

BRIEFING MEMO

Redington-Fairview General Hospital Replacement/Relocation/Enhancement of Boiler and Generator Capacity in Skowhegan, Maine

TO: Brenda M. Harvey, Commissioner, DHHS

THROUGH: Catherine Cobb, Director, Division of Licensing and Regulatory Services

FROM: Steven R. Keaten, Healthcare Financial Analyst, CON Unit

SUBJECT: Proposal by Redington-Fairview General Hospital to replace, relocate and expand boiler and generator capacity in Skowhegan at an estimated capital cost of \$5,433,227.

DATE: May 1, 2007

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

BACKGROUND:

- Redington-Fairview General Hospital (RFGH) is a 25 bed Critical Access Hospital providing a wide range of diagnostic and clinical services. Located at 46 Fairview Avenue, Skowhegan, Maine, RFGH is the sole provider of acute care services and major provider of advanced life support services to a primary service area of 34,743. Founded in 1969 as the result of the merger of Redington Memorial Hospital and Fairview Hospital. RFGH is a 501 (c) (3) charitable, tax-exempt, not-for-profit corporation governed by a nine member Board of Directors representing the Community it serves.
- The Division of Licensing and Regulatory Services, Medical Facilities Unit, acknowledges that RFGH is a fully licensed critical access hospital licensed in the State of Maine and is MaineCare and Medicare certified and has been accredited by the Joint Commission on Accreditation of Healthcare Organizations. The Division's most recent survey was completed on December 7, 2006. No deficiencies were noted during this most recent onsite Medicare recertification survey. RFGH is in substantial compliance with the conditions of participation in the Medicare Program for a Critical Access Hospital.
- The Project includes the replacement of Boiler #3 and the relocation of Boilers #1 and #2. The relocation is necessitated by the lack of adequate space and breaching capacity in the existing boiler room. The existing stack in the boiler room is inadequate by today's standards in that it emits products of combustion adjacent to fresh air intakes of the Hospital. The Project also includes the purchase and installation of a new diesel powered generator,

switching gear and electrical distribution infrastructure to enable all clinical areas of the Hospital to be serviced by emergency power. The plan is to construct a new building of 2800 sq. ft. and an oil storage shed of 540 sq. ft. to house and consolidate heat, steam production, emergency power generation, emergency power transfer systems and electrical switching gear.

- The CONU concludes that the applicant is fit, willing and able to manage this project and continue to provide services at the proper standard of care.
- The applicant has determined that the capitol cost for this project is \$5,433,227 resulting in third year operating costs of \$358,194.
- The CONU concludes that as proposed, the applicant can financially support the project. Expected 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. The hospital has shown significant current earnings which are not expected to be significantly impacted by this project.
- The Certificate of Need Unit has determined that RFGH has demonstrated a need for the proposed project. Present equipment met the need of the hospital back in 1972 but does not meet the need for the hospital today. One current boiler and the generator are at the end of their useful life, are undersized and do not support all hospital functions. Renovations done at the hospital in 1983, 1988 and 1996, combined with the aged equipment, require this investment in equipment replacement and relocation. In order to comply with several guidelines, codes and standards, the hospital has justified the need for this project.
- The Bureau of Insurance estimated that the maximum impact of this CON project on private health insurance premiums in Redington-Fairview General Hospital's service area for the project's third year of operation will be approximately \$0.269 per \$100 (0.269%) of premium. They further estimate that this project, in its third year of operation, will have a maximum impact on statewide private health insurance premiums of approximately \$0.007 per \$100 (0.007%) of premium. This is a minimum financial impact to third party payors. Total approved 3rd year operating costs are projected to be \$358,194 and of that amount MaineCare's 3rd year cost is \$39,401 (\$358,194 x 11.0%), which is both the Federal and State portions combined. Currently the impact to the Maine budget per year would be approximately \$13,790 (\$39,401 x 35% (State Portion)). This cost is not a significant additional cost to the State budget and the funds should be available to cover these additional costs.

- The CONU has evaluated this proposal against the criteria set forth in the 2005 State Health Plan. Our conclusion notes that this project addresses several of their criteria, the first tier priority-Projects with the primary objective of eliminating threats to patient safety. Without this project the hospital risks the health and safety to patients should a boiler or the generator fail. In addition, according to the assessment from the Bureau of Insurance this project will also have less than a .5% impact on insurance premiums on a regional basis as noted above.
- The Certificate of Need Unit has determined that this project is a maintenance project and need not be funded within the Capital Investment Fund.

HIGHLIGHTS:

Letter of Intent dated December 12, 2006
Subject to CON review letter issued December 21, 2006
Technical Assistance Meeting held on December 27, 2006
Application filed and certified as complete-February 1, 2007
Application placed in review cycle February 1, 2007
Applicant's public informational meeting held-February 13, 2007
A public hearing was not requested
Preliminary Analysis Released-April 13, 2007

No Public comments were received following release of the Preliminary Analysis.

Certificate of Need Unit's Conclusion

- The applicant is fit, willing and able to provide the proposed services at the proper standard of care.
- The economic feasibility of the proposed services has been demonstrated.
- A public need for the proposed services has been demonstrated.
- The proposed services are consistent with the orderly and economic development of health facilities and health resources for the State.
- The proposed project is consistent with the State Health Plan.
- The proposed project ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers.
- The proposed project does not result in inappropriate increases in service utilization.

- The proposed project is a maintenance and need not be funded within the Capital Investment Fund.

RECOMMENDATION: The Certificate of Need Unit recommends this proposal be **Approved.**

Capital Costs

\$5,433,227

\$ 271,661

\$5,704,888

Capital Costs As Proposed and Approved

Maximum 5% Contingency

Total Approved Capital Budget

Incremental

3rd Year Costs

\$ 358,194

Approved As Proposed