For serious emergencies, the Boothbay Region Ambulance Service and LifeFlight are staffed by highly trained, professional EMS personnel who can quickly and efficiently transport patients to the facility with the most appropriate level of emergency care.”

“The Urgent Care Center is open from 8:00 am to 8:00 pm daily and is staffed with 1 Physician, 1 Registered Nurse and 1 Technician. During the summer season from Memorial Day through the end of September a second Registered Nurse is added to the staff from 10:00 am until 6:00 pm.”

“This is the same staffing pattern and seasonal adjustment that was followed by the St. Andrews Emergency Department and has been demonstrated to adequately address patient needs.”

#### Emergency Medical Services

The closing of the 24-Hour Emergency Department will place more of a burden on ambulance services. The Boothbay Region Ambulance Service is responsible for quickly and efficiently transporting patients to the most appropriate location for treatment when a serious emergency occurs.

In its response to public comments regarding the reorganization of Lincoln County Health Care MaineHealth submitted the following information:

“Lincoln County Health Care is committed to partnering with the Boothbay Region Ambulance Service to continue to enhance the excellent emergency medical response system. Contemporary emergency medicine practice emphasizes beginning delivery of care with the arrival of trained, qualified Emergency Medicine Technicians (EMTs), not waiting for arrival at a hospital Emergency Department.”

#### IV. Public Need

“Lincoln County Health Care offered tuition support to Lincoln County Emergency Medical Technicians (EMT) so they could upgrade their certification from entry-level EMT-Basic to the Advance-Level Emergency Medical Technician with Intermediate Life Support capabilities. We provided in-ambulance I-Pad systems to improve pre-hospital communications between EMS personnel and emergency medicine physicians during transport to ensure a better standard of care. Lincoln County Health Care also provided \$250,000 in unrestricted gifts to the three communities in the Boothbay Region that could be used to reduce any need for a tax increase to these residents based on reported changes in the Boothbay Region Ambulance Service budget.”

In reviewing the availability of emergency care to the residents of the service area, it is clear that the former Miles location will continue to adequately provide emergency services from the geographic area where Miles has traditionally drawn emergency service patients. LincolnHealth has provided data showing that there are a small number of individuals that will be impacted by this change. The number of individuals needing this service is quite low. While these individuals may face more travel time to another facility for emergency care access to care has not been significantly impacted.

#### Quality and Safety Concerns

Clinical concerns have been suggested as a reason for consolidating emergency services at the Damariscotta campus. Decreasing patient volumes pose a risk to patient safety and overall quality. The concept of clinical competency suggests that the more frequently a procedure is performed the more competent the physician becomes. Numerous studies available on the PubMed website (<http://www.ncbi.nlm.nih.gov/pubmed/>) indicate a direct correlation between high volume hospitals and superior outcomes. For example a study entitled *Surgeon volume as an indicator of outcomes after carotid endarterectomy: an effect independent of specialty practice and hospital volume* shows a higher incidence of mortality among low volume surgeons (1.1%) vs high volume surgeons (.44%) The incidence of postoperative stroke was 1.14% for high-volume surgeons and 2.03% for low-volume surgeons. The study concludes that health policy efforts should focus on reducing the number of low-volume surgeons, regardless of surgeon specialty. In its response to public comments regarding the reorganization of Lincoln County Health Care MaineHealth submitted the following information:

“The major change in service at LincolnHealth’s St. Andrews Campus is the conversion of the former Emergency Department to an Urgent Care Center. There are strong clinical reasons for this decision. The number of patients who turned to LincolnHealth (then St. Andrews) at the St Andrews Campus for emergency care had been steadily declining for years. In the year prior to the consolidation, that number was approximately one patient every other night.”

“After analyzing these trends, Lincoln County Health Care’s board certified emergency physicians, determined that an urgent care model at the St Andrews Campus coupled with an enhanced EMS response and definitive care at a larger, busier Emergency Department at the Miles Campus provides better, safer care for our patients. Maintaining two Emergency Departments in Lincoln County was not clinical best practice. Following this determination by emergency physicians, the Board of Trustees engaged in an extensive process of research, analysis and deliberations that reached the conclusion that an Urgent Care Center at the St Andrews Campus was the most appropriate service to address community needs.”

#### IV. Public Need

“The limited resources available at the St Andrews Campus affected the quality of care the Emergency Department was able to deliver patients. Optimal care requires the availability of an entire team of providers. St. Andrews Hospital never had critical care capabilities and ceased emergency surgery capabilities before 1996, which is when it became a member of MaineHealth. There was no ability to call in additional nurses who have experience in managing critically ill or injured patients. There were no specialist physicians on call for the hospital. At night and during weekends, the Emergency Department did not have in-hours respiratory therapy, x-ray technicians or laboratory personnel.”

