**Date: September 8, 2015**

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

**Proposal by: MaineHealth**

**Prepared by: Larry Carbonneau, Manager Health Care Oversight**

**Richard Lawrence, Senior Health Care Financial Analyst**

**Directly Affected Party: None**

**Certificate of Need Unit Recommendation: Approval**

**Proposed Approved**

**Per Applicant** **CON**

Estimated Capital Expenditure $0 $0

Maximum Contingency $0 $0

Total Capital Expenditure with Contingency $0 $0

Pro-Forma Marginal Operating Costs $0 $0

MaineCare Neutrality Established N/A

# I. Abstract

1. **From Applicant**

“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. WCH and PBH are subsidiaries of MaineHealth, in the sense that MaineHealth controls each of these entities by virtue of the fact that MaineHealth is the sole corporate member of these entities and thus elects the entirety of each entity’s board of trustees.”

“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.”

“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. This is the transaction that is now before the Department for CON review.”

“The transaction takes the form of a merger of WCH into PBH, with PBH as the surviving entity with an effective date of January 1, 2016. MaineHealth will continue to be the parent company of PBH, just as it has been the parent company of WCH and PBH since 2009 and 2011, respectively. MaineHealth will continue to elect the board of directors of PBH, just as it has elected the board of trustees of WCH and PBH since 2009 and 2011, respectively. The hospitals Waldo County General Hospital and Penobscot Bay Medical Center will continue to exist and operate as they do as separately licensed hospitals and distinct subsidiaries of a subsidiary of MaineHealth.”

“The transaction entails no transfers of assets in either of these DHHS-licensed hospital facilities. The transaction involves no capital expenditure, or increases in the operating costs of these hospitals.”

“MaineHealth is submitting this transaction for CON review only because the Department has declared that the transaction is CON reviewable. Given the Departments position – and the fact that the CON statute imposes severe consequences on a DHHS licensee if a CON is not obtained, and that DHHS has previously sought civil penalties against entities that do not seek CON review for transactions that the Department believes are CON reviewable – MaineHealth has no choice but to seek CON approval if it wishes to move forward with this transaction.”

“MaineHealth disagrees with the Department’s position that the transaction is CON reviewable. The reasons for its disagreement have been recorded in a letter from MaineHealth of March 11, 2015, in the letter of intent for this transaction of June 17, 2015, and in statements made by the Applicant at the technical assistance conference on July 15, 2015. This Application does not repeat the arguments here, but incorporates them by reference, in order to preserve the matter for further decision, if the Department re-considers its position, or for judicial review.”

**CONU Comment #1:**

According to 22 M.R.S.A §329 a certificate of need is required for:

**Transfer of ownership; acquisition by lease, donation, transfer; acquisition of control**. Any transfer of ownership or acquisition under lease or comparable arrangement or through donation or any acquisition of control of a health care facility under lease, management agreement or comparable arrangement or through donation that would have required review if the transfer or acquisition had been by purchase, except in emergencies when that acquisition of control is at the direction of the department.

**II. Fit, Willing and Able**

**A. From Applicant**

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

“MaineHealth’s service area is defined in the following manner:

Primary: Androscoggin, Cumberland, Franklin, Kennebec, Knox, Lincoln, Oxford, Sagadahoc, Somerset, Waldo and York counties in Maine and Carroll County, New Hampshire.”

“Secondary: Aroostook, Hancock, Penobscot, Piscataquis and Washington counties.”

“MaineHealth consists of the following members:

Maine Medical Center – hospital; Maine Medical Partners – physician practices, physician and practice management services; MMC Realty Corp - real estate. Maine Medical Center is involved in the following joint ventures:

* Maine Heart Center – joint venture with cardiologists, cardiac surgeons and anesthesiologists for managed care contracting;
* MMC Physician Hospital Organization (PHO) - a joint venture with Community Physicians of Maine;
* New England Rehabilitation Hospital of Portland - joint venture rehabilitation hospital with HealthSouth;
* MMC/MaineGeneral Medical Center Joint Venture Cath. Lab; and
* Maine Molecular Imaging – joint venture with MaineHealth providing positron emission tomography (PET) scans.
* Cancer Care Center of York County –MMC/Southern Maine Health Care joint venture radiation therapy center.”

“Maine Behavioral Healthcare – psychiatric hospital and integrated system of inpatient and outpatient mental health providers serving MaineHealth’s primary service area.”

“Lincoln County Health Care – the parent company of the hospital known as LincolnHealth, as well as Cove’s Edge and Lincoln County Medical Group.”

“Western Maine Health Care – the parent company of Stephens Memorial Hospital and various physician practices.”

“Southern Maine Health Care – hospital with campuses in Biddeford and Sanford, and the parent company of physician practices, nursing homes and home health agency.”

“Waldo County Healthcare – the parent company of Waldo County General Hospital, and a home health and hospice agency.”

“Penobscot Bay Healthcare – the parent company of Penobscot Bay Medical Center, nursing homes, home health and hospice agency, residential hospice and retirement community.”

“Memorial Hospital, North Conway, New Hampshire – hospital, physician practice, nursing home.”

“Franklin Community Health Network) – the parent company of Franklin Memorial Hospital, a physician practice, ambulance service, crisis mental health service, and community health coalition.”

“NorDx, Scarborough, Maine – a general and reference laboratory.”

“Home Health Visiting Nurses of Southern Maine – home health care agency.”

“Concentra Health – Formerly Occupational Health & Rehabilitation, Inc., joint venture limited liability corporation providing occupational health services.”

“Maine Molecular Imaging – joint venture with Maine Medical Center providing positron emission tomography (PET) scans.”

