

Department of Human Services
State House, Augusta, Maine

Preliminary Analysis

Project: Proposal by Redington-Fairview General Hospital

From: Steven R. Keaten, Healthcare Financial Analyst

Subject: Preliminary Staff Assessment of a proposal by Redington-Fairview General Hospital to relocate, replace and enhance their boiler and generator capacity at their campus in Skowhegan at an estimate capital cost of \$5,433,227.

Date: April 13, 2007

Directly Affected Party: N/A

Recommendation: Approve

Estimated Capital Expenditure per Applicant	\$ 5,433,227
Approved Capital Expenditure per CON	\$ 5,433,227
Maximum Contingency per CON	\$ 271,661
Total Approved Capital Expenditure with Contingency	\$ 5,704,888

The following preliminary staff assessment is based solely on the record established to date and recommends that the proposal be **approved**. This application qualified for a simplified review under 22 M.R.S.A. Sec.336 (1).

INTRODUCTION

The applicant provided the following abstract.

“The RFGH “infrastructure replacement” Project is required to replace outdated, undersized and in many instances obsolete components of the Hospital’s heating, steam production, emergency electrical production and distribution systems.”

“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 current generator building is in disrepair and needs replacement. It is grossly undersized to house a generator sufficiently sized to meet the Hospital’s emergency power needs. Additionally, the generator’s fuel supply system does not meet current code.”

“The need for more space for replacement of Boiler #3 coupled with the need to replace the existing generator building, supports the Hospital’s plan 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.”

“Obviously, a new chimney must be constructed to accept breaching of the boilers and generator in their replacement environment, as well as an oil storage and delivery system that meets current day codes.”

“The Hospital’s medical gas system is adjacent to the current “generator building” and does not currently meet code requirements. This will be upgraded during the Project and moved to a new site meeting code requirements.”

“The infrastructure Project will allow the Hospital to comply with current codes, state and federal regulations and accreditation standards.”

“The total capital cost is: \$5,433,227 while third year incremental operating costs are \$358,194.”

Project Description

The applicant proposes to replace outdated, undersized and in many instances obsolete components of the Hospital’s heating, steam production, emergency electrical production and distribution systems.

As noted above the existing boiler system lacks adequate space and breaching capacity and has related constraints in the existing design and footprint of the main Hospital structure. The existing stack 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 current generator building is in disrepair and is grossly undersized to house a generator sufficiently sized to meet the Hospital's emergency power needs. Additionally, the generator's fuel supply system does not meet current code.

The applicant indicates the need for more space for replacement of Boiler #3 coupled with the need to replace the existing generator building, supports the Hospital's plan 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 Hospital's medical gas bulk tank is located adjacent to the current "generator building". The existing generator building also houses the medical gas distribution system for the Hospital and does not currently meet code requirements. This will be upgraded during the Project and moved to a new site meeting code requirements."

Certificate of Need Units' Discussion

This project will upgrade the necessary infrastructure required to maintain a safe heating and steam modulation system; provide reliable emergency electrical production and eliminate the emission of combustion products adjacent to the applicant's fresh air intake.

Certificate of Need Unit's Conclusion

The applicant is acting to meet fire and safety codes and has determined a cost effective approach to deal with current boiler and generator limitations.

I. Profile of the Applicant

The applicant provided the following information in regards to their profile.

Organizational Structure and History

"Redington-Fairview General Hospital (hereinafter RFGH or the Hospital) was 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."

Scope of Services and Licensure

"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. (“See Demographic Table - **Appendix A**” - *Not attached, on file at CONU*)

“RFGH has signed provider agreements with Medicare, Medicaid and Anthem/Wellpoint Blue Cross/Blue Shield. In addition to State Licensure, the Laboratory service is approved by the American College of Pathologists (CAP), the Cancer Program is accredited through the American College of Surgeons, and the Mammography Service is accredited through the American College of Radiologists. Active memberships are maintained with the American Hospital Association and Maine Hospital Association.”

