

**IN THE MATTER OF THE
CONSOLIDATION OF THE
UNIVERSITY OF MARYLAND SHORE
MEDICAL CENTER AT DORCHESTER
AND
THE UNIVERSITY OF MARYLAND
SHORE MEDICAL CENTER AT EASTON**

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**BEFORE THE
MARYLAND
HEALTH CARE
COMMISSION**

Docket No. 18-20-EX007

**STAFF REPORT AND RECOMMENDATION
REQUEST FOR EXEMPTION FROM CERTIFICATE OF NEED**

I. INTRODUCTION

Shore Health System, Inc. (“SHS” or “Shore”), doing business as University of Maryland (“UM”) Shore Medical Center at Easton (“SMC-E) and UM Shore Medical Center at Dorchester (“SMC-D) (collectively, the “Applicant”), is seeking an exemption from Certificate of Need (“CON”) review to merge and consolidate two of its three general hospitals on the Eastern Shore. This consolidation is related to the planned conversion of the smaller of these two general hospitals, SMC-D, into a freestanding medical facility (“FMF”). An FMF is an outpatient facility that, at a minimum, provides around-the-clock emergency care, similar in many respects to that typically found in a hospital emergency room. The result of these two planned actions means that SHS, rather than operating two general hospital campuses in Easton (Talbot County) and Cambridge (in the contiguous Dorchester County), as it currently does, will operate a general hospital in Easton that provides a new service, acute psychiatric hospital services for adults, and will be configured to accommodate a higher census of medical/surgical patients and an outpatient medical care campus in Cambridge that will not provide inpatient hospital care but will have facilities for short-term observation of patients that visit the FMF for emergent or urgent care. SHS is currently a system the includes three general hospitals and one FMF. It is proposing to become a system that includes two general hospitals and two FMFs.

Shore also plans to relocate and replace SMC-E and has filed a CON application for this project. This hospital relocation project will take longer to implement than the conversion of SMC-D to a freestanding medical facility. Thus, this consolidation proposal can be viewed as an interim step to maintain the range of services provided by SHS in the region and sufficient capacity for potential demand that the system may confront after the conversion of SMC-D to an FMF but before the relocation and replacement of SMC-E is completed. It is intended to insure the continued availability and access to acute psychiatric hospital services for adults in the Mid-

Eastern Shore, a hospital service that SHS only provides at SMC-D at this time, and to insure that SMC-E has the ability to care for a slightly higher census of medical-surgical patients, a change that may occur with the elimination of general hospital facilities in Cambridge.

A. The Applicant

SMC-D, located in Cambridge, is the only general hospital in Dorchester County, and has 42 total licensed beds: 18 licensed medical/surgical/gynecological/addictions (“MSGA”) beds and 24 licensed acute psychiatric beds. SMC-E, located in Easton, is a licensed for 104-bed general hospital (79 MSGA beds, 17 obstetric beds, and eight pediatric beds). It is the only general hospital in Talbot County. The two hospitals are located approximately 15 miles apart, and, in addition to their home jurisdictions, serve a substantial volume of the demand for general hospital services generated by the populations of Caroline and Queen Anne’s Counties, two jurisdictions that do not contain a general hospital. SHS operates an FMF in Queen Anne’s County.

In 1996, SMC-E, then Memorial Hospital at Easton, and SMC-D, then Dorchester General Hospital, merged to form SHS. Today, SHS is part of the University of Maryland Medical System (“UMMS”), having affiliated with UMMS in 2006. On July 1, 2013, Chester River Hospital and affiliated facilities joined SHS, forming UM Shore Regional Health, Inc. (“SRH”).¹

In addition to the three general hospitals noted above, SRH consists of:

