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December 12, 2014

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VIA EMAIL AND FIRST CLASS MAIL

Offices In
Maryland
Washington, D.C.
Virginia

Kevin McDonald, Chief
Certificate of Need
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

**Re: Adventist Healthcare, Inc. d/b/a Washington Adventist Hospital
 Docket No. 13-15-2349
 Response to Request for Additional Deliverables and Additional
 Information Dated December 4, 2014**

Dear Mr. McDonald:

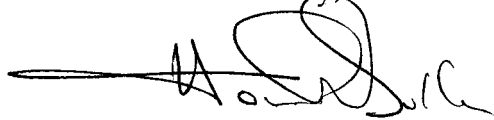
On behalf of Adventist Healthcare, Inc. d/b/a Washington Adventist Hospital (WAH), we are hereby submitting the required six (6) copies of our first response to your December 4th letter regarding the above-referenced project. In your letter, you requested two deliverables necessary to docket the application, and posed some additional information questions.

Attached are the two deliverables, and an electronic copy of this response will also be provided in Word and/or Excel format as applicable.

With respect to the additional informational questions, WAH will be responding under separate cover.

I hereby certify that a copy of this Response has also been forwarded to the appropriate local health planning agency, as noted below.

Sincerely,



Howard L. Sollins

Kevin McDonald, Chief
December 12, 2014
Page 2

O B E R K A L E R

HLS/tjr
Enclosures

cc: Paul Parker, Director
Joel Riklin, Program Manager
Suellen Wideman, Assistant Attorney General
Ms. Ruby Potter, Health Facilities Coordination Office
Patricia Tomsco Nay, MD, CMD, CHCQM, FAAFP, FAIHQ, FAAHPM
Medical Director, Office of Health Care Quality
Maryland Department of Health and Mental Hygiene
Donna Kinzer, Executive Director
Health Services Cost Review Commission
Ulder Tillman MD, MPH, Health Officer
Montgomery County
Terry Forde, President,
Adventist HealthCare
Eric Wangsness, President, Washington Adventist Hospital
Robert E. Jepson, Vice President, Business Development
Geoffrey Morgan, VP for Expanded Access
Patricia Cameron (E-copy only)
Thomas Dame, Esquire (E-copy only)
Susan Silber, Esquire (E-copy only)

**Adventist HealthCare - Takoma Park
Behavioral Health Renovation
CAPITAL BUDGET**

| <u>A. Uses of Funds</u> | Behavioral Health |
|---|--------------------|
| 1. <u>Capital Costs</u> | <u>Takoma Park</u> |
| a. <u>New Construction</u> | |
| (1) Building & Fixed Equipment | - |
| (2) Fixed Equipment (Included above) | - |
| (3) Land Purchase | - |
| (4) Site Preparation - Land Improvements | - |
| (5) Architect/Engineering Fees | - |
| (6) Permits, (Building, Utilities, Etc.) | - |
| SUBTOTAL | <hr/> \$ - |
| b. <u>Renovations</u> | |
| (1) Building demolition | 400,000 |
| (2) Renovations | 3,300,000 |
| (3) Fixed Equipment | - |
| (4) Architect/Engineering Fees | 500,000 |
| (5) Permits, (Building, Utilities, Etc.) | 19,000 |
| SUBTOTAL | <hr/> \$ 4,219,000 |
| c. <u>Other Capital Costs</u> | |
| (1) Major Movable Equipment | - |
| (2) Minor Movable Equipment | - |
| (3) Contingencies | 200,000 |
| (4) Other (Specify) | |
| a. Furniture | 200,000 |
| b. Interior & Exterior Signage | - |
| c. IS/Comm | - |
| d. Security system | - |
| e. Relocation expense | 100,000 |
| f. Certifications, inspections, etc. | - |
| g. Takoma Park Capital Facility Upgrades | - |
| | <hr/> - |
| TOTAL CURRENT CAPITAL COSTS (a - c) | <hr/> \$ 4,719,000 |
| d. <u>Non Current Capital Cost</u> | |
| (1) Interest (Gross) | - |
| Inflation Allowance (2.0% per year to midpoint of | |
| (2) each construction phase) | 400,000 |
| | <hr/> |
| TOTAL PROPOSED CAPITAL COSTS (a-d) | <hr/> \$ 5,119,000 |
| 2. <u>Financing Cost and Other Cash Requirements:</u> | |
| a. Loan Placement Fees | - |
| b. Bond Discount | |

