STATE OF MARYLAND
DEPARTMENT OF HEALTH AND MENTAL HYGIENE

HEALTH SERVICES COST REVIEW COMMISSION
4160 Patterson Avenue, Baltimore, Maryland 21215
Phone: 410-764-2605 · Fax: 410-358-6217
Toll Free: 1-888-287-3229
www.hscrc.state.md.us

Memo

To: Paul Parker, MHCC

From: Gerard J. Schmith *GJS*
Date: February 15, 2012
Subject: Johns Hopkins Bayview Medical Center ("Hospital," or "JHBMC")
Certificate Of Need (CON) #11-24-2321- Emergency Department Project
Certificate Of Need (CON) #11-24-2322-Comprehensive Cancer Program

On January 9, 2012, you requested that we review and comment on the financial feasibility of JHBMC's proposed capital project CON #11-24-2321. Under this docket number, the Hospital is seeking approval to expand and renovate its emergency department, relocate its pediatric unit, create an adult observation unit, and convert the vacated pediatric unit into expanded facilities for obstetric, gynecologic, and newborn inpatient services. The capital cost of this project is estimated at $39,659,972, and the total cost, including financing cost, is estimated at $40,098,889. The Hospital intends to finance the cost of this project through a combination of cash from operations ($10,071,248), interest income ($327,641), and a tax exempt bond offering ($29,700,000) through the Maryland Health and Higher Educational Facilities Authority ("MHHEFA").

On January 19, 2012, HSCRC and MHCC staff members met with Carl Francioli, Vice President of Finance/CFO for JHBMC, and other members of his staff regarding the financial projections associated with this project. At this meeting CON docket # 11-24-2322 was discussed. Under this docket number, the Hospital is seeking to create a comprehensive cancer program in the Bayview Medical Office Building (BMO). The total cost of this project is estimated at $26,057,437. The Hospital intends to finance the cost of this project through a combination of cash from operations ($6,544,525), interest income ($212,912), and a tax exempt bond offering ($19,300,000) through MHHEFA. During this meeting, it was decided that the financial projections provided should include the combined impact of both projects.

On January 31, 2012, JHBMC provided the financial projections which, included the impact of both projects. However, certain data were provided in current dollars rather than inflated dollars. The corrected data were received on February 13, 2012.

Data

We have reviewed the two projects and the accompanying financial projections provided by the Hospital, including the financial impact of both projects. The Hospital has provided audited financial data for the fiscal years ending June 30, 2010 and 2011, budgeted data for the fiscal year ending June 30, 2012, and projected data for the fiscal years ending 2013 through 2019. These data included Statements of Operating Activities, Balance Sheet Statements, and Statements of Cash Flows. Additionally, JHBMC provided certain financial ratios and indicators of the Johns Hopkins Health System's (JHHS') "Obligated Group" for FY 2011. These financial ratios represent the financial condition of the entities that will be responsible for paying the bonds associated with the borrowing for these projects. Some members of the Obligated Group are Johns Hopkins Hospital, Johns Hopkins Bayview Medical Center, Howard County General Hospital, and Suburban Hospital.

Revenues

We have reviewed the assumptions regarding the projections of operating revenue. The Hospital indicated that it would not need an increase to rates in order to complete the project, but has reserved the right to request an increase in the future. The Hospital has made a number of assumptions regarding volume changes and rate increases which may, or may not, occur during the projection period. Staff believes that the Hospital will need to manage cost regardless of the actual changes to revenues that occur. The assumptions used to estimate net operating revenues are considered reasonable at this time.

Expenses

We have reviewed the assumptions used in the projection of operating expenses. The Hospital has assumed various fixed/variable cost relationships for different categories of expenses. The HSCRC staff has estimated the results to be an overall 68% variable and 32% fixed assumption for changes to cost related to changes in volumes (net of changes due to project depreciation and interest) for the projections from FY 2015 through FY 2019 The variable cost factors for FY 2013 and FY 2014 appeared to be significantly less. Mr. Francioli stated that this was due to the Hospital's assumption that expenses would be further reduced for operating efficiencies by $3,000,000 or 0.8% for FY 2013, and an additional $1,500,000 or 0.4% for FY 2014. The HSCRC normally considers an 85% overall variable cost factor to be reasonable. Whether the Hospital is able to attain these cost reductions is unknown. However, the Hospital will need to remain efficient in its management of cost in order to maintain the projected profit results.

Financial Ratios

Included as Attachment I are the financial ratios that the HSCRC staff believes to be the most important in determining whether the Hospital will able to borrow the monies necessary to complete these projects. These projections are the same as those normally provided to the rating agencies and potential bond purchasers. These ratios represent the projected financial condition of JHBMC through FY 2019. Also included on Attachment I are the actual financial ratios for Johns Hopkins Health System for FY 2011.

A review of the financial ratios shows that JHBMC is projected to generate reasonable Operating and Excess Margins throughout the projection period. Debt Service Coverage Ratio (DSCR) indicate that the Hospital will continue to generate reasonable levels of cash each year. Debt to Capitalization is high but drops to more reasonable levels toward the end of the projection period. Days of Cash on Hand are much lower than the expected levels needed to maintain investment grade bonds. However, money for these projects will be borrowed as part of JHHS' Obligated Group. As such, the ratios of the group will serve as the basis for the bond rating.

While the financial ratios of JHBMC would not be sufficient to secure the borrowing necessary to complete these projects, the ratios of the Obligated Group are more than adequate. Therefore, the HSCRC staff believes that the project is financially feasible.

Attachment I

Johns Hopkins Bayview Medical Center

Financial Ratios

	Actual FY 2010	Actual FY 2011	Budget FY 2012	Projected FY 2013	Projected FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019
Key Statistics										
Operating Revenue (in thousands)	$384,476.0	$387,576.0	$402,833.0	$424,699.0	$439,001.0	$468,235.0	$485,965.0	$505,392.0	$525,747.0	$547,848.0
Operating Income	$10,410.0	$9,199.0	$10,681.0	$11,861.0	$13,018.0	$13,386.0	$13,304.0	$13,133.0	$12,820.0	$12,560.0
Excess Revenue over Expenses	$10,410.0	$9,199.0	$12,040.0	$13,112.0	$14,891.0	$15,893.0	$16,510.0	$17,182.0	$17,878.0	$18,663.0
Profitability										
Operating Margin	2.71%	2.37%	2.65%	2.79%	2.97%	2.86%	2.74%	2.60%	2.44%	2.29%
Excess Margin	2.71%	2.37%	2.98%	3.08%	3.38%	3.38%	3.38%	3.37%	3.37%	3.37%
Debt Related										
Debt to Capitalization	66.00%	56.00%	62.00%	56.00%	52.00%	47.00%	43.00%	39.00%	35.00%	31.00%
Debt Service Coverage	6.50	6.07	6.54	5.70	6.01	5.00	4.84	5.46	6.35	6.57
Liquidity										
Days of Cash on Hand	60	80	60	62	51	60	77	103	124	151

Johns Hopkins Health System

Financial Ratios

	Actual FY 2011
Key Statistics	
Operating Revenue (in thousands)	$4,041,457.0
Operating Income	$118,587.0
Excess Revenue over Expenses	$174,466.0
Profitability	
Operating Margin	2.93%
Excess Margin	4.26%
Debt Related	
Debt to Capitalization	34.70%
Debt Service Coverage	3.70
Liquidity	
Days of Cash on Hand	226