“RFGH is represented on the following governing or advisory boards: Kennebec Valley Community College, Health Reach Community Health Centers, Kennebec Valley Mental Health Agency and Madison Area Health Center.”

Financial and Medical Capabilities of the Applicant

“Through its CAH licensure, RFGH maintains a credentialing/ recertification process of physicians as well as the maintenance of professional licenses for R.N.’s, L.P.N.’s, Pharmacists, Paramedics and E.M.T.’s, Physical Therapists, Respiratory Therapists and other health professionals. In addition to professional licensing, the Hospital has an active quality improvement plan and process to assure quality of care.”

“Recognizing the unique capabilities and training of both allopathic and osteopathic physicians, the Hospital will credential appropriately trained physicians with either medical training without prejudice. (“see **Appendix B** a list of the Active Medical Staff of RFGH by specialty” - *Not attached, on file at CONU.*)

“RFGH became designated a Critical Access Hospital after a Federal Certification inspection in December of 2005. During that inspection and the subsequent one year Federal Certification inspection, the Hospital was found to have no (0) deficiencies. The Hospital’s last JCAHO visitation resulted in an accreditation score of 98, the highest in the State of Maine for that year.”

“Attached you will find **Appendix C** which contains the Hospital’s financial statements for the previous two years.” (*Not attached, on file at CONU.*)

“Several key individuals will oversee completion of the infrastructure replacement Project. Larry Pike, Plant and Facilities supervisor, will provide direct oversight of the construction. Carol Steward, Support Services Director, and Richard Willett, CEO will provide overall Project management.”

Certificate of Need Units’ Discussion

A. Relevant Criteria: 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;

This proposal is not a health service being proposed by RFGH but a maintenance project that deals with the infrastructure of the hospital specific to boiler and generator issues.

The Division of Licensing and Regulatory Services, Medical Facilities Unit, acknowledges that Redington-Fairview General Hospital is a fully licensed critical access hospital licensed in the State of Maine and is MaineCare and Medicare certified. 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. During the last Joint Commission report that was completed, RFGH passed with a grade of 98.

The applicant has shown a long standing ability to provide hospital based services within licensing standards.

Certificate of Need Units' Conclusion

Based on the discussion above, 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.

II. Capital Expenditures, Financing and Compliance

The applicant provided the following information in regards to proposed capital expenditures, availability of capital financing, staffing, financial feasibility, economic feasibility and compliance with rules and regulations of local, State and federal agencies.

“Total Project Scope” \$ 5,433,227

“(For Cost Breakdown see **Attachment D**”- *Not attached, on file at CONU*)”

	Capital	Any Proration 0	Total Capital	Estimated Life	Depreciation	
Boiler	161,000	0	161,000	20	8,050	
Chimney	67,000	0	67,000	25	2,680	
Electric	805,000	0	805,000	20	40,250	
Electric	274,900	0	274,900	20	13,745	
Generator	544,000	0	544,000	20	27,200	
Transfer Switches	220,000	0	220,000	20	11,000	
Building	3,155,327	0	3,155,327	30	105,178	
Med Gas Storage	101,000	0	101,000	15	6,733	
Oil Tank	105,000	0	105,000	20	5,250	
	5,433,227	0	5,433,227		220,086	
Hospital Contribution		40.00%	2,131,291			
Financing			3,196,936	4.80%	153,453	
Non-Building	2,172,900	20	159,847		373,539	
Total	5,433,227		3,037,089	0		
Less: Oil	105,000		159,847			
Adjusted Total	5,328,227		2,877,243			
Building	3,155,327					
		Year 1	3,196,936	159,847	3,037,089	153,453
		Year 2	3,037,089	159,847	2,877,243	145,780
		Year 3	2,877,243	159,847	2,717,396	138,108
				Year 3 Interest		138,108
				Depreciation		220,086
						358,194

“The Hospital has calculated the third year operating cost of the Project to be \$358,194 taking into account the applicable depreciation expense for the components and financing. The Hospital will fund the Project through an equity infusion of 40% with the remainder being financed at a projected rate of 4.8% via MHHEFA financing.”

