Department of Health and Human Services
Division of Licensing and Regulatory Services
State House, Augusta, ME
Preliminary Analysis

Date: May 22, 2009

Project: Transfer Sponsorship of St. Joseph Healthcare Foundation and St. Joseph Hospital located in Bangor, ME.

Proposal by: Covenant Health Systems, Inc.

Prepared by: Phyllis Powell, Certificate of Need Manager
Steven R. Keaten, Healthcare Financial Analyst
Larry D. Carbonneau, Healthcare Financial Analyst
Richard F. April, Healthcare Financial Analyst

Directly Affected Party: None

Recommendation: Approved with conditions

	Proposed Per Applicant	**Approved CON**
Estimated Capital Expenditure	$ 59,481,656	$ 59,481,656
Maximum Contingency	$ 0	$ 0
Total Capital Expenditure with Contingency	$ 59,481,656	$ 59,481,656
Third Year Incremental Operating Costs	$ 1,217,996	$ 1,217,996
Capital Investment Fund (CIF) Impact:	$ 1,172,321	$ 1,172,321
CIF debit 2009	$ 1,172,321	$ 1,172,321
Bureau of Insurance Regional Impact Estimate		0.492%

I. Abstract

A. From Applicant

"Covenant Health Systems, Inc. ("Covenant") is a 501(c) (3) tax exempt, Massachusetts nonprofit corporation. Its principal offices are located in Lexington, Massachusetts. Covenant proposes to assume sponsorship of and become the sole corporate member of St. Joseph Healthcare Foundation (the "Foundation"). As such, it will acquire control of St. Joseph Hospital (the "Hospital" or "SJH"), a Maine health care facility and a subsidiary corporation of the Foundation. Accordingly, Covenant seeks a Certificate of Need authorizing it to acquire control of the Hospital through the simplified review and approval process set forth in the Certificate of Need Procedures Manual, Ch. 7.9.C."

"This application follows our Letter of Intent dated December 21, 2007 and the CONU's reply dated December 27, 2007, in which Phyllis Powell, Manager of the CONU, confirmed that this matter would be handled under the "simplified review[1]" provisions of the CON law and regulations. A technical assistance meeting was held at the CONU on January 24, 2008. In this filing, we address the issues identified at that meeting, and provide the requested information."

"St. Joseph Hospital is one of three Catholic hospitals in the State. The Foundation and the Hospital are currently sponsored by the Congregation of the Sisters of St. Felix of Cantalice of the Third Order of St. Francis, Province of Our Lady of Angels (the "Felician Sisters"), who have concluded that due to constraints on the Province, it is necessary to transfer the sponsorship. After more than 60 years of service to the Bangor Community, they made the determination to explore options to preserve the Catholic identity of the Hospital and related corporations. After considering several options, they concluded that Covenant Health Systems, with its existing presence in Maine, was the best choice to carry on the Catholic identity and preserve the Hospital's commitment to excellent quality services and clinical care."

"Assuming the transfer of sponsorship is approved, Covenant, acting as the sole member of the Foundation, will exercise certain reserved powers similar to those currently exercised by the Felician Sisters, such as electing the Board, approving budgets and strategic plans, and appointing the CEO. Covenant intends to retain the existing community Board members, the Executive Team and the staff following the transition. The Hospital and its related organizations are successful, vital resources to the community and the transition is expected to enhance the care and services currently available to the community."

"The transfer of sponsorship/change of control does not entail any capital expenditures. The Foundation, like all the other sponsored members of Covenant Health Systems, will pay to Covenant a standard membership assessment of 1.2% of the previous year's audited expenses, which covers the provision of services to the Foundation and the Hospital and supports the

[1] CONU originally determined that a simplified review was appropriate considering the information provided in the Letter of Intent. CONU later determined, upon the receipt of the application, that the project does not meet the criteria for a simplified review as stated in 22 M.S.R.A. Sec. 336(3).

infrastructure necessary to maintain the Catholic identity of the organization. This assessment is not expected to have a negative impact on the Foundation or the Hospital and will not result in any increase in the Hospital's charges beyond those that would occur absent the transfer of sponsorship."

"Covenant is prepared to implement the transfer of sponsorship following the necessary approvals from the Certificate of Need Unit, other regulatory bodies, and the Catholic Church."

"Covenant proposes to assume sponsorship of and become the sole corporate member of St. Joseph Healthcare Foundation (the "Foundation"). As such, it will acquire control of St. Joseph Hospital (the "Hospital" or "SJH",) a Maine health care facility and a subsidiary corporation of the Foundation. Accordingly, Covenant seeks a Certificate of Need authorizing it to acquire control of the Hospital through the simplified review and approval process set forth in the Certificate of Need Procedures Manual, Ch. 7.9.C."

"This application follows our Letter of Intent dated December 21, 2007 and the CONU's reply dated December 27, 2007, in which Phyllis Powell, Manager of the CONU, confirmed that this matter would be handled under the "simplified review" provisions of the CON law and regulations. A technical assistance meeting was held at the CONU on January 24, 2008. In this filing, we address the issues identified at that meeting, and provide the requested information."

"The Foundation is a 501(c)(3) tax exempt, Maine nonprofit corporation. The Foundation and its subsidiaries are sponsored by the Congregation of the Sisters of St. Felix of Cantalice of the Third Order of St. Francis, Province of Our Lady of Angels (the "Felician Sisters"), a Roman Catholic Congregation of Religious women, with Provincial headquarters in Enfield, Connecticut. The leadership of Our Lady of Angels Province of the Felician Sisters currently serves as the corporate members of the Foundation. In turn, the Foundation is the sole corporate member of the Hospital."

"The Hospital is a 501(c)(3) tax exempt, Maine nonprofit corporation. It is a fully licensed 112 bed community based acute care hospital in Bangor, Maine. It also holds accreditation from the Joint Commission. The Hospital has been in operation for more than 60 years under the sponsorship of the Felician Sisters. As a sponsored ministry of the Felician Sisters, the Felician Sisters are responsible for both the civil corporate and the canonical requirements associated with the Hospital (and the Foundation and its other subsidiaries- collectively referred to as St. Joseph Healthcare) as works of the Catholic Church."

"The Hospital has been an extraordinary resource to the Bangor community. It is one of only three Catholic Hospitals in the State of Maine, and a major resource for individuals seeking faith-based care within its market area. The Hospital's service area contains a population of approximately 150,000 with an expected growth rate of 2% in the next five years. See **Attachment F** for demographic information for the Hospital's market area. The Hospital had 4,054 discharges in 2007 and 4,282 in 2006. As of 2007, its market share was 23.4% of all Bangor discharges and 2.7% of all discharges in Maine for the same time period. It is the 8th largest hospital in the State. It has recently renovated the Hospital building, and now offers nearly all private rooms. It has six operating rooms and 7 ICU beds as well as a wide range of ambulatory services."

"The Hospital has a medical staff of 294 physicians, including 202 Active Members. Included in these numbers are 40 physicians who are employed by the Foundation or affiliated organizations."

"The Hospital provides a broad range of important services to the community. Among the services which it offers are:

- Cardiac Catheterization Lab/Intensive Care
- Cardiology and Nuclear Medicine
- Cardiopulmonary Care Unit
- Critical Care Unit
- Endocrinology
- Medical Services
- Hospitalists and Intensivists
- Physical and Occupational Therapy Services
- Radiology
- Respiratory Care
- Surgical and Orthopedic Care
- 24 hour Emergency Care
- Cardiac Rehabilitation
- Sleep Medicine
- Diabetes & Nutrition Center
- Infusion Therapy Department
- Lymphedema Clinic
- Ostomy Clinic
- Pain Management
- Pulmonary Rehabilitation
- Regional Breast Care Center
- Hospice Program/Palliative Care
- Outpatient Surgery"

"The Hospital also offers a unique service in wound care and hyperbaric medicine, afforded by the availability of a hyperbaric chamber, one of only two in all of Maine. The Hospital continues to invest in technology and currently offers a breast MRI service to support women's health and provides certified home care services through an affiliated home care program."