“Synernet – a business corporation providing certain “back office” services to MaineHealth members and other hospitals: medical transcription services, credentials verification, and workers compensation plan administration.”

“In addition to bringing these organizations into its corporate structure, MaineHealth has established strategic affiliation agreements with the following organizations. These affiliations seek to improve quality, access and efficiency through cooperative efforts:

* MaineGeneral Health/MaineGeneral Medical Center (1997)
* Mid Coast Health Services/Mid Coast Hospital (1999)
* St. Mary’s Regional Medical Center (2000)”

**“Affected Subsidiary: Waldo County Healthcare (**WCH), a non-profit § 501(c)(3) healthcare corporation, is the parent corporation of the following non-profit healthcare corporations:

* Waldo County General Hospital (“WCGH”), a 25 bed critical access community hospital in Belfast, Maine, providing a critically necessary continuum of high quality inpatient and outpatient health care services for the residents of Waldo County,
* WCGH’s subsidiary community health centers
  + Arthur Jewell Community Health Center, Inc.,
  + Donald S. Walker Health Center,
  + Lincolnville Regional Health Center,
  + Searsport Health Center
  + Stockton Springs Regional Health Center,
* Waldo County Home Healthcare Services,
* Belfast Public Health Nursing Association,
* Coast Medical Care and
* Waldo County Healthcare Management Company (a for profit subsidiary).”

“Waldo County General Hospital’s service area consists of 21 towns in Waldo County: Belfast, Belmont, Brooks, Frankfort, Freedom, Jackson, Knox, Liberty, Lincolnville, Islesboro, Monroe, Montville, Morrill, Northport, Prospect, Searsmont, Searsport, Stockton Springs, Swanville, Thorndike and Waldo.”

“WCH became a MaineHealth member January 1, 2009.”

**“Affected Subsidiary: Penobscot Bay Healthcare** (PBH), a non-profit 501(c)(3) health care corporation, consists of:

* Penobscot Bay Medical Center… 99 bed hospital offering medical/surgical, obstetrical, new born and psychiatric/substance abuse inpatient services and Penobscot Bay Physicians and Associates physician services;
* Kno-Wal-Lin… a home health, palliative care and hospice agency serving Knox, Waldo and Lincoln Counties;
* Knox Center for Long Term Care… a dually certified skilled nursing and long term care facility;
* Quarry Hill… offers independent living, assisted living, skilled nursing, rehabilitation and long term care;
* Sussman House… a state licensed, Medicare-certified residential hospice; and
* PBH Management.”

“Penobscot Bay Medical Center’s service area consists of: Rockland, Camden, Thomaston, Warren, Rockport, Union, Waldoboro, Cushing, South Thomaston, Owls Head, Tenants Harbor, Vinalhaven, Hope, Lincolnville, Washington, Friendship, Spruce Head, Islesboro, Glen Cove, Port Clyde, West Rockport, North Haven, Matinicus, and Monhegan Islands.”

“Penobscot Bay Healthcare became a MaineHealth member January 1, 2011.”

**Determining Applicant’s Fitness and Ability**

“In order to determine that an applicant is fit, willing and able to provide the proposed services at the proper standard of care, 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 (1) (7 A)”

“MaineHealth, WCH and PBH are each fit, willing and able to provide support and oversight to the hospitals and other DHHS-licensed entities. This is demonstrated by the fact that their respective subsidiary operating entities meet applicable licensing and certification standards.”

“MaineHealth has demonstrated that its members are capable of delivering health services in accordance with DHHS standards and industry standards. As previously noted, in 2008, the Department approved a CON for a transaction by which WCH became a member of the MaineHealth system, and in 2010, the Department approved a CON for the transaction by which PBH became a member of the MaineHealth system. In so doing, the Department determined that MaineHealth was fit, willing and able to serve as the parent company for, respectively, WCH and PBH. Nothing that has occurred with MaineHealth in the interim qualifies these findings. The Department has made similar findings regarding MaineHealth in August 2014 for the transaction by which Franklin Community Health Network became a member of the MaineHealth system.”

“MaineHealth remains fit, willing and able to serve as the parent company for, respectively, WCH and PBH, whether WCH and PBH remain as separate intermediate holding companies, or when combined into a single intermediate holding company as proposed in this Application. All MaineHealth DHHHS-licensed operating entities have licenses in good standing and are CMS Certified; most are Joint Commission accredited.”

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **TABLE I** | | | | | | | |
| **MaineHealth Members’ Current Licenses, Certifications and Accreditations** | | | | | | | |
| **MaineHealth Member** | **Facility/ Service** | **State Licensed** | | **CMS Certified** | | | **Joint Commission Accredited** |
| Maine Medical Center | Hospital | | ✓ | | ✓ | ✓ | |
| Maine Behavioral Healthcare | Hospital | | ✓ | | ✓ | ✓ | |
| Lincoln County Health Care | Hospital | | ✓ | | ✓ |  | |
|  | Nursing Home | | ✓ | | ✓ |  | |
|  | Assisted Living | | ✓ | |  |  | |
| Western Maine Health Care | Hospital | | ✓ | | ✓ |  | |
|  | Nursing Home | | ✓ | | ✓ |  | |
|  | Assisted Living | | ✓ | |  |  | |
| Home Health Visiting Nurses of Southern Maine | Home Health | | ✓ | | ✓ |  | |
| NorDx | Lab Services | |  | | ✓ |  | |
| Southern Maine Health Care | Hospital | | ✓ | | ✓ | ✓ | |
|  | Nursing Homes | | ✓ | | ✓ |  | |
| Waldo County Healthcare | Hospital | | ✓ | | ✓ |  | |
|  | Home Health | | ✓ | | ✓ |  | |
| Penobscot Bay Healthcare | Hospital | | ✓ | | ✓ | ✓ | |
|  | Nursing Homes | | ✓ | | ✓ |  | |
|  | Assisted Living | | ✓ | |  |  | |
|  | Home Health | | ✓ | | ✓ |  | |
|  | Hospice | | ✓ | | ✓ |  | |
| Memorial Hospital, North Conway, NH | Hospital | | ✓ | | ✓ |  | |
|  | Nursing Home | | ✓ | |  |  | |
| Franklin Memorial Hospital | Hospital | | ✓ | | ✓ | ✓ | |