“Construction costs and estimates were compiled with the assistance of DiGiorgio Associates, Inc. and Monitor Builders of Boston, Massachusetts.”

“As stated earlier, the Hospital’s ability to provide capital is supported by the financials contained in **Appendix C.**” (Not attached, on file at CONU.)

“There will be no increase in staffing as a result of this Project.”

“The change from #5 oil to #2 oil will facilitate competitive bidding for fuel that has been difficult due to the limited suppliers of #5 oil.”

“As described earlier, the third year incremental cost is modest.”

“Many of the reasons for the replacement of infrastructure elements outlined in the CON are related to Rules and Regulation of Local, State and Federal Agencies as well as accrediting bodies. These have been described earlier in this document. The design and construction will comply with all applicable regulatory standards, and plans will be reviewed with DHHS licensing officials and the Fire Marshal at the appropriate time.”

Certificate of Need Units’ Discussion

B. Relevant Criteria: The economic feasibility of the proposed services is demonstrated in terms of:

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;
2. 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;

The CONU financial analysis considered information contained in the 2006 Almanac of Hospital Financial and Operating Indicators and generally accepted accounting standards in determining the financial capability of the hospital to support this proposed project.

The review of financial indicators is important because they present a fair and equitable representation of the financial health of an organization and can present appropriate comparisons. This provides a sound basis for a determination of whether the hospital has the ability to commit the financial resources to develop and sustain the project. While there are a number of indicators that are used in the industry, the ones applied to this review have been selected due to their direct relevance to the financial health of the applicant. The following analysis is based upon information provided by the applicant in its application. One item of terminology needs to be defined. Throughout the analysis a comparison of high-performance and low-performance hospitals is referenced. These groups are based on the uppermost and lowermost quartiles of hospitals based on their return on investments. CONU chose not to specifically discuss return on investment, but instead to use that ratio to group all hospitals in regards to making a comparison to the particular project and applicant.

Profitability:

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.

According to the 2006 Almanac of Hospital Financial and Operating Indicators, 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 2004 was 3.1%. RFGH's in 2004 was 2.56, slightly below the average which puts them between the 25th - 50th percentile. The trend for the State of Maine has been inconsistent with a low of -1.2 and a high of 3.1 over the 2000 to the 2004 period. RFGH in the past two operating years of 2004 and 2005 averaged 1.94% with 2005 at 1.31%.

The applicant did not provide pro-formas that would allow the CONU to accurately determine what impact, if any, this project would have on the operating margins of RFGH through the projected third year of operation of this project; however, this project does not have a substantial third year cost associated with it so it should not have a significant impact on operating margins for the hospital.

Liquidity:

Liquidity measures a hospital's ability to manage change and provide for short-term needs for cash. 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.

Days Cash On Hand is a ratio that is industry accepted, easily calculated, and used to determine a hospital's ability to meet cash demands.

According to the 2006 Almanac of Hospital Financial and Operating Indicators, high performing hospitals have approximately 80 days cash on hand while low performing hospitals have 45 days. Rural hospitals with revenue between \$25-60 million had approximately 73 days cash on hand in 2004.

In 2004, the average days cash on hand from all sources for hospitals in the State of Maine was 73.4 days. The CONU calculated days cash on hand for RFGH in 2004 as approximately 180 days, indicating that RFGH was in the 90th to 100th percentile.

According to the same source, the average day's cash on hand between 2000 and 2004 remained about 68 days. Maine had 15% less days cash on hand than the Northeast Region at 80 days, 12 days more than the Maine average.