“The Emergency Department at LincolnHealth’s Miles Campus has the ability to rapidly assemble a large team of providers capable of caring for the most critically ill or injured patient. The distinct advantage outweighs any concerns about the additional time of transport to the hospital.”

“At LincolnHealth’s miles Campus, emergency physicians are able to draw upon a large number of additional resources. In the hospital there is another physician available who practices Hospital Medicine. Critical care nurses are immediately available and there are in-house respiratory therapists, x-ray technicians and laboratory personnel. Emergency physicians can summon on call physicians from the specialties of anesthesia, pediatrics, obstetrics and gynecology, general surgery, and orthopedic surgery.”

LincolnHealth will participate in MaineHealth’s health status improvement, clinical integration and quality improvement initiatives, which should have a positive impact on utilization. Chronic disease management is a major focus of MaineHealth’s clinical integration initiatives. This will provide demonstrable improvements in quality an outcome measures applicable to the services proposed in the project.

#### **Skilled Nursing Facility Care**

There was significant public concern over the lack of skilled rehabilitative care beds on the peninsula subsequent to the changes outlined by LincolnHealth. According to the Older Adults and Adults with Physical Disabilities: Population and Service use Trends in Maine 2012 Edition published by the Muskie School of Public Service Lincoln County has 18 nursing home beds per 1,000 persons age 65 and above. The State average is 33 beds per 1,000 persons age 65 and above. The 65 – 74 year old population is expected to grow by 45% by 2022. The 75-84 age group is expected to increase by 70% and the 85+ group is expected to increase by 20%. Lincoln County Health Care has recognized the need for additional skilled beds in Lincoln County and has filed with the Department of Health and Human Services a request to dually license all thirty nursing facility beds at the Gregory Wing of St. Andrews Village for SNF and NF levels of care. Currently only six of the Gregory Wing’s thirty beds were licensed for SNF care. This will allow Lincoln County residents discharged from the hospital to receive rehabilitative services closer to home. This will have a positive impact on the health status indicators of the population to be served.

**Inpatient Care**

Concentrating inpatient care at the Miles Campus is expected to improve patient safety and increase quality due to the availability of nurses, specialty physicians, and lab technicians. A large team of providers is available to take care of the most critically ill. In 2011, the combined average daily census (ADC) was 16.5. LincolnHealth’s licensed capacity is 25. The target occupancy rate for Miles and St. Andrews combined ADC is 71% or approximately 18 beds per night.

The consolidation of 24-hour inpatient and emergency care at LincolnHealth’s Damariscotta campus creates a higher quality and more sustainable model for delivering inpatient care while reducing quality risks associated with low volume. This provides demonstrable improvements in quality and outcome measures applicable to the services proposed in the project.

The applicant considered the impact of seasonal demand due to the number of summer residents and visitors in Lincoln County. Miles and St. Andrews experienced peak demand in February-March with a 20.9 and 21.2 average daily census and heightened demand in August with a 21.0 average daily census. Demand is expected to be adequately served by an inpatient capacity of 25 beds. LincolnHealth has demonstrated its ability to provide inpatient services in accordance with the standard.

**LincolnHealth Service Area**

In order to test the assertion that services will be adequate to serve the population, CONU expanded its analysis to look at the service area of the new combined hospital, LincolnHealth which is in Lincoln County Maine. CONU examined 2006 data inpatient utilization data for municipalities in Lincoln County with significant utilization among St. Andrews, Miles, MidCoast, Pen Bay and MMC. 2006 was selected because this data is from a year prior to the creation of Lincoln County Health Care.

<b>Lincoln County 2006</b>	<b>St. Andrews</b>	<b>Miles</b>	<b>MidCoast</b>	<b>Pen Bay</b>	<b>MMC</b>	<b>Total</b>
Alna	0	23	13	1	18	55
Boothbay	78	30	22	2	58	190
Boothbay Harbor	181	45	41	1	62	330
Bremen	0	30	6	5	23	64
Bristol	0	66	6	6	24	102
Damariscotta	5	301	22	19	97	444
Dresden	0	14	59	0	28	101
East Boothbay	35	11	13	1	25	85
Edgecomb	6	35	33	4	25	103
Jefferson/Somerville	0	92	14	45	57	208
Newcastle	3	162	18	7	52	242
Nobleboro	0	112	13	15	34	174
South Bristol	0	51	7	4	17	79
Southport	34	12	9	0	14	69
Trevett	10	7	3	1	11	32
West Boothbay	11	3	7	0	10	31
Waldoboro	1	50	22	225	114	412
Wiscasset	4	139	170	4	107	424
Whitefield	1	35	10	7	36	89
<b>TOTAL</b>	<b>369</b>	<b>1218</b>	<b>488</b>	<b>347</b>	<b>812</b>	<b>3234</b>
<b>% of Total</b>	<b>11.41%</b>	<b>37.66%</b>	<b>15.09%</b>	<b>10.73%</b>	<b>25.11%</b>	<b>100.00%</b>

Prior to the formation of Lincoln County Health Care 11.41% of Lincoln County Residents utilized services at St. Andrews and 37.66% utilized services at Miles Memorial.