**Adventist HealthCare - Takoma Park
Behavioral Health Renovation
CAPITAL BUDGET**

| | |
|--|-------------------|
| c. Legal Fees (CON Related) | - |
| d. Legal Fees (Other) | |
| e. Printing | |
| f. Consultant Fees | - |
| CON Application Assistance | |
| Other (Specify) | |
| g. Liquidation of Existing Debt | |
| h. Debt Service Reserve Fund | - |
| i. Principal Amortization Reserve Fund | |
| j. Other (Specify) | 104,506 |
| TOTAL (a - j) | \$ 104,506 |

3. Working Capital Startup Costs

| | |
|------------------------------------|---------------------|
| TOTAL USES OF FUNDS (1 - 3) | \$ 5,223,506 |
|------------------------------------|---------------------|

B. Sources of Funds for Project:

Phase 3
Takoma Park

| | |
|---|---------------------|
| 1 Cash | 5,223,506 |
| 2 Pledges: Gross _____, less allowance for uncollectables _____ = Net | |
| 3 Gifts, bequests | |
| 4 Interest income (gross) | |
| 5 Authorized Bonds | |
| 6 Mortgage | |
| 7 Working capital loans | |
| 8 Grants or Appropriation | |
| (a) Federal | |
| (b) State | |
| (c) Local | |
| 9 Other (Specify) (Land) | |
| TOTAL SOURCES OF FUNDS (1-9) | \$ 5,223,506 |

Option 4 - Behavioral Health Only

(000's)

| Option 4 | 2012 (A) | 2013 (A) | 2014 (P) | 2015 (P) | 2016 (P) | 2017 (P) | 2018 (P) | 2019 (P) | 2020 (P) | 2021 (P) | 2022 (P) | 2023 (P) |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Inpatient Revenue | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$13,562 | \$13,944 | \$14,336 | \$14,739 | \$15,153 |
| Outpatient Revenue | - | - | - | - | - | - | - | 2,297 | 2,374 | 2,453 | 2,534 | 2,618 |
| UCC Revenue | - | - | - | - | - | - | - | - | - | - | - | - |
| Gross Revenue | - | - | - | - | - | - | - | 15,860 | 16,317 | 16,788 | 17,273 | 17,771 |
| Deductions | - | - | - | - | - | - | - | 3,882 | 3,994 | 4,109 | 4,228 | 4,350 |
| Net Patient Revenue | - | - | - | - | - | - | - | 11,978 | 12,324 | 12,679 | 13,045 | 13,422 |
| Other Operating Revenue | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Operating Revenues | - | - | - | - | - | - | - | 11,978 | 12,324 | 12,679 | 13,045 | 13,422 |
| Growth | - | - | - | - | - | - | - | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| Salaries and Wages | - | - | - | - | - | - | - | 5,021 | 5,134 | 5,249 | 5,367 | 5,567 |
| Employee Benefits | - | - | - | - | - | - | - | 1,054 | 1,078 | 1,102 | 1,127 | 1,169 |
| Supplies | - | - | - | - | - | - | - | 403 | 419 | 436 | 454 | 473 |
| Contract Labor | - | - | - | - | - | - | - | 283 | 290 | 296 | 303 | 310 |
| Purchased Services | - | - | - | - | - | - | - | 850 | 870 | 891 | 912 | 934 |
| General & Administrative | - | - | - | - | - | - | - | 428 | 439 | 450 | 461 | 473 |
| Professional Fees | - | - | - | - | - | - | - | - | - | - | - | - |
| Building and Maintenance | - | - | - | - | - | - | - | 717 | 735 | 753 | 772 | 791 |
| Insurance | - | - | - | - | - | - | - | 76 | 77 | 77 | 78 | 79 |
| Other - Overhead Allocation | - | - | - | - | - | - | - | 806 | 818 | 831 | 843 | 856 |
| Expense Deductions | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Operating Expenses | - | - | - | - | - | - | - | 9,638 | 9,859 | 10,086 | 10,318 | 10,651 |
| Growth | - | - | - | - | - | - | - | N/A | 2.3% | 2.3% | 2.3% | 3.2% |
| EBITDA | - | - | - | - | - | - | - | 2,340 | 2,464 | 2,593 | 2,727 | 2,771 |
| Margin | - | - | - | - | - | - | - | 19.5% | 20.0% | 20.5% | 20.9% | 20.6% |
| Depreciation and Amortizal | - | - | - | - | - | - | - | 1,180 | 1,236 | 1,163 | 1,111 | 1,092 |
| IT Depreciation | - | - | - | - | - | - | - | 158 | 158 | 158 | 158 | 158 |
| Interest Expense | - | - | - | - | - | - | - | 791 | 933 | 916 | 901 | 875 |
| Income (loss) from operations | - | - | - | - | - | - | - | 210 | 137 | 356 | 558 | 646 |
| Margin | - | - | - | - | - | - | - | 1.8% | 1.1% | 2.8% | 4.3% | 4.8% |
| Other Non-Operating Income (Expense) | - | - | - | - | - | - | - | - | - | - | - | - |
| Excess of Revenues over Expenses | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$210 | \$137 | \$356 | \$558 | \$646 |

