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December 4, 2015

VIA EMAIL AND HAND DELIVERY
Robert Emmet Moffit, PhD.
Commissioner
c/o Ruby Potter, Health Facilities Coordination Officer
ruby.potter@maryland.gov
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

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

Dear Commissioner Moffit:

On behalf of Dimensions Health Corporation ("Dimensions"), we write to respond to your October 28, 2015 letter requesting comment on the October 23, 2015 memo of the Health Services Cost Review Commission ("HSCRC") concerning this project.

HSCRC Comment (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.**

Com. Moffit Request for Comment (1)

> **The lack of available cash that the CON application indicates will be needed at the time the proposed replacement hospital will open.**

Dimensions' Response

Dimensions expects the proposed Prince George's Regional Medical Center ("PGRMC") to be treated as a new operating entity. As such, Dimensions will collect and liquidate the assets of the existing Prince George's Hospital Center ("PGHC") that exist at the opening of PGRMC to fund liabilities that exist at that point in time. The current projection of cash generated from

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PGHC's operations, along with the liquidation of its other assets, is expected to be sufficient to meet these requirements. As a new operating entity, PGRMC will require $77 million of working capital upon its opening to fund current liabilities while it collects on its new patient related Accounts Receivable and other non-cash current assets. The $77 million reflects 100 days of expected cash expenses at PGRMC in its first year of operation.

Because it is too soon to secure firm debt commitments, documentation is not yet available for the working capital loan for PGRMC. However, upon consultation with its financial advisors and parties involved in hospital financing, Dimensions is confident that it will be able to obtain the anticipated working capital loan for the following reasons:

- Dimensions has existing relationships with banks for working capital loans
- In October 2013, Prince George's County assumed Dimensions' Series 1994 bonds leaving Dimensions with positive debt related ratios and an increase in its debt capacity
- With the State and County committed to funding more than 60% of the total new hospital project costs, Dimensions will have significant equity

The short term debt is expected to be repaid within five years of the opening of the new hospital

HSCRC Comment (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. The pro forma analysis does not produce any increase for additional capital for PGHC.

Com. Moffit Request for Comment (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.

Dimensions' Response

Dimensions has filed on this date a partial rate application, seeking approval for the incremental capital costs related to PGRMC, to be effective July 1, 2019 (the "Rate Application"). The Rate Application follows the standard methodology applied by the HSCRC to the recently approved Washington Adventist Hospital ("WAH") partial rate application. However, the Rate Application differs from the WAH application in that it updates the Reasonableness of Charges ("ROC") calculation to current FY 2015 inputs. Variables such as total revenue and volumes (equivalent case mix adjusted discharges, "ECMADs") are updated for the most recent, publically available, data periods. In addition, and consistent with the PGRMC CON Application, the Rate Application projects incremental volume growth through 2019. This incremental volume, realized at a 50% variable cost factor ("VCF"), will result in PGHC achieving further price efficiencies and thus will be eligible for incremental capital under current HSCRC methodology, effective July 1, 2019. This updated information is relevant to the accurate calculation of its price efficiency and updated cost adjustment variables.

Ultimately, it is within the HSCRC's authority to determine whether to approve the request for additional revenue after reviewing and considering the Rate Application. Typically, the HSCRC acts upon rate applications within approximately 90 – 120 days.

HSCRC Comment (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.

Com. Moffit Request for Comment (3)

The related problem[1] of PGHC's high charges and the substantial productivity gains needed to ameliorate this high charge position.

Com. Moffit Request for Comment (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.

Dimensions' Response

The most recent ROC calculation is out dated.[2] As noted in response to Request for Comment No. 2, above, Dimensions updated the ROC analysis for 2015 and the updated analysis indicates that PGHC is considerably more efficient than its performance in 2013. This improvement is primarily related to the incremental volumes PGHC experienced in Fiscal Years 2014 and 2015. During this same period, PGHC's peer group hospitals experienced volume erosion. The combination of these factors under the Global Budget Revenue system results in a reduction in PGHC's average charge and an increase in the aggregate charges of the peer group hospitals.

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[1] The "related problem" refers to Commissioner Moffit's Request for Comment No. 2. These comments have been reorganized. (No. 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.)

[2] The HSCRC's decision on WAH's rate application refers to the FY 2014 ROC, which was calculated with FY 2013 data using charge per case methodology and published in 2014. Dimensions' updated ROC analysis evaluates PGHC's performance using updated FY 2015 data using ECMAD methodology.