“Any “Statements of Deficiencies” and site visit reports from the previous three years for all the Maine-based health care facilities and services in which MaineHealth and its members have been involved are on file with the Maine Department of Health and Human Services’ Division of Licensing and Regulatory Services. MaineHealth member Memorial Hospital is licensed by the New Hampshire Department of Health and Human Services’ Bureau of Health Facilities Administration.”

**B. Certificate of Need Unit Discussion**

1. **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.

1. **CON Unit Analysis**

This transaction involves the merger of Waldo County Healthcare (WCH) and Penobscot Bay Healthcare (PBH). WCH currently exercises control over Waldo County General Hospital (WCGH) and PBH currently exercises control over Penobscot Bay Medical Center (PenBay). The result of this transaction is that the surviving entity, (PBH) will acquire control over WCGH in addition to PenBay. PBH will remain a member (Subsidiary Corporation) of MaineHealth.

WCGH is a licensed critical access hospital which is dually licensed for 25 Acute Care/Swing beds. The hospital is located at 118 Northport Avenue, Belfast, Maine. PenBay is licensed for 99 beds and is located at 6 Glen Cove Drive, Rockport, Maine. In order to determine if the applicant is fit, willing and able CONU will evaluate WCGH and PenBay on both quality measures and the most recent Federal/State survey results.

CONU will utilize four quality measures listed below:

* **Survey of patients’ experiences.**
* **Timely and effective care.**
* **Complications.**
* **Readmissions and death.**

These quality measures are available at [**http://www.hospitalcompare.hhs.gov**](http://www.hospitalcompare.hhs.gov)**.** CONU will summarize and analyze the latest data from the website. Data collected was from October 1, 2013 through September 30, 2014. (Data was downloaded from website – August 12, 2015).

**1.) Patient Survey Results**:

Hospital Consumer Assessment of Healthcare Providers and Systems is a national survey that asks patients about their experiences during a recent hospital stay. The following chart summarizes results for PenBay and WCGH and compares them to Maine and National averages.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PATIENT SURVEY RESULTS** | **PenBay** | **WCGH** | **MAINE AVERAGE** | **NATIONAL AVERAGE** |
| **Patients who reported that their nurses “Always” communicated well** | 78% | 84% | 83% | 79% |
| **Patients who reported that their doctors “Always” communicated well** | 82% | 83% | 84% | 82% |
| **Patients who reported that they “Always” received help as soon as they wanted** | 66% | 73% | 72% | 68% |
| **Patients who reported that their pain was “Always” well controlled** | 68% | 76% | 73% | 71% |
| **Patients who reported that staff “Always” explained about medicines before giving it to them** | 58% | 67% | 69% | 65% |
| **Patients who reported that their room and bathroom were “Always” clean** | 74% | 86% | 81% | 74% |
| **Patients who reported that the area around their room was “Always” quiet at night** | 54% | 59% | 60% | 62% |
| **Patients who reported that YES, they were given information about what to do during their recovery at home** | 84% | 92% | 89% | 86% |
| **Patients who “Strongly Agree” they understood their care when they left the hospital** | 48% | 58% | 58% | 52% |
| **Patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest)** | 65% | 72% | 75% | 71% |
| **Patients who reported YES, they would definitely recommend the hospital** | 65% | 72% | 76% | 71% |

The patient survey results shown above indicate that PenBay scores below Maine averages in all eleven categories of patient survey results. PenBay scores equal to or below in all National categories. WCGH scores equal to or below in 6 categories and above in 5 categories of Maine averages and scores above the National average in 10 categories and below in 1 category.