Option 4 - Behavioral Health Assumptions

(000's)

Volume Assumptions

| | 2019 (P) | 2020 (P) | 2021 (P) | 2022 (P) | 2023 (P) |
|--------------------------------------|----------|----------|----------|----------|----------|
| Behavioral Health | | | | | |
| Beds | 40 | 40 | 40 | 40 | 40 |
| Behavioral Health Admissions | 1,615 | 1,623 | 1,631 | 1,640 | 1,648 |
| Growth | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| ALOS | 5.6 | 5.6 | 5.6 | 5.6 | 5.6 |
| Patient Days | 9,046 | 9,091 | 9,136 | 9,182 | 9,228 |
| Occupancy | 62% | 62.3% | 62.6% | 62.9% | 63.2% |
| ADC | 25 | 25 | 25 | 25 | 25 |
| Outpatient Adjustment Factor | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Adjusted Patient Days (Less Newborn) | 10,578 | 10,639 | 10,699 | 10,761 | 10,823 |

FTE Estimate:

| | | | | | |
|--|------|------|------|------|------|
| FTEs - Behavioral Health Specific | 62.6 | 62.6 | 62.6 | 62.6 | 63.6 |
| FTEs - Allocated (Security, Plant & Ops) | 6.8 | 6.8 | 6.8 | 6.8 | 6.8 |
| Contract Labor | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| FTE/AOB (Clinical) | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 |

Option 4 - Behavioral Health Assumptions

(000's)