The applicant did not provide pro-formas that would allow the CONU to accurately determine what impact, if any, this project would have on days cash on hand through the projected third year of operation of this project; however, this project does not have a substantial third year cost associated with it so it should not have a significant impact on days cash on hand at RFGH. This project should not have a substantial impact on RFGH's operating ability to meet its cash demand and it should be able to adequately support this project.

Capital Structure Ratios:

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 to 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 2004 the median Maine hospital's debt service coverage (DSC) was 3.45x.

RFGH had a DSC in 2004 of 9.99x which places the hospital in the range of 90th - 100th percentile. The Statewide trend for 2000-2004 is inconsistent with a low of 2.39 in 2002 and a high of 3.71 in 2000. The DSC for RFGH in 2005 decreased slightly to 9.02 from their 2004 levels.

The applicant did not provide pro-formas that would allow the CONU to accurately determine what impact, if any, this project would have on their DSC ratios through the projected third year of operation of this project; however, this project does not have a substantial third year cost associated with it so it should not have a significant impact on the DSC ratio of the hospital. RFGH has the capacity and the ability to maintain adequate debt service coverage.

According to the 2006 Almanac of Hospital Financial and Operating Indicators, Fixed Asset Financing: "Low performance hospitals have historically used more debt to finance net fixed assets than high performance hospitals. With the removal of capital cost pass throughs, 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 2004 average for hospitals in the State of Maine was 54.3 percent in regards to fixed asset financing. In 2004, RFGH was 48 percent, which is between the 25th-50th percentile for the State of Maine. For the years 2000-2004, hospitals' with revenues similar to RFGH averaged 53 percent.

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

The applicant did not provide pro-formas that would allow the CONU to accurately determine what impact, if any, this project would have on its fixed asset financing ratio through the projected third year of operation of this project; however, this project does not involve a substantial amount of borrowing. The proposed financing is consistent with the way RFGH spends funds on fixed assets.

Efficiency Ratios:

According to the 2006 Almanac of Hospital Financial and Operating Indicators, 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. First, larger hospitals are most likely to have newer physical plants. Second, capital intensity is often greater in larger hospitals due to more special services and higher levels of technology.

In 2004, according to the source cited above, Maine hospitals had a total asset turnover ratio of 1.18. For 2004 RFGH had a Total Asset Turnover of .88 times, this is indicative of the relative age of the hospital and expected because of hospital improvements over the past decade.

In the period of 2000 – 2004 there has been a steady increase in the total asset turnover for Maine hospitals.

Certificate of Need Units' Conclusion

As a critical access hospital, RFGH is reimbursed on a cost basis for Medicare and MaineCare. In completing this section of the analysis, 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.

III. Needs to be Addressed

The applicant provided the following information in regards to need for the project.

“The steam generating plant at Redington-Fairview General Hospital is comprised of (2) 125 h/p Cleaver Brooks boilers, and (1) 50 h/p boiler. These boilers and much of the original associated equipment (manufactured in 1971) were installed during an expansion project in 1972. Later renovations in 1983, 1988, 1996 have added equipment and (load) to the steam system.”

“The fuel supply for these boilers is #5 oil. This fuel does present more air quality concerns with emissions than from a more refined fuel (such as #2) and requires chemical treatment for processing. Due to the limited number of suppliers for #5 fuel oil, supply in emergency situations is not likely to be readily accessible. The smaller 50 h/p boiler cannot sustain the load of the Hospital if called upon to run on line by itself.”

“The present boiler room foot print will not allow for replacement of the present boilers with any larger equipment. These boilers though very well maintained, are reaching the end of their useful life at 35 + years.”

“The 50h/p boiler being replaced no longer functions properly and is undersized for the needs of the facility. If one of the boilers were to fail during a cold winter day, a so called “design day”, the remaining boilers would not be adequate to heat the Hospital. Having sufficient redundant boiler capacity able to heat the Hospital is a code/ regulatory requirement.”

