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MEMORANDUM

TO: Commissioners

FROM: Kevin R. McDonald
Chief, Certificate of Need

DATE: July 20, 2017

SUBJECT: Riva Road Surgery Center
Docket No. 17-02-2392

Enclosed is the staff report and recommendation regarding a Certificate of Need ("CON") application filed by Riva Road Surgical Center to convert a procedure room into a second operating room.

The applicant is a physician office surgery center (POSC) located in Annapolis at 2635 Riva Road. It is seeking to add a second operating room, which would classify it as an ambulatory surgical facility (ASF), thus requiring a Certificate of Need (CON). The total estimated project cost is $741,499, which includes: $635,000 for renovating 890 square feet of space and the purchase of movable equipment; $47,625 for a contingency allowance; $8,874 for an inflation allowance; and $50,000 for legal and consultant fees. Applicant will fund the project with cash.

Staff recommends that the Commission APPROVE the project based on its conclusion that the proposed project complies with the applicable standards in COMAR 10.24.11, the State Health Plan for General Surgical Services, and the CON review criteria at COMAR 10.24.01.08.

IN THE MATTER OF	*	**BEFORE THE**
	*	
RIVA ROAD	*	**MARYLAND**
	*	
SURGERY CENTER	*	**HEALTH CARE**
	*	
Docket No. 17-02-2392	*	**COMMISSION**
	*	

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Staff Report and Recommendation

July 20, 2017

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I. INTRODUCTION

THE APPLICANT

Riva Road Surgical Center ("RRSC") is a physician outpatient surgical center ("POSC") with one operating room and two procedure rooms located at 2635 Riva Road, Suite 118, in Annapolis, Maryland (Anne Arundel County). The POSC has 15 physician owners[1] who serve patients residing primarily in Anne Arundel and the surrounding counties. (DI 2, p. 9). The surgery performed at RRSC includes procedures in the following specialties: orthopedics, general surgery, podiatry, ophthalmology, and pain management. RRSC is governed by an appointed board of managers consisting of 6 current members, who approve all operational decisions for the facility.

THE PROJECT

Since its opening in 2007, RRSC has experienced growth in case volume and states that its case mix has become more complex. (DI #2, p. 9). RRSC states it has negotiated contracts to treat patients under Medicare, CareFirst BlueCross BlueShield, UnitedHealthcare, and Cigna, and that it is close to completing negotiations with Aetna. (DI #2, p. 10). The applicant anticipates that the volume of surgical cases performed at RRSC will continue to grow, necessitating the addition of a second operating room.

RSSC states that it has made adjustments in its operations to accommodate the growth in surgical case volume. (DI #2, pp. 9-10). These changes include: moving the appropriate/eligible cases to the procedure room to open-up time in the OR; expanding its hours of operation into the later evening hours (past 7:00 p.m.); and performing surgical cases on weekends.

RRSC has limited options to address the need for additional surgical space at its current facility. Adjacent space is not available for lease. RRSC states that it considered relocation to another site, but the costs for a new site were considered too great as the move would require replicating the existing facility and paying rent on two sites during the renovation. RRSC intead chosen to propose conversion of a procedure room to an operating room. Upon completion of the project, the facility will have two operating rooms and one procedure room.

The total estimated project cost is $741,499, which includes: $635,000 for renovating 890 square feet of space and the purchase of movable equipment; $47,625 for a contingency allowance; $8,874 for an inflation allowance; and $50,000 for legal and consultant fees. RRSC states that it will fund the project with cash.

STAFF RECOMMENDATION

The applicant's surgical case volume growth and its projection of modest future growth easily meet the optimal capacity requirements for a second operating room.

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[1] The applicant provided a breakdown of RRSC's ownership shares among these 15 physicians in its response to completeness questions. (DI #9, pp. 1-3).

Staff recommends approval of the project based on its conclusion that Riva Road Surgical Center's proposed project complies with the applicable standards in COMAR 10.24.11, the General Surgical Services chapter of the State Health Plan. The applicant has demonstrated that the project is needed, viable, and will be a cost-effective alternative for meeting project objectives. The project will have a positive impact on patient access to services offered by RRSC. It will not have a negative impact on cost to the health care delivery system.

II. PROCEDURAL HISTORY

A. Record of the Review

See Appendix 1, Record of the Review.

B. Interested Parties

There are no interested parties in this review.

C. Support

Two of the partners in Riva Road Surgical Center (Tushar Sharma, M.D. and Lyle T. Modlin, D.P.M.) and two patients (Ida Rogers and Danny Philips) submitted letters of support for he proposed addition of a second OR. (DI #2, Exh. 12).

D. Local Government Review and Comment

No comments were received from any local governmental body.

III. STAFF REVIEW AND ANALYSIS

The Commission reviews CON applications under six criteria found at COMAR 10.24.01.08G(3). The first of these considerations is the relevant State Health Plan standards and policies.

A. The State Health Plan.

An application for a Certificate of Need shall be evaluated according to all relevant State Health Plan standards, policies, and criteria.

The relevant State Health Plan for Facilities and Services ("SHP") chapter in this review is the General Surgical Services chapter, COMAR 10.24.11 ("Surgical Services Chapter").

.05 STANDARDS

A. GENERAL STANDARDS. The following general standards encompass Commission expectations for the delivery of surgical services by all health care facilities in Maryland, as defined in Health General §19-114(d). Each applicant that seeks a Certificate of Need for a

project or an exemption from Certificate of Need review for a project covered by this Chapter shall address and document its compliance with each of the following general standards as part of its application

(1) Information Regarding Charges.

Information regarding charges for surgical services shall be available to the public. A hospital or an ambulatory surgical facility shall provide to the public, upon inquiry or as required by applicable regulations or law, information concerning charges for the full range of surgical services provided.

RRSC states that it provides information to the public concerning charges for, and the range and types of services provided, when requested. The applicant included a CD with RRSC's "charge master" with its CON application. (DI #2, Exh. 6). The facility states that it will provide each patient with an estimate of the actual charges, depending on the procedure(s) required.

Staff concludes that RRSC satisfies this standard, based on its current provision of charges for the full range of services upon request and its commitment to provide each patient with charge information for required procedures.

(2) Charity Care Policy.

(a) ***Each hospital and ambulatory surgical facility shall have a written policy for the provision of charity care that ensures access to services regardless of an individual's ability to pay and shall provide ambulatory surgical services on a charitable basis to qualified indigent persons consistent with this policy. The policy shall have the following provisions:***

(i) Determination of Eligibility for Charity Care. Within two business days following a patient's request for charity care services, application for medical assistance, or both, the facility shall make a determination of probable eligibility.

(ii) Notice of Charity Care Policy. Public notice and information regarding the facility's charity care policy shall be disseminated, on an annual basis, through methods designed to best reach the facility's service area population and in a format understandable by the service area population. Notices regarding the surgical facility's charity care policy shall be posted in the registration area and business office of the facility. Prior to a patient's arrival for surgery, facilities should address any financial concerns of patients, and individual notice regarding the facility's charity care policy shall be provided.

(iii) Criteria for Eligibility. Hospitals shall comply with applicable State statutes and HSCRC regulations regarding financial assistance policies and charity care eligibility. ASFs, at a minimum, must include the following eligibility criteria in charity care policies. Persons with family income below 100 percent of the current federal poverty guideline who have no health insurance coverage and are not eligible for any public program providing coverage for medical expenses shall be eligible for services free of charge. At a minimum, persons with family income above 100

percent of the federal poverty guideline but below 200 percent of the federal poverty guideline shall be eligible for services at a discounted charge, based on a sliding scale of discounts for family income bands. A health maintenance organization, acting as both the insurer and provider of health care services for members, shall have a financial assistance policy for its members that is consistent with the minimum eligibility criteria for charity care required of ASFs described in these regulations.