**2.) Timely and Effective Care:**

These measures show how often hospitals provide care that research shows gets the best results for patients with certain conditions. This information can help you compare which hospitals give recommended care most often as part of the overall care they provide to patients. We looked at available data pertaining to the most common conditions; heart attack care, pneumonia care, surgical care, emergency department, preventive care and children’s asthma care.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Timely Heart Attack Care** | **PenBay** | **WCGH** | **Maine Average** | **National Average** |
| Average number of minutes before outpatients with chest pain or possible heart attack who needed specialized care were transferred to another hospital | Not Available | Not Available | 41 Minutes | 58 Minutes |
| *A* ***lower*** *number of minutes is better* |  |  |  |  |
| Average number of minutes before outpatients with chest pain or possible heart attack got an ECG | 8 Minutes | Not Available | 6 Minutes | 7 Minutes |
| *A* ***lower*** *number of minutes is better* |  |  |  |  |
| Outpatients with chest pain or possible heart attack who got drugs to break up blood clots within 30 minutes of arrival | 86% | Not Available | 84% | 60% |
| ***Higher*** *percentages are better* |  |  |  |  |
| Outpatients with chest pain or possible heart attack who got aspirin within 24 hours of arrival | 98% | Not Available | 99% | 97% |
| ***Higher*** *percentages are better* |  |  |  |  |
| Heart attack patients who got drugs to break up blood clots within 30 minutes of arrival | Not Available | Not Available | Not Available | 60% |
| Higher percentages are better |  |  |  |  |
| Heart attack patients given PCI within 90 minutes of arrival | Not Available | Not Available | 98% | 96% |
| ***Higher*** *percentages are better* |  |  |  |  |
| **Effective Heart Attack Care** |  |  |  |  |
| Heart attack patients given aspirin at discharge | 100% | Not Available | 100% | 99% |
| ***Higher*** *percentages are better* |
| Heart attack patients given a prescription for a statin at discharge | 94% | Not Available | 99% | 99% |
| ***Higher*** *percentages are better* |
| **Effective Heart Failure Care** |  |  |  |  |
| Heart failure patients given discharge instructions | 100% | Not Available | 96% | 94% |
| ***Higher*** *percentages are better* |
| Heart failure patients given an evaluation of Left Ventricular Systolic (LVS) function | 100% | 100% | 100% | 99% |
| ***Higher*** *percentages are better* |
| Heart failure patients given ACE inhibitor or ARB for Left Ventricular Systolic Dysfunction (LVSD) | 100% | Not Available | 99% | 97% |
| ***Higher*** *percentages are better* |
| **Effective Pneumonia Care** |  |  |  |  |
| Pneumonia patients given the most appropriate initial antibiotic(s) | 99% | 96% | 99% | 96% |
| ***Higher*** *percentages are better* |
| **Timely Surgical Care** |  |  |  |  |
| Outpatients having surgery who got an antibiotic at the right time (within one hour before surgery) | 99% | Not Available | 97% | 98% |
| ***Higher*** *percentages are better* |
| Surgery patients who were given an antibiotic at the right time (within one hour before surgery) to help prevent infection | 100% | 99% | 99% | 99% |
| ***Higher*** *percentages are better* |
| Surgery patients whose preventive antibiotics were stopped at the right time (within 24 hours after surgery) | 99% | 100% | 99% | 98% |
| ***Higher*** *percentages are better* |
| 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 | 99% | 99% | 100% | 99% |
| ***Higher*** *percentages are better* |
| **Effective Surgical Care** |  |  |  |  |
| Outpatients having surgery who got the right kind of antibiotic | 99% | Not Available | 98% | 98% |
| ***Higher*** *percentages are better* |
| 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 | 97% | 97% | 99% | 98% |
| ***Higher*** *percentages are better* |
| Surgery patients who were given the right kind of antibiotic to help prevent infection | 100% | 100% | 99% | 99% |
| ***Higher*** *percentages are better* |
| Heart surgery patients whose blood sugar (blood glucose) is kept under good control in the days right after surgery | Not Available | Not Available | Not Available | Not Available |
| ***Higher*** *percentages are better* |
| Surgery patients whose urinary catheters were removed on the first or second day after surgery | 100% | 98% | 99% | 98% |
| ***Higher*** *percentages are better* |
| Patients having surgery who were actively warmed in the operating room or whose body temperature was near normal by the end of surgery | 100% | 100% | 100% | 100% |
| ***Higher*** *percentages are better* |
| **Timely Emergency Department Care** |  |  |  |  |
| Average time patients who came to the emergency department with broken bones had to wait before getting pain medications | 23 Minutes | Not Available | 48 Minutes | 54 Minutes |
| *A* ***lower*** *number of minutes is better* |
| Percentage of patients who left the emergency department before being seen | 1% | Not Available | 1% | 2% |
| *Lower percentages are better* |  |  |  |  |
| Average time patients spend in the emergency department before they were admitted to the hospital as an inpatient | 266 Minutes | Not Available | 309 Minutes | 274 Minutes |
| *A* ***lower*** *number of minutes is better* |
| Average time patients spent in the emergency department before being sent home | 113 Minutes | Not Available | 162 Minutes | 145 Minutes |
| *A* ***lower*** *number of minutes is better* |
| Average time patients spent in the emergency department before they were seen by a healthcare professional | 15 Minutes | Not Available | 30 Minutes | 27 Minutes |
| *A* ***lower*** *number of minutes is better* |
| **Preventive Care** |  |  |  |  |
| Patients assessed and given influenza vaccination | 96% | Not Available | 96% | 93% |
| ***Higher*** *percentages are better* |
| Healthcare workers given influenza vaccination | 88% | Not Available | 84% | 79% |
| ***Higher*** *percentages are better* |
| **Effective Children’s Asthma Care** |  |  |  |  |
| Children who received reliever medication while hospitalized for asthma | Not Available | Not Available | Not Available | 100% |
| ***Higher*** *percentages are better* |
| Children who received systemic corticosteroid medication (oral and IV medication that reduces inflammation and controls symptoms) while hospitalized for asthma | Not Available | Not Available | Not Available | 100% |
| ***Higher*** *percentages are better* |
| Children and their caregivers who received a home management plan of care document while hospitalized for asthma | Not Available | Not Available | Not Available | 90% |
| ***Higher*** *percentages are better* |  |  |  |  |

With few exceptions PenBay and WCGH compare favorably with Maine and National averages where information is available.