PGHC Peer Group Volume (ECMADs)
FY 2013 – FY 2015

Hospital	Volume (ECMADs)			% Change
	FY 2013	FY 2014	FY 2015	FY13 – FY 215
Prince George's Hospital Center	16,938	17,047	18,408	8.7%
UMMC Midtown	11,891	11,035	11,887	0.0%
Johns Hopkins Bayview	39,927	39,231	39,870	(0.1%)
Mercy Medical Center	36,531	35,952	35,957	(1.6%)
MedStar Union Memorial	31,466	30,117	30,093	(4.4%)
Sinai Hospital	46,176	45,501	43,280	(6.3%)
MedStar Harbor	16,527	14,723	13,936	(15.7%)
Bon Secours Hospital	8,319	7,236	6,584	(20.8%)

As shown in the table above, PGHC's volumes increased by 7.98% in 2015 (year 1 of PGRMC CON Application financial projection period). The PGRMC CON Application projects total volume growth from 2015 – 2019 for PGHC at 3.64%. PGHC has already exceeded this volume growth projection. In addition, FY 2016 volumes for the first quarter are trending 2% higher than the same period in FY 2015 for PGHC. Thus, it is reasonable to assume PGHC will exceed volume growth projections assumed in the PGRMC CON Application.

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

Dimensions' Response

Laurel Regional Hospital ("LRH") has experienced a significant reduction in its inpatient services and many outpatient services over the last three years. LRH is in the process of reconfiguring its services to reflect its current and near-term expected utilization of inpatient and outpatient services. This process is expected to continue through FY 2018 as facilities are adjusted and developed to reflect these services. As the reconfiguration of LRH's services and related facilities is expected to occur over the next couple of years, the ability to project the impact that it will have on the existing PGHC and the future PGRMC is uncertain. As such, no impact of LRH's reconfiguration is addressed in the PGRMC CON Application. To the extent that utilization at PGHC does increase as a result of any reduction in utilization at LRH, PGHC would request an adjustment to its GBR.

HSCRC Comment (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.

Com. Moffit Request for Comment (5)

The ability of any gains in market share to be recognized through HSCRC's normal methodology for the treatment of market shift adjustments.

Dimensions' Response

As noted in the HSCRC's comment, the treatment of market shift adjustments at Holy Cross Germantown Hospital provides an example of how the HSCRC staff can address special circumstances related to opening new hospitals/facilities. The new PGRMC campus will attract volume increases during its initial three year ramp up period. These volumes will produce incremental costs that will require concurrent revenue recognition during this ramp up period. This variance with HSCRC policy will be generally consistent with other special adjustments made for hospitals such as Holy Cross Germantown Hospital in 2013 and University of Maryland St. Joseph Medical Center in 2014.

HSCRC Comment on Doctors Community Hospital

As to the methodology used by Doctors Hospital to convert volume losses to revenue reductions, Dimensions believes 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.

As presented in Dimensions' response to comments filed by Doctors Community Hospital ("DCH") and Anne Arundel Medical Center on May 19, 2015, DCH provided an overly simplistic and flawed analysis in its estimate of the impact that PGRMC will have DCH. DCH did not consider the zip code specific methodology set forth in the 2012 Recommended Decision of former Commissioner Barbara McLean in the CON application to relocate WAH (Docket No. 09-15-2295) to define the affected service area and assess the impact by zip code.[3] As such, DCH's estimate of the impact of PGRMC on DCH's inpatient discharges is overstated. With an overestimation of lost volumes, DCH's estimate of lost revenue is also overstated.

In addition, as described in response to HSCRC's Comment No. 4, the reconfiguration of LRH's services may result in an increase in volumes at other hospitals. DCH is one of the closest hospitals to LRH. As such, it should receive a significant share of any reduction in LRH's medical/surgical patients. This benefit to DCH should be taken into consideration in any assessment of the impact of PGRMC on DCH.

Thank you for your consideration of this matter.

Sincerely,

Thomas C. Dame

Ella Aiken

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[3] DCH's impact analysis also is inconsistent with the impact analysis employed in the more recent 2015 Recommended Decision of Commissioner Frances Phillips in the pending CON review for the relocation of WAH (Docket No. 13-15-2349).

TCD:blr
cc: Paul Parker, Director, Center for Health Planning and Development
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Jeffrey Johnson, DHS
Mary Miller, Chief Financial Officer, MWPH

I hereby declare and affirm under the penalties of perjury that the facts stated in Co Applicants' comments on the October 23, 2015 HSCRC memorandum and its exhibits are true and correct to the best of my knowledge, information, and belief.

December 4, 2015
Date

Lisa M. Goodlett
Chief Financial Officer
Dimensions Health Corporation

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I hereby declare and affirm under the penalties of perjury that the facts stated in Co-Applicants' comments on the October 23, 2015 HSCRC memorandum and its exhibits are true and correct to the best of my knowledge, information, and belief.

December 4, 2015
Date

Michael Stitcher
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