RRSC submitted a copy of its charity care policy with its CON application. (DI #2, Exh. 7). It submitted a revised charity care policy on July 12, 2017. (DI #18). The revised charity care policy provides that RRSC will make a determination of probable eligibililty for charity care within two business day of request for charity care, application for medical assistance or both. The policy also provides that RRSC will: publish notice of the availability of charity care in local news media on an annual basis; post notice of the availability of charity care in its admissions office and business office; and provide to each person who seeks services at the time of admission individual notice of the availability of charity care, the potential for Medicaid eligibility and the availability of assistance from other government funded programs. RRSC's policy also states that RRSC will assist patients with filing for Medical Assistance, and provides the rules on eligibility for charity and reduced charge care.

(b) A hospital with a level of charity care . . . that falls within the bottom quartile... shall demonstrate that its level of charity care is appropriate to the needs of its service area population.

This standard is only applicable to existing hospitals seeking to add OR capacity. It does not apply to this project.

(c) A proposal to establish or expand an ASF for which third party reimbursement is available, shall commit to provide charitable surgical services to indigent patients that are equivalent to at least the average amount of charity care provided by ASFs in the most recent year reported, measured as a percentage of total operating expenses. The applicant shall demonstrate that:

(i) Its track record in the provision of charitable health care facility services supports the credibility of its commitment; and

(ii) It has a specific plan for achieving the level of charitable care provision to which it is committed.

(iii) If an existing ASF has not met the expected level of charity care for the two most recent years reported to MHCC, the applicant shall demonstrate that the historic level of charity care was appropriate to the needs of the service area population.

The table below shows RRSC's historical and projected charity care as a percentage of total operating expenses. For CY 2015 and CY 2016, this percentage was 1.09% and 1.49%, which was more than twice the average of outpatient ambulatory surgical facilities and physician officenters statewide. The Commission has reported that, in 2015, statewide, charity care provided by ambulatory surgery centers, as a proportion of total operating expenses, was 0.46%.

Table III-1: Riva Road Surgical Center Charity Care Percentage, CY 2015 through CY 2020

	2015	2016	2017	2018	2019	2020
Charity Care	$ 43,786	$ 69,822	$ 23,763	$ 25,116	$ 25,178	$ 25,257
Total Operating Expense	$ 4,001,234	$ 4,675,381	$ 4,752,649	$ 5,023,229	$ 5,035,577	$ 5,052,150
% Charity Care	1.09%	1.49%	0.50%	0.50%	0.50%	0.50%

Source: DI #9, Exh. 17, Table G.

Going forward, RRSC projects that it will provide add charity care, on average, equivalent to 0.5% of its total operating expenses.

MHCC staff concludes that the applicant has met this standard.

(3) Quality of Care.

A facility providing surgical services shall provide high quality care.

(a) An existing hospital or ambulatory surgical facility shall document that it is licensed, in good standing, by the Maryland Department of Health and Mental Hygiene.

In 2016, Office of Health Care Quality ("OHCQ") issued Riva Road Surgical Center a license as a freestanding ambulatory surgical facility[2] that has an expiration date of May 31, 2019. The Office of Health Care Quality confirmed that RRSC is in compliance with licensing requirements for a freestanding ambulatory surgery facility as of July 14, 2017.[3] (DI #17)

(b) A hospital shall document that it is accredited by the Joint Commission.

Not applicable.

(c) An existing ambulatory surgical facility shall document that it is:

(i) In compliance with the conditions of participation of the Medicare and Medicaid programs; and

The Office of Health Care Quality's records indicate that as of July 13, 2017 that RRSC is "in compliance with Conditions for Participation in the Medicare Program." (DI #16).

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[2] Note that OHCQ licenses a POSC with one OR as "freestanding ambulatory surgical facility" if it receives a technical or facility fee, as provided in its regulations at COMAR 10.07.05.01B(2)(a). MHCC statute, at Health-General § 19-114(b), and regulations, at COMAR 10.24.01.01B(4), define an "ambulatory surgical facility, as having two or more ORs.

[3] Barbara Fagan, Program Manager, OHCQ, states RRSC is in compliance with COMAR 10.05.01 and 10.05.05, which are the OHCQ's regulations governing the General Requirements and the licensing of freestanding ambulatory surgical facilities. Available at: http://www.dsd.state.md.us/COMAR/subtitle_chapters/10_Chapters.aspx#Subtitle05.

(ii) Accredited by the Joint Commission, the Accreditation Association for Ambulatory Health Care, the American Association for Accreditation of Ambulatory Surgery Facilities, or another accreditation agency recognized by the Centers for Medicare and Medicaid as acceptable for obtaining Medicare certification.

The POSC has a three-year accreditation from the Accreditation Association for Ambulatory Health Care, Inc. that expires on August 31, 2017. (DI #2, p. 20).

(d) A person proposing the development of an ambulatory surgical facility shall demonstrate that the proposed facility will:

(i) Meet or exceed the minimum requirements for licensure in Maryland in the areas of administration, personnel, surgical services provision, anesthesia services provision, emergency services, hospitalization, pharmaceutical services, laboratory and radiologic services, medical records, and physical environment.

Applicant stated that it "is fully licensed by the state of Maryland," and provided a copy of its license. MHCC staff confirmed with the Office of Health Care Quality that as of July 14, 2017 Riva Road Surgical Center is in compliance with all minimum licensing standards for a POSC. The standards for an ambulatory surgical facility are identical. Therefore the applicant meets this standard.

(ii) Obtain accreditation by the Joint Commission, the Accreditation Association for Ambulatory Health Care, or the American Association for Accreditation of Ambulatory Surgery Facilities within two years of initiating service at the facility or voluntarily suspend operation of the facility

The POSC has a three-year accreditation from the Accreditation Association for Ambulatory Health Care, Inc. that expires on August 31, 2017. (DI #2, p. 20).

Staff concludes that the applicant meets this standard.

(4) <u>Transfer Agreements.</u>

(a) Each ASF and hospital shall have written transfer and referral agreements with hospitals capable of managing cases that exceed the capabilities of the ASF or hospital.

(b) Written transfer agreements between hospitals shall comply with the Department of Health and Mental Hygiene regulations implementing the requirements of Health-General Article, 19-308.2.

This standard is not applicable.

(c) Each ASF shall have procedures for emergency transfer to a hospital that meet or exceed the minimum requirements in COMAR 10.05.05.09.

RRSC submitted a copy of its Transfer Agreement with Anne Arundel Medical Center, which was signed and dated on May 10, 2007. (DI #2, Exhibit 9). The following is an analysis of how this agreement complies with COMAR10.05.05.09.

.09 Hospitalization.

A. The freestanding ambulatory surgical facility shall have an effective procedure for the transfer of patients to a hospital when care beyond the capabilities of the facility is required.

RRSC submitted a copy of its Transfer Agreement with Anne Arundel Medical. (DI #2, Exhibit 9). The agreement specifies the rights and duties of RRSC and AAMC for ensuring the timely transfer of patients between the facilities.

B. Procedures for emergency transfer to a hospital shall include, at a minimum:

(1) Having a written transfer agreement with a local Medicare participating hospital or requiring all physicians, dentists, or podiatrists performing surgery in the freestanding ambulatory surgical facility to have admitting privileges at such a hospital;

Anne Arundel Medical Center is licensed as an acute care, general hospital by the Office of Health Care Quality that operates in Anne Arundel County and participates with the Medicare Part A program.[4]

(2) Having a mechanism for notifying the hospital of a pending emergency case;

The transfer agreement identifies a process for the "Transfer of Patients." This process identifies RRSC contacting the admitting office or Emergency Department of AAMC, and provides details as to the responsibilities for the transferring facility and the receiving facility. (DI #2, Exhibit 9)

(3) Having a mechanism for arranging appropriate transportation to the hospital; and

The transfer agreement states that the transferring facility (RRSC) will arrange for appropriate and safe transportation and care of the patient during transfer, which will be by ambulance service provided by the Emergency Medical System by calling 911. (DI #2, p. 21).