**3). Complications:**

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.

|  |  |  |  |
| --- | --- | --- | --- |
| **Surgical Complications** | **PenBay** | **WCGH** | **National Rate** |
| Rate of complications for hip/knee replacement patients | No Different than national rate | No different than national rate | 3.10% |
| Serious Complications | No different than national rate | Not available | 0.81% |
| Deaths among patients with serious treatable complications after surgery | Number of cases too small | Not Available | 117.75 per 1,000 patients discharges |
| Heathcare associated infections |  |  |  |
| Clostridium difficile Laboratory identified events (intestinal infections) | Better than the national benchmark | No different than National benchmark |  |

**4.) Readmission/Death:**

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Measures** | **PenBay** | **WCGH** | **National** |
| Rate of Readmission for COPD | ND | ND | 20.20% |
| Death Rate for COPD | ND | ND | 7.70% |
| Rate of Readmission for Heart Attack Patients | ND | ND | 17% |
| Death Rate for Heart Attack Patients | ND | ND | 14.20% |
| Rate of Readmission for Heart Failure Patients | ND | ND | 22% |
| Death Rate for Heart Failure Patients | ND | ND | 11.60% |
| Rate of Readmission for Pneumonia Patients | ND | ND | 16.90% |
| Death Rate for Pneumonia Patients | ND | ND | 11.50% |
| Rate of Readmission for Stroke Patients | ND | ND | 12.70% |
| Death rate for Stroke Patients | ND | ND | 14.80% |
| Rate of Readmission after hip/knee surgery | ND | ND | 4.80% |
| Rate of Readmission after discharge from hospital (hospital-wide) | ND | ND | 15.20% |

ND = no different than the National Rate

The results displayed above show that both PenBay and WCGH performed no better or worse than the national rate for complications, readmissions, or death.

Survey Results

The results of the most recent surveys for PenBay and WCGH are as follows:

**PenBay**, an Acute Care Hospital is in compliance with State of Maine 10-144 C.M.R Ch. 112, Rules for the Licensing of Hospitals. All requirements have been met. A State complaint investigation was completed on June 29, 2015.

**WCGH**, a Critical Access Hospital is in compliance with State of Maine 10-144 C.M.R Ch. 112, Rules for the Licensing of Hospitals. All requirements have been met. A State complaint investigation was completed on October 16, 2014.

**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. **Conclusion**

The Certificate of Need Unit recommends that the Commissioner find 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.

**III. Economic Feasibility**

**A. From Applicant**

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.”**

“This transaction is a corporate reorganization within MaineHealth and specifically its two subsidiaries, WCH and PBH. In the sense contemplated by the certificate of need statute, MaineHealth already controls the DHHS-licensees Penobscot Bay Medical Center and Waldo County General Hospital, by virtue of MaineHealth’s control of their parents, WCH and PCH respectively. MaineHealth’s control does not change as a result of the Proposed Transaction. No new or outside entity is gaining control of these hospitals.”

“The Proposed Transaction entails no capital expenditure. and no incremental operating expense. It is simply a merger of two holding companies. There is no addition to any facilities or services as a result of this transaction.”

“In 2008 and in 2010, the Department found MaineHealth to have the financial capacity to oversee the affairs of, respectively, WCH and PBH, when the Department issued certificates of need for the transactions by which these entities became part of the MaineHealth system.”

“Nothing that has occurred with MaineHealth in the interim qualifies these findings. The Department has made similar findings regarding MaineHealth in August 2014 for the transaction by which Franklin Community Health Network became a member of the MaineHealth system. MaineHealth’s A+ Standard and Poor’s credit rating, and its fiscal year 2014 financial statements for MaineHealth, portray the financial rectitude of MaineHealth from a consolidated financial statement perspective. This reinforces the conclusion that MaineHealth has the ability to support its control of these enterprises whether WCH and PBH remain separate intermediate holding companies, or combined into a single intermediate holding company.”

“Please refer to Exhibit 3-A: Waldo County Healthcare’s audited consolidated financial statements.”

“Please refer to Exhibit 3-B: Penobscot Bay Healthcare’s audited consolidated financial statements.”

“Please refer to Exhibit 3-C: MaineHealth’s audited consolidated financial statements.”

**PBH – WCH Merger CON Financial Module**

“At the direction of DHHS, in addition to the audited financial statements enclosed with this application (Exhibits 3-A, 3-B and 3-C), MaineHealth is enclosing a CON Financial Module that includes Penobscot Bay Healthcare, consolidated combined with Waldo County Healthcare, Inc. (parent) actual financial results for FY14, a projection for FY15 and a budget for FY16. The format is based on a modified version of the templates previously used by the CON Unit. The financial statements were compiled by each of the member organizations with support from MaineHealth.”

“It should be noted that the financial statements presented in the CON Financial Module are simply a combination of the two entities. There is no capital purchase associated with the combination of the two organizations.”

Comments on Selected Financial Indicators

Profitability

“Penobscot Bay Healthcare (PBH) profitability ratios indicate a continuing improvement in operating margin gain from 0.32% in FY14 to a projected operating margin gain of 2.25% in FY16. Waldo County Healthcare (WCH) recorded an operating margin loss in FY 14 but is projecting a 4.81% operating margin gain in FY15 and a 2.13% operating margin gain in FY16. When combining the two organizations the operating margin gain for FY15 is projected at 2.50% and FY16 at 2.21%.”

Liquidity

“Days Cash on Hand at PBH range from 42.84 in FY14 to 35.61 in FY16. WCH has historically had a very strong cash position with 269.40 days cash on hand in FY14 with projected days cash on hand in FY16 of 292.28. When combined, the two entities had days cash on hand of 122.42 in FY14 with projected days cash on hand in FY16 of 126..76.”

Solvency

“The Debt Service Coverage ratio for PBH ranges from 1.38 in FY14 to an improvement of 2.28 in FY16. WCH, due to low amounts of outstanding debt and positive operating margins, is projecting a debt service coverage ratio of 17.05 in FY15 and 13.16 in FY16. When combining the two entities the debt service coverage ratio in projected at 3.64 for FY15 and 3.57 for FY16.”

“Please refer to Exhibit 3-D: PBH – WCH Merger CON Financial Module.”

