BEFORE THE MARYLAND HEALTH CARE COMMISSION

IN THE MATTER OF ADVENTIST HEALTHCARE, INC. D/B/A WASHINGTON ADVENTIST HOSPITAL	Matter No. 13-15-2349

MEDSTAR MONTGOMERY MEDICAL CENTER'S REPLY TO ADVENTIST HEALTHCARE, INC.'S PROVISION OF ADDITIONAL INFORMATION REQUESTED BY THE REVIEWER'S JULY 10, 2015 LETTER

Interested Party, MedStar Montgomery Medical Center ("MMMC"), submits the following Reply to Adventist HealthCare, Inc.'s ("AHI's") August 10, 2015 Provision of Additional Information Requested by the Reviewer's July 10, 2015 Letter.

BACKGROUND

In this proceeding, AHI has submitted a modified CON application to replace and relocate most of the acute care services provided by Washington Adventist Hospital ("WAH") at its current location in Takoma Park to the White Oak/Fairland area outside the Capital Beltway. In its Comments on WAH's application and reply memorandum, MMMC has contended that the Commission should deny WAH's application in its current form because: (1) WAH has not demonstrated that its proposal is financially viable, (2) WAH has not demonstrated the need for the relocation to the White Oak/Fairland area, which is a far more affluent area outside the Capital Beltway, already well-served by acute care hospitals, (3) the proposed abandonment of the Takoma Park area will result in an adverse impact on the access to health care of the indigent and medically disadvantaged persons in Takoma Park and the areas to the east of Takoma Park in Prince George's County, or (4) an alternative proposal in which WAH stays in the Takoma Park area should be

thoroughly explored to determine whether it would better serve the access of the underprivileged and medically disadvantaged to care and thus the public interest. Many of MMMC's comments were joined by the other interested parties and the City of Takoma Park as a participating entity.

In addition to the underlying financial viability of the project, which is based on extraordinary and unsupportable assumptions, MMMC presents the following specific questions as to whether the project is in the public interest:

- Given the higher population density, faster growing population, location of other Maryland hospital services, and higher use rates, is Takoma Park more in need of a replacement hospital than the White Oak/Fairland area?
- If patient-specific information is examined at the census block group level, will it become clear that not only will WAH's proposal have an adverse impact on the indigent and medically disadvantaged, but also that Takoma Park is the core of WAH's primary service area, not White Oak/Fairland?
- Is the proposed location in White Oak/Fairland the best place for the replacement hospital, given that (1) this proposed location is in the primary service area of three other hospitals in addition to WAH, while the Takoma Park community is in the primary service area of only one other hospital, Holy Cross Hospital, and (2) Takoma Park, which is likely the core of WAH's primary service area, will be left with even fewer choices if WAH leaves Takoma Park?
- Will Takoma Park benefit far more from a new hospital than the White Oak/Fairland community, and is finding an appropriate location decidedly possible?

WAH has attempted to defend its proposed move from the Takoma Park area to a location outside the Capital Beltway by suggesting that it will leave substantial services behind in Takoma Park. These services – WAH contends – would include (1) 40 existing psychiatric beds and behavioral health services in a renovated and modified facility, (2) 32 existing rehabilitation beds, again in a renovated and modified facility, (3) an urgent care center that would be open – at least initially – 24 hours per day/seven days per week, (4) ancillary services such as radiology and lab with operating hours consistent with the proposed urgent care center on the same floor as this

proposed center, and (5) outpatient clinics, including a Federally Qualified Health Center and a woman's clinic.

In the July 10, 2015 letter, the Reviewer requested, among other things, specific information in connection with (1) the extent to which the proposed urgent care center will be able to treat patients who present in Emergency Severity Index ("ESI") Levels 3-5, (2) detailed plans for implementing continuity of care for patients who obtain care at the proposed urgent care center, (3) the nature, scope and hours of operation of the proposed ancillary services, including radiology and lab, (4) what insurance plans, including Medicare and Medicaid, will the urgent care center accept, and (5) specific information as to how WAH proposes to fund the improvements at the Takoma Park Campus.

On August 10, 2015, WAH filed its response to the Reviewer's request for additional information. For the reasons stated below, MMMC respectfully submits that a number of WAH's responses are incomplete and unpersuasive. WAH's responses do not instill any confidence that the suggested improvements to the Takoma Park campus, such as the urgent care center, will ever be brought to fruition. Rather, it seems much more likely that WAH would exhaust its resources financing and constructing the new hospital in White Oaks/Fairland, and would abandon some or all of these plans for Takoma Park.

MMMC'S REPLY

1. Proposed Treatment by the Proposed Urgent Care Center of Patients at ESI Levels 3-5

WAH states in its response to the Reviewer's request for information that the following numbers of patients visited its emergency department ("ED") in 2014 in the ESI levels indicated:

ESI Level	# of ED Patients Per Category
1	360
2	4,100
3	28,795
4	11,529
5	310
Unlisted	2,824
Total	47,918

WAH suggests, without meaningful analysis, that 45% of the patients that visited its ED could have been treated at its proposed urgent care center. To reach this conclusion, it suggests that 30% of level 3 patients could have been treated in the proposed urgent care center. Level 3 patients, however, typically have much higher resource needs than level 4 or 5 patients. These resource needs include Lab, ECG, X-rays, imaging, IV fluids, IV or IM medications and more. For this reason, urgent care centers generally treat level 4 and 5 patients and are not open 24 hours per day/seven days per week. WAH has failed to acknowledge that these additional resources will be needed or to suggest how this fact affects the projection of urgent care visits and the cost per case of the care they will be provided. WAH has not provided a pro forma demonstrating the anticipated operating costs and revenue of such a 24 hours per day/seven days per week operation. Further, WAH has indicated that its urgent care center will call 911 when it receives patients it is not prepared to treat. WAH in White Oak/Fairland, however, will not be the closest Maryland hospital emergency department ("ED"). It will be Holy Cross Hospital. Thus, it seems clear that WAH's move outside the Capital Beltway will reduce the access to care of large numbers of patients in the Takoma Park area in levels 1, 2 and 3.

