

STATE OF MARYLAND



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MARYLAND HEALTH CARE COMMISSION

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

April 22, 2019

VIA Email & U.S. MAIL

Kristy Blalock, Division Director
Gaudenzia, Inc.
107 Circle Drive
Crownsville, MD 21032

**Re: Gaudenzia-Crownsville
Matter No. 18-24-2421**

Dear Ms. Blalock:

I have reviewed the revised application tables submitted on April 4 in response to my request for a complete and current set, given the multiple revisions that have occurred throughout this review process.

Unfortunately, that latest submission continues to raise questions. Please reference the appended table, prepared from various iterations of Gaudenzia's financial projections. The table shows 5 different sets of projections Gaudenzia has submitted projecting revenue and expenses for this project. Each of the 5 sets of projections shows projected revenue and expense for the Crownsville facility as a whole ("facility"), as well as for the incremental impact of the additional 3.7 beds ("project").¹

Your latest submission shows that instituting the new project will add about \$5.8 million in new expenses, while adding just \$2.75 million in revenue.² Thus, while estimated incremental

¹ I note that your first two submissions neglected to provide the information required in Table F.

² And, in fact, the latest estimate of total facility revenue declined significantly in the latest submission from the earlier estimates.

revenue remained basically constant over three submitted projections, the projected incremental expense related to the project more than doubled.

Questions regarding your financial projections are not new at this stage of the review, but have been pervasive throughout. In a response to staff's earlier question regarding a large increase in projected profitability, you cited a number of uncertainties that compromised these projections:

The facility expenses for this upcoming fiscal year however are not completely known as of yet...we will be adding mental health therapists and urinalysis testing to the facilities budget...until now, there have been many unknowns for us still based on the new regulations, adjusting to fee for service billing via Beacon and understanding the increased flow of individuals into treatment from our recent addition of 10 crisis beds. We must increase our salaries to regain competitive salaries with outpatient programs, who received rate increases before the increase in residential rates took effect. In the next few months, we anticipate adjusting our salaries significantly to hire the additional staff we need to appropriately manage our programs and our expenses will increase significantly.

This earlier response leads staff to the inference that the incremental expense shown in your latest submission (in Table F) may have mistakenly attributed facility-wide expense increases to the "new facility or service." We cannot proceed based on our inference, however. We need Gaudenzia to explain – and perhaps correct – the tables submitted.

We have the following specific questions.

1. Please provide an updated application Table D (REVENUES AND EXPENSES- UNINFLATED) that shows **2018 actual** rather than as "Current Year Projected."
2. Explain what appears to be \$5.8 million in incremental expense associated with adding 27 level III.7/III-7WM beds to the Crownsville operation.
3. Provide a listing of assumptions inherent in the revenue and expense projections. If the uncertainty quoted earlier in this letter (drawn from a completeness response and in the notes to previous financial table submissions) have been resolved, please be clear about that; if they still exist, let us know that as well.

I am more than willing to have these apparent discrepancies explained in a discussion. It is likely that there are complexities that may be difficult to explain in writing, or at least the understanding of which would be greatly enhanced by a discussion. Let me know if and when you might wish to do this.

I will ultimately need the responses in writing as well. Please submit three copies of the responses to 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). All information supplementing the application 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,

Kevin McDonald

Kevin McDonald
Chief, Certificate of Need Division

cc: Frances Phillips, Health Officer, Anne Arundel County

Various R&E Projections from Gaudenzia – Crownsville, for 2020, after implementation of III-7 beds

(Note: "Facility" denotes the results for the entire facility, including the proposed project; "Project" denotes the incremental financial impact of the proposed project.)

	#1 Original Application		#2 9/14/18		#3 1/10/19		#4		#5 Latest Revision (4/4/19)	
	Facility	Project	Facility	Project	Facility	Project	Facility	Project	Facility	Project
Revenue	\$10,723,667	Left blank	\$10,723,667	Left blank	\$10,723,667	\$2,746,435	\$12,639,487	\$2,746,435	\$9,425,343	\$2,751,065
Expense	\$6,163,008		\$6,163,008		\$6,163,008	\$2,451,667	\$7,453,878	\$2,451,667	\$8,797,749	\$5,778,694
Margin	\$4,560,659		\$4,560,659		\$4,560,659	\$294,758	\$5,815,609	\$294,758	\$627,594	(\$3,027,629)

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