| Financial Assumptions | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|
| | 2019 (P) | 2020 (P) | 2021 (P) | 2022 (P) | 2023 (P) |
| Revenue: | | | | | |
| Inpatient Revenue | 13,562 | 13,944 | 14,336 | 14,739 | 15,153 |
| Inpatient Revenue per Admission | 8,396 | 8,589 | 8,787 | 8,989 | 9,196 |
| Price Increase | | 2.3% | 2.3% | 2.3% | 2.3% |
| Outpatient Revenue | 2,297 | 2,374 | 2,453 | 2,534 | 2,618 |
| Gross Patient Revenue | 15,860 | 16,317 | 16,788 | 17,273 | 17,771 |
| Growth | | 2.9% | 2.9% | 2.9% | 2.9% |
| Contractual Allowances | 1,736 | 1,788 | 1,839 | 1,892 | 1,947 |
| % of Gross Revenue (Less UCC) | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| Charity Care | 940 | 967 | 995 | 1,023 | 1,053 |
| % of Gross Revenue (Less UCC) | 5.9% | 5.9% | 5.9% | 5.9% | 5.9% |
| Net Patient Revenue (NPR) | 13,182 | 13,563 | 13,954 | 14,357 | 14,771 |
| Growth | | 2.9% | 2.9% | 2.9% | 2.9% |
| Bad Debt Expense | 1,205 | 1,239 | 1,275 | 1,312 | 1,350 |
| % of Gross Revenue (Less UCC) | 7.6% | 7.6% | 7.6% | 7.6% | 7.6% |
| NPR Less Bad Debt | 11,978 | 12,324 | 12,679 | 13,045 | 13,422 |
| Other Operating Revenue Adjusted | . | . | . | . | . |
| Variable Expenses: | | | | | |
| Salaries and Wages | 5,021 | 5,134 | 5,249 | 5,367 | 5,567 |
| Salaries and Wages/FTE | 72,367 | 73,990 | 75,654 | 77,357 | 79,097 |
| Wage Increase | N/A | 2.25% | 2.25% | 2.25% | 2.25% |
| Employee Benefits | 1,054 | 1,078 | 1,102 | 1,127 | 1,169 |
| As % of S&W | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% |
| Supplies | 403 | 419 | 436 | 454 | 473 |
| Supplies/Adjusted Admissions | 213 | 221 | 228 | 236 | 245 |
| Price Increase | N/A | 3.5% | 3.5% | 3.5% | 3.5% |
| Contract Labor | 283 | 290 | 296 | 303 | 310 |
| Wage/Hr | 68.1 | 69.6 | 71.2 | 72.8 | 74.4 |
| Growth | N/A | 2.25% | 2.25% | 2.25% | 2.25% |
| Purchased Services | 850 | 870 | 891 | 912 | 934 |
| Purchased Services - Variable | 453 | 464 | 476 | 488 | 500 |
| PS/ Psych Admission | 280 | 286 | 292 | 297 | 303 |
| Price Increase | N/A | 2.0% | 2.0% | 2.0% | 2.0% |
| Purchased Services - Fixed | 216 | 220 | 225 | 229 | 234 |
| Growth | N/A | 2.0% | 2.0% | 2.0% | 2.0% |
| Purchased Services - Transport | 181 | 186 | 190 | 195 | 200 |
| Total Variable Expenses | 7,611 | 7,791 | 7,975 | 8,163 | 8,452 |

Option 4 - Behavioral Health Assumptions

(000's)

Financial Assumptions

| | 2019 (P) | 2020 (P) | 2021 (P) | 2022 (P) |
|-----------------------------|----------|----------|----------|----------|
| General & Administrative | N/A | 2.5% | 2.5% | 2.5% |
| Professional Fees | N/A | 1.0% | 1.0% | 1.0% |
| Building and Maintenance | N/A | 2.5% | 2.5% | 2.5% |
| Insurance | 1.0% | 1.0% | 1.0% | 1.0% |
| Other - Overhead Allocation | N/A | 1.5% | 1.5% | 1.5% |

Fixed Expenses - Hospital:

| | | | | | |
|-----------------------------|-------|-------|-------|-------|-------|
| General & Administrative | 428 | 439 | 450 | 461 | 473 |
| Insurance | 76 | 77 | 77 | 78 | 79 |
| Other - Overhead Allocation | 806 | 818 | 831 | 843 | 856 |
| Fixed Expenses | 1,310 | 1,334 | 1,358 | 1,382 | 1,407 |
| Growth | | 1.8% | 1.8% | 1.8% | 1.8% |

Fixed Expenses - Takoma Park

| | | | | | |
|--------------------------|-------|-------|-------|-------|-------|
| Professional Fees | - | - | - | - | - |
| Building and Maintenance | 717 | 735 | 753 | 772 | 791 |
| Total Fixed Expenses | 717 | 735 | 753 | 772 | 791 |
| Growth | N/A | 2.5% | 2.5% | 2.5% | 2.5% |
| Fixed Expenses | 2,027 | 2,069 | 2,111 | 2,154 | 2,199 |
| | | 2.0% | 2.0% | 2.1% | 2.1% |