"The Hospital is governed by a board of trustees, listed in **Attachment G.** Both the Foundation and the Hospital are financially stable. Audited financial statements for both organizations for the past two years are contained in **Attachment H."**

"The proposed transfer of sponsorship transaction will include agreed upon amendments to the Articles of Incorporation and the Bylaws of the Foundation to identify Covenant as its sole corporate member. Acting in this capacity, Covenant will assume responsibility for: (a) appointing the Foundation's board of trustees; (b), approving long range strategic plans and budgets; and (c) working in conjunction with the local board to select and appoint the chief executive officer of the Foundation, among other duties. Copies of the proposed amendments to the Articles of Incorporation and Bylaws of the Foundation are attached as **Attachment I-1 and I-2**, respectively and copies of the proposed Articles of Incorporation and Bylaws of the Hospital are attached as **Attachment I-3 and I-4,** respectively. All assets and liabilities of the Foundation will remain assets and liabilities of the Foundation after the proposed change of sponsorship."

"The Foundation will pay a standard membership assessment to Covenant, which covers the provision of services to the Foundation and the Hospital, and supports the corporate structure necessary to maintain the Foundation's and the Hospital's Catholic identity. The services provided by Covenant will in some cases substitute for services that are currently provided by other parties (such as centralized risk management coordination) and also include new services (such as quality monitoring and leadership development activities). The annual membership assessment is equal to 1.2% of the consolidated operating expenses of the Foundation and its subsidiaries for the most recent year for which audited financial statements are available. The membership assessment will be phased-in, with the assessment for calendar year 2009 being 1/3 of the amount that would otherwise apply, and the assessment for calendar year 2010 being 2/3 of the amount that would otherwise apply. A copy of the organizational structure following the proposed transfer of sponsorship is found in **Attachment J."**

"The Felician Sisters are supportive and in full agreement with the proposed transfer of sponsorship. They believe that Covenant's sponsorship will assure that the Foundation and the Hospital retain their Catholic identity in a manner that will preserve and enhance the health care services provided by the Foundation and the Hospital."

"At the closing of the transfer of sponsorship, Covenant will pledge to make a charitable contribution (from its own funds and not from the Foundation or the Hospital) to the Felician Sisters of $17,000,000 to support their continued religious and charitable works. Both the Hospital and Foundation Board of Directors have taken votes evidencing their support of this transfer of sponsorship."

Conclusion

"This Application and these Attachments provide the information we understand to be necessary to fulfill the applicable standards for the granting of Simplified Review approval for this transfer of sponsorship. Covenant and the Foundation seek to implement the transfer of sponsorship effective immediately after receiving CONU permission to proceed, along with approval from the Holy See to proceed, which we assume will be forthcoming, following receipt of CON approval."

"Covenant believes that this Application demonstrates that the transfer of sponsorship fulfills the applicable standards governing this Simplified Review as set forth in Section 336 (3) and Section 335 (7)(B) of the CON Act."

"Covenant will contact the CONU shortly to confirm receipt of these filings, and look forward to working with the CONU staff to obtain timely approval to permit this transfer of sponsorship to go forward under the planned timeline."

II. Fit, Willing and Able

A. From Applicant

"Covenant Health Systems, Inc. ("Covenant") is a 501(c)(3) tax exempt, Massachusetts nonprofit corporation. Its principal offices are located in Lexington, Massachusetts. It was organized in 1984 by the Sisters of Charity of Montreal, "Grey Nuns," as a health system to oversee the health care entities they sponsored. Since that time, Covenant has grown and it now consists of twenty-eight organizations including nonprofit acute care hospitals, nursing homes, and assisted living and elderly housing facilities throughout New England and Northeastern Pennsylvania. Included among the controlled organizations are St. Mary's Regional Medical Center and D'Youville Pavilion in Lewiston, and St. Andre Health Care Facility in Biddeford. Covenant has consolidated annual operating revenues of approximately $525 million."

"In 1995, recognizing that their numbers were decreasing and acknowledging that Covenant had well-trained lay leaders to continue their health care ministry, the Grey Nuns applied to the Holy See for permission to establish Covenant as a Public Juridic Person of Pontifical Right. This status was conferred on Covenant in 1996. As a Public Juridic Person of Pontifical Right, Covenant is authorized to act as a canonical sponsor and confer Catholic identity to organizations, much like Religious Congregations. Accordingly, Covenant has the authority to carry out not only civil but also canonical requirements for Catholic health care entities."

"Organizationally, Covenant consists of:

- Sponsored/Member Organizations – for these organizations Covenant serves as a corporate member (either the sole member in the case of sponsored organizations or one of multiple members in the case of co-sponsored member organizations.) In that capacity, Covenant oversees both governance and operations of the sponsored/member organization through a set of specific reserved powers.

- Contractually Managed Organizations – Covenant supports these organizations through management contracts that include the typical array of management support services.

- Affiliates – Covenant provides these organizations with the opportunity to participate in Covenant's services, without Covenant assuming any control over operations and governance. For Catholic organizations, this affiliation status is frequently the first step towards a transfer of sponsorship. While Affiliates, the religious sponsors, senior management and governance of the organization have an opportunity to determine if there is sufficient cultural congruence and mutual interest in the Affiliate becoming a sponsored/member organization. (St. Joseph Hospital has been an Affiliate of Covenant since 2001.)"

B. CONU Discussion

i. Criteria

Relevant criterion 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;

ii. Analysis

Covenant Health Systems ("Covenant") is a multi-state healthcare system that was organized in 1984 in Lexington, Massachusetts. Covenant currently consists of 28 organizations including non-profit acute care hospitals, assisted living and elderly housing facilities throughout New England and Northeastern Pennsylvania. These controlled organizations include St. Mary's Regional Medical Center and D'Youville Pavilion in Lewiston, Maine and St. Andre Health Care Facility in Biddeford, Maine.

Even though Covenant Health Systems is a multi-state healthcare system, CONU is only responsible for CON regulations in the State of Maine. The following projects have been undertaken by subsidiaries here in Maine in the past two years:

- In August 2007, St. Mary's Regional Medical Center received approval to expand and renovate the emergency department in Lewiston for an estimated cost of $8.5 million.

- In September 2008, St. Mary's Regional Medical Center received approval to expand and renovate the operating room, central sterile, laboratory and pharmacy. This cost was approved at $24.5 million.

- In October 2007, D'Youville Pavilion received approval to renovate the nursing facility in Lewiston at an estimated capital cost of $1.6 million.

St. Joseph Hospital's current license is valid until December 22, 2009. The Medical Facilities Unit of the Division of Licensing and Regulatory Services last completed a site survey on March 31, 2007. St. Joseph Hospital is Medicare and MaineCare certified. St. Joseph Hospital does participate in the Joint Commission accreditation process.

iii. Conclusion

CONU recommends that the Commissioner determine 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 applicant or a related party under the applicant's control meets industry standards.

III. Capital Expenditures & Financing

A. From Applicant

“There are no capital expenditures associated with the proposed transfer of sponsorship.”

Staffing, Financial Feasibility and Economic Feasibility
“There will be no increase in staffing as a result of the proposed transfer of sponsorship.”

“Following the transfer of sponsorship, there may be cost savings available through group purchasing arrangements and some centralization of services. Among the other services which will be available as a result of the Hospital's membership in the Covenant system are:

- Access to Human Resource Support
- Strategic Planning Support
- Access to an extensive Corporate Compliance Program
- Participation in a Captive Insurance Program
- Access to Coordinated Risk Management Services
- Leadership Development Initiatives for all levels of Employees
- Availability of formalized Succession Planning Initiatives for Senior Level Employees
- Coordinated, system-wide efforts to recruit and retain physicians
- Coordination of Community Benefit and Social Responsibility Efforts
- Access to multiple best practices initiatives focused on improving care and serving the community which will enhance the availability of care and support to the Bangor Community”

“Projections illustrating the impact of the membership assessment on the finances of the Hospital are set forth in **Attachment K**. As discussed at the Technical Assistance meeting, such projections cover the two prior years (under the assumption that the membership assessment had been in place at that time) and the upcoming three years.”

“Overall, the impact of the membership assessment will result in benefits to the Foundation and the Hospital is economically feasible with respect to its impact on the operating budget of the Hospital, and will neither negatively affect the Foundation or the Hospital nor result in any increase in the Hospital's charges beyond those that would occur absent the transfer of sponsorship.”

“Covenant understands that the CONU will be evaluating the impact of the proposed transfer of sponsorship on Medicare and MaineCare. Covenant understands that the CONU staff has consulted with the MaineCare Audit Unit regarding the impact on MaineCare and learned that the membership assessment would not be recognized as a cost by MaineCare and thus would not increase MaineCare payments. With respect to Medicare, Covenant files a Home Office Cost Report for the Centers of Medicare and Medicaid Services (CMS) because Medicare recognizes the membership assessment as an allocation of home office costs.”