Below are tables showing inpatient utilization data for 2009 through 2011.

<b>Lincoln County 2009</b>	<b>St. Andrews</b>	<b>Miles</b>	<b>MidCoast</b>	<b>Pen Bay</b>	<b>MMC</b>	<b>Total</b>
Alna	0	30	19	1	15	65
Boothbay	61	34	48	2	49	194
Boothbay Harbor	159	47	40	4	83	333
Bremen	0	56	3	7	28	94
Bristol	1	67	18	6	25	117
Damariscotta	4	233	20	10	80	347
Dresden	0	15	60	0	37	112
East Boothbay	24	15	10	1	22	72
Edgecomb	13	46	20	1	26	106
Jefferson/Somerville	0	75	11	30	74	190
Newcastle	1	117	19	11	55	203
Nobleboro	2	110	19	26	41	198
South Bristol	1	30	3	1	22	57
Southport	22	8	14	0	19	63
Trevett	10	7	3	0	12	32
West Boothbay	22	2	6	1	5	36
Waldoboro	1	219	31	220	141	612
Wiscasset	4	108	170	6	123	411
Whitefield	0	24	12	5	55	96
<b>TOTAL</b>	<b>325</b>	<b>1243</b>	<b>526</b>	<b>332</b>	<b>912</b>	<b>3338</b>
<b>% of Total</b>	<b>9.74%</b>	<b>37.24%</b>	<b>15.76%</b>	<b>9.95%</b>	<b>27.32%</b>	<b>100.00%</b>

<b>Lincoln County 2010</b>	<b>St. Andrews</b>	<b>Miles</b>	<b>MidCoast</b>	<b>Pen Bay</b>	<b>MMC</b>	<b>Total</b>
Alna	0	33	15	3	16	67
Boothbay	22	76	55	9	54	216
Boothbay Harbor	35	99	56	0	75	265
Bremen	0	45	4	7	24	80
Bristol	0	42	9	7	32	90
Damariscotta	0	194	24	19	114	351
Dresden	0	8	91	1	33	133
East Boothbay	6	11	11	1	26	55
Edgecomb	1	58	22	1	24	106
Jefferson/Somerville	0	77	9	21	61	168
Newcastle	0	123	15	9	52	199
Nobleboro	0	100	23	17	42	182
South Bristol	0	10	5	0	6	21
Southport	8	20	3	1	29	61
Trevett	3	17	7	0	21	48
West Boothbay	2	9	4	0	13	28
Waldoboro	1	240	26	208	148	623
Wiscasset	1	87	175	3	94	360
Whitefield	0	29	9	5	48	91
<b>TOTAL</b>	<b>79</b>	<b>1278</b>	<b>563</b>	<b>312</b>	<b>912</b>	<b>3144</b>
<b>% of Total</b>	<b>2.51%</b>	<b>40.65%</b>	<b>17.91%</b>	<b>9.92%</b>	<b>29.01%</b>	<b>100.00%</b>

<b>Lincoln County 2011</b>	<b>St. Andrews</b>	<b>Miles</b>	<b>MidCoast</b>	<b>Pen Bay</b>	<b>MMC</b>	<b>Total</b>
Alna	0	17	17	1	13	48
Boothbay	5	63	52	2	69	191
Boothbay Harbor	8	106	63	3	54	234
Bremen	1	49	10	2	36	98
Bristol	0	44	9	3	35	91
Damariscotta	1	190	25	15	83	314
Dresden	0	11	69	1	37	118
East Boothbay	3	19	17	0	16	55
Edgecomb	0	40	29	1	24	94
Jefferson/Somerville	0	100	15	25	59	199
Newcastle	0	105	29	9	37	180
Nobleboro	0	90	13	8	51	162
South Bristol	0	16	4	0	18	38
Southport	0	23	10	1	29	63
Trevett	1	6	7	0	8	22
West Boothbay	2	5	6	1	8	22
Waldoboro	0	213	25	182	121	541
Wiscasset	0	89	159	3	106	357
Whitefield	0	13	5	3	28	49
<b>TOTAL</b>	<b>21</b>	<b>1199</b>	<b>564</b>	<b>260</b>	<b>832</b>	<b>2876</b>
<b>% of Total</b>	<b>0.73%</b>	<b>41.69%</b>	<b>19.61%</b>	<b>9.04%</b>	<b>28.93%</b>	<b>100.00%</b>

