

MARYLAND HEALTH CARE COMMISSION

Certificate of Need (CORRECTED 8/22/16)

TO: Jacky Schultz
Interim President
Suburban Hospital
8600 Old Georgetown Road
Bethesda, Maryland 20814

May 19, 2016
Date

RE: Expansion and Modernization
of Suburban Hospital

15-15-2368
Docket No.

PROJECT DESCRIPTION

This Certificate of Need authorizes Suburban Hospital to construct a 301,000 square foot building addition and renovate approximately 18,000 square feet of the existing facility to address connections and retro-fitting of a small number of existing spaces. The primary objective of the building addition is to replace outdated patient and clinical service facilities. The project will create private patient rooms, modernize the hospital's surgical facilities, and is intended to create improved circulation and departmental adjacencies.

The building addition will include: replacement of the existing operating room suite; a floor of nursing units accommodating 54 private rooms, allowing the facility to convert existing semiprivate rooms to private, such that all MSGA beds will be in private patient rooms; a new main entrance lobby and supporting patient and visitor retail services; medical office space (38,000 square feet), which is not regulated by the Health Services Cost Review Commission; an underground floor to accommodate new central sterile, satellite pharmacy, and mechanical equipment to serve the building addition; and one floor of shell space to provide flexibility for future replacement needs.

The approved project cost is \$200,550,831. Suburban Hospital anticipates funding the project with \$90,827,121 in cash, \$38,333,129 in philanthropic gifts, \$69,782,482 in debt financing through the sale of authorized bonds, and \$1,608,099 in interest income from bond proceeds. The hospital does not anticipate a need to seek an expansion of its global budget revenue in order to undertake this project. The project will occur in three phases and is anticipated to take 39 months to complete.

ORDER

The Maryland Health Care Commission reviewed the Staff Report and Recommendation and, based on that analysis and the record in the review, ordered, on May 19, 2016, that a Certificate of Need be issued for the project, subject to the following conditions:

1. Upon completion of this project, Suburban Hospital will not place any of the 45 semi-private MSGA patient rooms being converted to private rooms into service for more than one patient without the approval of MHCC.
2. Suburban Hospital will not finish the third floor shell space without giving notice to the Commission and obtaining all required Commission approvals, nor shall it finish space on the second floor for rate-regulated uses without giving notice to the Commission and obtaining all required Commission approvals.
3. Suburban Hospital will not request an adjustment in rates from the Health Services Cost Review Commission ("HSCRC") that includes depreciation or interest costs associated with construction of the proposed shell space unless and until Suburban Hospital has obtained CON approval for finishing the shell space, or has obtained a determination of coverage from the Maryland Health Care Commission that CON approval for finishing the shell space is not required.
4. In calculating any future rates for Suburban Hospital, the HSCRC shall exclude the capital costs associated with the shell space until such time as the space is finished and put to use in a rate-regulated activity. In calculating any rate that includes an accounting for capital costs associated with the shell space, the rate should only account for depreciation going forward through the remaining useful life of the space (i.e., the HSCRC shall exclude any depreciation of the shell space that has occurred between the construction of the shell space and the time of the rate calculation). Likewise, allowable interest expense shall also be based on the interest expenses going forward through the remaining useful life of the space.
5. Any future change to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude \$2,361,291. This figure includes the estimated new construction costs that exceeds the Marshall Valuation Service guideline cost and portions of the contingency allowance and inflation allowance that are based on the excess construction cost.

PERFORMANCE REQUIREMENTS

In accordance with the conditions of the Certificate of Need set forth above and COMAR 10.24.01.12C(2) and (3), the project is subject to the following performance requirements:

1. Obligation of not less than 51 percent of the capital expenditure for Phase 1, as documented by a binding construction contract, within 24 months of this Certificate of Need;

2. Completion of the project within 24 months after the effective date of the binding construction contract.

Failure to meet these performance requirements will render this Certificate of Need void, subject to the requirements of COMAR 10.24.01.12F through I.

PROPOSED CHANGES TO APPROVED PROJECT

Before making any changes to the facts in the Certificate of Need application and other information provided to the Commission, Suburban Hospital must notify the Commission in writing and receive Commission approval of each proposed change, including the obligation of any funds above those approved by the Commission in this Certificate of Need, in accordance with COMAR 10.24.01.17. Pursuant to COMAR 10.24.01.17B(2), the project cannot incur capital cost increases that exceed the approved capital cost inflated by an amount determined by applying the Building Cost Index published on a quarterly basis by Global Insight in Health-Care Cost Review unless it obtains a modification of this Certificate of Need from the Commission. Instructions for determining the threshold that necessitates Commission review and approval of changes to the capital cost approved in this Certificate of Need are located on the Commission's website at:

http://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/con_cap_cost_index_1st_qtr_2015.pdf

DESIGN APPROVAL AND FACILITIES LICENSURE BY DHMH

This Certificate of Need does not constitute a license or replace any approvals required by the Office of Health Care Quality ("OHCQ") or other divisions of the Department of Health and Mental Hygiene ("DHMH") to construct and operate a new health care facility or to operate new space within an existing facility. Suburban Hospital must provide DHMH with all information it requires for plan approval or approval to put new or renovated space within the facility into use, including information pertaining to project design and specifications.

QUARTERLY STATUS REPORTS

Suburban Hospital must file quarterly status reports on the approved project, beginning August 19, 2016, three months from the date of this Certificate of Need, and continuing through the completion of the project.

REQUEST FOR FIRST USE REVIEW

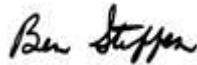
Suburban Hospital must request in writing, not less than 60 days but not more than 120 days before the first use of any part of the finished project, a first use review from the Commission, specifying the anticipated date of first use and documenting that the project has been substantially completed and will be completed, within 120 days or less, in a manner and at a cost consistent with this Certificate of Need. Commission staff will review the request in consultation, as necessary, with OHCQ, and in accordance with COMAR 10.24.01.18, to determine whether the project is in conformance with the Certificate of Need. First use approval does not constitute a

license or replace any approvals required by OHCQ or others within DHMH to operate new space within an existing health care facility. Therefore, Suburban Hospital should assure that OHCQ is notified of the imminent completion of the project and should arrange for completion of any inspections and or approvals required by OHCQ in a timely manner. First use approval remains in effect for 90 days. If first use of the new building space does not occur within 90 days of approval, Suburban Hospital shall reapply for first use approval.

ACKNOWLEDGEMENT OF RECEIPT OF CERTIFICATE OF NEED.

Acknowledgement of your receipt of this Certificate of Need, stating acceptance of its terms and conditions, is required within thirty (30) days.

MARYLAND HEALTH CARE COMMISSION



Ben Steffen
Executive Director

cc: Patricia Tomsco Nay, M.D., Office of Health Care Quality
Donna Kinzer, Executive Director, HSCRC
Ulder Tillman, M.D., Health Officer, Montgomery County