“Collectively, WCH and PBH expect to achieve some immediate administrative savings directly from the merger. Henceforth, there will be a single board of trustees rather than two, which will reduce the expenses of board and committee meetings, board development, photocopying, and corporate filings with the Secretary of State. The parties estimate these expense savings to be approximately $20,000 annually.”

“These administrative savings are a consequence, not a driver of the transaction. The reason for the transaction, discussed previously, is to promote the future planning and execution of plans for the delivery of health care services to the residents of Waldo and Knox counties on a regional basis, providing the platform for identifying and achieving opportunities for further sharing of clinical investments and expenses and administrative costs.”

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.”**

“In order to determine that an applicant’s ability to establish and operate the project in accordance with existing and anticipated 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 (1) (7 B)

“MaineHealth members and operating entities including WCH and PBH and their respective operating entities have been providing substantially similar health care services for years in a manner that has been consistent with applicable licensing and certification standards. The Department made such a finding when it issued a CON in August 2014 for the transaction by which Franklin Community Health Network became a member of the MaineHealth system.”

**B. Certificate of Need Unit Discussion**

1. **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; and
* 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.

Because this is an application regarding the acquisition of control of a health facility, these additional standards apply:

* the applicant must demonstrate the economic feasibility of the project in light of its impact on the operating budget of the facility and the applicant; and
* the applicant's ability to operate the facility without increases in the facility's rates beyond those that would otherwise occur absent the acquisition.

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. This is allowable 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.

1. **CON Unit Analysis**

In order to assess the financial stability of the applicants, the CONU used financial ratios to measure profitability, liquidity, capital structure and asset efficiency. Financial data from Maine Coast and EMMC are used in this analysis. CONU utilized Maine Health Data Organization (MHDO) data from 2009 through 2013. Please see MHDO hospital financial information available on MHDO’s website <http://mhdo.maine.gov/imhdo/>.

**PROFITABILITY RATIOS**

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. 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 hospitals financial performance. This ratio is calculated as follows:

**Operating Income/Total Operating Revenue**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Operating Margin** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | (.05%) | (3.29%) | .33% | (4.80%) | .42% |
| WCGH | 3.70% | 5.55% | 10.41% | 5.88% | 3.50% |
| All Maine Hospitals Median | 2.08% | .98% | 2.34% | (.29%) | .07% |
| National Median | NA | NA | NA | NA | NA |

**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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Net Operating Income** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | ($60,484) | ($3,725,708) | $382,593 | ($5,508,362) | ($512,125) |
| WCGH | $2,225,805 | $3,479,605 | $7,549,551 | $4,134,209 | $2,530,863 |
| All Maine Hospitals Median | $1,419,993 | $762,435 | $1,549,111 | ($108,996) | $101,000 |
| National Median | NA | NA | NA | NA | NA |

**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**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Return on Equity** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 2.23% | (5.62%) | 4.14% | (6.68%) | 3.97% |
| WCGH | 7.26% | 11.96% | 15.25% | 14.48% | 10.25% |
| All Maine Hospitals Median | 5.01% | 4.51% | 8.28% | 2.05% | 3.97% |
| National Median | 5.5% | 6.30% | 6.40% | 5.70% | 5.50% |

**LIQUIDITY RATIOS**

CONU used three liquidity ratios to measure the applicant’s ability to meet short-term obligations and maintain cash position. A poor liquidity ratio would indicate that the 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 stand point, 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** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 2.66% | 1.99% | 2.05% | 1.39% | 1.81% |
| WCGH | 2.00% | .83% | 1.24% | .90% | .76% |
| All Maine Hospitals Median | 1.65% | 1.68% | 1.60% | 1.37% | 1.65% |
| National Median | 2.11% | 2.19% | 2.11% | 2.15% | 2.03% |

**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. 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** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 37.0% | 59.1% | 71.2% | 52.7% | 62.3% |
| WCGH | 42.2% | 21.2% | 49.9% | 23.7% | 30.2% |
| All Maine Hospitals Median | 33.3% | 32.5% | 26.2% | 23.7% | 29.6% |
| National Median | 34.8% | 27.3% | 25.6% | 30.5% | 34.5% |

**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. Decreasing values are favorable. This ratio is calculated as follows:

**Total Current Liabilities/Total Advertising + Salaries & Benefits +Other Operating Expenses + Interest/365**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Average Payment Period** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 43.3% | 52.0% | 63.4% | 85.9% | 79.3% |
| WCGH | 49.0% | 83.9% | 83.9% | 84.3% | 107.4% |
| All Maine Hospitals Median | 59.9% | 60.5% | 62.8% | 78.1% | 73.6% |
| National Median | 50.6% | 48.6% | 50.3% | 51.8% | 52.7% |

**CAPITAL STRUCTURE RATIOS**

CONU used three capital structure ratios in order to measure the applicant’s capacity to pay for any debt. 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. Increasing values are favorable. This ratio is calculated as follows:

**Excess of Revenue over Expenses + Depreciation + Interest/Interest + Previous Years Current LTD**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Debt Service Coverage** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 2.91% | 1.51% | 3.10% | 1.23% | 2.19% |
| WCGH | 9.47% | 10.48% | 12.97% | 14.41% | 14.38% |
| All Maine Hospitals Median | 2.91% | 2.68% | 4.11% | 2.76% | 2.90% |
| National Median | 3.1% | 2.61% | 2.96% | 3.02% | 2.63% |

**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**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cash Flow to Total Debt** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 15.00% | 6.79% | 17.53% | 4.67% | 12.93% |
| WCGH | 40.82% | 43.00% | 53.09% | 51.60% | 34.86% |
| All Maine Hospitals Median | 15.00% | 15.14% | 20.51% | 11.86% | 12.28% |
| National Median | 17.4% | 19.6% | 19.00% | 21.70% | 19.80% |