“The existing chimney poses risks of blowing products of combustion into fresh air intakes, contrary to code required separation standards.”

“The Safety Committee at RFGH conducts an annual Hazard Vulnerability Analysis based on risk, probability, and severity. The loss of our emergency power system has ranked as the highest threat with a score of 56 out of a possible 100.” (“see **Appendix E**” – Not attached, on file at CONU).

“RFGH has experienced several power outages. The data indicates an increased trend of loss of commercial power supply.” (“see **Appendix F**” - *Not attached, on file at CONU.*)

“The (AIA) American Institute of *Architects 2006 Guidelines for Construction* (Chapter 5 Article 5.1.1) states:”

“Owners of existing facilities should undertake an assessment of their facility with respect to its ability to withstand the effects of regional natural disasters. The assessment should consider performance of structural and critical nonstructural building systems and the likelihood of loss of externally supplied power, gas, water, and communications under such conditions”.

“JCAHO The Joint Commission issued a Sentinel Event Alert (September 6, 2006) based on adverse events caused by emergency electrical system failures. (“see **Appendix G**”- *Not attached, on file at CONU.*) Included in this alert is a requirement that hospitals increase their testing of emergency generators and conduct a 4 hour full load test. This requirement would only further stress our current emergency power system.” (“See the **Appendix H**” - *Not attached, on file at CONU.*)

“The fuel supply for our generator is not compliant with NFPA 110, *Standard for Emergency and Standby Power Systems*. The present configuration of the fuel system is also at risk for vandalism and has the potential for a fuel spill.”

“Our present emergency power system meets the minimum requirements of NFPA 101 *Life Safety Code* for emergency lighting (for egress, and emergency power to critical equipment). Several essential services are not supported by our emergency power system; an example of which includes the necessity to distribute extension cords to run patient medication/fluid delivery systems (IV pumps) during a power outage. The design criteria for the existing emergency distribution were those in place during the addition and renovation in 1972.”

“The 1972 designed emergency power system will not support the mechanical cooling system (Chiller). The loss of the ability to cool throughout most of the year results in the loss of the ability to support an environment suitable for surgical services and diagnostic treatment in Radiology during power outages. From an operational standpoint, in the surgical setting, proper humidity control cannot be maintained during electrical outages. In the diagnostic settings of Radiology and Laboratory, we have no emergency power serving these environments resulting in a complete loss of

diagnostic ability with the exception of one analyzer during the electrical outages. Renovations in 1983 – 1988 -1996 have increased the load on the present emergency power system to the maximum.”

“The emergency power system has been reviewed by electrical engineers and they have confirmed that the system is running at its maximum output.”

“The design criteria for the new emergency power system includes the building environmental heating, cooling and ventilation requirements necessary to support all clinical aspects of patient care. The design would also include environmental considerations of air emissions to meet current Department of Environmental Protection Agency standards.”

“The existing generator building also houses the medical gas distribution system for the Hospital; the design criteria for the new system would comply with NFPA 99. Currently the system has deficiencies (based on the age of the system) and these would be addressed during the construction of a new Central Plant facility (reference NFPA 99 Chapter 5). This includes addressing the deficiency for appropriate alarm mechanisms.”

“The NFPA 99 code (Chapter 12) Emergency Management also mandates that the Hospital maintain continuity of services, including business services. Our present emergency power system will not support the additional load required to be compliant with this standard.”

“NFPA 99 also requires continuity of essential building services, including communications and electrical systems. Lessons learned in recent outages in the northeast in 2003, hurricanes Rita and Katrina and our own local experience with the ice storms of 1999, have taught us that our reliance on a reliable emergency power system is critical, and that we need to be self sufficient during disaster situations. This is also being considered in the new design criteria by combining the fuel source for the boiler system and emergency power system. The design also allows for more readily available local fuel sources (#2 oil) to be utilized during an emergency.”