IV. Public Need

The 2009 through 2011 data shows a reduction from 9.74% of Lincoln County residents utilizing St. Andrews services in 2009 to .73% in 2011. There was a corresponding increase in Lincoln County residents utilizing services at Miles from 37.24% in 2009 to 41.69% in 2011. Mid Coasts utilization increased from 15.76% in 2009 to 19.61% in 2011. Pen Bay and MMC's utilization remained relatively stable.

All services provided by Miles and St. Andrews prior to the merger continue and are accessible to all residents and visitors. As shown in the above charts the residents utilization patterns have shifted. Below is a chart showing the distances from Boothbay Harbor to nearby facilities.

<b>From</b>	<b>To</b>	<b>Mileage</b>	<b>Hospital</b>
Boothbay Harbor	Damariscotta	17 miles	Miles Memorial
Boothbay Harbor	Brunswick	33 miles	Mid Coast
Boothbay Harbor	Rockport	45 miles	Pen Bay
Boothbay Harbor	Portland	57 miles	Maine Medical Center

There have been specific concerns regarding the high incidence of smoking related disease, diabetes, substance abuse problems and mental health issues in the Lincoln County area that require ongoing monitoring. The following condition is necessary to ensure that the impact of community programs instituted to reduce these health issues will be as effective as forecast by the applicant.

Condition: The applicant is to report improvements in quality and outcome measures related to the community services instituted to reduce smoking related diseases, diabetes, substance abuse and mental health issues in Lincoln County. This report will be required on an annual basis within 90 days of its fiscal year end beginning with the time period when the Certificate of Need was approved until a full three years have elapsed since the date of the project completion.

**ii. Conclusion**

The Certificate of Need Unit recommends that the Commissioner find that the applicants have met their burden to show that there is a public need for the proposed project.

V. Orderly and Economic Development

## V. Orderly and Economic Development

### A. From Applicant (2007)

#### Lincoln County Health Care

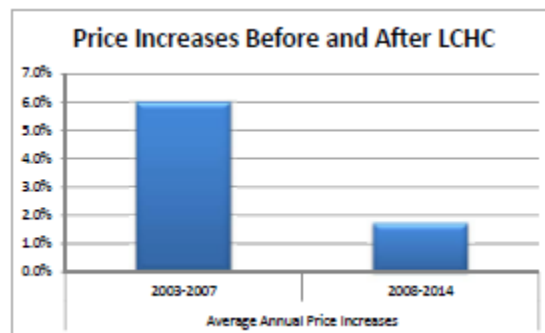
##### “Impact on Health Care Expenditures: Project’s Benefit and Potential Impact on Other Providers’ Costs”

“The transaction’s benefits are discussed throughout this application. Approval of this transaction does not affect the cost of care delivered by other existing Maine service providers.”

“This transaction primarily involved the day-to-day operation of Miles Memorial Hospital, St. Andrews Hospital and related entities. The transaction has had no impact on other providers’ volume of services, quality of care or costs.”

“There was no addition to any facilities or services as a result of this transaction. The services that had been offered by Miles Memorial Hospital, St. Andrews Hospital and related entities continued without any changes.”

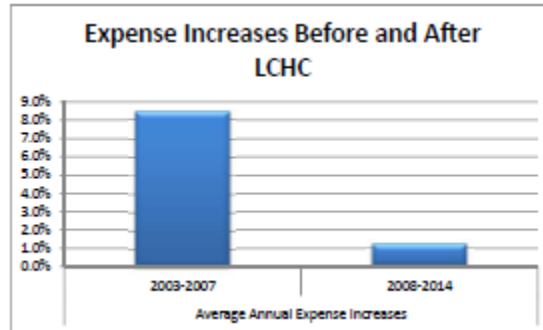
“The following chart demonstrates the positive impact that the formation of Lincoln County Health Care has had in the rates it charges for services provided. Included in this comparison is the 7.1% price decrease implemented in October, 2013 that was made possible by the merger of Miles Memorial Hospital and St. Andrews Hospital under the control and governance of Lincoln County Health Care.”