**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** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 63.95% | 61.41% | 61.13% | 54.89% | 50.83% |
| WCGH | 34.49% | 30.37% | 29.93% | 26.28% | 23.88% |
| All Maine Hospitals Median | 54.22% | 47.59% | 46.06% | 52.78% | 50.83% |
| National Median | 49.70% | 48.40% | 50.80% | 50.00% | 55.50% |

**ASSET EFFICIENCY RATIOS**

CONU used two asset efficiency ratios. 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** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 1.30% | 1.30% | 1.27% | 1.16% | 1.22% |
| WCGH | 1.05% | .94% | .94% | .85% | .77% |
| All Maine Hospitals Median | 1.23% | 1.21% | 1.21% | 1.14% | 1.14% |
| National Median | 1.07% | 1.05% | 1.07% | 1.00% | 1.00% |

**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** | **2009** | **2010** | **2011** | **2012** | **2013** |
| PenBay | 2.63% | 2.63% | 2.80% | 2.80% | 3.07% |
| WCGH | 2.72% | 2.68% | 3.31% | 2.84% | 2.80% |
| All Maine Hospitals Median | 2.72% | 2.63% | 2.96% | 2.84% | 2.80% |
| National Median | NA | NA | NA | NA | NA |

CONU Summary of Financial Ratios: Below are charts summarizing the percentage of time PenBay and WCGH meets or exceeds Maine or National medians:

|  |  |  |  |
| --- | --- | --- | --- |
| **PenBay** | **Ratio** | **Maine** | **National** |
| Profitability | Operating Margin | 0% | NA |
| Profitability | Net Operating Income | 0% | NA |
| Profitability | Return on Equity | 20% | 0% |
| Liquidity | Current Ratio | 100% | 20% |
| Liquidity | Days Cash on Hand | 100% | 100% |
| Liquidity | Avg. Payment Period | 40% | 20% |
| Capital Structure | Debt Service Coverage | 20% | 20% |
| Capital Structure | Cash Flow to Total Debt | 40% | 0% |
| Capital Structure | Fixed Asset Financing | 20% | 20% |
| Asset Efficiency | Total Asset Turnover | 100% | 100% |
| Asset Efficiency | Fixed Asset Turnover | 40% | NA |

NA = Not Available

PenBay meets or exceeds Maine Medians in profitability on average 6.7% of the time and meets or exceeds national measures of profitability on average 0% of the time. PenBay meets or exceeds Maine Medians in liquidity 80% of the time and meets or exceeds national measures of liquidity approximately 46.7% of the time. The facility meets or exceeds Maine and national medians in capital structure ratios approximately 26.7% and 13.3% of the time respectively. PenBay meets or exceeds Maine and national asset efficiency ratios 70% and 100% of the time respectively.

|  |  |  |  |
| --- | --- | --- | --- |
| **WCGH** | **Ratio** | **Maine** | **National** |
| Profitability | Operating Margin | 100% | NA |
| Profitability | Net Operating Income | 100% | NA |
| Profitability | Return on Equity | 100% | 100% |
| Liquidity | Current Ratio | 20% | 0% |
| Liquidity | Days Cash on Hand | 80% | 40% |
| Liquidity | Avg. Payment Period | 20% | 20% |
| Capital Structure | Debt Service Coverage | 100% | 100% |
| Capital Structure | Cash Flow to Total Debt | 100% | 100% |
| Capital Structure | Fixed Asset Financing | 100% | 100% |
| Asset Efficiency | Total Asset Turnover | 0% | 0% |
| Asset Efficiency | Fixed Asset Turnover | 100% | NA |

NA = Not available

WCGH exceeds Maine and national measures of profitability 100% of the time. The facility exceeds Maine and national liquidity ratios 46.7% and 20% of the time respectively. Capital structure ratios exceed Maine and national medians 100% of the time while asset efficiency medians exceed Maine medians 50% of the time and national medians 0% of the time.

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 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 the applicable licensing and certification standards.

1. **Conclusion**

CONU recommends that the Commissioner determine that the applicant has demonstrated that the project is economically feasible.

**IV. Public Need**

**A. From Applicant**

“In this application, the “project” is the Proposed Transaction by which Waldo County Healthcare will be merged into Penobscot Bay Healthcare There is no change to day-to-day operations of any DHHS-licensed entity as a result of this transaction.”

**Waldo County Healthcare**

“WCH is the parent corporation of the following non-profit healthcare corporations providing health care to the residents of Waldo County:

* Waldo County General Hospital,
  + Arthur Jewell Community Health Center, Inc.,
  + Donald S. Walker Health Center,
  + Lincolnville Regional Health Center,
  + Searsport Health Center
  + Stockton Springs Regional Health Center,
* Waldo County Home Healthcare Services,
* Belfast Public Health Nursing Association,
* Coast Medical Care.”

“Waldo County General Hospital (“WCGH”), a 25 bed critical access community hospital providing a critically necessary continuum of high quality inpatient and outpatient health care services for the residents of Waldo County. WCGH’s five health centers - Arthur Jewell Community Health Center, Donald S. Walker Health Center, Lincolnville Regional Health Center, Searsport Health Center and Stockton Springs Regional Health Center - primarily serve Waldo County residents. Waldo County Home Healthcare Services, Belfast Public Health Nursing Association, and Coastal Medical Care provide home health and hospice services, public health nursing, and preventative and occupational health services, respectively.”

“Please refer to Exhibit 4-A: Waldo County Healthcare DHHS Licensed Health Care Facilities.”