Certificate of Need Units' Discussion

C. Relevant Criteria: That there is a public need for the proposed services 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;

The applicant needs to replace its aging boiler and generator infrastructure. This particular infrastructure is at the end of its useful life and needs to be updated and replaced to adequately serve the mechanical needs of the hospital meet safety standards as noted above.

Certificate of Need Units' Conclusion

The applicant is replacing a boiler, relocating two boilers, purchasing an emergency generator and engaging in related mechanical upgrades that will provide a reliable power source to the hospital. 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. As noted above, in order to comply with several guidelines, codes and standards, the hospital has justified the need for this project.

IV. Alternatives Considered

The applicant provided the following information in regards to alternatives considered for this project.

“Given that this Project is necessary to replace vital heating, steam production, emergency electrical and medical gas systems, the alternative of doing nothing was not considered as viable.”

“Attempts were made through the Hospital’s interaction with heating and electrical engineers to determine a design that would allow replacement within the confines of the given structures and Hospital footprint. These alternatives were eliminated as not being feasible, or in the alternative of adding to the existing boiler room, not cost effective.”

“Consideration was given to replacing all of the three existing boilers during this Project and this alternative was not pursued for two significant reasons. First, the alternative would have added approximately \$400,000 to the cost of the Project. Secondly, by replacing the remaining boilers in a planned replacement strategy, the Hospital will avoid the type of situation it is in currently – all boilers at the end of their useful life at the same time. Planned replacement that supports the infrastructure with staggered useful lives of major critical components is a sound maintenance posture for RFGH’s future.”

“Electrical power and infrastructure capacity and redundancy has become a very “hot topic” in accrediting and regulatory literature lately. It is unacceptable not to address significant regulatory and liability exposures in the current environment.”

Certificate of Need Units' Discussion

- D. Relevant Criteria: 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 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 and accessible, or less costly. Alternative technologies or methods of service delivery may become available.

The CONU received the required assessment by William A. Bremer, Assistant Actuary, Bureau of Insurance, Department of Professional and Financial Regulation to Phyllis Powell, Manager, Certificate of Need Unit, Division of Licensing and Regulatory Services, via letter dated April 12, 2007, and makes the following comments:

“I have reviewed the CON application submitted by Redington-Fairview General Hospital on January 31, 2007, for its proposal to replace boiler #3, relocate boilers #1 and #2, and purchase and install a new diesel-powered generator at its Skowhegan campus. This project has been determined to be subject to the “simplified review” process by the CON Unit, DHHS.”

“The Bureau of Insurance applied 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 Redington-Fairview General 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 State Planning Office, the State Office of Integrated Access and Support, and the Bureau of Insurance, as well as Dana Kempton, CFO of Redington-Fairview General Hospital, to perform this assessment.”

“The methodology compares the CON project’s Year 3 operating costs (adjusted to the year ending June 30, 2007) to the estimated private health insurance average premium per person for the same period—which is the period of time for which the 2006-2007 capital investment fund has been established. Based on the model, I estimate 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. I 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.”

REDINGTON-FAIRVIEW PAYOR MIX

<u>Payer</u>	<u>Payer Mix</u>
Blue Cross	19.5%
Commercial	27.6%
Medicare	34.9%
MaineCare	11.0%
Self Pay/WC/Other	<u>7.0%</u>
Total	100.0%

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)).

Certificate of Need Units' Conclusion

The assessment by the Bureau of Insurance concludes this project will pose a minimum financial impact to third party payers.

The cost to the Maine budget as noted above would be \$13,790. 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 is unaware of the likelihood that more effective and accessible, or less costly alternative technologies or methods of service delivery may become available.

V. State Health Plan

The applicant provided the following information in regards to how this proposed project relates to priorities of State Health Plan.

“Throughout this application the Hospital has provided evidence that the Project meets all of the criteria for a Maintenance Project in Simplified Review as set forth in Section 336 of the CON law.”