Compliance with Rules and Regulations of Local, State and Federal Agencies
"No local agency approvals are applicable. At the state level, in addition to this CON Simplified Review, Covenant and the Foundation are securing applicable public charity clearances from the Maine Attorney General's office. On January 24, 2008, representatives of Covenant and the Foundation met with Assistant Attorneys General Christina Moylan and Linda Conti. The Attorney General's Office is prepared to issue a letter confirming that the proposed transaction may proceed as it is not a "conversion transaction" within the meaning of 5 M.R.S.A. § 192-B. It will provide written confirmation upon receipt and review of the documents effecting the transfer of sponsorship."

"The Hospital will also provide notification of the proposed transaction to the Maine Health and Higher Education Facilities Authority ("MHHEFA") in advance of the closing of the transaction. Notice regarding the sponsorship change will also be given to state licensure, MaineCare, and Medicare."

B. CONU Discussion

i. Criteria

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

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; and

b. 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.

ii. Analysis

CONU staff prepared a template (modified for mergers) that allowed financial information from the two applicants to be placed on the same template. The applicants are the two organizations, Covenant and St. Joseph Hospital. Covenant is a large organization with resources and most of its operating revenues derived from outside the State of Maine; Covenant has multiple subsidiaries. Covenant has succeeded in making these separate entities self-sufficient. The bulk of inter-company activity is related to membership fees, purchase buying groups, collective financing opportunities and legal and technical expertise. The applicant failed to quantify savings resulting from the increased efficiencies related to inter-company activities. As a condition of approval, CONU recommends that the applicant be required to identify and report savings that result from this project annually for the first three years from transfer date.

In their audited financial statements, Covenant indicated they had revenues in excess of expenditures for 2007 and 2006 of $30,605,631 and $21,201,657 respectively. Financial ratios were comparable if not indicative of a stronger organization than the time periods in the audited financial statements when compared to the projected periods of 2010 through 2012. The auditor's opinion of the financial statements was unqualified and the 2007 end-of-year cash balance was $68,017,627. This amount represents approximately 13% of the year's cash outlays indicating a days cash on hand from cash and cash investments of at least 47 days. Property and equipment made up less than 30% of the balance sheet. Net assets of $276 million with $586 million in assets indicated a reasonably capitalized organization when the entities that currently make up Covenant Health System are considered. Significant investments in highly financed long-term housing operations differentiate this organization from traditional hospital-only organizations. Long term debt in 2007 was $192 million and increased $37 million from the previous year end. Investments of $24,443,093 provide a significant additional amount of liquidity if the need arises to convert to cash. Restricted funds include almost $140 million of board-restricted funds.

In their audited financial statements, St. Joseph Healthcare demonstrates that they had revenues in excess of expenditures for 2007 and 2006 of $5,959,787 and $1,536,199 respectively. The auditor's opinion of the financial statements was unqualified. Net assets of $33 million with $59 million in assets indicated a well capitalized organization. Long-term debt in 2007 was $15.8 million and down $1.1 million from the previous year. Investments of $17,282,335 give the organization a significant amount of liquidity compared to actual cash balances if the need arises to convert it to cash. The investments would represent 77 days cash on hand and consist of internally designated or unrestricted funds. The cash position of St. Joseph Hospital is expected to remain steady throughout the forecast period. The financial notes indicate deferred revenue of $6.2 million from the MaineCare program. The financial statements reinforce that St. Joseph Healthcare is a viable operating entity in its own right.

The applicants provide limited explanations for the financial projections and provide limited commentary regarding this section and its determinations. Some of that can be explained by the fact that Covenant Health Systems is a complex organization consisting of 16 different significant segments that are comprised of multiple entities. If this transaction is approved, St. Joseph's in Bangor, Maine would be the second Saint Joseph's Hospital subsidiary; the other hospital is located in Massachusetts. The CONU financial presentation did not disclose any potential savings from this change in affiliation. The entities involved plan no reductions in staff related to this proposed transaction.

The following discussion relies on the information presented by the applicants. Twenty-three ratios were developed with the applicants' submission to help elucidate the current financial position for Covenant, and the impact of the proposed project on its operating and financial feasibility. Additional financial ratios, as well as financial projections, are on file with CONU.

The years presented show both Covenant and St. Joseph's alone and then combined for the sole purpose of showing that Covenant has the capacity to support this merger. All data referring to State of Maine or Northeast Region averages are from the <u>2009 Almanac of Hospital Financial and Operating Indicators.</u>

There are four areas of financial ratio analysis related to the ability of the project to be successful. These ratios are profitability, liquidity, capital structure and activity ratios.

Profitability ratios attempt to show how well the entities do in achieving an excess of revenues over expenditures or providing a return. Generating revenue in excess of expenditures is important to secure the resources necessary to update plant and equipment, implement strategic plans, or respond to emergent opportunities for investment. Losses, on the other hand, threaten liquidity, drain other investments, and may threaten the long-term viability of the organization. The profitability ratios reported here include the operating margin, which measures the profitability from operations alone, the net margin (called total margin in some sources), which measures profitability including other sources of income, and the return on total assets.

Financial Performance Indicators

Profitability	Covenant 2006	Covenant 2009	Covenant 2012	St. Joseph's 2012	Combined 2012
Operating Margin	2.30%	1.90%	3.45%	4.33%	3.58%
Net Margin	4.71%	1.83%	5.70%	4.83%	5.58%
Return on Total Assets	4.33%	1.89%	5.39%	7.78%	5.61%

All three margins indicate that if the proposed project occurs that Covenant and St. Joseph's would remain profitable. These margins indicate the ability of the applicant to take on additional expenses based upon excess of revenues over expenditures.

Non-profit hospitals need to perform at financially sustainable levels in order to carry out their public missions. An adequate operating margin is a key indicator of the financial health of a hospital.

Operating margins in the high performing hospital group have seen greater improvements in margins while hospitals in the low performing group are sliding. High performing hospitals are doing better now than five years ago. Over the same time, lower performing hospitals are generally doing worse than five years ago. There is a widening gap between high and low performing hospitals. Improvement in operating profits for high-performing hospitals drives this widening performance gap. As a comparison, operating margins in the Northeast Region are considerably lower than in other regions.

The Maine State average for operating margin in 2006 was 3.80% while Covenant was at 2.30%. St. Joseph's in 2012 is projected to be 4.33% and Covenant is projected to be 3.45%. The impact on the combined operations would be an increase in operating margin of 0.13%.

The trend for operating margin in the State of Maine has been improving from a low of -1.35 to the present high of 3.8. Covenant's margin for the past four operating years including 2007 averaged 2.5%. St. Joseph's was profitable during this period also at slightly higher than consolidated margins.

The effect of this project on operating margins, as projected by the applicants, is not significant. This project is not expected to cause a significant impact on the operating margin of Covenant.

Financial Performance Indicators

Profitability	Covenant 2006	Covenant 2009	Covenant 2012	St. Joseph's 2012	Combined 2012
Operating Surplus	$10,360,828	$10,400,633	$22,216,085	$4,744,589	$26,960,675
Total Surplus	$21,201,657	$9,995,536	$36,738,085	$4,211,672	$42,039,966

This table validates that the applicant has the capacity to financially support this project.

Liquidity: Current ratios and acid test ratios are indicators of the ability of a hospital to meet its short-term obligations. The acid test ratio is generally considered to be a more stringent measure because it recognizes only the most liquid assets as resources available for short-term debt; the current ratio assumes that inventory and accounts receivable can be liquidated sufficiently to meet short-term obligations. Days in accounts receivable and average payment period also are used to monitor liquidity. Respectively, they indicate the average length of time the hospital takes to collect one dollar of receivables or pay one dollar of commercial credit. Together, they can provide a cursory indication of cash management performance.

Financial Performance Indicators

Liquidity	Covenant 2006	Covenant 2009	Covenant 2012	St. Joseph's 2012	Combined 2012
Current Ratio	2.53	1.86	1.63	2.70	1.77
Days in Patient Accounts Receivable	47.07 Days	48.27 Days	44.94 Days	58.53 Days	47.01 Days
Days Cash on Hand	160.57 Days	91.38 Days	158.72 Days	77.01 Days	146.63 Days
Average Payment Period	55.06 Days	46.53 Days	58.6 Days	53.16 Days	57.82 Days

In terms of liquidity, both applicants currently have substantial liquidity. The average payment period is not significantly longer than most other hospitals and systems reviewed by CONU. Liquidity measures a hospital's ability to manage change and provide for short-term needs for cash. This liquidity alleviates the need for decision making to be focused on short-term goals and allows for more efficient planning and operations of a hospital.