(4) The manner in which a facility sends a copy of the patient's medical record to the hospital.

[4] Available at: http://www.aahs.org/aboutus/aamc_EOE_EOHP.php

The transfer agreement describes RRSC's responsibilities in forwarding a copy of the portion of the patient's medical record that is relevant to the transfer and continued care of the patient to AAMC. (DI #2, Exhibit 9, p. 2G).

RRSC submitted a copy of its transfer agreement with Anne Arundel Medical Center to manage cases that exceed the capabilities of the ASF.

MHCC staff concludes that the applicant complies with this standard.

B. PROJECT REVIEW STANDARDS. The standards in this section govern reviews of Certificate of Need applications and requests for exemption from Certificate of Need review involving surgical facilities and services. An applicant for a Certificate of Need or an exemption from Certificate of Need shall demonstrate consistency with all applicable review standards.

(1) ***Service Area.***

An applicant proposing to establish a new hospital providing surgical services or a new ambulatory surgical facility shall identify its projected service area. An applicant proposing to expand the number of operating rooms at an existing hospital or ambulatory surgical facility shall document its existing service area, based on the origin of patients served.

The applicant states that RRSC's primary service area includes most of Anne Arundel County and Kent County, with portions of Prince George's, Calvert, Charles, Queen Anne's, Talbot, and Caroline Counties lying in its secondary service area. (DI #2, p. 21-23).

MHCC staff concludes that the applicant has identified RRSC'S service area and complies with this standard.

(2) ***Need – Minimum Utilization for Establishment of a New or Replacement Facility.***

An applicant proposing to establish or replace a hospital or ambulatory surgical facility shall demonstrate the need for the number of operating rooms proposed for the facility. This need demonstration shall utilize the operating room capacity assumptions and other guidance included in Regulation .06 of this Chapter. This needs assessment shall demonstrate that each proposed operating room is likely to be utilized at optimal capacity or higher levels within three years of the initiation of surgical services at the proposed facility.

(a) An applicant proposing the establishment or replacement of a hospital shall submit a needs assessment that includes the following….

(i) Historic trends in the use of surgical facilities for inpatient and outpatient surgical procedures by the new or replacement hospital's likely service area population;

(ii) The operating room time required for surgical cases projected at the proposed new or replacement hospital by surgical specialty or operating room category; and

(iii) In the case of a replacement hospital project involving relocation to a new site, an analysis of how surgical case volume is likely to change as a result of changes in the surgical practitioners using the hospital.

(b) An applicant proposing the establishment of a new ambulatory surgical facility shall submit a needs assessment that includes the following:

(i) Historic trends in the use of surgical facilities for outpatient surgical procedures by the proposed facility's likely service area population;

(ii) The operating room time required for surgical cases projected at the proposed facility by surgical specialty or, if approved by Commission staff, another set of categories; and

(iii) Documentation of the current surgical caseload of each physician likely to perform surgery at the proposed facility.

To meet this standard, the applicant must demonstrate that the existing OR was utilized optimally over the past 12 months and that the expanded two-OR capacity is likely to be used at optimal capacity[5] or higher levels of use within three years of the completion of the project. RRSC provided historical and projected data on surgical volume to demonstrate its ability to meet this standard.

From CY 2012 through CY 2016, RRSC reported that its number of cases increased from 2,075 to 2,184, an increase of 5.3% over five years, while total OR minutes increased from 162,000 to 174,720 (a 7.9% increase), although there were year-to-year volume fluctuations ranging from a low of 153,000 OR minutes (2013) to a high of 193,020 (2015).

With a clean-up or turnaround time of 25 minutes per case, the number of ORs required at MHCC's definition of optimal capacity shows that this facility would have qualified for a second OR at least as far back as 2012. Lacking that second room, RRSC stated that "by operating long hours and (occasionally) on Saturdays" it has been able to meet this demand. (DI #2, p. 25).

Table III-2: Riva Road Surgical Center Historical and Projected Operating Room Utilization, CY 2012 - CY 2020

	Historical Utilization					Current	Projected Utilization		
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cases	2,075	2,068	2,006	2,145	2,184	2,199	2,264	2,280	2,296
Minutes /Case	78	74	77	90	80	80	80	80	80
OR minutes	162,000	153,000	154,680	193,020	174,720	175,920	181,120	182,400	183,680

[5] "Optimal capacity" is defined in the General Surgical Services Chapter as 80% of "full capacity use." "Full capacity" (for a general purpose outpatient OR) is defined as operating for a minimum of 255 days per year, eight hours per day, which results in an available full capacity of 2,040 hours per year. Thus optimal capacity is 1,632 hours per year.

Clean-up minutes@25/case	51,875	51,700	50,150	53,625	54,600	54,975	56,600	57,000	57,400
Total Minutes	213,875	204,700	204,830	246,645	229,320	230,895	237,720	239,400	241,080
Optimal Capacity/OR	97,920	97,920	97,920	97,920	97,920	97,920	97,920	97,920	97,920
No. ORs Needed at Optimal Capacity	**2.2**	**2.1**	**2.1**	**2.5**	**2.3**	**2.4**	**2.4**	**2.4**	**2.5**

Source: DI #2, p. 25; DI #9, p. 4.

Future projections show modest growth continuing growth through 2020, based in part on expected in-network patient referrals for outpatient surgical procedures from such third-party payors as UnitedHealthcare, Cigna, and Aetna.

Staff concludes that the applicant's historical surgical volume, even apart from projected growth, supports the need for a second OR, and thus that the applicant has met this standard.

(3) Need – Minimum Utilization for Expansion of An Existing Facility.

An applicant proposing to expand the number of operating rooms proposed at an existing hospital or ambulatory surgical facility shall:

(a) Demonstrate the need for each proposed additional operating room, utilizing the operating room capacity assumptions and other guidance included at Regulation .06 of this Chapter;

(b) Demonstrate that its existing operating rooms were utilized at optimal capacity in the most recent 12-month period for which data has been reported to the Health Services Cost Review Commission or to the Maryland Health Care Commission; and

(c) Provide a needs assessment demonstrating that each proposed operating room is likely to be utilized at optimal capacity or higher levels within three years of the completion of the additional operating room capacity. The needs assessment shall include the following:

(i) Historic trends in the use of surgical facilities at the existing facility;

(ii) Operating room time required for surgical cases historically provided at the facility by surgical specialty or operating room category; and

(iii)Projected cases to be performed in each proposed additional operating room.

The applicant currently operates as a physician outpatient surgery center ("POSC") with one operating room and seeks to become an ambulatory surgery facility with the conversion of a procedure room for a second operating room. Thus, this standard is not applicable.

Standards .05B(4), Design Requirements; and .05B(5), Support Services.

Among the remaining applicable standards are several that prescribe policies, facility features, and staffing and/or service requirements that an applicant must meet, or agree to meet prior to first use. Staff has reviewed the CON application and confirmed that the applicant provided information and affirmations that demonstrate full compliance with these standards:

10.24.11.05B(4), Design Requirements and **10.24.11.05B(5), Support Services.**

Referencing these standards, the applicant:

- Submitted a letter from its architect attesting that the facility is "designed in accordance with the applicable laws, codes and ordinances, including OHCQ regulations at COMAR 10.05.05, the NFPA 101 Life Safety Code as required by Medicare, and the requirements of the FGI Guidelines for Design and Construction of Hospitals and Outpatient Facilities, 2014 edition;" and
- Stated that RRSC has an existing contract with CBLPath for pathology; that it has the ability to draw blood or patients can have the blood drawn through its transfer agreement with Anne Arundel Medical Center; and that RRSC has the ability to perform radiology in-house.

