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October 28, 2015

By E-Mail and USPS

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Pamela Creekmur, R.N.
Health Officer
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Largo, Maryland 20774

Re: Dimensions Health Corporation d/b/a Prince George's Hospital Center
Mt. Washington Pediatric Hospital, Inc.
Docket No. 13-16-2351

Dear Counsel and Ms. Creekmur:

Enclosed please find a memorandum from Gerard Schmith, Deputy Director, Hospital Rate Setting, at the Health Services Cost Review Commission (HSCRC) that responds to my formal September 11, 2015 request that the HSCRC review financial projections and assumptions underlying projections that were made in the application for Certificate of Need (CON) filed by Dimensions Health Corporation (Dimensions), d/b/a Prince George's Hospital Center ("PGHC") and Mt. Washington Pediatric Hospital, Inc. As you know, I asked HSCRC to answer specific questions about the project's assumptions and the impact of the new payment model for hospitals.

I request that Dimensions file comments on HSCRC's October 23, 2015 memorandum by 4:30 p.m. on November 20, 2015. Any interested party or participating entity that wants to respond to Dimensions' comments must do so by 4:30 p.m. on December 2, 2015. I ask that, at a minimum, Dimensions directly address the key points made by HSCRC with respect to:

Counsel, Ms. Creekmur
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- (1) The lack of available cash that the CON application indicates will be needed at the time the proposed replacement hospital will open;
- (2) The inability of HSCRC to find a basis for approving the additional revenue identified as needed by this project, under its current policy for evaluating such revenue adjustments;
- (3) The related problem of PGHC's high charges and the substantial productivity gains needed to ameliorate this high charge position;
- (4) The risk of PGHC's only strategy for obtaining these productivity gains, increasing volume through capture of market share, and the lack of a demonstrated ability to produce additional service volume with only 50% of the variable cost being recognized; and
- (5) The ability of any gains in market share to be recognized through HSCRC's normal methodology for the treatment of market shift adjustments.

Like HSCRC, I am prepared to review any additional information "regarding future service reconfigurations as they evolve, recognizing that the environment is changing rapidly with consumer driven health care transformation and increased emphasis on outpatient, telemedicine, retail, and virtual service delivery." I note that, under COMAR 10.24.01.08E(2), in a noncomparative review such as this, "modifications to an application to reduce capital or operating costs, reduce annual projected revenue, reduce the level or number of beds and services requested, or to respond to relevant changes in the State Health Plan review criteria, policies, or need projections, are permitted at any time."

I again remind the parties that prohibitions against ex parte contacts apply to this proceeding until the Commission issues a final decision.

Sincerely,



Robert E. Moffit
Commissioner/Reviewer

cc: Paul Parker
Kevin McDonald
Suellen Wideman, AAG

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Health Services Cost Review Commission


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Memorandum

Date: October 23, 2015

To: Robert E. Moffit, Ph.D.
Commissioner/Reviewer, MHCC

From: Gerard J. Schmith 
Deputy Director, Hospital Rate Setting, HSCRC

Subject: Relocation of Prince George's Hospital Center ("PGHC")
Docket No. 13-16-2351

This Memorandum is in response to your memo dated September 11, 2015 regarding the Certificate of Need ("CON") filed by Dimensions Health Corporation ("DHC") and Mount Washington Pediatric Hospital to replace and relocate PGHC. A 15-bed Special Hospital-Pediatric is operated by Mount Washington Pediatric Hospital, Inc. ("MWPH") within leased space at the current PGHC, and this facility would also be replaced as part of the proposed project and operated under the same arrangement.

The estimated project cost for the relocation and replacement of the general hospital and the special hospital-pediatric is \$651,223,000. Dimensions proposes to finance the relocation of the hospital to Largo with approximately \$206.7 million in debt, grants of \$208 million from the State of Maryland and \$208 million from Prince George's County, and a total of \$16.1 million in interest income from bond proceeds. \$12.4 million is the recognized value of the donated land within this project cost estimate.

You requested that HSCRC staff review the financial projections and the assumptions upon which these projections are based, as provided in the March 13, 2015 revisions to the January 16, 2015 replacement CON application (Exhibit 50, Tables G1 and H1), and comment on the proposed project's financial feasibility and the reasonableness of the assumptions. You also requested that we provide comments on these specific questions:

1. Are the sources of funds assumed by the applicants appropriate? In your opinion, is the proportion of non-debt and non-grant sources of project funding adequate?

2. The applicants have assumed that a 7.6% increase in the hospital's global budget revenue ("GBR") will be obtained to account for the increased capital costs resulting from this project. In your opinion, is this increase necessary for this project to be feasible and for the replaced and relocated PGHC to be financially viable? If, in your opinion, this increase is not necessary for project feasibility and the viability of PGHC, please provide the basis for this opinion.

3. Based on your analysis and the experience of HSCRC to date in implementing the new payment model for hospitals, what is the ability of the proposed replacement hospital to be competitively priced, when compared with general hospitals in its region of the state and when compared with similar (peer-group) hospitals throughout the state, if the project is implemented as proposed and the applicants' utilization projections are realized?

