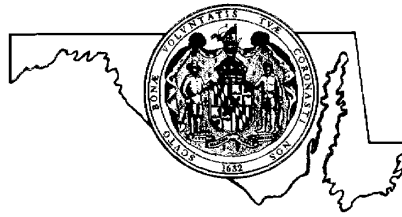


Craig P. Tanio, M.D.  
CHAIR



Ben Steffen  
EXECUTIVE DIRECTOR

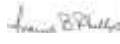
**MARYLAND HEALTH CARE COMMISSION**

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

**MEMORANDUM**

**TO:** Commissioners

Adventist HealthCare, Inc.  
Holy Cross Hospital of Silver Spring  
Laurel Regional Hospital  
MedStar Montgomery Medical Center  
City of Takoma Park

**FROM:** Frances B. Phillips, RN, MHA   
Commissioner/Reviewer

**RE:** Recommended Decision  
Matter of Adventist HealthCare, Inc  
d/b/a Washington Adventist Hospital  
Docket No. 13-15-2349

**DATE:** November 18, 2015

---

Enclosed is my Recommended Decision in my review of the application of Adventist HealthCare, Inc. (“AHC”) for a Certificate of Need to: (1) relocate Washington Adventist Hospital (“WAH”) from Takoma Park (Montgomery County) and replace it with a 170-bed general hospital on a site in the White Oak area of the County; and (2) renovate the inpatient psychiatric facilities on the existing WAH campus and relicense those facilities as a special hospital-psychiatric. Having conducted site visits at the existing hospital and the proposed site, and having considered the entire record in this review,<sup>1</sup> I recommend that the Commission **APPROVE** the application of Adventist HealthCare, Inc. for a Certificate of Need, with conditions.

**Background**

The first Certificate of Need (“CON”) application seeking to relocate Washington Adventist Hospital resulted in a September 2012 Recommended Decision by then-

---

<sup>1</sup> As is apparent from my issuance of this Recommended Decision, I have determined that an evidentiary hearing would not be helpful to me in this review. Accordingly, pending requests for an evidentiary hearing are denied.

Commissioner/Reviewer Barbara McLean, who “regretfully” recommended denial of the application while expressing her view that “the replacement and relocation of Washington Adventist Hospital may very well offer the best solution for revitalizing the hospital’s performance and prospects for the future.” Commissioner McLean’s recommendation to deny the application was based on her finding that the earlier proposed project was unlikely to be viable. The earlier CON application involved the relocation of WAH to the same White Oak area site, but that proposed replacement hospital was designed for 249 beds, with 565,983 square feet of building space and had an estimated cost of \$397,705,000.<sup>2</sup> Washington Adventist Hospital, Inc., the applicant entity, proposed taxable debt securities, Federal Housing Administration mortgage insured bonds, as a primary funding source, and stated that it would seek to raise \$285.6 million. Commissioner McLean’s Recommended Decision outlined a number of problems with the proposal, but noted that the primary basis for her recommendation lay in her “strong doubts with respect to the financial feasibility and viability of the specific proposal” presented in the application. She stated her “hope that AHC and WAH will seriously and constructively consider the issues raised” in her Recommended Decision and “promptly move to develop a new plan to achieve the important objectives addressed in this application so that the future of both WAH and AHC can be assured.” The full Commission did not consider Commissioner McLean’s Recommended Decision because the CON application was withdrawn after the issuance of her recommendation.

### **The Proposed Project**

AHC returned with an alternative plan and a more solid financial position from which to launch its plans. AHC still proposes to relocate and replace the general acute care hospital but would leave its acute psychiatric inpatient facilities in Takoma Park, to be relicensed as a special hospital for psychiatric services that, administratively, will be operated by the Adventist Behavioral Health division of AHC. Currently, these psychiatric beds are part of the WAH general hospital facility. As with the original proposal, the already separately-licensed special hospital for medical rehabilitation operated on the Takoma Park campus will also stay in place.

Although Washington Adventist Hospital in Takoma Park is currently licensed for 230 beds, AHC proposes a smaller replacement hospital of 170 beds and 427,662 square feet of building space<sup>3</sup> in White Oak. It plans to reduce the capital cost requirements for the move to White Oak by buying power from a central utility plant built by a third party. The estimated project cost is \$330.8 million for the relocation and replacement of the general hospital and \$5.2 million for the renovation of the existing inpatient psychiatric unit for a total of \$336.1 million, approximately \$62 million less than the earlier proposal. AHC plans to finance the project with approximately \$245 million<sup>4</sup> in borrowing, through the sale of its own tax-exempt bonds, assisted by the Maryland Health and Higher Educational Facilities Authority. It proposes to fund the balance of the project costs with \$55.6 million in cash equity, \$20 million from contributed gifts, \$11 million in contributed land, and \$4.5 million in interest income.

---

<sup>2</sup> In contrast, the current application proposes: 170 beds, plus 40 acute psychiatric beds that would remain in Takoma Park; 427,662 square feet of building space; and, a cost of \$330.8 million for the replacement hospital and \$5.2 million for the renovation of the acute psychiatric beds, for a total cost of \$336.1 million

<sup>3</sup> Compared to the earlier proposal, this is a reduction of 24% in building space.

<sup>4</sup> This is slightly over \$40 million less in debt financing than in the earlier application.