The text of these standards and where that compliance is documented in the project file are attached as Appendix 2.

(6) Patient Safety.

The design of surgical facilities or changes to existing surgical facilities shall include features that enhance and improve patient safety. An applicant shall:

(a) Document the manner in which the planning of the project took patient safety into account; and

(b) Provide an analysis of patient safety features included in the design of proposed new, replacement, or renovated surgical facilities.

The applicant states it has taken patient safety into account with the design of this project, citing the following design elements: maintaining clearances and space requirements as outlined in the FGI Guidelines; selecting proper finishes to maximize the ability to sanitize the space; adjusting the ventilation system to meet or exceed the required air changes in the room; and designing the second operating room to be similar to the existing OR, which will minimize training requirements and allow the staff to move from one OR to another with minimal chance of confusion, resulting in improved patient safety. Copies of the project drawings are included in Appendix 3.

The application demonstrates that RRSC has considered patient safety in its designs for the second operating room, and meets this standard.

(7) ***Construction Costs.***

The cost of constructing surgical facilities shall be reasonable and consistent with current industry cost experience.

(a) Hospital projects.

Subpart (a) does not apply because this is not a hospital project.

(b) Ambulatory Surgical Facilities.

(i) The projected cost per square foot of an ambulatory surgical facility construction or renovation project shall be compared to the benchmark cost of good quality Class A construction given in the Marshall Valuation Service® guide, updated using Marshall Valuation Service® update multipliers, and adjusted as shown in the Marshall Valuation Service® guide as necessary for site terrain, number of building levels, geographic locality, and other listed factors.

(ii) If the projected cost per square foot exceeds the Marshall Valuation Service® benchmark cost by 15% or more, then the applicant's project shall not be approved unless the applicant demonstrates the reasonableness of the construction costs. Additional independent construction cost estimates or information on the actual cost of recently constructed surgical facilities similar to the proposed facility may be provided to support an applicant's analysis of the reasonableness of the construction costs.

This standard requires a comparison of the project's estimated construction cost with an index cost derived from the Marshall Valuation Service ("MVS") Guide. To make this comparison, a benchmark cost is typically developed for new construction based on the relevant construction characteristics of the proposed project. The MVS cost data includes the base cost per square foot for new construction by type and quality of construction for a wide variety of building uses including outpatient surgical centers. The MVS guide provides adjustment for a variety of factors, including cost data: for the latest month; the location of the construction project; the number of building stories; the height per story; the shape of the building (the relationship of floor area to perimeter); and departmental use of space.

The MVS Guide also identifies costs that should not be included in the MVS calculations. These exclusions include costs for: buying or assembling land; improvements related to land planning; discounts or bonuses paid for financing; yard improvements; off-site work; furnishings and fixtures; marketing costs; and general contingency reserves.[6]

RRSC seeks to convert an existing procedure room to an operating room, increasing the total number of ORs to two after project completion. The project will include renovations to 890 SF of existing building space, which includes the construction of a new 251 SF OR in existing space and creation of areas for a nurse station and equipment storage within the sterile corridor. (see Appendix 4 for Floor Diagrams). The project will include modifications to the HVAC system,

[6] Marshall Valuation Service Guidelines, Section 1, p. 3 (January 2016).

medical gases, call systems, and electrical work for this area. (DI #3, p. 28). The applicant states that renovations will begin shortly after CON approval, with the project expected to take between 4-6 weeks. During this time, RRSC will be closed for business, and upon passing all local and State inspections, the ASF will open for business. (DI #9, Question #2).

Both RRSC and MHCC staff performed separate analyses comparing the estimated project cost to an MVS benchmark calculated for the proposed project (see Appendix 3 for these calculations). Based on project costs that are included in the MVS guide, the adjusted project cost for comparison to an MVS benchmark is $655.06 per SF.

RRSC calculated the MVS Benchmark to be $471.33 per SF, while MHCC staff calculated the MVS Benchmark for the project to be $565.28 per SF. The major reason for the higher benchmark calculated by staff is the method used to account for the fact that the renovation work will occur in existing space. The applicant and MHCC each accounted for this by adjusting the benchmark calculated for new construction, and then subtracting the cost of existing space as if it were constructed as shell space. The applicant's calculation treated the existing space as if it had been specifically constructed as shell space for operating rooms only. Staff's calculation treated the existing space as if it were constructed as shell space for a complete outpatient surgical center. The result of MHCC staff's analysis is that the estimated project costs is only $89.78 (about 15.9%) above its calculated MVS benchmark. RRSC calculated the overage at $183.73 (around 39.0%) over its calculated MVS benchmark.

Subparagraph (b)(ii) of the standard provides that the applicant shall demonstrate the reasonableness of the construction costs "if the project cost per square foot exceeds the MVS Service benchmark cost by 15% or more." MHCC staff calculated the projected cost of the project at 15.9% over the MVS Benchmark.

The applicant's initial response in the CON application to the excessive project cost over the MVS Benchmark was that, "while the project costs are significantly higher than the benchmark, no patient charges will be affected.... RRSC will simply absorb all of the project costs." (DI #3, p. 31). When asked by staff to provide further details as to the costs for the project, RRSC gave two reasons to support this level of expenditure. (DI #14). The applicant's response was that: (1) the "work is also designed to move quickly....to minimize downtime for the center;" and (2) the general contractor built overtime and premium-time hours into the budgeted costs, which includes working longer hours during the weekdays and weekend to complete this project within a short timeframe.

Conclusion regarding construction costs

MHCC staff has reviewed the construction costs of this project and concludes that the cost of the project is reasonable. The higher cost per SF for this project is a result of the costs related to the development of an operating room in space currently used as a procedure room, which includes relocating a nurse station and area for equipment storage, and upgrading the HVAC, medical gases, call systems, and electrical systems. RRSC states that the contractor also included the estimated cost of overtime and weekend work in its estimated project costs. MHCC staff considers this to be sufficient explanation why the estimated project exceeds the MVS benchmark

by slightly more than the 15% variance provide for by the standard. Therefore, staff concludes that the applicant complies with this standard.

(8) Financial Feasibility.

A surgical facility project shall be financially feasible. Financial projects filed as part of an application that includes the establishment or expansion of surgical facilities and services shall be accompanied by a statement containing each assumption used to develop the projects.

(a) An applicant shall document that:

(i) Utilization projections are consistent with observed historic trends in use of the applicable service(s) by the likely service area population of the facility;

(ii) Revenue estimates are consistent with utilization projections and are based on current charge levels, rates of reimbursement, contractual adjustments and discounts, bad debt, and charity care provision, as experienced by the applicant facility or, if a new facility, the recent experience of similar facilities;

(iii) Staffing and overall expense projections are consistent with utilization projections and are based on current expenditure levels and reasonably anticipated future staffing levels as experienced by the applicant facility, or, if a new facility, the recent experience of similar facilities; and

(iv) The facility will generate excess revenues over total expenses (including debt service expenses and plant and equipment depreciation), if utilization forecasts are achieved for the specific services affected by the project within five years of initiating operations.

(b) A project that does not generate excess revenues over total expenses even if utilization forecasts are achieved for the services affected by the project may be approved upon demonstration that overall facility financial performance will be positive and that the services will benefit the facility's primary service area population.

RRSC based its estimates of revenue on the utilization projections and current charge levels, rates of reimbursement, contractual adjustments and discounts, and bad debt as currently experienced by the facility. The expense numbers are based on current staffing and overall expense projections that are consistent with the utilization projections and the current expenditure levels at RRSC. (DI #2, pp. 31-32). Staff considers the list of assumptions for revenue and expenses to be reasonable based on the expected surgical volumes and the applicant's current experience with operating RRSC. (DI #2, Exh. 2). The applicant has consistently generated an excess of revenues over expenses and projects to continue profitable operations.