2. WAH Has Failed to Demonstrate any Reasonable Probability that the Proposed Facilities at Takoma Park Can Be Financed

In the July 10, 2015 letter, the Reviewer directed WAH to provide the following information in connection with its intention to finance improvements at its existing site in Takoma Park: the type of debt, lender, source of funding and anticipated terms. In response, WAH has

provided a cryptic letter from an administrative vice president of M&T Bank indicating only that M&T Bank is "interested in working" with WAH.

In its August 10, 2015 response generally, WAH has provided broad, emphatic promises and little detail. WAH has suggested only that it will need to borrow $18,469,278 to finance the construction of the urgent care center and other enhanced facilities that it currently proposes to leave at its Takoma Park site. WAH provides no meaningful analysis of whether it will be able to borrow these funds in the context of the borrowing it proposes to undertake to construct the new hospital in White Oak/Fairland. WAH's estimated project cost for the relocation and replacement hospital is $330,829,524. WAH proposes to finance these costs with approximately $244.4 million in debt, $50.6 million in cash, $20 million from contributed gifts, $11 million in contributed land and $4.5 million in interest income.

First, WAH's ability to borrow the $244.4 million through bond financing is extraordinarily doubtful given its current financial posture. This issue was addressed at length in WAH's Comments and will not be repeated here. In short, WAH's current Moody's rating is the lowest possible rating, Baa2 and its financial ratios indicate its financial condition is very poor:

Financial Ratio	**Adventist HealthCare**	**All Hospitals**	**Baa Hospitals**
Debt Service Coverage Ratio	1.8	4.5	3.1
Days Cash on Hand	125	198	148
Debt to Capitalization	45%	35%	43%

Furthermore, WAH's effort to establish that the project is financially viable is dependent entirely on its projection that by 2018 it will achieve a $23 million turnaround in operating performance at its current location. This turnaround would be from the $12.6 million loss from operations that it experienced in 2013 to a profit of $10.5 million in 2018. In its Comments on

WAH's modified CON application, MMMC contended that WAH's projection is unsupported and utterly unrealistic. In its Responses to Comments of Interested Parties and Participating Entity ("Response"), WAH argued that the projection was realistic because WAH's newly published financial data for 2014 indicated that WAH had improved its operating margin by $5.8 million in this year.

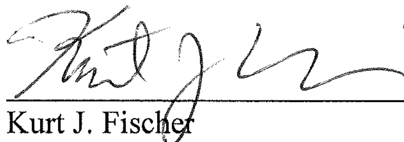
MMMC, however, believes that WAH's 2014 results are indicative of financial sickness, not improving health. This "turnaround" in 2014 was caused by a significant price/rate increase required to fund, under the GBR, a substantial decline in volume, particularly in product lines that include the most intense types of cases, such as cardiac surgery. As explained in detail in MMMC's Motion for Permission to Submit Additional Information, MMMC respectfully submits that it should be permitted to submit discharge data on a case mix adjusted basis for both inpatient cases and outpatient observation cases at WAH. This data will show a substantial reduction in WAH's volumes in 2014. This reduction in volumes – MMMC respectfully submits – explains WAH's improved margin in 2014. The improved margin in 2014 based on lost volumes, however, is a temporary event based on HSCRC rules permitting WAH to recover in 2014 100% of the revenue attributable to lost cases without WAH having to incur the expenses related to these cases. This is not a permanent improvement. In subsequent years, the HSCRC will adjust WAH's authorized revenue for the market share reductions in volume. Thus, the improved margin is temporary, and in the long-run the deterioration of WAH's volumes in the most intense cases indicate financial and operational weakness. Because a complete turnaround in operational performance at WAH between 2013 and 2018 is the linchpin of WAH's financial viability argument, MMMC respectfully submits that it is appropriate for the Reviewer to grant permission to MMMC to submit additional data on this issue or to receive such data at an evidentiary hearing.

Finally, the financial viability of WAH's proposal, including its ability to service the enormous debt it proposes, is based on the assumption that the HSCRC will approve a $19 million rate increase, making WAH one of the highest cost hospitals in the State – by any measure. The weakness of WAH's proposed financial package and the uncertainty as to whether it can borrow $244.4 million to finance its proposed new hospital make WAH's suggestion that it can borrow an additional $18.5 million to finance the proposed urgent care center and other facilities at its Takoma Park campus fanciful. Because a CON cannot be conditioned on the development of these facilities in Takoma Park, WAH's eventual abandonment of its plans to construct them, as a result of a lack of available resources, seems inevitable.

CONCLUSION

For the reasons stated above and in MMMC's Comments, MMMC requests that WAH's modified CON application be denied.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 9th day of September, 2015, a copy of MedStar Montgomery Medical Center's Response to Adventist HealthCare, Inc.'s Provision of Additional Information Requested by the Reviewer's July 10, 2015 Letter was sent via electronic mail and by first class mail, postage prepaid, to:

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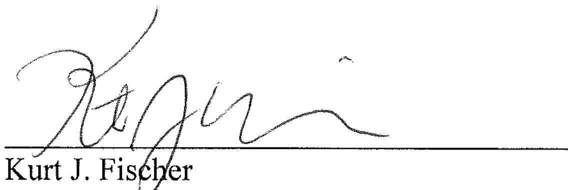

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