Forecasted average payment periods are a reasonable 53-57 days, because this is a continuation of recent trends it strengthens the assurance that cash needs can be met. Days in accounts receivable increases because St. Joseph's has significantly more accounts receivable as a percentage than Covenant's out-of-state subsidiaries. Days cash on hand varied significantly in the 2006-2009 periods and is projected to increase significantly to more than 146 days during the course of the project.

Days Cash On Hand is a ratio that is an industry accepted, easily calculated, method to determine a hospital's ability to meet cash demands. In 2006, the average days cash on hand for all sources for hospitals in the State of Maine was 97.9 days. Calculated days cash on hand for Covenant in 2006 was approximately 161 days indicating that Covenant was in the 75th percentile. St. Joseph's is expecting days cash on hand to be 77 days in 2012.

According to the same source, between 2000 and 2004 the average days cash on hand remained about 68 days. In 2006, cash on hand reached a five year low. Between 2006 and 2012 average days cash on hand for Covenant is projected to stay in the same range. In 2004, Maine had 15% less days cash on hand than the Northeast Region at 80 days, 12 days more than the Maine average. In 2006, Maine hospitals had increased their cash on hand by 50% in two years to be 30 days above the regional average.

The impact of the proposed project is calculated to be a decrease of 11 days cash on hand in the third operating year as compared to the non-CON operating projection (with or without St. Joseph's). This is a minor decrease in days cash on hand. Based upon source information, this hospital system is projected to be in greater than the 75th percentile for days cash on hand, compared to today's industry averages, with or without the project. Therefore this project will not have a substantial impact on Covenant's operating ability to meet its cash demands. Even if actual cash on hand is lower, based on additional investments in programs and technology, Covenant should be able to adequately support St. Joseph's.

Activity and Capital Structure: Activity ratios indicate the efficiency with which an organization uses its resources, typically in an attempt to generate revenue. Activity ratios can present a complicated picture because they are influenced both by revenues and the value of assets owned by the organization. The total asset turnover ratio compares revenues to total assets. Total assets may rise (or fall) disproportionately in a year of heavy (dis)investment in plant and equipment, or decrease steadily with annual depreciation. Thus, it is helpful to view total asset turnover at the same time as age of plant. Debt service coverage is reviewed in greater detail. Debt Service coverage measures the ability of a hospital to cover its current year interest and balance payments.

Financial Performance Indicators

Solvency	Covenant 2006	Covenant 2009	Covenant 2012	St. Joseph's 2012	Combined 2012
Equity Financing	50.07%	45.63%	49.27%	62.27%	50.45%
Debt Service Coverage	4.12	3.01	3.99	7.83	3.59
Cash Flow to Total Debt	18%	12%	20%	42%	17.51%
Fixed Asset Financing	103%	110%	120%	48%	112.71%

Many long term creditors and bond rating agencies evaluate capital structure ratios to determine the hospital's ability to increase its amount of financing. During the past 20 years, the hospital industry has radically increased its percentage of debt financing. This trend makes capital structure ratios important to hospital management because these ratios are widely used by outside creditors. Values for these ratios ultimately determine the amount of financing available for a hospital. Debt service coverage is the most widely used capital structure ratio. Debt service coverage minimums are often seen as loan requirements when obtaining financing. Debt service coverage is the ratio of earnings plus depreciation and interest expense to debt service requirements. In 2006, the median Maine hospital's debt service coverage (DSC) was 3.48x.

Covenant had a DSC in 2006 of 4.12x which places it above the average Maine Hospital. The trend statewide for 2002-2006 has been increasing with a low of 2.36 in 2002 and a high of 3.71 in 2004. The trend for Covenant has fluctuated for the last 4 years. The trend, as projected by Covenant for this project 2008-2015, is that DSC is expected to remain fairly constant for Covenant. St. Joseph's debt service coverage is expected to remain strong.

Covenant has the capacity and the ability to have adequate debt service coverage. If Covenant were to maintain its debt service coverage at a ratio consistent with its recent history, the acquisition of St. Joseph's would not significantly impact its ability to service its loans.

The 2009 Almanac commented: "Low performance hospitals have historically used more debt to finance net fixed assets than high performance hospitals. With the removal of capital cost pass through, long term debt will become most costly relative to equity. High performance hospitals are restructuring their capital positions to reflect this shift in the relative costs of debt and equity capital. However, we expect fixed asset financing ratios to continue to remain stable during the next 5 (five) years as hospitals curtail their growth in new capital expenditures and reduce their reliance on long term debt."

The Northeast has considerably higher rates in financing fixed assets than other regions.

The 2006 average for hospitals in the State of Maine was 52% in regards to fixed asset financing. In 2006, Covenant was at 103% which is significantly higher than the ratios typically seen in Maine. For the years 2002-2006, for hospitals with revenues similar to Covenant's, 63% is about the average. St. Joseph's reported a fixed asset financing ratio of only 42%. This can be explained by looking at the turnover ratios in the table below.

The fixed asset financing ratio over the past 5 years has remained relatively consistent in the State of Maine.

Efficiency Ratios: Efficiency ratios measure various assets and how many times annual revenues exceed these assets.

Financial Performance Indicators

Efficiency	Covenant 2006	Covenant 2009	Covenant 2012	St. Joseph's 2012	Combined 2012
Total Asset Turnover	0.92	1.04	0.95	1.58	0.94
Fixed Asset Turnover	2.55	2.72	3.08	4.51	3.03
Current Asset Turnover	2.82	4.51	4.16	3.26	3.65

Total asset turnover (TAT) provides an index of the number of operating revenue dollars generated per dollar of asset investment. Higher values for this ratio imply greater generation of revenue from the existing investments of assets. Larger hospitals usually have lower values for turnover than smaller hospitals. This can be attributed to two factors: (1) larger hospitals are most likely to have newer physical plants; and (2) capital intensity is often greater in larger hospitals due to more special services and higher levels of technology.

In 2006, Maine hospitals had a TAT of 1.12 and Covenant had a TAT of 0.92. Since CONU did not investigate each entity that is part of the Covenant system it is difficult to determine the physical reason for lower turnover. In the period of 2000 – 2004 there has been a steady increase in the TAT for Maine hospitals. The expected trend for Covenant is for TAT to remain the same during the time frame of this project 2009-2012. This is reflective of a hospital planning to spend approximately the same percentage of funds on capital improvements or investments in technology.

Operating costs in the third operating year are expected to increase by $1,217,996. For the Bureau of Insurance this amount is adjusted to a current value of $1,172,321 in order to calculate the impact of this project on commercial insurance premiums. The impact on the Capital Investment Fund (CIF), if approved, would be $1,172,321. The increase is related to the organizational charge of 1.2% of expenses for being part of the Covenant system.

CONU conducted a sensitivity analysis to determine what percentage shift in funding source would result in project-only net income of zero. We calculated the percentage of charges for each funding source. It was determined that private outpatient charges represent 25.8% of total hospital funding. Private inpatient charges represent 10.5% of total hospital funding. We assume an annual membership assessment of $738,198; however, this amount will vary in any given year as it is based on prior-year expenditures. If both of these funding source percentages were decreased by 2.35% with a corresponding increase to the Medicare and MaineCare funding sources, the project-only resulting net income is approximately equal to zero. Therefore, CONU has determined that the profit margin of St. Joseph Hospital is very sensitive to redistribution among funding sources.

The agreement states that a membership assessment of 1.2% of the previous year's audited expenditures will be paid annually to Covenant. Depending on future economic conditions, the difference between hospital revenues and expenditures may not be sufficient to cover the membership assessment. Therefore, as a condition of acceptance, a provision needs to be added to the agreement to take this into account. In years where the excess of revenues over expenditures is insufficient to cover the annual membership assessment, the assessment should either be reduced or deferred to future more profitable years.

CONU recommends that the Commissioner include the following condition: Modify the terms of the agreement to allow for the deferral or reduction of the management fee should excess revenue over expenditures be less than 1.2% of revenues.

In completing this section of the analysis, the CONU concludes that, as proposed, the applicants can financially support the project. Demands on liquidity and capital structure are expected to be adequate to support projected operations. Financing and turnover ratios show little impact on the organization as a whole from successfully engaging in this project. Covenant has shown current earnings which are not expected to be significantly impacted by this project.

Staffing

The applicant reports no planned changes in staffing at this time as a result of this transaction.