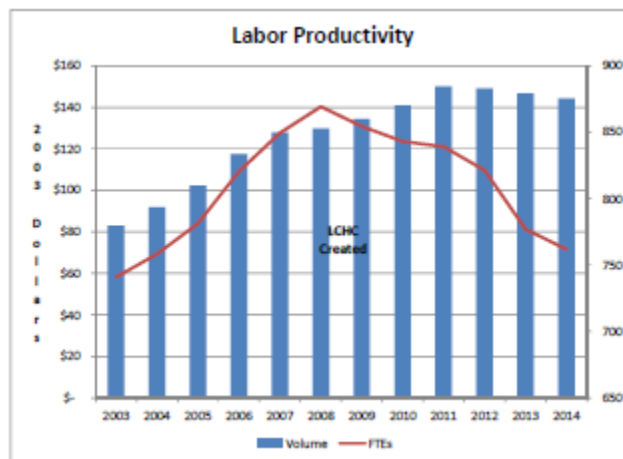


V. Orderly and Economic Development

“This next chart illustrates the Lincoln County Health Care’s ability to control expenses through a single governance and management structure better than Miles Health Care and St. Andrews Hospital were able to do independently.”



“A significant component of health care cost is labor related. The chart below represents the system FTE’s relative to volume expressed as gross revenue in 2003 revenue; the price increases are eliminated. The trends illustrate the increasing difficulty in controlling labor costs for two small hospitals subject to core staffing requirements. The creation of LCHC enabled the sharing of administration and managerial costs, along with the ability to coordinate clinical services. Since the formation of LCHC we have been able to care for more patients with fewer FTEs.”



“This is a key component of the slowing expense trends in the previous chart.”

“The lower prices and expense control made possible through the creation of Lincoln County Health Care speak directly to the intent of the Certificate of Need law in:

- Support of health planning,
- Ensuring access to cost-effective services,
- Maintaining the availability of health care services regardless of the ability to pay and
- Avoiding excessive duplication of services.”

V. Orderly and Economic Development

**“Availability of state funds: Impact on MaineCare”**

“Approval of this transaction has no impact on MaineCare.”

**“Alternatives: Potential of More Effective, More Accessible or Less Costly Technologies or Methods”**

“There were no new incremental annual operating costs as a result this transaction. There are cost savings. In just the first two years of Lincoln County Health Care’s existence more than \$3,222,000 in cost savings was realized.”

**From Applicant (2013)**

**“LincolnHealth”**

**“Impact on Health Care Expenditures: Project’s Benefit and Potential Impact on Other Providers’ Costs”**

“The transaction’s benefits are discussed throughout this application.”

“Approval of this transaction does not affect the cost of care delivered by other existing Maine service providers.”

“This transaction primarily involved the day-to-day operation of LincolnHealth. The transaction should have no impact on other providers’ volume of services, quality of care or costs.”

“There is no addition to any facilities or services as a result of this transaction. The services that had been offered under the subsidiary corporation Miles Memorial Hospital have simply been deemed re-allocated to the surviving subsidiary St. Andrews Hospital, whose name has been changed to LincolnHealth.”

**“Availability of state funds: Impact on MaineCare”**

“LincolnHealth’s FY 14 budget assumes a payor mix the same as FY13 and no volume growth. Based on these assumptions, LincolnHealth would receive \$716,000 in additional MaineCare reimbursement during FY14, the State’s share being about \$240,000. That compares to \$2.1 million in direct savings to commercial and self-pay patients.”

“There will likely be some offsets to that MaineCare number that are hard to quantify. Examples include:

- Former ED patients that seek Urgent Care,
- LincolnHealth’s ability to continue funding Patient Centered Medical Homes to reduce ED and Urgent Care utilization,
- Further cost reductions made possible by the merger and

V. Orderly and Economic Development

- MaineCare eligibility restrictions effective January 1, 2014.”

**“Alternatives: Potential of More Effective, More Accessible or Less Costly Technologies or Methods”**

“There are no new incremental annual operating costs as a result this transaction. There are cost savings. LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million. As a result of these savings and benefits Lincoln County Health Care has announced price reductions in the amount of \$7.7 million effective October 2013, which will benefit Lincoln County employers, residents and visitors.”

**B. CONU Discussion**

**i. CON Standards**

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. CON Analysis**

The formation of Lincoln County Health Care and the subsequent ability to reduce managerial, and administrative costs and coordinate clinical services resulted in a savings of \$3.2 million in the first two years of operations.