Staff concludes that the applicant's utilization and financial projections are based on reasonable assumptions and that the proposed project meets the financial feasibility standard

(9) Preference in Comparative Reviews.

This standard is not applicable.

B. Need

COMAR 10.24.01.08G (3)(b) requires that the Commission consider the applicable need analysis in the State Health Plan. If no State Health Plan need analysis is applicable, the Commission shall consider whether the applicant has demonstrated unmet needs of the population to be served, and established that the proposed project meets those needs.

This criterion directs the Commission to consider the "applicable need analysis in the State Health Plan," which, in this instance, is found in the Surgical Services Chapter at COMAR 10.24.11.05B(3), Need – Minimum Utilization for Expansion of an Existing Facility. As previously outlined and supported by the data provided in Table III-2, the applicant's current volumes alone support its proposal to add a second OR.

Staff concludes that RRSC complies with this standard and addresses the need for a second dedicated outpatient operating room.

***C.* Availability of More Cost-Effective Alternatives**

COMAR 10.24.01.08G(3)(c) requires the Commission to compare the cost-effectiveness of providing the proposed service through the proposed project with the cost-effectiveness of providing the service at alternative existing facilities, or alternative facilities which have submitted a competitive application as part of a comparative review.

Prior to its decision to pursue establishment of a second OR, RRSC made changes in its operation to try to accommodate demand. These initiatives included: (DI #2, p. 38).

- Moving appropriate or eligible cases to the procedure room to open time in the one operating room; and
- Expanding hours into the later evening, and occasionally, into the weekend. Current Monday through Friday hours are from 7:00 a.m. to as late as 8:00 p.m. Attempts at Saturday hours were not well received by patients, who preferred to have these surgical procedures scheduled during the week.

While these initiatives helped manage volumes, RRSC also considered several alternatives that would permit the addition of a second OR without the conversion of a procedure room. The applicant investigated the following options.

- Met with the building's property manager (St. John's Property) annually to inquire about acquiring an adjacent suite. In each case adjacent spaces were under lease.
- Relocating RRSC within the same building or to another building was rejected, due to the costs of replicating the existing facility and the fact that such a move would

necessitate paying rent on two sites during the time it would take to prepare the new location.

- Adding two operating rooms. As was described immediately above, this was not a viable option because of the lack of available space in the current facility and the inability to expand into adjacent suites.

Although the applicant did not provide estimated costs for each of the alternatives listed, staff agrees that the choice of converting one of the existing procedure rooms into a second operating room is the most cost-effective choice for RRSC. The applicant: made efforts to maximize the time available in its one operating room and extended the facility's hours of operation; was unable to obtain additional space within the existing property; and determined the cost of relocating to another location is substantially higher. Therefore, staff concludes that RRSC's proposed project is the most cost effective alternative.

D. Viability of the Proposal

COMAR 10.24.01.08G(3)(d) requires the Commission to consider the availability of financial and nonfinancial resources, including community support, necessary to implement the project within the time frame set forth in the Commission's performance requirements, as well as the availability of resources necessary to sustain the project.

Availability of Resources to Implement the Proposed Project

The estimated total cost for the project is $741,499, which the applicant will fully fund with cash reserves.

Table III-3: Riva Road Surgical Center
Project Budget

Use of Funds	Total
Renovations	
Building	$ 531,000
Fixed Equipment	0
Architect/Engineering Fees	45,000
Permits (Building, Utilities, etc.)	7,000
Subtotal	$ 583,000
Other Capital Costs	
Movable Equipment	$ 52,000
Contingency Allowance	47,625
Gross Interest during Construction	0
Other	0
Subtotal	99,625
Total Current Capital Costs	$ 682,625
Inflation Allowance	8,874
Total Capital Costs	***$ 691,499***

Legal Fees	30,000
Non-Legal Consultant Fees	20,000
Subtotal	$ 50,000
Total Uses of Funds	**$ 741,499**
Sources of Funds	
Cash	$ 741,999
Total Sources of Funds	**$ 741,999**

Source: DI #2, Exh. 1, Table E

To support its statement that it has sufficient funds to implement the project, RRSC submitted a letter from the independent Certified Public Accounting firm of PKS & Company, P.A.,[7] which states the firm has reviewed and analyzed a number of financial documents and conferred with management as to their assumptions on the project. Based on the information made available to it, the accounting firm "concludes that RRSC generates sufficient free cash flow from continuing operations to fund the proposed project." (DI #2, Exh. 11).

The applicant has demonstrated it has sufficient resources to finance the project.

Availability of Resources to Sustain the Proposed Project

RRSC's projected operating results are shown in Table III-4 below. Because projected volume growth is modest, and expenses rise because of increased depreciation expense, net income shows a small decline but is still healthy.

Table III-4: Riva Road Surgical Center
Revenue & Expense Statement, CY 2015 - CY 2020

Calendar Year	Two Most Recent Years		Current Year	Projected Year		
	2015	2016	2017	2018	2019	2020
Revenue						
Outpatient Services	$ 48,969,970	$ 61,092,798	$ 61,520,448	$ 63,366,061	$ 63,809,623	$ 64,256,291
Gross Patient Service Revenues	$ 48,969,970	$ 61,092,798	$ 61,520,448	$ 63,366,061	$ 63,809,623	$ 64,256,291
Allowance for Bad Debt						
Contractual Allowance	41,336,351	53,298,447	53,718,084	55,384,680	55,772,487	56,162,991
Charity Care	43,786	69,822	23,763	25,116	25,178	25,257
Net Patient Services Revenue	$ 7,589,833	$ 7,724,529	$ 7,778,601	$ 7,956,265	$ 8,011,958	$ 8,068,043
Other Operating Revenues	1,556	2,683	2,702	2,783	2,803	2,822
Net Operating Revenue	$ 7,591,389	$ 7,727,212	$ 7,781,303	$ 7,959,048	$ 8,014,761	$ 8,070,865
Expenses						
Salaries & Wages	1,660,298	1,731,826	1,783,745	1,955,068	1,955,068	1,955,803
Contractual Services	138,097	225,095	226,671	233,471	235,105	236,751
Depreciation	52,117	76,551	77,393	104,443	96,974	92,710
Amortization	1,738	1,738	1,738	1,738	1,738	1,738

[7] The independent accounting firm states that it is independent with respect to Riva Road Surgical Center, LLC and any of its officers, directors, and LLC members, and has no financial interest in the Maryland Health Care Commission's review of RRSC's CON application to add a second operating room. (DI #2, Exh. 11).

Supplies	1,515,213	2,001,766	2,015,778	2,076,252	2,090,785	2,105,421
Other Expenses						
Lease and Equipment Costs	442,861	445,804	448,767	451,750	454,752	457,775
Other Operating Costs	190,911	192,602	198,558	200,509	201,155	201,953
Total Operating Expenses	$ 4,001,234	$ 4,675,381	$ 4,752,649	$ 5,023,229	$ 5,035,577	$ 5,052,150
Income						
Income from Operation	$ 3,590,155	$ 3,051,831	$ 3,028,654	$ 2,935,819	$ 2,979,184	$ 3,018,715
Non-Operating Income	-1,715					
Net Income	**$ 3,588,440**	**$ 3,051,831**	**$ 3,028,654**	**$ 2,935,819**	**$ 2,979,184**	**$ 3,018,715**

Source: DI #9, Exh. 17, Table G.

Staff concludes that the proposed project is viable.

E. Compliance with Conditions of Previous Certificates of Need

COMAR 10.24.01.08G(3)(e) requires the Commission to consider the applicant's performance with respect to all conditions applied to previous Certificates of Need granted to the applicant.

This is the first time that Riva Road Surgery Center has submitted a CON application for review.

F. Impact on Existing Providers

COMAR 10.24.01.08G(3)(f) requires the Commission to consider information and analysis with respect to the impact of the proposed project on existing health care providers in the service area, including the impact on geographic and demographic access to services, on occupancy when there is a risk that this will increase costs to the health care delivery system, and on costs and charges of other providers.

