

BRIEFING MEMO

Spectrum Medical Group

Acquisition of Control of Ambulatory Surgical Centers located in Lewiston and Portland, Maine

DATE: November 18, 2013

TO: Mary C. Mayhew, Commissioner, DHHS

THROUGH: Ken Albert III, Director, Division of Licensing and Regulatory Services

FROM: Phyllis Powell, Assistant Director, Medical Facilities
Larry Carbonneau, Senior Health Care Financial Analyst
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SUBJECT: Acquisition of Control of Ambulatory Surgical Centers located in Auburn and Portland, Maine.

ISSUE ACTIVATED BY: The referenced proposal requires Certificate of Need (CON) approval as defined in "The Maine Certificate of Need Act of 2002," 22 MRSA §326 et seq., as amended.

REGISTERED AFFECTED PARTIES: None

I. BACKGROUND:

Spectrum Medical Group, P.A. ("Spectrum"), is a physician-owned and directed multi-specialty medical group, with more than 170 physicians practicing in the areas of anesthesiology, physical medicine, neurology, pain management, pathology, radiology, radiation oncology, and general surgery. Spectrum's administrative offices are located in South Portland, Maine.

Central Maine Orthopaedics, P.A. ("CMO"), is an orthopaedic practice located in Auburn, Maine, with approximately 12 physicians and surgeons. CMO is dedicated to treatment of musculoskeletal injuries and illnesses through its Ambulatory Surgery Center ("ASC"), clinic, offices and spine care center of excellence, all located at its Auburn location.

OA – Centers for Orthopaedics, P.A. ("OA"), is an orthopaedic practice located in southern Maine, with approximately 15 physicians and surgeons. OA has locations in Portland, Saco, Windham, and Brunswick. OA's orthopaedic specialty centers include an on-site MRI center and an ASC, both located in Portland.

II. PROJECT DESCRIPTION:

Spectrum, OA, and CMO desire to combine their medical practices to improve patient care and respond to changes in the market for professional health care services. The groups recently executed a non-binding letter of intent. Under the proposed terms, OA and CMO would become divisions of Spectrum; thereby joining Spectrum's other practice groups, such as radiology and anesthesiology, under the Spectrum umbrella. The transaction is structured as a merger of entities. The current physician-shareholders of OA and CMO would become

physician-shareholders and employees of Spectrum. OA and CMO would otherwise continue with the same operations, services, and quality standards of health care. As a result of the merger, Spectrum will become the owner of the two ASCs separately owned and operated by OA and CMO, and of the equipment and other assets.

This transaction will not involve a transfer of ownership of land or realty or buildings, and no capital expenditures or construction costs are associated with this project. The land and buildings where CMO and OA provide services are not owned by CMO and OA. Rather, CMO and OA lease the space and Spectrum will assume those leases as part of the merger. The proposed transaction will not result in any change in the physical location or operations of the ASCs, nor will the transaction alter the current physician-patient relationships or affect how patients interact on a day-to-day basis with the practices. Further, Spectrum intends to assume the ASC provider numbers from CMO and OA respectively.

The parties intend to finalize the proposed merger on or before December 31, 2013, and will work with CMS and DHHS licensing to effectuate transfer of the ASC provider numbers to Spectrum.

The Preliminary Review by CONU staff, dated October 18, 2013, concluded that the applicant had met its burden to demonstrate that the application meets the criteria for approving the project.

III. HIGHLIGHTS:

Letter of Intent dated: April 19, 2013
Technical Assistance meeting held: May 22, 2013
CON application filed: August 6, 2013
CON application certified complete: August 6, 2013
Public Informational Meeting held: N/A
Public Hearing: N/A
Preliminary analysis released: October 18, 2013
Record Closed: November 13, 2013

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

Following release of the Preliminary Analysis, no public comments were received.

V. CONU ANALYSIS/APPLICANTS COMMENTS:

i. Fit, Willing and Able:

Spectrum, OA and CMO propose to merge on December 31, 2013. OA has provided Ambulatory Surgical Center (ASC) services since 1989 and CMO has provided ASC services since 1986. No changes to these services will result from this transaction. The services provided by the applicant are consistent with applicable licensing and certification standards.

ii. Economic Feasibility:

There are no capital expenditures associated with this merger, no significant changes in the day-to-day operations of the ASCs are proposed, and no additional health services are being added to the health care system. A review of Year 1 through Year 3 financial projections shows modest growth in volume, revenue and operational profitability (Earnings before interest, taxes, depreciation and amortization). This transaction will not have an effect on the rates charged for services provided. CONU is unaware of any impending changes to reimbursement rates, laws or regulations which would effect this transaction.

iii. Public Need:

Data submitted by the applicant shows that there is a demand for surgical services to meet specific health problems in the area. The applicants' current facilities have sufficient capacity to meet demand in the foreseeable future. Providing needed orthopedic and other surgery services in central and southern Maine will have a positive impact on the health status indicators of the population to be served. The proposed merger will have no impact on the accessibility of services as no changes in location or services are part of this transaction. The services affected by the project will be accessible to all residents of the area proposed to be served.

Both OA and CMO have quality assurance data systems which allow management to track performance measures on an ongoing basis to ensure quality outcomes for its patients. These systems will remain in place post-merger.

iv. Orderly and Economic Development:

Total health care expenditures are not expected to increase as a result of this transaction. The need for these services is definite and measurable. Current and projected utilization levels of these services make the continuation and availability of these services a necessary component of health care. State funds should not be impacted by this transaction. There are no projected increases in utilization of these services due to this transaction. OA and CMO have provided ASC services for many years. There are no planned expansions of infrastructure or services. It is unlikely that a more effective, more accessible or less costly alternatives will become available in the future.

v. Outcomes and Community Impact:

Spectrum, OA and CMO's extensive quality assurance programs will continue post-merger. This project involves a merger between existing providers and does not expand services. This will not negatively affect the quality of care delivered by existing service providers.

vi. Service Utilization:

This application involves the merger of OA and CMO with Spectrum and does not result in the addition of new health services or the expansion of existing services. This affiliation will improve quality outcomes, address identified community needs, encourage operating efficiencies and improve the health status of the population in OA and CMO's service area. This will have a positive impact on patient care.

VI. CONCLUSION:

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

VII. RECOMMENDATION:

CONU recommends this proposal be **Approved**.