Changing Laws and Regulations

CONU staff is not aware of any imminent or proposed changes in laws and/or regulations that would impact the project. Covenant Health Systems, Inc. has the organizational strength to adjust to reasonable changes in laws and/or regulations. The projection reflects the ability of the facility to operate in light of the recent change in the timing of reimbursement from MaineCare.

iii. Conclusion

CONU recommends that the Commissioner determine that, with the inclusion of the proposed condition, the applicants have met their burden to demonstrate the economic feasibility of the proposed services in terms of: (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.

IV. Need to be Met

A. <u>From Applicant</u>

"The Hospital has been operating under the Catholic sponsorship of the Felician Sisters for more than 60 years. Although it is the smaller of two hospitals in Bangor, its strong Catholic identity and quality services make it the first choice for many people in the greater Bangor Community and the broader service area of the Hospital. Public confidence in faith-based organizations remains high, and for many Catholic individuals and others, a religiously sponsored hospital represents a commitment to quality and community services. St. Joseph Hospital is currently one of three Catholic hospitals in Maine, out of a total 39 hospitals state-wide. Preserving the Catholic identity was a major concern for the Felician Sisters, as well as for the Boards of Trustees of the Foundation and the Hospital, and the sponsorship by Covenant will continue this Catholic religious affiliation."

"The Hospital has long served the community, including those individuals who rely on MaineCare for payment for their care. From 7/1/07 to 6/30/08, the Hospital admitted 4,124 people for inpatient care. Of these, 353 people relied on MaineCare as their source of payment. The Hospital also provided 113,110 outpatient encounters. MaineCare accounts for approximately 12.2% of the outpatient revenues at the Hospital. The Hospital continues to provide care to people with complex needs as evidenced by its high case mix index score. The most recent utilization data collected by the Maine Hospital Association for the period 7/1/07-6/30/08 listed St. Joseph Hospital's case mix index (CMI) as 1.34, the fourth highest in the state, outranked only by Maine Medical Center, Eastern Maine Medical Center ("EMMC"), and Central Maine Medical Center. The Hospital's continued service to the area is evidenced by maintaining a strong presence as a community hospital to the residents of Bangor, Brewer, Orono and surrounding areas and by offering services which are unique in the area, such as the Wound Center, featuring hyperbaric care. Further, the Hospital has cooperated with EMMC to conduct a community health status assessment and to develop strategies to address the supply of physicians in the area to respond to community needs. The Hospital also collaborated with EMMC and Penobscot Community Health Center to produce "Your Guide to Medication Safety" which provides consumers with a simple card and instructions to record all their medications which can then be presented at the time of care."

"Additionally, the infrastructure of the Hospital has been greatly improved over the past ten years; the emergency department and patient floors have been completely renovated. Reflective of best practice clinical recommendations, most of the patient rooms are single occupancy which accounts for a reduced infection rate and improved patient experience."

"Participation in Covenant Health Systems, with the opportunity to share best practices with other highly regarded acute care institutions, will advance the Hospital's clinical capacity and ensure the timely adoption of innovative clinical approaches designed to positively influence health and/or the patient experience."

"Maintaining the Catholic identity of the Hospital will ensure that high quality end-of-life care will continue to be a focus of the Hospital into the future. Through its affiliation and support of the Supportive Care for the Dying Coalition, Covenant has made a major commitment to providing best practices and information on clinical advances in palliative care and pain management efforts. These efforts will complement the full range of services that are currently in place at the Hospital and will positively influence the care which people receive at the Hospital and other members of the Covenant system. The continued coordination with the Hospice Program, also sponsored by the Foundation, will support the 2008-2009 State Health Plan's specific plans to increase the use of the Medicare Hospice Benefit by eligible people in Maine."

B. CONU Discussion

i. Criteria

Relevant criteria 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. Analysis

In order for St. Joseph Hospital to remain a viable and sustainable healthcare resource for the people of the greater Bangor area, the Felician Sisters determined that it is necessary to transfer the sponsorship of St. Joseph Hospital to a Catholic health care system "due to constraints on the Province." "Due to the aging of the members of the Enfield Province, there were not enough younger members to continue to carry out their governance and oversight responsibilities as corporate members of the Foundation." St. Joseph Hospital determined that Covenant is the best choice.

The hospital has developed a new relationship with state employees by becoming a Tier 1 hospital which indicates that the hospital is providing high quality services and support in an efficient lower cost setting. In information provided by the applicant, the average cost per adjusted discharge (CPAD) from 7/1/07 to 6/30/08 at St. Joseph Hospital was $7,024 which is significantly lower than the reported CPAD of Eastern Maine Medical Center (also located in Bangor, ME) which was $10,739. The hospital has a specialized focus on geriatrics and the specific population in Bangor aged 65+ is expected to be 16% by the year 2012. This represents a 15% growth in older population since 2007. MaineCare accounts for approximately 12.2% of the outpatient revenues at the hospital. 8.5% of inpatients relied on MaineCare as a source of payment for their services. This helps demonstrate the facility will remain accessible to all residents of the greater Bangor service area. The applicants did not disclose plans for making any operational changes.

Benefits of transferring sponsorship according to the applicant include the preservation and continued availability of healthcare services to people of the greater Bangor community and the continuity of St. Joseph Hospital as a Catholic-based health care organization. The applicant did not provide detailed information as to health needs of the community that St. Joseph Hospital serves. Evidence supporting the public need of this project is lacking; however, when the necessity to maintain continuity of the existing healthcare facilities in the Bangor area is taken into account, this project meets the burden to determine a public need. This transfer should maintain, if not improve, quality outcomes and indicators partly due to access to additional shared resources that will be made available through Covenant Healthcare Systems. With the proposed condition to modify the terms of the agreement regarding the management fee, as discussed in section III, CONU has reduced the possibility for public needs not being met as a consequence of this project.

iii. Conclusion

CONU recommends that the Commissioner determine that the applicants have met their burden to show that there is a public need for the proposed project as demonstrated by certain factors, including, but not limited to: (1) 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; (2) Whether the project will have a positive impact on the health status indicators of the population to be served; (3) Whether the services affected by the project will be accessible to all residents of the area proposed to be served; and (4) Whether the project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project.

V. Alternatives Considered

"It was very important to the Felician Sisters, Bishop Richard Malone, the current trustees of the Foundation and the Hospital, and the community that the Hospital's Catholic identity be preserved and that Catholic, faith-based healthcare continue to be available to the patients and families within the Hospital's service area. The Felician Sisters therefore considered several different options. Closure of the Hospital was not considered an option because it would disrupt the services in the community and end their 60 year health care ministry to the people in the Greater Bangor Area and the strong, vibrant role of the Hospital in the providing a wide range of needed services."

"Alternatives considered were":

1) Maintain the Status Quo

"The Felician Sisters carefully considered their capacity to continue the sponsorship of the Foundation and the Hospital. Nearly 10 years ago they began exploring their options. Their principal ministry efforts have been in education and social services. The Hospital is the only health care ministry of the Felician Sister's Enfield Province. In the course of their analysis, the Felician Sisters reluctantly concluded that with the aging of the members of the Enfield Province, there were not enough younger members to continue to carry out their governance and oversight responsibilities as corporate members of the Foundation. Additionally, all the Felician Provinces within the United States and Canada have recently developed a reorganization plan which will result in considerable consolidation and changes to geographic boundaries, once implemented. The leadership of Our Lady of Angels Province of the Felician Sisters, who currently serve as the members of the Foundation, is committed to ensuring that the transfer of sponsorship of the Foundation and the Hospital take place prior to the changes to the Congregation in the United States, now planned for late 2009. Thus, maintaining the current structure was rejected as an option."

2) Link with Another Maine Provider

"This option was considered but rejected because the Catholic identity of the Hospital could not be preserved unless the other organization was Catholic. This would exclude all but the other two Catholic hospitals in Maine – St. Mary's Regional Medical Center (which is sponsored by Covenant) and Mercy Hospital (which is sponsored by Catholic Health East.)"