4. Dimensions is assuming an increase in its GBR in each of the first three years of operation of the replacement hospitals resulting from market share shifts. A revenue increase of 2.91% is projected for FY 2020, 2.75% for FY 2021, and 2.61% for FY 2022. Based on your analysis and the experience of HSCRC to date in implementing the new payment model for hospitals, what would be the impact of Dimensions not achieving these market shifts on the financial viability of the relocation and the ability of the proposed replacement hospital to be competitively priced, when compared with general hospitals in its region of the state and when compared with similar (peer-group) hospitals throughout the state.

5. Dimensions also assumes that revenue adjustments for market share shifts would be recognized immediately in the year of the volume growth resulting from the shift in market share rather than in the year following the volume growth. In commenting on the financial feasibility of the project and the viability of PGHC after relocation, please indicate whether HSCRC will agree to this treatment of market share shift-related volume increases. If HSCRC will not agree to this, please address the impact on feasibility and viability and any impact on the size of the global budget adjustment for capital. (See Dimensions' March 13, 2015 response to Question 22 of MHCC staff's February 10, 2015 completeness letter (page 31).

HSCRC Staff has done an initial review of Prince George's Hospital Center's CON and current financial situation including its overall rate structure. At this time, HSCRC Staff does not believe it has the data needed to perform an in-depth analysis of the PGHC CON. For instance, we note that a substantial difference exists between actual operating profit for FY 2014 included in the CON financial projections and the actual operating profit from the Audited Financial Statements for FY 2014. However, Staff makes the following comments at this time regarding the questions you have posed:

1. The only sources of fund which are non-debt and non-grant are the \$16.1 million interest income from bond proceeds and the \$12.4 million recognized value of the donated land. We have not received a copy of DHC's projected plan of finance; therefore, we cannot render an opinion on the \$16.1 million, nor have we received an appraisal of the value of

the donated land. According to the CON, DHC will need to borrow approximately \$77 million at the opening of the new facility in order to ensure that it maintains 100 days of cash on hand. Therefore, DHC has no cash available to help fund the project.

2. The CON includes an assumption that the HSCRC would approve a \$21.5 million (7.0%) increase to its approved revenue after the facility opens. This increase represents 50% of the estimated additional depreciation, interest, and amortization related to this project. As of this date, PGHC has not filed a rate application with the HSCRC requesting any type of rate increase. Without a rate application, Staff cannot determine if this contemplated rate increase is justified. We have completed a pro forma analysis of our current policy, which permits a hospital to request additional revenue related to a major CON approved project.¹ The pro forma analysis does not produce any increase for additional capital for PGHC.
3. The latest Reasonableness of Charges (“ROC”) calculation shows that PGHC is more than 14% above the average adjusted charges of its comparison peer group and nearly 10% above adjusted average State-wide charges. PGHC’s unadjusted charge difference for FY 2014 would be even greater. The Hospital needs to achieve significant productivity improvements to improve its ROC position. In the CON application, it proposes to do that through increasing its volumes at 50% variable cost. The volume increase assumption creates a risk to competitiveness of rates if the volume increases are not achieved. Additionally, the Hospital has not yet demonstrated the capability to deliver the incremental services at 50% variable cost. This creates a second risk of whether the Hospital will be able to produce the services at 50% variable cost should the volumes increase.
4. Staff is uncertain at this time as to the impact of the downsizing of Laurel Hospital on PGHC’s projections. The CON filed by PGHC did not take into account the impact of the downsizing of Laurel Hospital which, staff believes, should have a positive impact on PGHC’s future financial projections. Laurel Hospital had significant declines in utilization, which resulted in losses. Addressing these losses and bed need in more comprehensive ways given declines in inpatient services should strengthen the viability of service offerings in Prince Georges County. We have read the recommendations provided to Laurel Hospital by their consultants. We stand prepared to review any additional information that is provided regarding future service reconfigurations as they evolve, recognizing that the environment is changing rapidly with consumer driven health

¹ This is the same analysis that formed the basis of the HSCRC’s approval of \$15.3 million for additional capital when Washington Adventist Hospital’s (“WAH’s”) new facility opens. The HSCRC rate increase to WAH is contingent on MHCC’s final approval on WAH’s CON project.

care transformation and increased emphasis on outpatient, telemedicine, retail, and virtual service delivery.

5. PGHC has not requested any deviation from HSCRC's normal methodology regarding the treatment of market shift adjustments. In the case of the new Holy Cross Germantown facility, for example, the HSCRC permitted an adjustment for market share to occur as volumes increase. HSCRC Staff has not yet determined whether the adjustment would apply in this circumstance. To make that determination, we will need additional information from PGHC.

As to the methodology used by Doctors Hospital to convert volume losses to revenue reductions, we believe that while the method may produce a reasonable 'ballpark' estimate of lost revenue, the actual amount would most certainly be impacted by the types of lost cases. Additionally, Doctors' estimates of the impact on expenses and operating profits are questionable.

Until HSCRC Staff receives more information regarding these aforementioned issues, we are not in a position to complete our normal CON review on the financial feasibility of the project. The project assumes and is dependent upon a revenue increase of \$21.5 million. Nothing has been provided to date that justifies this revenue increase.