The White Oak site of approximately 49 acres is approximately 6.6 miles from the existing Takoma Park campus. AHC also proposes to provide a full-time (24/7/365) urgent care center<sup>5</sup> at the Takoma Park campus in renovated space currently occupied by the WAH Emergency Department immediately upon the opening of the replacement hospital in White Oak. On-campus laboratory and radiology services will support the urgent care center and special psychiatric and rehabilitation hospital operations. A Federally Qualified Health Center on the Takoma Park campus will continue to operate and is scheduled for expansion. Only the renovation of the behavioral health space is a component of this project and CON application. Additional investment by AHC in redevelopment of this campus, approximately \$13.2 million, is proposed, which includes the cost of developing the urgent care capability. These are not CON-regulated expenditures but are directly related to the hospital facility changes under review.

### **Interested Parties and Participating Entities**

The interested parties in this review are Holy Cross Hospital of Silver Spring, Laurel Regional Hospital, and MedStar Montgomery Medical Center. The City of Takoma Park is a participating entity in this review.

### **Review Criteria and Standards**

As previously noted, I recommend that this CON application be approved, with conditions. My recommendation is based, in part, on my findings that the proposed project is consistent with the applicable State Health Plan standards and with Certificate of Need review criteria. The applicable State Health Plan (“SHP”) standards include those for Acute Hospital Services, General Surgical Services, Psychiatric Services, and Obstetric Services. While this project involves the relocation of cardiac surgery and percutaneous coronary intervention services, these programs are both operating at volumes consistent with applicable SHP standards and the SHP chapter under which the application is considered<sup>6</sup> does not contain standards applicable to the relocation of such programs. I note that these programs will be subject to on-going performance review in the future, based on a new regime of regulatory oversight established in Maryland during the last three years.

I have found that the proposed relocation and replacement of the project is needed and is a more cost-effective approach to meeting the need for modernization of WAH than attempting to modernize the hospital on-site, given the need for replacement of the facilities in order to create a general hospital meeting contemporary standards of design, space, and life safety. The choice of site for this relocation and replacement is acceptable in terms of access to hospital services. It will increase the distance to a general hospital campus for the population living near the existing Takoma Park campus but this change will not leave this population at a great distance from alternative hospitals or the new WAH hospital site.

---

<sup>5</sup> I have recommended that a condition regarding the proposed urgent care center be placed on AHC’s Certificate of Need to address concerns that I share with the City of Takoma Park.

<sup>6</sup> The Commission adopted a proposed replacement of COMAR 10.24.17, the Cardiac Surgery and PCI Services chapter of the State Health Plan, which became effective on November 9, 2015 and that replaces an earlier chapter adopted in 2014.

I also considered the need for the services and capacities proposed by AHC and found them to be reasonable and consistent with current trends in hospital use and the future environment for delivery and payment for hospital services under Maryland's program for regulation of hospital charges. My examination of the impact of this project on other hospital service providers and on cost and charges led me to find that this impact is acceptable, given the expected benefits of this project.

In addition, I found the proposed project to be financially feasible and likely to create a viable and sustainable general hospital in the Silver Spring area that will operate in conjunction with a special hospital and outpatient service campus operated by AHC in Takoma Park to serve most of the needs of the service area population historically served by WAH. My findings in this regard are supported by the Health Service Cost Review Commission ("HSCRC"), which provided a generally positive review of this project's financial prospects. Contingent on the issuance of a CON for the project, in October 2015, the HSCRC acted on an application for additional budgeted revenue to support the depreciation and interest expenses associated with this project. While HSCRC did not approve all of the additional revenue sought for this project, it approved an amount that AHC accepted as sufficient for implementation of the project. AHC has provided both MHCC and HSCRC with updated financial projections consistent with the HSCRC action.

Finally, I found that AHC has a good track record in meeting the terms and conditions of previously authorized CON applications.

### **Review Schedule and Further Proceedings**

This matter will be placed on the agenda for a meeting of the Maryland Health Care Commission on December 17, 2015, beginning at 1:00 p.m. at 4160 Patterson Avenue in Baltimore. The Commission will issue a final decision based on the record of the proceeding.

As provided under COMAR 10.24.01.09B, the applicant and interested parties may submit written exceptions to the enclosed Recommended Decision. As noted below, exceptions must be filed no later than noon on Wednesday, December 2, 2015. Written exceptions must specifically identify those findings or conclusions to which exception is taken, citing the portions of the record on which each exception is based. Responses to exceptions must be filed no later than 4:30 p.m. on Thursday, December 10, 2015. Copies of exceptions and responses must be sent by email to the MHCC and all parties by these deadlines. The applicant and interested parties must also file 30 copies of written exceptions and responses to exceptions by noon of the day following the deadline.

I note that, because a participating entity does not have a right of judicial appeal, Commission regulations do not grant a participating entity the right to file exceptions to a Recommended Decision. Despite this, I would like the City of Takoma Park, a participating entity in this review, to file comments on my Recommended Decision, if it desires, as long as it does so by the deadline for interested parties to file exceptions. I want to point out that a participating entity may, in accordance with COMAR 10.24.01.09C, request that the Chair of the Commission permit it to make an oral presentation to the MHCC before action is taken on an application for Certificate of Need.

Oral argument during the exceptions hearing before the Commission will be limited to 10 minutes per interested party and 15 minutes for the applicant, unless extended by the Chair or the Chair's designated presiding officer. The schedule for the submission of exceptions and responses is as follows:

Submission of exceptions	December 2, 2015 No later than noon
Submission of responses	December 10, 2015 No later than 4:30 p.m.
Exceptions hearing	December 17, 2015 1:00 p.m.

cc: Montgomery County Department of Health and Human Services