The consolidation of inpatient and emergency department services at LincolnHealth's Damariscotta campus is expected to result in a decrease of \$6.3 million dollars in operating costs, enhanced Medicare reimbursement of \$5.2 million (if Critical Access hospital designation is approved by CMS) which will have a positive impact on total health care expenditures in the Lincoln County area. No additional need for State funding is anticipated as a result of this project because decreased costs will offset the enhanced reimbursement of the Critical Access Hospital. As stated in the public need section of his application small hospitals are affiliating with larger health care systems throughout the country in order to achieve financial and clinical benefits. Consolidation is taking place to avoid duplications of services. It is highly unlikely that a more effective, more accessible or less costly alternative technology or method of service delivery will become available

**Conclusion**

CONU recommends that the Commissioner find that the applicant has 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. Outcomes and Community Impact

## **VI. Outcomes and Community Impact**

### **A. From Applicant (2007)**

#### **“Lincoln County Health Care”**

##### **“High Quality Outcomes”**

“The integration has created enough scale to develop a robust Quality and Performance Improvement Program that serves the hospitals, physician practices and senior living services. The creation of Lincoln County Health Care has strengthened and made sustainable our commitment to quality and community. Together as an integrated system for six years, Miles Memorial Hospital and St. Andrews Hospital have better served the residents of Lincoln County.”

“This commitment to quality is demonstrated by Miles Memorial Hospital in 2011 being one of the first 3 hospitals nationally to earn a Top Rural Hospital distinction by the Leap Frog Group. This group, representing many of the largest corporations in the country, ranks hospitals based on quality and patient safety. Their scoring is comprehensive and rigorous. It was an honor to receive this distinction once and we have just learned Miles has received it again for 2013. Quality, affordability and access will continue to improve with LincolnHealth’s ability to further enhance our integration of programs and services.”

##### **“Potential Impact on Existing Providers’ Quality of Care”**

“This transaction has had no impact on other provider’s quality of care.”

### **From Applicant (2013)**

#### **“LincolnHealth”**

##### **“High Quality Outcomes”**

“The integration of Miles Memorial Hospital and St. Andrews Hospital accomplished by the merger of the two entities results in the consolidation of 24-hour inpatient and emergency care at LincolnHealth’s Damariscotta campus. This consolidation creates a higher quality and more sustainable model for delivering urgent and emergency care and inpatient care while reducing the risk of erosion in quality due to low volume.”

##### **“Potential Impact on Existing Providers’ Quality of Care”**

“This project has no impact on other provider’s quality of care.”

VI. Outcomes and Community Impact

**B. CONU Discussion**

**i. CON Standards**

The relevant standard for inclusion in this section is 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. CON Analysis**

The establishment of Lincoln County Health Care enabled the development of a strong Quality and Performance Improvement Program across the spectrum of hospital, senior living and physician services. In 2011 Miles Memorial Hospital was one of the first 3 hospitals nationally to earn a Top Rural Hospital award by the Leap Frog Group which rates hospitals based on quality and patient safety. Miles received this award again in 2013.

The merger of Miles and St. Andrews into LincolnHealth resulted in a consolidation of inpatient and emergency department services on the Damariscotta campus. As discussed in the public need section of this analysis this consolidation creates a higher quality and more sustainable model for delivering urgent and emergency care and inpatient care while avoiding risks to quality and patient safety due to low volume.

No new services have been developed due to this project and LincolnHealth's service area remains Lincoln County. This project will have no impact on other providers' quality of care.

A critical component of this project is the implementation of community services to address chronic diseases in the Lincoln County area. It is important that CONU monitor the results of these programs. As a result CONU is including the following condition.

**Condition:**

The applicant is to report improvements in quality and outcome measures related to the community services instituted to reduce smoking related diseases, diabetes, substance abuse, mental health and other chronic disease issues in Lincoln County. This report will be required on an annual basis within 90 days of its fiscal year end beginning with the time when the Certificate of Need was approved until a full three years have elapsed since the date of the project completion.

**iii. Conclusion**

CONU recommends that the Commissioner find that the applicant has 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.

## **VII. Service Utilization**

### **A From Applicant (2007)**

#### **“Lincoln County Health Care”**

##### **“Risk of Inappropriate Increases in Service Utilization”**

“This transaction has met a documented health care need as opposed to creating a health care demand. This transaction has not increased health care utilization unnecessarily and has not created inappropriate or unnecessary demand.”

### **From Applicant (2013)**

#### **“LincolnHealth”**

##### **“Risk of Inappropriate Increases in Service Utilization”**

“This transaction meets a documented health care need as opposed to creating a health care demand. This transaction will not increase health care utilization unnecessarily and will not create inappropriate or unnecessary demand.”

#### **“MaineHealth Population-based Initiatives”**

“Lincoln County Health Care, LincolnHealth, Cove’s Edge and Lincoln County Medical Group participate in MaineHealth’s health status improvement, clinical integration and quality improvement initiatives, which should over time impact utilization positively.”