3) Transfer Sponsorship to a Catholic Health Care System

"After considering several Catholic health care systems which had the interest in and capacity to assume sponsorship of the Foundation and the Hospital, the Felician Sisters concluded that Covenant was the best choice. Covenant currently sponsors several health care organizations within Maine, including St. Mary's Regional Medical Center (Lewiston), St. Mary's D'Youville Pavilion (Lewiston) and St. Andre Health Care Facility (Biddeford), and is committed to operating in the state for many years to come. The Hospital has been an affiliate of Covenant since 2001, and during that time, the management and trustees have become comfortable with the organization which ensures that there would be congruence of cultures between the two organizations. Covenant is recognized nationally for its status of a Public

Juridic Person of Pontifical Right, and as such, has established a structure recognized in the Church, which will allow it to nurture and maintain the Hospital's Catholic identity for the foreseeable future. Finally, Covenant is committed to maintaining the local board, management, staff, physicians and services of the Hospital in such a way that the transition will not disrupt the organization and will seem fairly transparent to the community. During this past year, Covenant has supported the Hospital's and Board's efforts to develop a strategic plan which will promote the continued success of the Hospital and St. Joseph Healthcare for many years to come. The Felician Sisters have secured some of the necessary canonical approvals for the proposed transfer of sponsorship to Covenant. However, no final transfer may take place until the Holy See grants permission to proceed with the change of sponsorship, which the Felician Sisters expect will be granted in due course following receipt of Simplified Review approval from the Commissioner of Maine DHHS."

B. CONU Discussion

i. Criteria

Relevant criterions 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. Analysis

St. Joseph Healthcare is in existence because of the sponsorship of the Felician Sisters of Enfield, Connecticut Province. The hospital considers itself an extended ministry rooted in the tradition of the Founder's vision of spirituality-renewing society through compassionate caring of the whole person in all circumstances. Because of the link of the hospital to the Catholic Church, the organization has decided to seek alternative sponsorship with another Catholic medical organization.

Three alternatives were discussed in the application: maintain the status quo; link with another Maine provider; and transfer sponsorship to a Catholic health care system. The applicants determined the status quo is not sustainable due to the declining participation of the Felician Sisters in the organization. A discussion of how this would impact the future operations of St. Joseph Hospital (absent the change in sponsorship) was not included.

The second alternative considered was to link directly with one of the two other Catholic hospitals in Maine. The two other Catholic hospitals in Maine are St. Mary's Regional Medical Center (sponsored by Covenant) and Mercy Hospital (sponsored by Catholic Health East). St. Joseph's ties to St. Mary's have increased significantly since the 2001 affiliation with Covenant.

The third alternative, transfer of sponsorship to a Catholic healthcare system was determined to be the most feasible alternative. The applicants do not provide detail about the other competing Catholic healthcare organizations that showed interest in sponsoring St. Joseph Hospital. An analysis of benefits each sponsor could have provided to the people in the greater Bangor service area, or an analysis of estimated cost savings resulting from partnering with each sponsor could have been included to strengthen the application.

A fourth alternative of linking with another Maine provider was not considered feasible because of the constraint of joining with another Catholic organization.

The criterion regarding the likelihood that more effective, more accessible, or less costly alternative technologies or methods of service delivery may become available is not generally applicable at this time.

Availability of State Funds

The membership fee contemplated in the agreement should not impact costs to be borne by the state. According to communications with the Office of Audit, management fees are not an allowable cost as stated in the Principles of Reimbursement Manual Part I, §2150. The parent organization's reasonable costs related to patient care are includable costs as long as they are disclosed properly. This determination will be made by the Office of Audit based upon filings by the applicant pursuant to reimbursement.

Total incremental 3rd year operating costs are projected to be $1,217,996. Based on this projection, MaineCare's cost would be $116,928 ($1,217,996 x 9.6%), which is both the Federal and State portions combined. The estimated impact to the Maine budget per year would be $40,925 ($116,928 x 35% (State Portion)). Funds should be available to cover these additional allowable expenditures.

iii. Conclusion

CONU recommends that the Commissioner determine that the applicants have 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 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.

VI. State Health Plan

A. <u>From Applicant</u>

"The Hospital offers a variety of services which are consistent with the 2008-2009 Maine State Health Plan and its particular focus on making Maine the healthiest state for all with an efficient, effective and high-performing health delivery system. The Foundation's mission is reflective of this focus. "***St. Joseph Healthcare – committed to wellness promotion and wholistic healing – provides healthcare services which embody compassion, competency and community.***" Consistent with the State Health Plan, Covenant's sponsorship will continue and enhance this commitment and foster improved efficiency and performance by the Hospital and St. Joseph Healthcare."

Improving Health, building a system that supports every person getting and staying healthy

"In addition to many of the cancer and pulmonary programs which the Hospital has developed, it has invested resources to address the needs of physicians and their patients who have major health needs and must navigate complicated systems to receive care. The Hospital has also developed a new relationship for State Employees by becoming a Tier I hospital which allows the Hospital to provide high quality services and support in an efficient, lower cost setting. The Hospital and St. Joseph Healthcare, also in support of the State Plan, are working with Covenant Health Systems to develop new strategies to link with medical and other health professions schools to attract additional health care providers to the Greater Bangor area."

Assuring Best Practices/Less Variation in Care Delivery

Efficiency and Effectiveness

"According to the 2008-2009 State Health Plan, older adults have a higher incidence of chronic disease, with 83% of the Medicare population having one or more chronic conditions and fully 23% having five or more chronic illnesses such as COPD, diabetes, Cardiovascular disease and cancer. Within the Hospital's market area, the older adult population constituted 14% of the population in 2007, and is expected to grow to at least 15% of the population being 65 and older by 2012. The specific population in Bangor aged 65+ will constitute 16% by 2012. (Source: Solucient Data and Maine State Health Plan Data for Penquis District.) The Hospital, through its configuration and specialized focus on geriatrics, has done much to provide a high quality location of care for this specialized population."

The Hospital's and St. Joseph Healthcare's Efforts to Address Specific Disease Issues

Cancer and Asthma Issues
"In the 2006-2007 State Health Plan, Maine was listed as having the second highest rank for cancer incidence per 100,000 residents and the highest national rank for prevalence of adult asthma. The 2008-2009 State Plan noted that the incidence of cancer in the Penquis District was 553.1, per 100,000 people, higher than both the Maine and US Averages. The percentage of

adults with Asthma according to the 2008-2009 State Health Plan was 12.4% in the Penquis District, also higher than the Maine and National averages, and in fact, the highest percentage in the State Districts. The Hospital has dedicated significant resources to both of these areas. The Hospital has specific specialty care services to treat these diseases as evidenced by its infusion therapy departments, Lymphedema Clinic, Pulmonary Rehabilitation Center and hiring two full time Pulmonologists to serve the population. The Hospital is known throughout the region for its Breast Care Center which serves approximately 15,000 women a year and focuses on both prevention and treatment of breast and related cancers. The Hospital is a leader in adopting technology which supports the early identification of breast cancer and provides the only MRI guided breast biopsies in Maine. Finally the Hospital has invested resources in enhancing its capacity to provide screenings for colorectal cancer, through expanded gastroenterology resources."

Tobacco Usage

"The 2006-2007 State Health Plan also identifies tobacco usage as contributing to many of the health ailments in Maine. Understanding that this is a major public health issue, the Hospital has committed resources to smoking cessation programs. The Pulmonary staff counsels patients who are smokers or who have recently quit and provides information on the effects of smoking. The Hospital staff provides one-to-one counseling to community members who are interested in quitting and regularly participate in health fairs where smoking cessation is discussed."

Diabetes and Good Nutrition

"While the prevalence of diabetes is approximately the same within Maine as it is nationally, there is significant evidence that controlling obesity and maintaining healthy lifestyles are key components to reducing incidence or at least controlling diabetes. The Hospital has supported the State's efforts to address this chronic illness by developing a Diabetes and Nutrition Center where staff provides education to the public about weight management issues and operates an innovative multiple week program (IDEAL) which is aimed at providing diabetics with coping skills for their disease. SJH has also employed a full time endocrinologist who provides clinics in Bangor and throughout Aroostook County, thereby extending services to rural areas."

"The IDEAL Project research has shown that learning stress management techniques can improve long-term blood sugar control in type 1 & 2 diabetes. The course assists diabetes patients in developing the skills necessary to keep a positive outlook while addressing their diabetes burnout, and the issues of stress and depression in order to help people with diabetes live productive and healthy lives. This program uses a number of very innovative approaches to help develop coping skills, including art therapy."

"Covenant is well positioned to support these essential diabetic services. For example, it has a system-wide initiative focused on improving the nutrition of people in the areas where Covenant health care facilities are located and is committed to working with the Hospital's staff to expand their efforts in this regard. In 2007 and most recently in 2008, the St. Mary's Health System, (formerly known as the Sisters of Charity Health Systems,) which includes St. Mary's Regional Medical Center, under Covenant's sponsorship, received national recognition for its Lots to Gardens Program. As a System, Covenant Health Systems has established a standing committee

"Healthy Nutrition" as part of Covenant's Environmental Stewardship Council and has fostered the development of multiple nutrition programs and initiatives System-wide. Among these efforts have been: efforts which resulted in the elimination of the use of transfat which patients and staff eat; providing nutrition education to local members of the community including senior centers to improve their health; working with local community agencies to help children learn how to grow and then prepare healthy food choices and creating resources for sustainable food for nutrition within the institutions."