- A. Will result in no or minimal additional expense to the public or to the health care facility's clients;
- B. Will be in compliance with other applicable State and Local Laws and Regulations;
- C. Will significantly improve or, in the alternative, not significantly adversely affect the health and welfare of any person currently being served by the health care facility.

“In addition, the Hospital provides further background on compliance with certain State Health Plan elements as follows:”

Strengthening Maine's Rural Health System/Redirection of Resources Focus on Population Based Health and Prevention –

“Redington – Fairview General Hospital is committed through its' Mission and Strategic Plan initiatives to provide access to high quality, cost - effective health services for the people we serve. We strive to continually assess and address the educational and outreach needs of our patients and community to improve the overall health of the general public.”

“Our Strategic Initiatives include efforts to:

- Strategy #1 Enhance education and outreach efforts in Wellness, Asthma, Diabetes, CVD, Child Obesity, Tobacco Cessation, Pulmonary Disease, Cancer, Arthritis.
- Strategy #2 Continue support for Somerset Heart Health Coalition efforts to include Worksite Wellness, Tobacco Prevention, Physical Activity and Nutrition, and Chronic Disease Prevention.

- Strategy #3 Partner with and foster the relationships with other providers and resources within our service area to avoid duplication of effort and waste of resources to best serve the community for their public health identified needs.”

Accessibility –

“This Project supports the ability of RFGH to continue to provide an environment that is safe, reliable and can be counted on to serve its’ population in delivering health care services, during a crisis or emergency.”

Affordability –

“As stated above, this Project has minimal impact to operating costs. RFGH is a rural community provider with roots that go back to 1952 and understands the needs of the lower socioeconomic population that we serve.”

Eliminate threats to Patient Safety –

“The improvements described above, speak for themselves as demonstrating an obvious positive impact to our environment directly linking our patient safety efforts relative to emergency preparedness and timeliness and continuity of patient care services in times of environmental failures.”

Certificate of Need Units’ Discussion

E. Relevant Criteria: Is Consistent with the State Health Plan. For this determination, the Commissioner will be guided by the priority criteria set forth in the State Health Plan. Those projects meeting the greatest number of criteria in any of the relevant priority groupings will be given the highest priority and consideration for approval by the Commissioner.

State Health Plan goals targeted by Applicant include:

- Improve Patient and Staff Safety
- Redirection of Resources

State Health Plan Priority

Highest Priority
Priority

The CONU received the required assessment by Dora Mills, M.D. Director, Maine Center For Disease Control and Prevention to Steven R. Keaten, HCFA, Division of Licensing and Regulatory Services, via letter dated March 16, 200 , and makes the following comments:

“I’ve reviewed the Certificate of Need application for Redington-Fairview General Hospital to complete a maintenance project (boiler and generator upgrades). I do not believe a health assessment is relevant for this application, since it is primarily a project that is not expected to have a significant impact on the overall health of Mainers and does not apply to the current State Health Plan’s criteria.”

Certificate of Need Units’ Conclusion

The CONU believes that the applicant has proven that this maintenance project will protect public health and safety of the people in the region it serves. Without it the RFGH campus risks not being

able to sustain heat and power to its' facility if a prolonged power outage occurs or an undersized boiler fails. As noted, current emergency generator capacity is limited and does not produce enough emergency power to operate the mechanical cooling system thereby proper humidity control cannot be maintained during power outages. There is no emergency power serving the Radiology and Laboratory Departments during power outages. In addition, not all inpatient rooms have emergency power as evidenced by the hospital having to run extension cords from emergency power outlets to patient rooms during power outages to run patient medication/fluid delivery systems (IV pumps). Without this project the hospital risks the health and safety to patients should a boiler or the generator fail. RFGH has demonstrated that the project will protect public health and safety by having the ability to provide the campus with heat and emergency power for all departments of the hospital.