“The mission of MaineHealth is “Working together so our communities are the healthiest in America”. MaineHealth has made financial and human resource commitments to this mission, based on the following beliefs:

- Health care costs in Maine (and nationally) will continue to increase due to demographic, technological and normal inflation factors which are generally beyond our control;
- If healthcare is to remain affordable to the vast majority of our citizens, changes will need to be made to the manner in which we currently provide and finance that care;
- The long-term solution to balancing increased utilization is to improve the health of the people of Maine;
- The health care challenge requires short-term solutions which improve the quality (both care delivery and outcomes), cost-efficiency (both clinical and administrative) and access to health care.”

VII. Service Utilization

“MaineHealth’s approach to improving the health of its communities focuses on two major types of initiatives:

- Health status improvement initiatives which address a health issue which is amenable to intervention based on specific, scientifically based programs
- Clinical integration initiatives which seek to improve the delivery of coordinated, integrated services to selected populations, particularly those with chronic diseases or for conditions where clinical guidelines and protocols have been demonstrated to improve outcomes.”

“Management of populations with chronic diseases has become a major focus of MaineHealth’s clinical integration initiatives. During the next 15 years, the population in Maine over the age of 65 is expected to double. Based on national studies, it may be anticipated that 60% of the population will have at least one chronic condition and 40% will have two or more. A recent study by researchers at Johns Hopkins, the US HHS Agency for Health Research and Quality and the University of Pennsylvania predicts that by 2030, 87% of the population will be overweight, 51% will be obese and the prevalence of overweight children will nearly double. Since 1999, MaineHealth has been building health status improvement and clinical integration initiatives to address these challenges, funding them through a combination of MaineHealth dues, investment income and grants.”

“MaineHealth and its members are clearly committed to population based health and prevention and are redirecting resources to support those initiatives. MaineHealth has been building health status improvement and clinical integration initiatives to address these challenges, funding them through a combination of MaineHealth dues, investment income and grants. Beginning in FY 2006, MaineHealth began providing partial support for these initiatives through fund balance transfers from member organizations.”

“Below are the MaineHealth budgets for these initiatives for FY 2010, 2011, 2012 and 2013.”

**“MaineHealth Clinical Integration / Health Status Improvement Budgets  
(in 000s)**

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Clinical Integration	\$4,733	\$4,995	\$6,173	\$6,913
Health Status Improvement	3,804	4,314	4,971	\$4,707
Community Education	<u>2,537</u>	<u>2,573</u>	<u>2,540</u>	<u>\$2,359</u>
Total	\$11,074	\$11,882	\$13,684	\$13,979”

“MaineHealth has not asked for more than we thought could be well used, and we have continued to be successful in securing other support through grants. MaineHealth has adopted a strategy that recognized that, while it has been reasonably successful in its initiatives, MaineHealth must step up the scope and pace of these initiatives by committing over the next several years up to 1% of its net assets annually to support these initiatives.”

VII. Service Utilization

“MaineHealth emphasizes collaboration in developing and implementing clinical integration and health status improvement initiatives; all provider organizations are welcome to join us and use our tools. There are no competitors. Our approach is based on bringing together providers to design and implement evidence based approaches to the care of patients and on measuring results.”

“Presented below are brief summaries of the major health status improvement and clinical integration initiatives supported by these resources. Detailed descriptions of these initiatives and the outcomes they have produced to improve the health of communities MaineHealth serves are on file with the Certificate of Need Unit as part of the public record associated with the MaineHealth and Waldo County Healthcare certificate of need application for WCH Membership in MaineHealth and are included in this application by reference.”

- “AH! Asthma Health – a comprehensive patient and family education and care management program targeting childhood asthma initially and now expanded to include adults;
- Target Diabetes – a comprehensive diabetes education and care management program;
- Caring for ME – designed to improve the ability of primary care providers to care for patients with depression and to educate patients and families on their roles in self-management;
- Healthy Hearts – designed to improve the care of patients with congestive heart failure and to educate patients and families on their roles in self-management;
- Clinical Improvement Registry – a computer based system provided to primary care practices in the MMC Physician-Hospital Organization and several other hospital physician organizations. The Registry provides patients and physicians with data on the management of chronic illnesses including asthma, diabetes, cardiovascular disease, depression and heart failure;
- MMC Physician Hospital Organization Clinical Improvement Plan – the Plan includes funding 23 practice based registered nurse care managers which support 265 physicians in 71 primary care practices; currently they are focusing on diabetes, depression and asthma;
- Raising Readers – a health and literacy project that provides books to all Maine Children from birth to age five at their Well Child visits;
- Care Partners – provides free physician and hospital care, drugs and care management to over 1,000 adults in Cumberland, Kennebec and Lincoln counties who do not qualify for federal and state programs;



