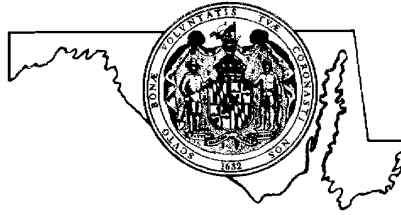


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EXECUTIVE DIRECTOR

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 8, 2016

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

On August 31, 2016, Dimensions Health Corporation (“Dimensions”) and Mount Washington Pediatric Hospital, Inc. (“MWPH”) submitted modifications to their pending replacement Certificate of Need (“CON”) application, filed with the Maryland Health Care Commission (“MHCC”) in 2015, seeking approval to replace and relocate Prince George’s Hospital Center (“PGHC”) and its lessee special hospital, MWPH. A copy of the modification document submitted by the applicants was provided to Health Services Cost Review Commission (“HSCRC”) staff on August 31, 2016. HSCRC previously received copies of the original and replacement applications, staff’s completeness questions and the applicants’ responses to those questions, comments on the applications by interested parties and the applicants’ responses, as well as documents resulting from the project status conference that I held on May 17, 2016. Additional materials you may want to review are likely to be found at the following link: http://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/hcfs_con_pgrmc.aspx. MHCC staff can provide copies, upon your request, of any material not found on the web site.

In an October 23, 2015 memo, HSCRC staff provided helpful comments on the 2015 replacement application in this matter. I am writing again to request that HSCRC provide comments, as described more fully below, on the August 31 modifications made by the applicants in this review.

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The modified replacement hospital plan reduces the size of the general hospital to approximately 622,700 square feet ("SF"), down from approximately 750,000 SF.¹ The estimated project expenditures are \$543M. This does not include a \$12.35M land valuation for the site that is being donated for the project. The estimated project cost for the previous iteration of this project was \$651.2M.

Dimensions proposes to fund the cost of this project with approximately \$117.8M in debt (reduced from \$206.8M), grants of \$208M from the State of Maryland and \$208M from Prince George's County (both unchanged), and a total of \$9.2M in interest income from bond proceeds (down from \$16.1M). An August 30, 2016 Memorandum of Understanding ("MOU") between Dimensions, the University of Maryland Medical System ("UMMS"), and Prince George's County, included as Exhibit 72 to the August 31, 2016 filing, confirms that the parties have agreed to transfer the health care facilities and assets currently leased to Dimensions by Prince George's County, to UMMS. A plan for interim governance through 2018 and permanent governance, beginning in 2019, are outlined in the MOU. During this interim period, the replacement hospital, if granted CON approval, will undertake final design, financing, and initiation of construction. Completion of the project is projected within 44 months of CON approval, indicating that the project would be completed in the latter half of 2020, if approved by the MHCC in the fall of 2016.

As proposed, the replacement hospital would have a capacity to operate 205 acute care beds (reduced from 216) and PGHC will continue to provide leased space to MWPH for 15 special hospital beds. Dimensions reduced the treatment capacity of the emergency department and the number of operating rooms, changes I recommended for achieving the goal of reducing project cost that were consistent with the State Health Plan. Major space and construction cost savings were achieved through elimination of a three-story wing (housing a cancer center, executive suite, and clinic space), and elimination of a building level, primarily designed as interstitial mechanical space.

Last year, I requested that HSCRC review this project, as it then stood. In summary, HSCRC staff stated, in its October 23, 2015 memo, that it was unable to find a basis for approving the additional revenue identified by the PGHC as needed by this project, under its current policy for evaluating such revenue adjustments. HSCRC staff was unable to identify documentation of the availability of cash needed if the replacement hospital opened, noting that PGHC has high charges and questioning the hospital's ability to achieve the substantial productivity gains needed to improve its price position. HSCRC found substantial risk associated with PGHC's primary strategy for obtaining these productivity gains, increasing volume through capture of market share, and the lack of a demonstrated ability to benefit from production of additional service volumes, with only 50% of the variable cost being recognized. Your response implied doubt concerning the applicants' ability to have gains in market share

¹ MWPH will occupy 10,392 departmental gross square feet in the modified PGHC plan.

recognized through significant revenue shifts under HSCRC's normal methodology for the treatment of market shift adjustments.

I am now requesting that HSCRC staff revisit this project through a review of the revised and updated financial projections, financing plan, and the assumptions upon which the projections are based. I hope that, based on its review, HSCRC can again provide MHCC with substantive comment on the proposed project's financial feasibility and the reasonableness of the assumptions. Obviously, a key assumption being made by Dimensions is that it has presented a plan that can obtain HSCRC approval of the redistribution of the Dimensions' global budget.

In providing the requested comments, it would be very helpful if you could answer the following questions. Two of these questions were also included in my 2015 request for comment but the project has undergone substantial change, which is why I repeat them here.

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 "redistribution" of the Dimensions Health System's global budget revenue will be a source of revenue needed by PGHC to successfully relocate and transition to operation of a new replacement hospital, in lieu of the partial rate request revenue adjustment for capital that it has been pursuing to date.² This would appear to be related to the plan announced by Dimensions in 2015 to convert the Laurel Regional Hospital campus to an outpatient health care facility campus by 2018. In your opinion, is this a reasonable and acceptable approach to increasing PGHC's revenue in the amount necessary for this project to be feasible and for the replaced and relocated PGHC to be financially viable? Is it a preferable option to the current partial rate request revenue adjustment for capital that Dimensions has filed with HSCRC? If, in your opinion, this redistribution is not necessary for project feasibility and the viability of PGHC, please provide the basis for this opinion.
3. As with previous iterations of this project, Dimensions 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. Will HSCRC agree to this treatment of market share shift-related volume increases?
4. 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

² Through separate correspondence, I have asked the applicants to provide more detail on this planned GBR redistribution.

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when compared with similar (peer-group) hospitals throughout the State, if the project is implemented as proposed and the applicants' utilization projections are realized?

5. I asked the applicants to provide a complete and detailed analysis of how this project will improve operational efficiency and reduce staffing hours and cost per unit of service. I asked them to quantify the financial impact of the projected operational efficiencies. Pages 17 through 30 of the August 31, 2016 filing responds to this request. I am interested in HSCRC's perspective on the strength of the case made by the applicants.

I hope that it will be possible for HSCRC staff to provide comments on the modified project as soon as possible, but ideally on or before September 16, 2016. As always, I strongly value HSCRC's input on these matters.

cc: Thomas C. Dame, Esquire
Ella Aiken, Esquire
Jonathan Montgomery, Esquire
Peter Parvis, Esquire
Jennifer Coyne, Esquire
Pamela Creekmur, R.N., Prince George's County Health Officer
Ben Steffen, MHCC
Paul Parker, MHCC
Kevin McDonald, MHCC
Joel Riklin, MHCC
Suellen Wideman, AAG
Siobhan Madison, AAG