Suicide Prevention

"Maine has identified suicide prevention, particularly among teenagers and elders, as a troubling public health issue. Covenant has also identified this as a major issue for its member organizations. It recently developed a resource manual and oversight process for member organizations which is available to the Hospital, entitled Suicide Screening and Risk Assessment Tools and Suicide Precautions. This initiative has reviewed areas and patients who are particularly at risk for suicide and identified approaches to prevent patient suicides."

"Covenant supports a number of other initiatives outlined in the State Health Plan, including sharing of best practices, improving response time and other clinical protocols for AMIs and the overall focus on health promotion. It is confident that this commitment at the system level will strengthen the local efforts currently underway at the Hospital."

B. State Health Plan Priorities

The Maine CDC/DHHS did not provide an assessment on individual priorities. On February 20, 2009, Dr. Dora A. Mills provided the following: "I read the Transfer of Sponsorship for St. Joseph's Hospital, and do not see any health impact this application has."

1. ***The applicant is redirecting resources and focus toward population based health and prevention.***

a. Applicant's Discussion on Priority

"The Hospital and St. Joseph Healthcare have been committed to developing services and supports for people in the Greater Bangor area, which include health improvement efforts and creating systems which allow people, particularly those who are medically compromised, to find a "medical home" for their care. In addition to many of the cancer and pulmonary programs which the Hospital has developed, it has invested resources to address the needs of physicians and their patients who have major health needs and must navigate complicated systems to receive care."

b. CONU Findings

St. Joseph Hospital is committed to continue directing resources toward population based health and prevention. St. Joseph has implemented a wide variety of programs to address health conditions. Some programs include Breast Cancer, Smoking, Diabetes, Suicide Prevention, etc. These programs will be maintained by this new sponsorship.

2. ***The applicant has a plan to reduce non-emergent ER use.***

a. Applicant's Discussion on Priority

"Consistent with the State Health Plan, SJH is working diligently with its associated physicians to streamline processes and make accessing services by their patients easier. The Hospital is committed to reducing the use of the Emergency Department for non-emergent issues by striving to expand capacity at primary care practice sites, and to eliminate, as much as possible, those non-emergent cases being seen in the expensive emergency room settings."

b. CONU Findings

Even though this project does not directly relate to the Emergency Department, this priority can be considered met if the applicant has a plan in place to reduce non-emergent ER use. The applicant did not specify the plan to reduce non-emergent ER use.

3. ***The applicant demonstrates a culture of patient safety, that it has a quality improvement plan, uses evidence-based protocols, and/or has a public and/or patient safety improvement strategy for the project under consideration and for other services throughout the hospital, as well as a plan – to be specified in the application – to quantifiably track the effect of such strategies using standardized measures deemed appropriate by the Maine Quality Forum.***

a. Applicant's Discussion on Priority

"Consistent with the State Health Plan, SJH is working diligently with its associated physicians to streamline processes and make accessing services by their patients easier. The Hospital is committed to reducing the use of the Emergency Department for non-emergent issues by striving to expand capacity at primary care practice sites, and to eliminate, as much as possible, those non-emergent cases being seen in the expensive emergency room settings. Additionally, SJH has worked diligently to identify and reduce the level of hospital acquired infections. This includes a joint agreement for infectious diseases physician coverage with EMMC; an epidemiologist on contract; a robust education program for hand washing requirements; an active surveillance program for MRSA prevention; and house-wide surveillance by an infection control nurse. As part of Covenant Health Systems, there will be additional data sharing with other high quality Catholic hospitals which are focused on improved quality, and the use of evidence-based practices."

b. CONU Findings

Information received from Dr. Josh Cutler, Maine Quality Forum provided on April 14, 2009, stated that there are "no health care quality implications in this proposal."

4. ***The project leads to lower cost of care / increased efficiency through such approaches as collaboration, consolidation, and/or other means.***

a. Applicant's Discussion on Priority

"The Hospital and St. Joseph Healthcare have developed an efficient approach to providing healthcare and continues to explore new approaches, such as reduced emergency department utilization identified above. In furtherance of the State Health Plan's initiative, SJH has actively promoted the use of Medicare Hospice through its affiliated St. Joseph Home Health and Hospice, Inc. which is certified as a Medicare Hospice. The Hospice is utilized for those individuals who are at the end of life, to ensure that they receive care in a compassionate manner, consistent with both the St. Joseph Healthcare Foundation and Hospice missions. St. Joseph Healthcare and the Hospital have been dedicated to providing this type of service as evidenced by their developing the St. Joseph Home Health and Hospice, Inc. long ago, and supporting its efforts, including offering subsidies initially when the program was developed. SJH has also invested in and developed outpatient resources to support the needs of the people in the Greater Bangor area."

"Based on information which is available through Maine Hospital Association, the average cost per adjusted discharge during the period 7/1/07 to 6/30/08 at the Hospital was $7,024, significantly lower than the Trauma Center in the area with an average cost per adjusted discharge of $10,739 for the same period, making SJH an efficient resource for the people and payors who need non-trauma level health care in the Greater Bangor Area."

b. CONU Findings

This project does not meet the criteria for the priority because the project does not lower the cost of care.

5. ***The impact of the project on regional and statewide health insurance premiums, as determined by BOI, given the benefits of the project, as determined by CONU.***

a. Applicant's Discussion on Priority

The applicant did not address this priority.

b. Bureau of Insurance Assessment

"The Bureau of Insurance applied an enhanced version of the assessment model that was previously developed internally with support from its consultant, Milliman, Inc., of Minneapolis, MN, in order to develop an estimate of the impact that this CON project is likely to have on private health insurance premiums in St. Joseph Hospital's service area and in the entire state of Maine. I have worked with you and your staff at the CON Unit, using data and support from the U.S Census Bureau, the Centers for Medicare & Medicaid Services, the State Planning Office, the Office of Integrated Access and Support (DHHS), the Certificate of Need

Unit of the Department of Licensing and Regulatory Services, the Bureau of Insurance, and information submitted by the applicant through your agency to perform this assessment."

"The methodology compares the CON project's Year 3 incremental operating and capital costs (adjusted to the year ending December 31, 2009) to the estimated private health insurance average premium per person for the same period. Based on the model, I estimate that the *maximum* impact of this CON project on private health insurance premiums in St. Joseph Hospital's service area for the project's third year of operation could be approximately 0.492% ($0.492 per $100) of premium. I further estimate that this project, in its third year of operation, will have an impact on statewide private health insurance premiums of approximately 0.029% ($0.029 per $100) of premium."

c. <u>CONU Findings</u>

Based on the information provided by the Bureau of Insurance, the additional impact to regional and statewide premiums are reasonable.

6. ***Applicants (other than those already participating in the HealthInfoNet Pilot) who have employed or have concrete plans to employ electronic health information systems to enhance care quality and patient safety.***

a. <u>Applicant's Discussion on Priority</u>

"The 2008-2009 State Health Plan focused on the importance for providers to be able to share clinical information in a timely manner and to allow for effective care coordination and to ensure that care provided to an individual patient is appropriate, safe and efficient. The Hospital has committed significant resources to technology for the purpose of advancing clinical practice and ensuring that clinicians have timely access to information. The Hospital has established a PAC System through a collaboration with Eastern Maine Medical Center to ensure that vital information is available and readily retrievable. This collaboration for the PAC is extending and will be a community wide resource in the near future. Covenant will continue to support and enhance these efforts. It is committed to ensuring that all the acute care institutions within its system, including the Hospital, will have implemented and be operating an Electronic Medical Record (EMR) by 2009."

b. <u>CONU Findings</u>

The applicant has demonstrated their commitment to employing Electronic Medical Records by 2009. This priority has been met.

iii. <u>Conclusion</u>

CONU recommends that the Commissioner find that the project is consistent with the State Health Plan priorities.