Impact on other providers

RRSC states that it does not anticipate that this project will result in a shift in surgical cases to RRSC from hospitals or from other freestanding ambulatory surgical facilities or centers in its service area. (DI #2, p. 44).

Impact on access to health care services, system costs, and costs and charges of other providers

The applicant states that its conversion of an existing procedure room to a second operating room will allow its physicians to offer more flexibility in scheduling surgical cases at the facility, thus providing increased access to the services offered at RRSC. (DI #2, p. 26). The applicant does not expect the project will affect charges or reimbursement at RRSC, nor will the project have an adverse impact on health care system costs. The facility expects to hire one full-time surgical nurse and one full-time scrub tech at a total cost of $171,323 in salaries as a result of the project. RRSC will advertise in the local newspapers and in professional journals, and utilize professional networks of its physician members to help with recruiting for these positions. The applicant's expectation is that the two positions will be filled within a short period of time. (DI #2, p. 44).

Staff concludes that the applicant's assertions concerning the competitive impact of its project to be dubious. Expanding capacity at RRSC would be likely to create opportunity for the performance of cases that would otherwise be performed in other settings because of the limitations in accommodating a higher volume of cases at RRSC if it continued to be limited to operation of a single operating room. However, this competitive impact should be positive from a systems impact. AAMC, the local general hospital, has experienced relatively high use of its OR capacity. The project will not have a negative impact on system costs. It will increase access to services. Staff concludes that the impact of this project, as defined in this criterion, will primarily be positive.

IV. SUMMARY AND STAFF RECOMMENDATION

Based on its review of the proposed project's compliance with the Certificate of Need review criteria, COMAR 10.24.01.08G(3)(a)-(f), and with the applicable standards in COMAR 10.24.11, the General Surgical Services Chapter of the State Health Plan, Commission staff recommends that the Commission award a Certificate of Need for the project. It complies with the applicable State Health Plan standards, is needed, is a cost-effective approach to meeting the project objectives, is viable, and will have a positive impact on the applicant's ability to provide outpatient surgery without adversely affecting costs and charges or other providers of surgical care.

Accordingly, Staff recommends that the Commission **APPROVE** Riva Road Surgical Center's application for a Certificate of Need authorizing the addition of a second operating room by converting an existing procedure room to a sterile operating room.

IN THE MATTER OF	*	**BEFORE THE**
	*	
RIVA ROAD	*	**MARYLAND**
	*	
SURGERY CENTER	*	**HEALTH CARE**
	*	
Docket No. 17-02-2392	*	**COMMISSION**
	*	

* *

FINAL ORDER

Based on the analysis and conclusions in the Staff Report and Recommendation in this review, it is this 20th day of July, 2017

ORDERED, by the Maryland Health Care Commission, that the application by Riva Road Surgery Center, LLC, an existing physician outpatient surgery center with one operating room and two procedure rooms located in Anne Arundel County, for a Certificate of Need to convert one of its existing procedure rooms into an operating room at a total project cost of $741,499, is hereby **APPROVED.**

MARYLAND HEALTH CARE COMMISSION

MARYLAND HEALTH CARE COMMISSION

APPENDIX 1: Record of the Review

Docket Item #	Description	Date
1	John J. Eller, Esq., submitted on behalf of Riva Road Surgical Center, LLC ("RRSC"), a notice of the intent by RRSC to apply for a CON for the conversion of one procedure room to a second operating room ("OR"), resulting in a total capacity after project completion of two ORS and one procedure room. Formed on June 21, 2006, RRSC is located at 2635 Riva Road, Suite 118 in Annapolis, Maryland. 21401. Commission staff acknowledged receipt of this Letter of Intent on December 9, 2016.	12/2/2016
2	John J. Eller, Esq., submitted a Certificate of Need application on behalf of RRSC, proposing the conversion of one procedure room to a second operating room, resulting in a total capacity of two ORs and one procedure room (Matter No. 17-02-2392) located in Annapolis, Maryland.	2/3/2017
3	Commission requested publication of notification of receipt of the RRSC proposal in the *Maryland Register* on February 17, 2017	2/3/2017
4	Commission acknowledged receipt of CON application in a letter to RRSC.	2/6/2017
5	Commission requested publication of notification of receipt of the RRSC proposal in the *Baltimore Sun.*	2/6/2017
6	The *Baltimore Sun* provided certification that the notice of receipt of application was published on February 15, 2017.	2/16/2017
7	Following completeness review, Commission staff found the application incomplete, and requested additional information.	2/22/2017
8	John J. Eller, Esq., requests additional time to respond to completeness questions to March 15th, which MHCC granted.	3/7/2017
9	Commission received responses to the February 22, 2017 request for additional information.	3/13/2017
10	Commission notified RRSC that its application is docketed for formal review with a notice in the *Maryland Register* published on April 28, 2017.	4/11/2017
11	Commission requested publication of the docketing notice in the next edition of the *Baltimore Sun.*	4/11/2017
12	Commission requested publication of notification of formal start of review for the RRSC proposal in the *Maryland Register* with the date of publication on April 28, 2017.	4/11/2017
13	MHCC sent copy of the application to the Anne Arundel County Health Department for review and comment	4/11/2017
14	Emails between Bill Chan with Stephanie Leventis, Andy Solberg, and Jack Eller regarding clarification on construction costs for MVS benchmark.	6/20/2017 thru 6/23/2017
15	Emails between Suellen Wideman, Esq., with Stephanie Leventis and Jack Eller, Esq. regarding compliance of Charity Care Policy	7/10/2017 thru 7/12/2017
16	Verlean Connor, Office of Health Care Quality, submits letter stating RRSC in compliance with Conditions for Participation in the Medicare Program	7/13/2017

17	Email from Barbara Fagan, Office of Health Care Quality, regarding RRSC compliance with COMAR 10.05.01 and COMAR 10.05.05	7/14/2017
18	Revised charity care policy submitted by John Eller on behalf of Riva Road.	

MARYLAND HEALTH CARE COMMISSION

APPENDIX 2:

Excerpted CON Standards for

COMAR 10.24.11, General Surgical Services

Appendix 2: Excerpted CON Standards for General Surgical Services

From State Health Plan Chapter 10.24.11

Each of these standards prescribes policies, services, staffing, or facility features necessary for CON approval that MHCC staff have determined the applicant has met. Bolding added for emphasis. Also included are references to where in the application or completeness correspondence the documentation can be found.

STANDARD	**APPLICATION REFERENCE (Docket Item #)**
(4) Design Requirements. ***Floor plans submitted by an applicant must be consistent with the current FGI Guidelines.*** ***(a) A hospital shall meet the requirements in Section 2.2 of the FGI Guidelines.*** ***(c) Design features of a hospital or ASF that are at variance with the current FGI Guidelines shall be justified. The Commission may consider the opinion of staff at the Facility Guidelines Institute, which publishes the FGI Guidelines, to help determine whether the proposed variance is acceptable.***	DI #9, Exh. 15
(5) Support Services. ***Each applicant shall agree to provide as needed, either directly or through contractual agreements, laboratory, radiology, and pathology services.***	DI #2, p. 27

MARYLAND HEALTH CARE COMMISSION

APPENDIX 3:

Marshall Valuation Service Review

Marshall Valuation Service Review

Marshall Valuation Service Review

The Marshall Valuation System – what it is, how it works[8]

In order to compare the cost of a proposed construction project to that of similar projects as part of a cost-effectiveness analysis, a benchmark cost is typically developed using the Marshall Valuation Service ("MVS"). MVS cost data includes the base cost per square foot for new construction by type and quality of construction for a wide variety of building uses.

