

BRIEFING MEMO

Maine Coast Memorial Hospital Expand/Renovate Emergency and Sterile Processing Departments and Lobby/Registration Area in Ellsworth Subsequent Review

TO: Brenda M. Harvey, Commissioner, DHHS

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

FROM: Phyllis Powell, Manager, Certificate of Need Unit
Steven R. Keaten, Healthcare Financial Analyst

SUBJECT: Subsequent review to a Certificate of Need issued December 11, 2006 to Maine Coast Memorial Hospital to expand and renovate their Emergency and Sterile Processing Departments and their Lobby/Registration Area in Ellsworth at an estimated capital cost of \$7,591,776.

DATE: March 25, 2008

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

BACKGROUND:

- Maine Coast Memorial Hospital (MCMH), owned by Maine Coast Regional Health Facilities, is a 64-bed acute care, not-for-profit, tax-exempt hospital located in Ellsworth, Maine. Two other Hancock County hospitals, Mt. Desert Island Hospital and Blue Hill Memorial Hospital, have downsized to Critical Access Hospitals. MCMH remains the only full-service, full access, Joint Commission accredited hospital in Hancock County.
- MCMH received a CON on December 11, 2006 to expand and renovate their Emergency and Sterile Processing Departments and their Lobby/Registration Area at the hospital campus in Ellsworth at a maximum capital cost of \$7,577,615 (approved capital expenditure of \$7,216,776 plus a contingency of \$360, 839). The third year incremental operating costs approved were \$455,128 which was debited against the Capital Investment Fund (CIF) in 2006. Because of this subsequent review, the debit to the Capital Investment Fund (CIF) would be revised downward to \$445,232 due to savings and efficiencies.
- MCMH exhibited adequate earnings as its operating ratio was 3.4% and 6.8% during 2003 and 2005, respectively. The applicant is planning to contribute more than \$4.9M in equity in this project contributing significant sums which help keep operating costs low. Financial ratios indicate that the hospital has adequate cash reserves to finance the cash portion of the investment in new structures. Cash on hand was expected to be more than 70 days on average. MCMH has a strong capacity to finance the new project as recent debt service ratios were a very strong 3.62 to 5.78 times in the period of 2003 to 2005.

- MCMH submitted a request for a subsequent review dated January 18, 2008.¹ This subsequent review request is a change in design, due to unforeseen difficulties acquiring property proposed in the original CON. The additional capital costs proposed would raise capital expenditures subject to review to \$9,912,513 (proposed capital expenditures of \$9,413,446 plus a contingency of \$499,067). Third year incremental operating expenses would increase to \$609,107. The charge to the capital investment fund would decrease, thereby allowing the project to be funded by the 2006 CIF.
- The change in scope from the original approved CON is mainly driven by two factors: 1) Their inability to secure the land directly across the street for parking as proposed in the original CON. This is due to real estate speculation that priced the property at \$500,000, well beyond what is reasonable for this project; and 2) Increased patient needs within the service area as documented in the memo. The change in scope includes additional space to house administrative offices that are presently housed in trailers on the grounds of the hospital. Considerable savings and efficiencies will be realized by this relocation that are made possible by the reconfigured hospital structure.
- This subsequent review would add 4 additional treatment rooms in the ED increasing from the approved 11 to 15. It would retain the elements of the CON and would relocate administrative offices within the reconfigured hospital structure. It would increase space needed from 9,500 to 13,780 square feet. It includes site construction to provide adequate parking directly adjacent to the new ED.
- The change in scope would allow the ED at MCMH to be consistent with other recently approved EDs throughout the State relative to visits per room of 1,533 on projected ED volume of 20,000 annual visits. This volume is still above the threshold recommended by the American College of Emergency Physicians of between 1,053-1,333 visits.
- MCMH in 2005, 2006 and 2007 had 131, 175 and 178 elopements (patients leaving without being seen) respectively. MCMH has struggled not to divert and have elected, instead, to use hallways and overflow areas. With the increasing volume in the emergency department, MCMH is approaching the need to divert. The combination of increased elopements, boardings, and the rapid approach of diversions constitute significant threat to patient and public safety. Additionally, HIPPA requires more stringent patient confidentiality than is possible with the presently confined space configuration.
- MCMH transfers approximately 335 patients per year to Eastern Maine Medical Center's emergency department. MCMH receives transfers from Mount Desert Island Hospital and Blue Hill Memorial Hospital for orthopedics, general surgery and otolaryngology. These hospitals collaborate to facilitate appropriate transfers to assure patient and public safety.