VII. Outcomes and Community Impact

A. **From Applicant**

"The transfer of sponsorship allows for the long term continuation of high quality Catholic health care in Eastern Maine. It continues the commitment to the Greater Bangor Community. It ensures that the citizens of the area have access to a high quality, lower cost health care provider which had developed and maintained expertise in such areas as orthopedics, endocrinology, rheumatology and gastroenterology. It does not result in the development of duplicative services which would negatively impact the cost of delivery of care within Maine. Many of the hospitals in Maine are currently part of a larger health system. The Foundation's current sponsors, the Felician Sisters, and its Board of Trustees have taken a long-range approach to making this decision which began in 2001, and the decision to transfer has the support of all the necessary parties in order to make this a successful transition. Neither Covenant nor the Foundation's Board anticipate a difficult transition . Additionally, by linking to a larger strong health care System, St. Joseph Healthcare will now benefit by support and services which may not currently be in place or which will be strengthened through the relationship with Covenant."

"These services would include:

- Access to Human Resource Support
- Strategic Planning Support
- Access to an extensive Corporate Compliance Program
- Participation in a Captive Insurance Program
- Access to Coordinated Risk Management Services
- Leadership Development Initiatives for all levels of Employees
- Availability of formalized Succession Planning Initiatives for Senior Level Employees
- Coordinated, system-wide efforts to recruit and retain physicians
- Coordination of Community Benefit and Social Responsibility Efforts
- Access to multiple best practices initiatives focused on improving care and serving the community which will enhance the availability of care and support to the Bangor Community
- *Access to System-wide Governance Development and Education*
- *Coordinated support for Mission Effectiveness and Pastoral Care*
- *Coordinated efforts to promote Catholic Identity and to Foundational Educational Programs to enhance all employees' understanding of the elements of providing Catholic healthcare."*

"The proximity of St. Joseph Healthcare to other Covenant Health Systems sponsored/member organizations may offer additional benefits for shared services, economies of scale and operational activities, which have not been pursued while St. Joseph Healthcare was an affiliate for a variety of regulatory and other reasons. Covenant and its member organizations are anticipating significant mutual benefits will arise as the entire System seeks to leverage the opportunities afforded by St. Joseph Healthcare coming under the sponsorship of Covenant Health Systems."

B. <u>CONU Discussion</u>

i. <u>Criteria</u>

Relevant criterions 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.

ii. <u>Analysis</u>

The applicants state that sponsorship by Covenant Health Systems will ensure the long-term continuation of lower-cost quality health care to the greater Bangor service area. As listed above, the applicants state the benefits of being sponsored by Covenant will include many efficiencies of being part of a larger health care network.

CONU compared Leapfrog data between St. Joseph Hospital and current Covenant Health System hospital St. Mary's in Lewiston, Maine. The Leapfrog Group is a voluntary program that reports health care safety and quality for hospitals.

Patients being treated for a heart attack should choose a hospital that follows the recommended processes of care and also provides the appropriate care at a low cost. Currently St. Joseph's is working on that standard while St. Mary's has achieved compliance. In regards to hospitals developing steps to avoid harm, St. Joseph's was also improving on meeting this standard while St. Mary's has already met this quality measurement according to Leapfrog. St. Joseph's did report more substantial compliance with the national standard regarding medication errors than St. Mary's. For other areas where both hospitals reported information to Leapfrog, both hospitals received the same score. The other hospital in the Covenant system did not report quality scores to Leapfrog.

St. Joseph's has a high patient safety rating in regards to its patient safety culture as can been seen in the following chart based upon Leapfrog data. In the chart, individual elements are weighted on specific scales. The longer the bar, the higher the effectiveness of the provider in achieving the treatment goals specified by Leapfrog, which is indicative of compliance with Leapfrog standards:

Safety Culture	Minimum Maximum
Element 1: Establish leadership structures and systems	
Element 2: Invest in performance improvement	
Element 3: Teamwork training and skill building to promote patient safety	
Element 4: Identify and mitigate risks and hazards	
Nursing staff meets patients' needs	
Communication Among Health Care Workers	
Timely clinical information for other caregivers and patients	
Prevent mislabeled x-rays	
Discharge summary available for follow-up care	
Doctor and Patient Communications	
Patient can repeat details of condition and treatment	
Patient preferences are prominent in chart	
Prevent Infections	
Provide proper interventions for all patients on ventilators	
Prevent catheter-related infections	
Comply with CDC hand-washing guidelines	
Prevent Medication Errors	
Patient medication list is updated and reviewed with new orders	
Maintain safe processes for using anti-blood-clotting medication	
Prevent Other Complications and Mistakes	
Assess and prevent blood clots	

Based upon these quality measurements, CONU concludes that the applicants will continue to ensure high-quality outcomes.

The applicants are not proposing to add or expand services that would negatively affect the quality of care delivered by existing service providers.

iii. **Conclusion**

CONU recommends that the Commissioner determine that the applicants have 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.

VIII. Service Utilization

A. From Applicant

"St. Joseph Healthcare will continue to provide a wide range of high quality, cost effective programs and services. It is anticipated that Covenant's sponsorship of St. Joseph Healthcare will enhance, rather than diminish St. Joseph Healthcare's ability to develop new programs and services (although no program or services expansion is anticipated in connection with the transfer of sponsorship at this time.)"

B. CONU Discussion

i. Criteria

Relevant criterion 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.

ii. Maine Quality Forum Analysis

"I have reviewed the above-referenced application and see no health care quality implications in this proposal."

iii. CONU Analysis

Currently no program or service expansions or eliminations associated with the sponsorship by Covenant are planned. The sponsorship by Covenant will increase the resources available to St. Joseph Healthcare should service expansions be undertaken in the future. CONU concludes that the project does not result in inappropriate increases in service utilization.

iv. Conclusion

CONU recommends that the Commissioner determine that the applicants have 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.

IX. Funding in the Capital Investment Fund

A. From Applicant

The applicant did not comment on this section.

B. CONU Discussion

i. Criteria

Relevant criterion for inclusion in this section are related to the needed determination that the project can be funded within the Capital Investment Fund.

ii. Analysis

The large hospital project cycle is a competitive cycle. The CIF has been introduced to limit the development of hospital projects to a level sustainable in regards to its impact on the growth of healthcare costs.

This agreement includes a management fee based on prior years' operating expenditures; there is a marginal cost to allowing St. Joseph to be sponsored by Covenant Health Systems. This will result in a debit to the CIF calculated at $1,172,321.

iii. Conclusion

CONU has determined that there are incremental operating costs to the healthcare system that will affect the Capital Investment Fund (CIF) dollars needed to implement this application. The current CIF calculation for projects approved in 2009 has yet to be determined although it is expected to be adequate to fund this project.

X. Timely Notice

A. From Applicant

"Covenant and SJH filed a letter of intent with the CONU dated December 21, 2007. By correspondence dated December 27, 2007, Covenant was advised that the CONU had determined that the proposed Project was reviewable under the Simplified Review Provisions of the Certificate of Need Manual. A Technical Assistance Meeting was held on January 24, 2008 with CONU Manager Phyllis Powell, CON Analysts Steve Keaten and Larry Carboneau, and various representatives of Covenant and the Foundation. In a letter to the CONU dated July 21, 2008, Covenant outlined its plans to work with the Board and Senior Management of the Hospital to prepare a strategic plan which would strengthen the Hospital and affiliated organizations and continue its efforts to be a strong and vital resource to the Greater Bangor Community. This plan has been reviewed and approved by the Board of the Foundation and is acceptable to Covenant. Both groups are ready to lend support to ensure this plan's success."

"In this application, Covenant has provided information responsive to the recommendations made at the Technical Assistance Meeting. Covenant, the Foundation, and the Felician Sisters appreciate the guidance CONU staff provided at the Technical Assistance Meeting and look forward to working with the CONU staff to implement this vital transfer of sponsorship in a successful and timely manner."

B. CONU Discussion

Letter of Intent filed:	December 21, 2007
Subject to CON review letter issued:	December 27, 2007
Technical assistance meeting held:	January 24, 2008
CON application filed:	December 19, 2008
CON certified complete:	December 19, 2008
Public information meeting held:	January 28, 2009
Public comment period ended:	February 27, 2009

XI. 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:

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 not demonstrated by the applicant;

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 is consistent with and furthers the goals of the State Health Plan;

F. 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;

G. 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; and

H. That the project can be funded within the Capital Investment Fund.

For all the reasons contained in the preliminary analysis and in the record, CONU recommends that the Commissioner determine that this project should be **Approved with the following conditions:**

1) Receipt of a letter from the Office of the Maine Attorney General advising their intention to take no action regarding any antitrust issues regarding this transfer.
2) Modify the terms of the agreement to allow for the deferral or reduction of the management fee should excess revenue over expenditures be less than 1.2% of revenues.
3) Report improvements in quality outcomes as a result of this merger annually for a period of three years from transfer date.
4) Identify and report savings that result from this project annually for the first three years from transfer date.