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EXECUTIVE DIRECTOR

**MARYLAND HEALTH CARE COMMISSION**

4160 PATTERSON AVENUE – BALTIMORE, MARYLAND 21215  
TELEPHONE: 410-764-3460 FAX: 410-358-1236

May 22, 2015

**VIA E-MAIL AND REGULAR MAIL**

Margaret Fitzwilliam  
Director Capital renovation Planning  
Suburban Hospital  
8600 Old Georgetown Road  
Bethesda, Maryland 20814

**Re: Suburban Hospital Proposed Addition –  
Matter No. 15-15-2368**

Dear Ms. Fitzwilliam:

Staff of the Maryland Health Care Commission (“MHCC”) has reviewed the Certificate of Need application filed on April 10, 2015. We have the following questions and requests for additional information concerning this application. Please respond to this request, following the rules at COMAR 10.24.01.07. The application will be docketed if the response is complete.

**PROJECT DESCRIPTION**

1. If this project is implemented as proposed, how much space will be “mothballed”?
2. Please resubmit Table B in a form that shows the “before and after” space allotted to each department/functional area. The purpose of this table is to allow analysis of the changes in space allocation.

**PROJECT BUDGET**

3. Is the cost of widening the sewer that was described in the application included in the project budget?
4. Please describe/define “imputed interest.”

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**CONSISTENCY WITH GENERAL REVIEW CRITERIA (COMAR 10.24.01.08G(3))**

**a) The State Health Plan**

COMAR 10.24.10 - ACUTE HOSPITAL SERVICES standards

**Bed Need and Addition of Beds**

5. Please provide the basis of the projected 11.5% increase in discharges for 2015, following on a small decrease in 2014, and in an environment in which population health is being emphasized and disincentives created for volume increases. If based on YTD volumes, can you provide any data or hypothesis as to the reason(s) for this increased volume?
6. Please provide an updated projection of licensed beds (p.30) using the latest available information.

**Cost-Effectiveness**

7. Given the space that will be vacated – without immediate plans for use – was there consideration of using that space for medical office space instead of building it in the proposed new section, and if so, why was that option rejected?
8. Please provide excerpts from the AECOM-developed master facility plan that would further the Commission’s understanding of the space issues and needs. At minimum, an Executive Summary (assuming one is part of the presentation) and any tables or matrices that summarize the space shortages and issues would prove useful.

**Construction Cost of Hospital Space**

9. Explain how the elevator add-on amount was calculated for the basement. (The calculation of the cost per sq. ft. add-on on page 4 of Exhibit 19 does not appear correct.)
10. Regarding the so called “extraordinary costs”, please provide the following additional explanations:
  - a. Explain how the adjustment for restricted site was calculated and why the amount of the adjustment is a reasonable estimate for this adjustment.
  - b. The explanation of the Sheet and Shore Basement Excavation premium and the Backfill premium seems to suggest that that the sheet and shore excavation will replace the more standard sloped excavation and backfill. If this is a correct reading of the description on page 49, explain why the calculation of MVS comparison includes adjustments removing costs for both from the project cost that is compared with the MVS benchmark. Shouldn’t the MVS benchmark be adjusted downward for the fact that the project will not

include the backfill that is explicitly included in the MVS base cost per square foot? If the reading of the explanation for these premiums is not correct explain why not.

- c. Regarding the adjustment for concrete frame construction, please describe concrete frame construction compared to steel frame (MVS Class A) and reinforced concrete columns and beams (MVS Class B). Explain why this is necessary or preferable to steel frame construction or reinforced concrete columns and beam construction.
- d. Submit the calculation of the architectural and engineering fees related to extraordinary costs and explain how they are accounted for in the calculation of the total cost adjustment of \$24,986,258.

### **Inpatient Nursing Unit Space**

11. Reconcile the space reported for Inpatient Nursing Unit Space in the response to Standard 04.B(9) in the table on page 54 (424.7 SF/Bed) with that reported in Table B., Departmental Gross Square Feet Affected by Proposed Project, which shows considerably more space, and appears in excess of this standard.

### **Financial Feasibility**

10. Please provide the following additional information and clarifications:
  - a. Reconcile the FY 2014 and 2015 patient revenues set forth in Tables G and H with the Global Budget Revenue agreement that covers Suburban Hospital.
  - b. Project the GBR for FY 2016 through FY 2022 detailing year to year adjustments including annual update, population, market share and capital-related rate increase. Reconcile the projections with Tables G and H.
  - c. For any revenues not covered by the GBR, please specify all assumptions on a year to year basis.
  - d. For each expense line in Tables G and H submit a table specifying all assumptions on a year to year basis.
  - e. A statement on page 64 says that the hospital will generate excess revenues over expenses in the 2<sup>nd</sup> year following opening of the new building as indicated by Table G. Which year is the second year<sup>1</sup>?

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<sup>1</sup> Note that Table G reports project related interest and depreciation beginning in FY 2020 and negative income from operations in both 2020 and 2021.

### **Shelled Space**

11. What is meant by the statement “The physician office space is classified as shell for the purposes of the application and is not part of the performance requirements of the proposed project”?

#### COMAR 10.24.11 GENERAL SURGICAL SERVICES standards

12. Please define the meaning and use of the variable “Suburban cases/1000” (Table 2, p. 77).

#### **(d) Viability of the Proposal**

13. Regarding the philanthropic funding of the Suburban’s Campus Enhancement effort address the reasonableness of the \$75 million goal sources of funds for this project and specify the plans for the \$37 million that is not expected to be designated to the proposed project.
14. Regarding the source of the cash contribution, please reconcile the \$262 million in Suburban Hospital and Suburban Hospital Healthcare System assets whose use is limited by the Board of Trustees with the balance sheet in Exhibit 33 (specify the amounts included in this number by line and column).
15. Identify any commitments or plans for the use of these assets in addition to the proposed project and the schedule for implementation of such commitments and plans.
16. Specify where the \$36 million in cash that has already been raised is reported on the balance sheet.
17. Specify the source of funds for Projects 1 and 2 as described in Anne Langley’s letters of February 13, 2013 and September 17, 2013 and where these funds are reported on the balance sheet.
18. Given that the debt financing for this project will be part of a larger debt offering by Johns Hopkins Healthcare System (“JHHS”), please provide the following:
  - a. The most recent audited financial statement for JHHS;
  - b. A summary of JHHS experience with similar sized debt offerings; and
  - c. Documentation of JHHS likely performance as measured by the financial ratios likely to be required by the bond covenants.

Please submit six copies of the responses to completeness questions and the additional information requested in this letter within ten working days of receipt. Also submit the response electronically, in both Word and PDF format, to Ruby Potter (ruby.potter@maryland.gov).

Margaret Fitzwilliam

May 22, 2015

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All information supplementing the applicant must be signed by person(s) available for cross-examination on the facts set forth in the supplementary information, who shall sign a statement as follows: "I hereby declare and affirm under the penalties of perjury that the facts stated in this application and its attachments are true and correct to the best of my knowledge, information, and belief."

Should you have any questions regarding this matter, feel free to contact me at (410) 764-5982.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin McDonald". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Kevin McDonald  
Chief, Certificate of Need

cc: Anne Langley, Johns Hopkins Health System  
Ulder Tillman, M.D., Montgomery County Health Department