Option 4 - Behavioral Health Assumptions

Washington Adventist Hospital

(000's)

| Income Statement | 2019 (P) | 2020 (P) | 2021 (P) | 2022 (P) | 2023 (P) |
|---|---------------|---------------|---------------|---------------|---------------|
| Net Patient Revenue | 11,978 | 12,324 | 12,679 | 13,045 | 13,422 |
| Other Operating Revenue | - | - | - | - | - |
| Total Operating Revenues | 11,978 | 12,324 | 12,679 | 13,045 | 13,422 |
| <i>Growth</i> | | 2.9% | 2.9% | 2.9% | 2.9% |
| Variable Expenses | 7,611 | 7,791 | 7,975 | 8,163 | 8,452 |
| Fixed Expenses | 2,027 | 2,069 | 2,111 | 2,154 | 2,199 |
| Total Operating Expenses | 9,638 | 9,859 | 10,086 | 10,318 | 10,651 |
| <i>Growth</i> | | 2.3% | 2.3% | 2.3% | 3.2% |
| EBITDA | 2,340 | 2,464 | 2,593 | 2,727 | 2,771 |
| <i>Margin</i> | 19.5% | 20.0% | 20.5% | 20.9% | 20.6% |
| Depreciation and Amortization | 1,180 | 1,236 | 1,163 | 1,111 | 1,092 |
| IT Depreciation | 158 | 158 | 158 | 158 | 158 |
| Interest Expense | 791 | 933 | 916 | 901 | 875 |
| Income (loss) from operations | \$210 | \$137 | \$356 | \$558 | \$646 |
| <i>Margin</i> | 1.8% | 1.1% | 2.8% | 4.3% | 4.8% |
| Investment Income (Expense) | - | - | - | - | - |
| Non-Operating Interest Expense | - | - | - | - | - |
| Other Non-Operating Income (Expense) | - | - | - | - | - |
| Excess of Revenues over Expenses | \$210 | \$137 | \$356 | \$558 | \$646 |

ADDITIONAL NOTE ABOUT THE BEHAVIORAL HEALTH PRO FORMA

Operating Pro Forma

The behavioral health unit will maintain a 40-bed complement as it is today. Revenue for psychiatric services following the Washington Adventist Hospital relocation to White Oak was projected consistent with the reimbursement methodologies applied to Adventist Behavioral Health, which is currently paid as fee for service for Medicaid and Commercial and Inpatient Psychiatric Facility PPS (IPF-PPS) for Medicare. Inpatient admissions are projected to grow 0.5% annually while outpatient services are projected to grow 1.0% annually. Revenue inflation increases were assumed at 2.3% annually which is consistent with average Market Basket projections. Deductions from revenue were projected at a level consistent with the Adventist Behavioral Health experience and the Washington Adventist Hospital payer mix.

Full Time Equivalent employees for inpatient and outpatient Behavioral Health in Takoma Park are projected to remain flat, increasing productivity as volume grows.

Certain expenses will be shared with other occupants of the building, and those expenses were allocated based on specific methodologies:

- *Building and Maintenance:* Starting with the 2014 expenses, and excluding patient care equipment maintenance, leases and property taxes, as well as reducing the space that will be taken out of service, the total Building and Maintenance expense was allocated based on a weighted square footage basis. The weighting adjusts for the 24-hour/7-day patient care service of the Behavioral Health unit as opposed to tenants who will use the building during regular office/school hours.
- *General & Administrative, Insurance, IT Depreciation and Overhead:* These expenses were allocated based on Net Patient Revenue of the Behavioral Health unit as a percent of total WAH Net Patient Revenue.

Renovation Capital

The entire Takoma Park project requires \$18.1 million in capital investment to renovate the campus. Of this total, \$5.2 million represents the share related to the Behavioral Health Unit.