**“Community Health Needs:** Waldo County General Hospital and Penobscot Bay Medical Center and their respective affiliates are currently addressing the health needs in their respective service areas. These health needs will continue to be addressed, because the transaction entails no change in the day-to-day operation of these entities, but does provide a platform for further administrative and clinical integration.”

**“Access to Care:** The services of the two hospitals will continue to be accessible to all residents of the area proposed to be served. The transaction entails no change in the Waldo County General Hospital and Penobscot Bay Medical Center charity care policies, no change in health care services or locations currently offered by the DHHS-licensed operating facilities of WCH and PBH. In addition, to the extent that transaction further fosters collaborative regional approaches such as the cooperative clinical described in MaineHealth & Penobscot Bay Healthcare, MaineHealth Membership Certificate of Need / Certificate of Public Advantage, 48 Month Report, January 15, 2015, access to care may be improved.”

**“Quality of Care:** The operating health care entities that currently are subsidiaries of WCH and PBH will continue to provide the same quality of care post-transaction as they do currently. The transaction entails no change in the day-to-day operation of these entities, but does provide a platform for further administrative and clinical integration.”

**“MaineHealth Benefits:** The DHHS licensed entities that are currently part of WCH and PBH will continue to experience the benefits of MaineHealth membership once WCH and PBH combine. These membership benefits include:

* MaineHealth’s Quality, Health Status Improvement, Population Health Management and Clinical Integration Programs.
* MaineHealth’s Shared Administrative Programs. Including but not limited to: legal, audit and compliance, financial, strategic planning, program development, marketing, information services and human resources.
* MaineHealth’s Administrative Integration Programs. Including MaineHealth’s health plan, workers compensation trust, purchasing program and vendor contracts, physician practice management services, professional liability trust, laundry services, investment advisory and banking services and audit services.”

**“Health Status:** The operating health care entities that currently are subsidiaries of WCH and PBH will continue to have the same positive impact on the health status indicators of the population served by these operating entities as they do currently.”

**B. Certificate of Need Unit Discussion**

1. **CON Standards**

Relevant standards 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.

1. **CON Unit Analysis**

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. **Conclusion**

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

**V. Orderly and Economic Development**

**A. From Applicant**

“The Applicant, MaineHealth, as well as the affected MaineHealth subsidiaries, WCH and PBH, believe that the persons responsible for strategic and major operational decisions for these institutions should approach their tasks from a regional perspective, and that by doing so, it will provide a foundation for the identification and implementation of further operational and clinical integration”

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

“The Proposed Transaction involves only the holdings companies, WCH and PBH. There is no addition to any health care facilities or services as a result of the Proposed Transaction. The services that had been offered by WCH and PBH currently will be offered by PBH after the Effective Date, January 1, 2016”

“There is no CON-reviewable capital expenditure and no increase in operating expenses for the health care delivery system in Maine, for the State of Maine, for MaineHealth or for PBH as a result of the Proposed Transaction.”

“The Proposed Transaction has no impact on other providers’ volume of services, quality of care or costs. Historical referral patterns for patients requiring care outside the WCH and PBH system are unchanged by the Proposed Transaction. All referrals will continue to be based on an assessment of the patient's needs, the resources available and reasonably accessible by the patient, and the patient's preference and where applicable the patient’s insurance coverage after the Effective Date.”

**“Availability of State Funds: Impact on MaineCare”**

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

**B. Certificate of Need Unit Discussion**

1. **CON Standards**

Relevant standards 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.

1. **CON Unit Analysis**

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. **Conclusion**

The Certificate of Need Unit recommends that the Commissioner find that the applicant has met its 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**

**A. From Applicant**

“This project, which entails only the merger of holding companies, both of whom are already controlled by MaineHealth by virtue of transactions approved by the Department in 2008 and 2010, by definition cannot and will not have any negative impact on the quality of care delivered by existing service providers.”

“The same high quality outcomes addressed by the Department’s 2008 and 2010 approvals will continue. As recently as August 2014, in connection with the Department’s approval of the MaineHealth-Franklin Community Health Network transaction, the Department determined that MaineHealth has met this criterion for its member health systems”

**B. Certificate of Need Unit Discussion**

1. **CON Standards**

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

1. **CON Unit Analysis**

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. **Conclusion**

Certificate of Need Unit 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**

**Risk of Inappropriate Increases in Service Utilization**

“The Proposed Transaction, which entails only the merger of holding companies, both of whom are already controlled by MaineHealth by virtue of transactions approved by the Department in 2008 and 2010, will not increase utilization. Neither the demand for health services, nor the capacity to provide health services, will be changed in a transaction that is merely a governance reorganization of intermediate holding companies. No principles adopted by the Maine Quality Forum are applicable to this transaction.”

“WCH, PBH and their subsidiaries and providers participate in MaineHealth’s health status improvement, clinical integration and quality improvement initiatives, which are designed to reduce service utilization.”

**B. Certificate of Need Unit Discussion**

1. **CON Standards**

Relevant standards 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.

1. **CON Unit Analysis**

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.

1. **Conclusion**

Certificate of Need Unit 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. Timely Notice**

Letter of Intent filed: June 17, 2015

Subject to CON review letter issued: June 17, 2015

Technical assistance meeting held: Jul 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

**IX. Findings and Recommendations**

Based on the preceding analysis, including information contained in the record, the Certificate of Need Unit recommends that the Commissioner make the following findings:

**A.** 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.** 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 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;

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

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

**G.** The project does not need funding from within the Nursing Facility MaineCare Funding Pool.

For all the reasons contained in this preliminary analysis and based upon information contained in the record, Certificate of Need Unit recommends that the Commissioner determine that this project should be **approved.**