## VII. Service Utilization

- Center for Tobacco Independence – MaineHealth through a contract with the State manages the statewide smoking cessation program;
- Acute Myocardial Infarction/Primary Coronary Intervention Project – collaborative effort of 11 southern, central and western Maine hospitals, and their medical staffs that standardizes and improves the care of patients experiencing a heart attack;
- Stroke Program – assures that all patients with stroke receive the most up to date, high quality, efficient care; provides a coordinated system of care for stroke patients who must be transferred to another facility;
- Emergency Department Psychiatric Care – follows a medical clearance protocol for patients seen in the ED who need hospitalization; follows medication recommendations for agitated patients; and decreases the need for restraints and seclusion, including training ED staff how best to work with agitated patients;
- Healthy Weight Initiative – addresses adult and youth obesity, including a 12 step action plan (“Preventing Obesity: A Regional Approach to Reducing Risk and Improving Youth and Adult Health”);
- Youth Overweight – MaineHealth and MMC have joined with several other organizations including Hannaford, United Way, Unum, Anthem and TD Banknorth, to design and implement a 5 year initiative on youth overweight;
- Blood Transfusion – system protocols to reduce blood transfusions
- Hand Hygiene - system plan to reduce hospital infections through hand hygiene monitoring.
- The MaineHealth Cancer Resource Center – MaineHealth’s major initiative focusing on cancer. Goals for this new initiative include:
  - For the five most prevalent cancers, adopt evidence-based clinical care guidelines, identify quality metrics and reporting methodology, and provide a range of educational support to promote consistent use of guidelines.
  - Support each MaineHealth organization in attaining or maintaining the appropriate level of cancer care accreditation, including appropriate level of credentialing necessary for delivering care in accordance with desired accreditation
  - Improve access to clinical trials.
  - Improve access to genetic counseling services.
  - Support the development of patient navigation and survivorship programs to improve patient access, engagement, and satisfaction.
  - Improve the Network Registry to support increased access and data review for outcomes and quality metrics.
  - Coordinate services regionally to provide maximum access to care (i.e. improve access to specialists.)”

VII. Service Utilization

“MaineHealth and its members are clearly committed to population based health and prevention and are redirecting resources to support those initiatives. MaineHealth believes that these initiatives are entirely consistent with the best evidence-based practices regarding how to approach chronic disease. Evidence from our programs demonstrates that the Chronic Care Model can and does work [Letourneau et al, “Rural Communities Improving Quality through Collaboration,” Journal for Healthcare Quality, (National Association for Healthcare Quality, Vol. 28, No. 5, pp. 15-27)].”

**B. CONU Discussion**

**i. CON Standard**

The relevant standard for inclusion in this section are 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 as established in Title 24-A, section 6951, when the principles adopted by the Maine Quality Forum are directly applicable to the application.

**ii. CON Analysis**

This project will not result in an inappropriate increase in service utilization in the Lincoln County area. In fact, due to the merger inpatient services will be consolidated at the Damariscotta campus and licensed beds will be reduced from 63 beds to 25 acute care/swing beds in accordance with critical access hospital requirements. 24 hour emergency services will be eliminated and replaced with an urgent care unit at the Boothbay Harbor campus. Both Lincoln County Health Care and LincolnHealth participate in MaineHealth’s health status improvement, quality initiatives and clinical integration with the ultimate goal of positively impacting utilization.

**iii. Conclusion**

CONU recommends that the Commissioner find that the applicant has 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.

## **VIII. Timeline Criteria**

Letter of Intent filed	October 1, 2013
Technical Assistance Meeting held on	Waived
CON Application filed	November 15, 2013
CON Application certified as complete	November 15, 2013
Public Hearing held	December 19, 2013
Close of Public Record	January 22, 2014

IX. CON Findings and Recommendations

## **IX. CON 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 subject to the conditions below:

- 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 demonstrated by the applicant;

IX. CON Findings and Recommendations

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 ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers; and
- F. 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.

**Conditions:**

The applicant (LincolnHealth) is to report on the status of final Critical Access approval for LincolnHealth every 90 days until final approval is received or denied beginning with the date the Certificate of Need was approved.

The applicant (LincolnHealth) is to report improvements in quality and outcome measures related to the community services instituted to reduce smoking related diseases, diabetes, substance abuse, mental health issues and other chronic diseases in Lincoln County. This report will be required on an annual basis within 90 days of its fiscal year end beginning with the time when the Certificate of Need was approved until a full three years have elapsed since the date of the project completion.