¹ MCMH 01/18/08 subsequent review request

- A request was received to extend the date to implement this project on November 19, 2007. The applicant received a one year extension on November 28, 2007. The project must be implemented by December 10, 2008.

CON Discussion

This subsequent review is necessitated, in large part, by the design modifications caused by the unexpected increase in the price of land directly across the street from the existing hospital. Retail chain developers interested in the area, have landowners pricing property to take advantage of this speculative environment. The acquisition of this property, as contemplated in the approved CON, is no longer a viable option. Additional factors that support the subsequent review include: population growth; increased patient visits; elopements; patient boarding and the predicted diversions that will occur if this project is not approved. All these factors have impacted the design modifications included in this subsequent review. The applicant, having been forced to reconsider the options, has determined that the most prudent approach is to expand within the existing campus. They revisited the Master Plan and worked with an architect to redesign portions of the building to accommodate the need for on-campus parking. This design appears to better satisfy safe patient treatment protocols and will handle surge capacity needs. Additionally, it allows them to co-locate the administrative offices within the building and achieve costs savings by eliminating the need to rent and support on-site trailers.

The project, as presented, does not result in an increase to the CIF. Although the capital and third year operating costs are increased, this increase is mitigated by lower borrowing rates, cost savings, and eliminating non-con reviewable aspects of the project such as the on-site parking.

This subsequent review is recommending approval of the redesign for all the reasons set forth in this review and contained in the record.

HIGHLIGHTS:

Letter of Intent dated December 14, 2005
Technical Assistance Meeting held on January 4, 2006
Application Certified Complete-March 21, 2006
Application placed in review cycle April 1, 2006
Applicant's Informational Meeting-April 12, 2006
A public hearing was not requested
Preliminary Analysis Released-October 16, 2006
Commissioner's approval letter dated-December 11, 2006
Request for subsequent review dated-January 18, 2008

CONU Conclusion

The applicant is fit, willing and able to provide the proposed services at the proper standard of care. Maine Coast Hospital (MCH).

- The hospital is licensed by the State of Maine and is accredited by the Joint Commission. There are approximately 42 active physicians with privileges, 20 with consulting, and 36 with courtesy privileges. FTE's are 546.

The economic feasibility of the proposed services has been demonstrated.

- The CONU staff concludes that the applicant will be able to support the project financially. Updated construction costs that contain value engineering have kept this project within the original scope of 3rd year incremental operating costs.

A public need for the proposed services has been demonstrated.

- MCM has documented the increased need for the services contained in this subsequent review. They have documented increased utilization that supports increasing ED treatment stations closer to standards recommended by the American College of Emergency Physicians. Additionally, it will compare favorably with three recently approved CON ED projects.

The proposed services are consistent with the orderly and economic development of health facilities and health resources for the State.

- MCH is a primary referral source for the two nearby Critical Access Hospitals. It refers ED patients to EMMC, as appropriate. The increase in ED treatment rooms provides greater access for the community and referring hospitals.

The proposed project is consistent with the State Health Plan.

- This project addresses areas of patient and public safety. MCH reports that it has used all available space to avoid ED patient diversions. It now reports facing the need to divert. Most patients come to an ED via self-transport (non-ambulance transport). Thus, patients arriving (other than by ambulance) would not know that a hospital is on diversion. This situation presents considerable threats to patient and public safety that are well documented at CONU.

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

- Collaboration between the two Critical Access Hospital, MCH, and EMMC allows coordinated access to care. There is no duplication of service identified in the review. Joint Commission standards look to quality of care to achieve quality outcomes.

The proposed project does not result in inappropriate increases in service utilization.

- Increased need for access to ED treatment drives this application. It is supported by population data, utilization, referral patterns and numbers. Additionally, there is documented increased seasonal need in this area of Maine.

The proposed project can be funded within the Capital Investment Fund.

- This project does not result in additional charges to the Capital Investment Fund.

RECOMMENDATION: The CONU recommends this subsequent review be **APPROVED**.

<u>Capital Costs</u>	
\$10,853,545	As Proposed
<u>\$941,032</u>	Less: NSTR-Driveway & Parking
\$9,912,513	Reviewable costs as proposed
\$9,413,446	Approved Capital Costs
<u>\$499,067</u>	Maximum 5% Contingency
\$9,912,513	Total Approved Capital Budget
<u>Annual Costs</u>	
Incremental 3 rd Year Costs	
\$609,107	Approved As Proposed
\$445,232	Capital Investment Fund Debit