

STATE OF MARYLAND

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**MARYLAND HEALTH CARE COMMISSION**

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October 11, 2016

Thomas C. Dame, Esquire  
Gallagher, Evelius & Jones, LLP  
218 North Charles Street, Suite 400  
Baltimore, Maryland 21201

Re: Project Status Conference  
Shore Health System, Inc.  
Relocation of Memorial Hospital at Easton  
Docket Number 12-20-2339

Dear Mr. Dame:

I am writing this letter to summarize the project status conference held on September 30, 2016 regarding the Certificate of Need (“CON”) application filed by Shore Health System, Inc. (“Shore”) to relocate Memorial Hospital at Easton, now known as University of Maryland Shore Medical Center at Easton. At the applicant’s request, the review of this application was suspended in 2013. Maryland Health Care Commission (“MHCC”) staff was notified by Shore on September 16, 2016 that it wanted to reactivate the review of the application. In response, MHCC staff notified Shore that it would hold a project status conference in the review. Under COMAR 10.24.01.00A(2)(a), a project status conference is held by MHCC staff to apprise an applicant of those aspects of a proposed project that appear to be inconsistent with applicable standards and review criteria.

Present at the project status conference were the following representatives of the applicant and staff:

Applicant

Robert A. Chrencik  
Kenneth Kozel  
Thomas C. Dame, Esquire  
Mallory L. Montgomery, Esquire  
Alison G. Brown  
Darryl Mealy  
Andrew Solberg

MHCC Staff

Ben Steffen  
Paul E. Parker  
Kevin McDonald  
Joel Riklin  
Suellen Wideman, AAG

At the project status conference, Shore was advised that the application, as docketed, appeared to be inconsistent with regulatory requirements. Staff provided guidance with respect to the submission of a modified and updated application for the relocation of the hospital. This letter summarizes required changes and staff's guidance regarding the modified and updated application.

### **State Health Plan Standards and Criteria**

Staff noted that 112 general acute care beds were proposed for the replacement hospital, with 92 medical/surgical/gynecological/addictions ("MSGA") beds and six pediatric beds. Staff pointed out that the current bed need projections identify a need for 91 to 121 MSGA beds for Talbot County and three to four pediatric beds. Thus, Shore's response to the project review standard regarding bed need, at COMAR 10.24.10.04B(2), is not consistent with the current standard because the application proposes both a number of MSGA beds and pediatric beds that exceed the minimum jurisdictional bed need projection but do not exceed the maximum jurisdictional bed need projection. To be found consistent with this standard, Shore must reduce the number of MSGA and pediatric beds proposed for the relocated hospital or "demonstrate need at the applicant hospital for bed capacity that exceeds the minimum jurisdictional bed need projection."

As was stated at the project status conference, the modified and updated application must address all current State Health Plan regulations, including standards in COMAR 10.24.09, COMAR 10.24.12, and COMAR 10.24.17.

### **Space and Cost**

MHCC staff expressed concern with the project's size and, consequently, also with its cost. MHCC's experience with the review of projects involving the establishment or replacement of general hospitals during the last few years indicates that Shore is proposing a very large building that far exceeds the amount of space staff has seen and would expect to see for a general hospital of this size. For this reason, these aspects of the proposed project appear to be inconsistent with the applicable Need criterion, COMAR 10.24.01.08G(3)(b), and with the Availability of More Cost Effective Alternatives criterion, COMAR 10.24.01.08G(3)(c).

Shore proposes to develop a replacement hospital with 112 general acute care beds, 14 rehabilitation beds, and eight observation beds at a total cost of \$283,240,375, or \$2.11 million per bed (including all the enumerated licensed and observation beds). The project involves construction of 358,928 square feet of building space, or 2,679 square feet per bed.

Staff has examined new and replacement hospital projects in Maryland developed in the last six years and compared the proposed project with these other projects. This comparative review indicates that Shore should reduce the size of the replacement hospital to no more than 2,500 gross building square feet per bed, in line with the average space per bed of new and replacement hospital projects considered by MHCC in recent years. This ratio is recommended

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on the basis of all (100%) of the space being constructed, including any shell space and the central energy plant.

**Required Updates to the Application**

Because of the age of this application, Shore must modify and update the project application comprehensively. Because questions were posed and additional information was requested on this application prior to docketing, the modified application should modify and update components of the application on which questions were posed or additional information requested.

In addition to the current dollar pro forma financial schedules that are part of the CON application, which will presumably be updated for a current year of FY 2017 and should, as always, be accompanied by a complete set of assumptions used in constructing every revenue and expense line, please file alternative versions of the schedules that incorporate inflation assumptions and also file a cash flow analysis. These should assist the Health Services Cost Review Commission in its review of this application. Please include complete and detailed information on extraordinary changes in SMCE's total patient revenue that the applicant is proposing as a basis for funding the higher capital cost incurred when the proposed project is completed.

MHCC staff looks forward to receipt of a modified application that reflects the changes that have occurred in the last three years with respect to the adoption and evolution of a new hospital payment model in Maryland, the most recent trend in demand for hospital facilities and services, and the strategic systems planning in which Shore has been engaged. If you have any questions regarding this conference summary, please contact Paul Parker at (410)764-3261.

Sincerely,



Ben Steffen  
Executive Director

cc: Fredia S. Wadley, M.D., Talbot County Health Officer  
Paul E. Parker  
Kevin McDonald  
Suellen Wideman, AAG