

# Lincoln County Healthcare

## MaineHealth

October 1, 2013

Phyllis Powell, Assistant Director  
Medical Facilities Unit  
Division of Licensing & Regulatory  
Services  
Department of Health and Human Services  
State House Station # 11  
41 Anthony Avenue  
Augusta, Maine 04333-0011

Larry Carbonneau, Manager  
Health Care Oversight  
Division of Licensing and Regulatory  
Services  
Department of Health and Human Services  
State House Station # 11  
41 Anthony Avenue  
Augusta, Maine 04333-0011

RE: Lincoln County Health Care  
Merger of Miles Memorial Hospital and St. Andrews Hospital  
Request for Determination that the Transaction is Not Subject to  
Certificate of Need Review

Dear Ms. Powell and Mr. Carbonneau:

MaineHealth and Lincoln County Health Care, for itself and on behalf of its subsidiaries Miles Memorial Hospital and St. Andrews Hospital, request that the Department make a determination that the transaction described in this letter, the merger of Miles Memorial Hospital and St. Andrews Hospital, is not subject to Certificate of Need review.

The merging entities, Miles Memorial Hospital and St. Andrews Hospital have been members in the MaineHealth system of hospitals for over a decade. In 1997 and 1996, respectively, the Department issued certificates of a need for transactions by which MaineHealth became the sole corporate member of these hospitals.

In 2007, MaineHealth established a subsidiary, Lincoln County Health Care, which has been the sole corporate member of each of these hospitals from that time to the present. In the parlance of the certificate of need statute, MaineHealth owns and controls Lincoln County Health Care, and Lincoln County Health Care owns and controls Miles Memorial Hospital and St. Andrews Hospital.

St. Andrews Hospital • Miles Memorial Hospital • Cove's Edge, Inc. • Lincoln County Medical Group

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Since 2007, the boards of trustees of Lincoln County Health Care, Miles Memorial Hospital and St. Andrews Hospital have been identical in constitution. The management and medical staff of Miles Memorial Hospital and St. Andrews Hospital have been integrated.

In 2013, the board of trustees of Lincoln County Health Care determined that it was in the best interest of its mission, and that of Miles Memorial Hospital and St. Andrews Hospital, to merge the two hospitals. The merger plan (Attachment One) provides that Miles Memorial Hospital will be merged into St. Andrews Hospital. The merger was structured in this way so as to permit the facilities and services of Miles Memorial Hospital to be covered by St. Andrews Hospital's critical access hospital designation for Medicare and Medicaid purposes. With the assistance of the Department, CMS has provided St. Andrews Hospital with preliminary approval to "relocate" its service area to include Miles Memorial Hospital.

The details of the transaction are as follows:

- Effective 12:01 am October 1, 2013 Lincoln County Health Care merged Miles Memorial Hospital and St. Andrews Hospital. St. Andrews Hospital is the surviving entity and has undergone a name change to "LincolnHealth".
- Ownership, control, governance and management of the entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, continues to reside with Lincoln County Health Care, the sole corporate member of LincolnHealth, and ultimately with MaineHealth, Lincoln County Health Care's sole corporate member.
- The entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, has maintained its State of Maine hospital license, Centers for Medicare and Medicaid Services' provider agreement and Critical Access Hospital designation. The Department has issued a conditional license confirming that Lincoln Health's services are broad enough to cover the services offered at the former Miles Memorial Hospital.
- LincolnHealth is operating a maximum of 25 licensed acute care and swing beds and providing 24-hour emergency services at its Damariscotta campus (the former Miles Memorial Hospital campus). The St. Andrews Campus located in Boothbay Harbor continues to support LincolnHealth's delivery of outpatient and ambulatory care.

There is no change of control or ownership of the hospitals. This transaction is simply a corporate reorganization within the Lincoln County Health Care and specifically its two hospital subsidiaries, Miles Memorial and St. Andrews Hospitals. As described above, both before and after the transaction, Lincoln County Health Care directly, and

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MaineHealth indirectly as the parent of Lincoln County Health Care, own and control these hospitals in the sense contemplated by the certificate of need statute. No new outside entity is gaining control of these hospitals.

There is no capital expenditure as a result of this transaction. The aggregation of the assets and liabilities of Miles Memorial Hospital and St. Andrews Hospital into the single surviving entity LincolnHealth (the former St. Andrews Hospital) occurs by operation of corporate law, 1-B Me. Rev. Stat. Ann. § 905(2), not as the result of any deed of transfer or bill of sale between transacting parties.

There is no addition to any facilities or services as a result of this transaction. The services that had been offered under the subsidiary corporation Miles Memorial Hospital have simply been deemed re-allocated to the surviving subsidiary St. Andrews Hospital, whose name has been changed to Lincoln Health.

There are no new incremental annual operating costs as a result of this transaction. There are cost savings. As a result of this restructuring and rationalizing of services LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million, \$4.6 million of which Lincoln County Health Care is returning to the residents of Lincoln County through price reductions effective this October.

As noted above, the transaction is structured in this way so that the services previously offered at Miles Memorial Hospital's Damariscotta main campus and other sites are covered by the critical access hospital designation of St. Andrews Hospital. The Department actively facilitated this feature of the transaction last spring. By letter of April 23, 2013, St. Andrews requested the Department's Director of Rural Health and Primary Care to certify that St. Andrews could relocate to Damariscotta and still be classified as a "necessary provider" critical access hospital. By letter of May 23, 2013 (Attachment Two), the Director of the Department's Center for Disease Prevention and Control granted the request. This enabled St. Andrews to seek CMS's permission to relocate to Damariscotta and retain its critical access designation. By letter of June 23, 2013 (Attachment Three), which was also copied to the Department, CMS notified St. Andrews that it had granted preliminary approval of the relocation of St. Andrews Hospital to Miles Memorial Hospital's location in Damariscotta.

Lincoln County Health Care and its parent MaineHealth believe that no Certificate of Need review and approval is required for this transaction, because their ownership and control of the two subsidiary hospitals has not changed and because there is no addition of any new health service, no capital expenditure and no incremental annual operating costs.

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We look forward to your favorable decision on this request. Thank you for your consideration,



James Donovan  
President and Chief Executive Officer  
Lincoln County Health Care

c.c.: Michael Swan, Manager, Health Facility Survey

**Attachments**

- One: Plan of Merger, Miles Memorial Hospital and St. Andrews Hospital
- Two: Director of the Department's Center for Disease Prevention and Control May 23, 2013 letter
- Three: CMS June 23, 2013 letter, copied to the Department, granting preliminary approval of the relocation of St. Andrews Hospital to Miles Memorial Hospital's location in Damariscotta.