The base cost reported in the MVS guide are based on the actual final costs to the owner and include all material and labor costs, contractor overhead and profit, average architect and engineering fees, nominal building permit costs, and processing fees or service charges and normal interest on building funds during construction. It also includes: normal site preparation costs including grading and excavation for foundations and backfill for the structure; and utilities from the lot line to the structure figured for typical setbacks.

The MVS costs do not include costs of buying or assembling land, piling or hillside foundations (these can be priced separately), furnishings and fixtures not found in a general contract, general contingency set aside for some unknown future event such as anticipated labor and material cost increases. Also not included in the base MVS costs are site improvements such as signs, landscaping, paving, walls, and site lighting. Offsite costs such as roads, utilities, and jurisdictional hook-up fees are also excluded from the base costs.

MVS allows staff to develop a benchmark cost using the relevant construction characteristics of the proposed project and the calculator section of the MVS guide. In developing the MVS benchmark costs for a particular project the base costs are adjusted for a variety of factors (e.g., an add-on for sprinkler systems, the presence or absence of elevators, number of building stories, the height per story, and the shape of the building. The base cost is also adjusted to the latest month and the locality of the construction project.)

Developing an MVS Benchmark for This Project

Riva Road Surgical Center calculated the benchmark to be $471.33 per square foot by making the following adjustments to the most current Marshall Valuation Service calculator section base cost for good quality Class A-B construction of an outpatient surgical center ($369.05 per SF as of November 2015).

1. Adjusting for departmental cost differences using the departmental cost factor for hospital operating room (1.89), the most expensive hospital space.
2. Riva Road then adjusted the square foot cost for the shape of area affected (perimeter multiplier) and ceiling height of the area affected using information obtained from the MVS guide.
3. Riva Road then brought the cost up to date at the time of application preparation using the MVS current cost multiplier and further adjusted for local cost variations using a local

[8] Marshall Valuation Service Guidelines, Section 1, pp. 2-3 (January 2016).

multiplier to arrive at a benchmark of $942.66 per SF for newly constructed operating rooms space.

4. As a last step Riva Road applied a factor of 50% in recognition of the fact that the construction work will take place in existing space to arrive at the final benchmark of $471.33 per SF.

MHCC staff calculated an MVS benchmark of $565.28 per square foot by adjusting the same MVS base cost for outpatient surgical centers used by the applicant as follows:

1. Using a departmental cost factor of 1.59 for a hospital operating room suite instead of the 1.89 factor used by the applicant to account for the fact that the construction will create supporting spaces such as a nursing station and equipment storage as well as a new operating room.
2. The same perimeter and height multiplier used by the applicant.
3. Staff updated the square foot cost to June 2017 by applying the MVS current cost multiplier of 1.03 for Class A health care buildings.
4. Staff then adjusted the cost to the location of the project by applying the MVS local multiplier for Anne Arundel Co.as of April 2017, the most current available,), to arrive at an initial benchmark square foot cost of $824.59 per SF for totally new construction of the space to be affected by the project.
5. As a last step to account for the fact that the project involves renovations of existing space and not construction of new space, staff subtracted a benchmark for the construction of outpatient surgical shell space ($259.31 per SF from the initial benchmark of $824.59 per SF for a final benchmark for this project of $565.28 per SF. The benchmark for constructing the shell space was calculated by staff by applying the hospital departmental cost factor for vacant space to the base cost for an outpatient surgical center and then applying the same multipliers as used in calculating the initial benchmark.[9]

The following table identifies select building characteristics, the MVS base cost and the adjustments made by Riva Road and MHCC staff:

[9] Staff calculated the cost of the shell space by applying the hospital differential cost factor for unassigned space (0.5) to the adjusted base cost for an outpatient surgical center and subtracted the results ($259.31 per SF) from the initial benchmark to arrive at an adjusted benchmark for this project of $565.28 per square foot.

Maryland Health Care Commission Staff's Calculation
Marshall Valuation Service Benchmark - Riva Road Surgery Center

Building Characteristics			
Construction Class/Quality	Class A-B/Good, Outpatient Surgery Center		
Number of Stories	1		
Square Feet	890		
Average Perimeter	120		
Weighted Average Wall Height	16		
Average Area Per Floor	890		
Marshall Valuation Service Benchmark Calculations			
	Calculation of Benchmark by Riva Road Surgical Center	**Calculations of Benchmark by MHCC Staff**	
		New Outpatient Surgical Suite	**Outpatient Surgical Center Shell Space**
Base Cost per SF	**$ 369.05**	$ 369.05	$ 369.05
Adjustment for Dept. Cost Differences	**1.89**	1.59	0.5
Adjusted Base Cost per SF	**$ 697.50**	$ 586.79	$ 184.53
Multipliers			
Perimeter Multiplier	1.201	1.201	1.201
Story Height Multiplier	1.092	1.092	1.092
Multi-Story Multiplier	1	1	1
Refined Cost per SF	**$ 915.03**	$ 769.79	$ 242.07
Sprinkler Add-on per SF	0	0	0
Adjusted Refined Square Foot Cost	$ 915.03	$ 769.79	$ 242.07
Update/Location Multipliers			
Current Cost Modifier	$ 1.02	1.03	1.03
Local Multiplier	$ 1.01	1.04	1.04
MVS Building Cost per Square Foot	**$ 942.66**	**$ 824.59**	**$ 259.31**
Applicant's Adjustment for Shell	50.0%		
Applicant's Final MVS Benchmark for Project	**$ 471.33**		
MHCC Staff Calculated Benchmark for Proposed Project (Benchmark for New OR Suite Minus Benchmark for Outpatient Surgical Center Shell		**$565.28**	

Source: DI #3, pp. 29-31, Marshall Valuation Service® published by Core Logic, and Commission Staff Calculations

While as indicated in the table above Commission staff used higher current cost and local multipliers than those used by the applicant, the major reason for the higher benchmark calculated by staff is the method used to account for the fact that the renovation work will occur in existing space. Both the applicant and MHCC attempted to account for this by adjusting the benchmark each calculated for new construction by subtracting the cost of existing space as though it is constructed as shell space. The applicant's calculation treated the existing space as though it had

been specifically constructed as shell space for operating rooms only. Staff's calculation treated the existing space as though it was constructed as shell space for a complete outpatient surgical center. The reasons for the differences in the current and local cost multipliers used cannot be fully explained because staff does not know the time frame of the current multiplier and the local multiplier used by the applicant. Of course it is reasonable to assume that the difference in the current cost multiplier is the use by staff of the latest available and the use by the applicant of the information available during preparation of the application.

Comparing Estimated Project to the MVS Benchmark

RRSC compared its estimated project cost that equals $655.06 per square foot and determined that the estimated project costs are about 39.0% above the $471.33 benchmark that it calculated, as detailed above. MHCC staff compared the same estimated project costs, and determined the estimated construction cost of $655.06 per square foot exceeds the MVS benchmark of $565.28/SF that it calculated, as detailed above by about 15.9%.

The following table compares the estimated project cost to the respective MVS benchmarks calculated by the applicant and by staff.

