**DATE:** October 1, 2015

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

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

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

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

**SUBJECT:** Merger of Penobscot Bay Healthcare and Waldo County Healthcare

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

**REGISTERED AFFECTED PARTIES:** None

**I. BACKGROUND**

MaineHealth proposes to merge two of its members (subsidiary corporations), Waldo County Healthcare (WCH) and Penobscot Bay Healthcare (PBH), with PBH being the surviving entity with an effective date of January 1, 2016.

Each of WCH and PBH control a DHHS-licensed hospital – Waldo County General Hospital and Pen Bay Medical Center, respectively. The hospitals are within twenty-five miles of each other, and have adjacent and overlapping primary service areas.

Waldo County General Hospital (WCGH) is a 25 bed critical access community hospital located in Belfast, Maine and Penobscot Bay Medical center is a 99 bed acute care hospital located in Rockport, Maine. Both hospitals provide a wide array of services to the surrounding communities.

**II. PROJECT DESCRIPTION**

Until their move to membership in MaineHealth in 2009 and 2011 respectively, the two hospital systems were largely independent of each other. Since then, changes in health care financing, regulation, and economies of scale have driven them to act more regionally, at least on an ad hoc basis. Volumes necessary to support high quality specialties and subspecialties are more achievable over a larger patient base. Similarly, the economics of hiring physicians/specialists is more tenable over a larger patient base, in part because changes in physician call coverage expectations require that practice specialties have at least two, and sometimes three, four or more physicians to share night and weekend call schedules. The same is true at administration levels.

Consonant with these developments, WCH and PBH or their hospital subsidiaries over time have begun to share some clinical and administrative services and positions:

* Physician Services: Collaborative arrangements in Nephrology, Urology, Infectious Diseases, Vascular Surgery, Orthopedic Surgery, Hematology and Psychiatry.
* Clinical Services: Shared Management of Cardio-Pulmonary, Oncology Care and Services; shared staff in echo sonography and oncology.
* Administrative Services: Shared Chief Executive Officer, Chief Information Officer and Chief Medical Information Officer.
* Support Services: Shared Laundry Services.

In the last year, MaineHealth, as well as trustees and leaders at both WCH and PBH, studied the relationship between these trends and the local governance of each system. At the end of their study, they concluded that the governance of WCH and PBH should both reflect and promote the increasing regionalization in the delivery of health care, and that future decisions that might otherwise be made solely with WCH or PBH in mind should evolve to a point at which the needs of all residents served within the WCH and PBH service areas should guide the analysis and deliberations. Accordingly, MH, and the Boards of Trustees of WCH and PBH resolved to combine the separate boards of trustees of WCH and PBH into a single board.

**III. HIGHLIGHTS**

Letter of Intent dated: June 17, 2015

Technical Assistance meeting held: July 15, 2015

CON application filed: August 7, 2015

CON certified as complete: August 7, 2015

Public Information Meeting Held N/A

Public Hearing held: N/A

Preliminary Analysis released: September 8, 2015

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

One public comment was received following the release of the preliminary analysis urging careful review under the CON process due to the complicated nature of this merger.

**V. CERTIFICATE OF NEED UNIT ANALYSIS**

1. **Fit, Willing and Able**

In order to determine if the applicant is fit, willing and able CONU evaluated WCGH and PenBay on both quality measures and the most recent Federal/State survey results. Both hospitals are in compliance with State of Maine 10-144 C.M.R Ch. 112, Rules for the Licensing of Hospitals. All requirements have been met.

**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.

1. **Economic Feasibility**

The applicant addressed this section by referring to the CON financial module submitted with the applications. The applicant projects a positive operating surplus for 2015 of $5,923,253 and has budgeted an operating surplus of $5,447,430 for 2016 for the combined PBH entity. The applicant is also projecting improvements through 2016 in measures of profitability, liquidity and capital structure. As stated previously, PBH will remain a member of MaineHealth. As part of the application MaineHealth submitted a copy of its September 30, 2014 audited financial statements. It shows cash and cash equivalents on its balance sheet of $117,916,000 and investments of $336,219,000. The applicant has the capacity to support PBH financially in the event that financial projections do not materialize.

This applicant has been a provider of similar health care services for many years and as stated in the fit, willing and able section of this application, is in compliance with all applicable licensure requirements.

This project does not involve any changes to the operations of PenBay and WCGH as a result of the merger of WCH and PBH. The project will have minimal impact on the operating budgets of the entities involved. In fact, there is a small administrative savings projected with this project. There will be no impact on State health care expenditures.

**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 license 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 the applicable licensing and certification standards.

1. **Public Need**

There are no proposed changes to health care services resulting from this transaction. Both PenBay and WCGH provide a wide array of services to address health needs in the area and will continue to do so. The purpose of this transaction is to achieve administrative and clinical integration. This transaction is occurring in response to larger national trends taking place in the health care industry. Changes in regulations and healthcare financing make it more advantageous for healthcare entities to combine and achieve economies of scale and avoid duplication of effort within a health care region.

Ongoing administrative and clinical integration will have a positive impact on the health status indicators of the population to be served. PBH will continue to derive benefits from MaineHealth’s Quality, Health Status Improvement, Population Health Management and Clinical Integration Programs.

The services provided by PenBay and WCGH will continue to be accessible to all residents of the area proposed to be served.

This project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project. Fostering a regional collaborative approach will achieve administrative and clinical integration and improve quality outcome measures. WCGH and PenBay will continue to provide the same quality of care as there will be no changes in day to day operations.

1. **Orderly and Economic Development**

This project has no associated capital expenditures or increases in operating expenses. This transaction involves the merger of two holding companies, PBH and WCH, into a combined entity called PBH.

No additional State funds will be needed because there are no additional costs associated with this transaction.

This transaction does not involve the delivery of services. Alternatives for more effective, more accessible or less costly alternative technologies or methods of service delivery aren’t applicable to this project.

1. **Outcomes and Community Impact**

This merger of holding companies will entail no changes or addition of services therefore there will be no negative impact on the quality of care delivered by existing service providers. PenBay and WCGH will continue to offer the same quality of care post-transaction ensuring high-quality outcomes.

1. **Service Utilization**

This application involves the merger of two holding companies and services will remain unchanged at PenBay and WCGH. No inappropriate increases in service utilization will occur as a result of this merger.

**VI. CONCLUSION**

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

**VII. RECOMMENDATION**

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