This project has not demonstrated a redirection of resources that aren't already in place.

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.

VI. Outcome and Community Impact

Certificate of Need Units' Discussion

F. Relevant Criteria: Ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers;

Certificate of Need Units' Conclusion

This project is not a healthcare service but an infrastructure replacement and enhancement project. RFGH is the only service provider in that specific region.

VII. Service Utilization Impact

Certificate of Need Units' Discussion

G. Relevant Criteria: Does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum, as established in Title 24-A, section 6951;

Certificate of Need Units' Conclusion

This is not a new service for the hospital and does not deal with services just the ability to operate those services they currently provide.

VIII. Other

Certificate of Need Units' Discussion

H. Relevant Criteria: Can be funded within the Capital Investment Fund. 22 M.R.S.A. Sec. 335 (7).

Certificate of Need Units' Conclusion

This project was deemed a maintenance project by the CONU and thereby is not subject to the Capital Investment Fund.

X. Timely Notice

The applicant provided the following information in regards to timely notice.

“RFGH filed a letter of intent with the CONU on December 12, 2006 indicating a desire to have CON staff visit the Hospital and see first hand the significant issues the Hospital was encountering, and the Hospital’s plan for addressing these concerns.”

“Subsequently, on December 18, 2006 CON Analysts Steven Keaten and Larry Carbonneau visited the Hospital and toured with Larry Pike and Carol Steward of RFGH staff, Mike Kessler, P.E. of Digiorgio Inc., and Richard Willett, CEO of RFGH.”

“On December 20, 2006 RFGH filed a supplement to its Letter of Intent. On December 26, 2006 RFGH received a letter dated December 21, 2006 from Phyllis Powell, CON Manager, Maine Department of Human Services advising that the CONU had determined that the Project was reviewable under Simplified Review provisions of the Certificate of Need statute as a “Maintenance Project”.”

“Subsequently, on December 27, 2006 Steven Keaten and Larry Carbonneau, CON analysts met with Larry Pike and Richard Willett from RFGH to carry out a technical assistance meeting.”

“The Hospital is very appreciative of CONU personnel assisting it with this process. Several of the suggestions from the tour and technical assistance meeting have been incorporated into this document. The Hospital looks forward to continuing to work with the CONU staff to receive CON approval in the near term in order to permit construction to begin as soon as practical.”

Certificate of Need Units' Discussion

Letter of Intent filed:	December 12, 2006
Subject to CON review letter issued:	December 21, 2006
Technical assistance meeting held:	December 27, 2006
CON application filed	February 1, 2007
CON certified as complete:	February 1, 2007
Public informational meeting held	February 13, 2007

As listed above, all the necessary paperwork was filed on a timely manner to be placed into this simplified review.

Certificate of Need Units' Conclusion

The CONU has determined a timely notice was given.

X. Findings and Recommendations

Based on the preceding analysis, the CONU makes the following findings and recommendations: This Preliminary Review, conducted by the staff, dated April 10, 2007, concluded that this application has met the criteria for Certificate of Need approval.

- A. That the applicants 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. That there is a public need for the proposed services as demonstrated by certain factors, including, but not limited to;
1. Whether, and the extent to which, project will not substantially address specific health problems as measured by health needs in the area to be served by the project;
 2. Whether the project will not 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 to be served;
 4. Whether the project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project;
- D. 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 healthcare expenditures after taking into account, to the extent practical, both costs and benefits of the project and the coming demands in the local service area and statewide for available resources for healthcare;
 2. The availability of State Funds to cover any increases in State costs associated with utilization of the project's services;

3. The likelihood that more effective and accessible, or less costly alternative technologies or methods of service delivery may become available.

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. That the project is consistent with the State Health Plan;

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

G. That the project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum as established in Title 24-A, section 6951;

H. That the project can be funded within the Capital Investment Fund is non-applicable.

The CONU believes this project should be APPROVED.