Comparison RRSC's Renovation Budget to Marshall Valuation Service Benchmark Developed by RRSC and MHCC Staff

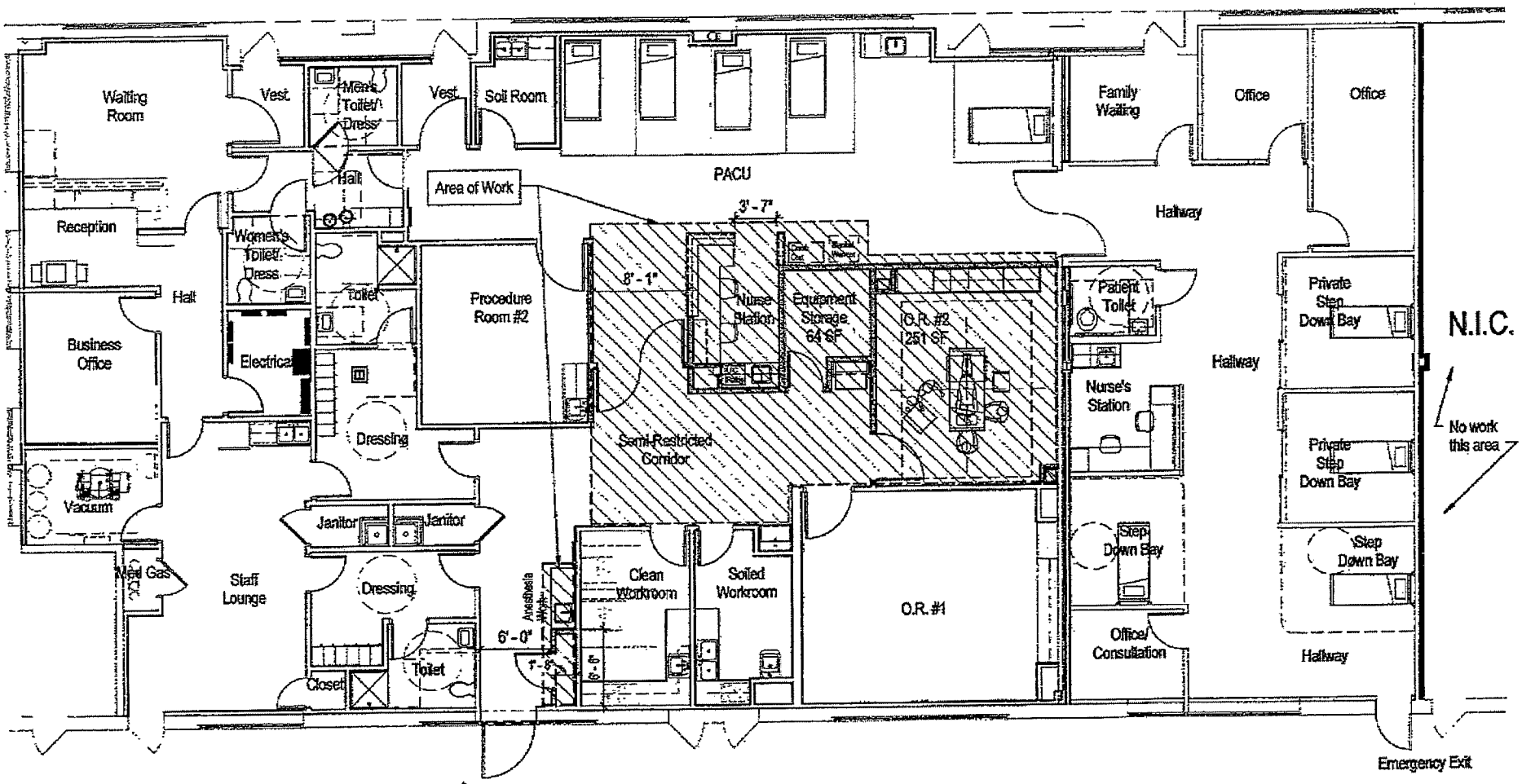
Project Budget Item	RRSC Estimate	MHCC Staff Estimate
Adjusted Total for MVS Comparison	**$ 583,000**	**$ 583,000**
Total Additional Square Footage	$ 890	$ 890
Adjusted Project Cost per SF	**$ 655.06**	**$ 655.06**
RRSC and MHCC calculated MVS Benchmark Cost per SF	$ 471.33	$ 565.28
Total Over (Under) MVS Benchmark	**$ 183.73**	**$ 89.78**
Over(Under) %	**39.0%**	**15.9%**

Source: DI #3, p. 29-31 and MHCC Staff calculations

MARYLAND HEALTH CARE COMMISSION

APPENDIX 4:

Project Drawings



GastingerWalker&

Preliminary Plan
21 September 2016

Riva Road Surgical Center Renovation
2635 Riva Road; Annapolis, MD

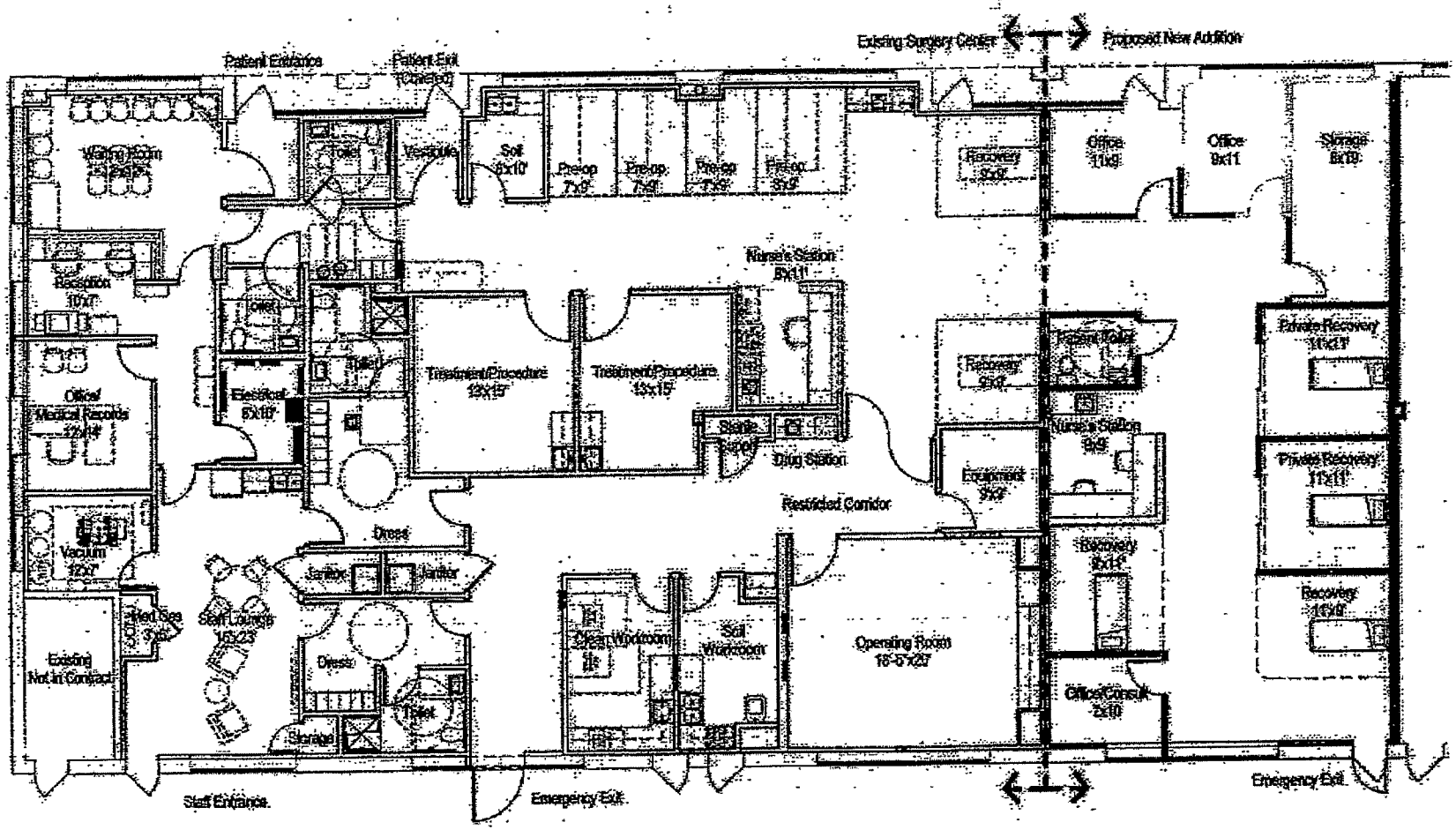


Exhibit 3, Page 2 of 2