




**MARYLAND HEALTH CARE COMMISSION**

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**MEMORANDUM**

**TO:** Donna Kinzer, Executive Director, HSCRC  
Jerry Schmith, Deputy Director, HSCRC

**FROM:** Robert E. Moffit, PhD.   
Commissioner/Reviewer

**DATE:** September 11, 2015

**RE:** Relocation of Prince George's Hospital Center  
Docket No. 13-16-2351

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As you know Dimensions Health Corporation (“Dimensions”) and Mount Washington Pediatric Hospital, Inc. have submitted a Certificate of Need (“CON”) application seeking approval to replace and relocate Prince George’s Hospital Center (“PGHC”). The replacement hospital campus, as proposed, would include the general hospital building proper of approximately 704,000 square feet (“SF”) and a 43,000 SF central utility plant. As proposed, it would have the capacity for 216 acute care beds.<sup>1</sup> PGHC is currently licensed (FY 2016) for 237 beds. The proposed number of medical/surgical beds (general medical/surgical and intensive care) would decrease slightly from the currently licensed 169 to 165. The replacement hospital is designed to operate 22 obstetric beds and a single pediatric bed, compared to the currently licensed bed allocation of 38 and two, respectively. Proposed acute psychiatric bed capacity is unchanged from the current 28 beds.

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 Health Services Cost Review Commission (“HSCRC”) has previously received copies of the original and replacement applications, comments on the applications by interested parties, responses to those comments by Dimensions, as well as Maryland Health Care Commission (“MHCC”) staff’s completeness questions and Dimensions’ responses to those questions. This memorandum formalizes MHCC’s request for HSCRC review that was made when MHCC staff

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<sup>1</sup> In 2015, PGHC reports that it has the capacity to set up 296 acute care beds (311 if MWPH is included. (MHCC, Annual Hospital Bed and Service Inventory Survey, 2015)

delivered those materials. If there are additional materials you want to review, you should be able to find them at the following link (or MHCC staff can provide copies, upon your request): [http://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs\\_con/hcfs\\_con\\_pgrmc.aspx](http://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/hcfs_con_pgrmc.aspx)

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 recognized value of the donated land within this project cost estimate.

**I request 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<sup>2</sup> (Exhibit 50, Tables G1 and H1), and comment on the proposed project's financial feasibility and the reasonableness of the assumptions.**

In providing the requested comments, it would be very helpful if you could answer the following 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.

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<sup>2</sup> The cover sheet for the September 29, 2014 application and additional volumes containing exhibits refer to "Modification of Application for Certificate of Need."

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).

Doctors Community Hospital submitted an analysis of the impact of the relocation on its discharges and the impact of such a reduction in volume on its revenues. While I do not necessarily agree with the hospital's assessment of the impact on volume and I am not asking for your opinion on its calculation of the expected loss in discharges, I would like your comments on the methodology used to convert such losses in volume to reductions in revenue. This analysis is found on page 23 of Doctors' May 4, 2015 comments.

I understand that HSCRC staff has been considering and reviewing the materials regarding Dimensions' application for some period of time. I hope that, under these circumstances, it will be possible for HSCRC staff to provide comments on Dimensions' financial projections and these more specific questions by Friday, October 30, 2015. I value HSCRC's input on these matters.

cc: Thomas C. Dame, Esquire  
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