

STATE OF MARYLAND

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MARYLAND HEALTH CARE COMMISSION

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October 16, 2015

By E-Mail and U.S. Mail

John F. Morkan III, Esquire
Ober, Kaler, Grimes & Shriver
120 East Baltimore Street
Baltimore, Maryland 21202

Re: Adventist HealthCare, Inc.
Docket Number 13-15-2349

Dear Mr. Morkan:

My letter is prompted by the October 14, 2015 action of the Health Services Cost Review Commission (“HSCRC”) regarding The Partial Rate Application (HSCRC Docket 2015, Folio 210, Proceeding 2300R) filed by Washington Adventist Hospital (“WAH”), a member hospital of Adventist HealthCare (“AHC”). In its application, WAH requested that its rates be increased by an annual amount of \$19.7 million, beginning in 2019, to help pay for the capital cost increase associated with the construction of its relocation and replacement project, which is the primary subject of the Certificate of Need (“CON”) application that I am currently reviewing.

WAH’s request for an additional \$19.7 million is the amount assumed in the financial projections currently on file with the Maryland Health Care Commission as part of AHC’s CON application. HSCRC approved a rate increase of \$15,391,282 to be added to WAH’s permanent rate base at the time the new facility opens, currently projected as January 1, 2019.

In light of the 22 percent difference between the rate increase requested and that approved by HSCRC and the hospital’s acceptance of this HSCRC approval, it will be necessary for Adventist HealthCare, Inc. d/b/a WAH to modify its CON application so that it includes revenue projections consistent with the rate adjustment approved by HSCRC and accepted by AHC. 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 cannot make a recommendation to the Maryland Health Care Commission on this project, with findings on the financial feasibility of the project or the long-term viability of AHC without financial projections that are consistent with the action taken by HSCRC. Additionally, this information will greatly enhance the ability of HSCRC to provide me with the comments I requested on this proposed project in my August 31, 2015 memorandum.

AHC may also, of course, make revisions to its expense projections, in light of the fact that the application's assumption concerning the revenue adjustment is no longer valid. As always, the revised projections of revenues and expenses for the project must be accompanied by a statement of all the assumptions used in developing all of the revenue and expense projections. Additionally, it is important that AHC supplement its statement of assumptions, as needed, to provide an explanation of why any substantial changes in any expense projections are reasonable. The updated financial projections should include Fiscal Year 2014 actual revenues and expenses as the base year for projection.

In order to keep my review process moving as quickly as possible, I request that Adventist file these materials no later than 5:00 p.m. on October 20, 2015. I am hopeful that AHC can comply with this request for a fast turnaround based on my assumption that AHC has already done all or most of the work necessary, given its October 14, 2015 indication of acceptance of HSCRC's recommendation. The interested parties and the participating entity in this review will have ten days from receipt of the materials in which to provide comments on the revised projections.

Sincerely,



Frances B. Phillips
Commissioner/Reviewer

cc: Ulder Tillman, M.D., Montgomery County Health Officer
Paul E. Parker
Kevin McDonald
Joel Riklin
Suellen Wideman, AAG
Howard L. Sollins, Esquire
John J. Eller, Esquire
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