- The Requard Rehabilitation Center, a 20-bed special rehabilitation hospital located on the SMC-E campus;
- UM Shore Emergency Center at Queenstown (Queen Anne’s County), a freestanding medical facility, located approximately 19 miles from SMC-E, its parent;
- UM SRH Cancer Center and Requard Radiation Oncology Center, located in Easton, approximately one mile from SMC-E;
- The Diagnostic and Imaging Center and Clark Comprehensive Breast Center located in Easton, approximately one mile from SMC-E; 3 The hospital in Chestertown is currently a 21-bed hospital and known as University of Maryland Shore Medical Center at Chestertown. 4 UM SRH is the sole corporate member of SHS. (Shore request for exemption from CON, review, DI #2, p.1);
- A network of diagnostic laboratory and/or imaging facilities located in Denton (Caroline County), Centreville (Queen Anne’s County), Cambridge, and Chestertown (Kent County);
- Outpatient rehabilitation centers located in Denton, Cambridge, and Easton; and

¹ UM SRH is the sole corporate member of SHS. UM Shore Medical Center at Chestertown (the former Chester River Hospital), in Chestertown (Kent County) is a 21-bed general hospital.

- A regional network of employed primary care and specialty physicians and providers, with locations in all five counties of the mid-Shore region served by SRH; Caroline, Dorchester, Kent, Queen Anne's, and Talbot counties.

B. The Project

SMC-E proposes to renovate space on the third floor (the South wing), currently used in the provision of pediatric and other services, to create a 12-bed acute psychiatric unit for adults. This pediatric unit space has a current physical capacity for 14 beds in nine rooms. As reconfigured, it will contain 12 beds in eight rooms.

In addition to relocating the pediatric unit, creating the acute psychiatric unit will require relocating the Child Advocacy Center (CAC)² and the sleep laboratory.

The applicant also proposes renovations to the fifth floor of the hospital to create a three-bed pediatric unit (5 South), sharing this wing with a down-sized acute rehabilitation unit. The current rehabilitation unit has 20 beds in 12 rooms. The proposed unit will have 15 beds in nine rooms. The balance of this fifth floor will contain 10 obstetric post-partum beds, configured as 10 labor/delivery/recovery/post-partum rooms, and three anti-partum rooms (single occupancy), on the East wing.

With respect to the downsizing of the rehabilitation unit, Shore states that the inpatient rehabilitation service was established as a 20-bed unit. However, the average daily census has declined in recent years to about 9.1 patients. The census was greater when the unit opened due to a strong volume of joint replacement patients referred for inpatient rehabilitation. Today, many of these patients are treated in an outpatient setting.

With respect to pediatric services, like most general hospitals in Maryland, the demand for hospitalization of pediatric patients at SMC-E has dwindled to very small levels. Its recent average daily census has been less than one patient.

While the hospital anticipates that the replacement of SMC-D with an outpatient facility will result in an increase in medical/surgical patient census, it does not anticipate a need for more physical MSGA bed capacity. It reports the availability of 110 beds of general medical/surgical bed capacity and an intensive care unit with 10 beds, for a total of 120 beds of physical MSGA bed capacity. However, in the current fiscal year, it has allocated only 79 of its total licensed acute care bed capacity to the defined inpatient service of MSGA, reflecting the fact that its average daily census in recent years has not required that it set up and staff its full physical bed capacity for MSGA services. The demand for MSGA beds has been declining throughout Maryland for the last ten years.

² Through an agreement with the Talbot County Department of Social Services, the CAC space is utilized for providing forensic sexual assault exams to child abuse victims in order to improve community response to child abuse in Talbot, Dorchester, Queen Anne's, Kent, and Caroline counties. The CAC will be relocated.

The project will involve renovation of 10,153 square feet of existing space on the third and fifth floors and is estimated to cost \$5,379,052. The source of the funds will be cash.

Table 1 below shows the current and future configuration of Shore’s inpatient beds. Physical bed capacity would actually decline, even as licensed capacity would be expected to increase as patients from the two hospitals are combined.

**Table 1: Physical Bed Capacity, Currently and Post-Project
Shore Medical Center at Easton**

Beds	Currently	Post-Project	Change
General medical/surgical	110	110	0
Intensive care	10	10	0
Total MSGA	120	120	0
Obstetric	13	13	0
Psychiatric	0	12	+12
Pediatric	14	3	-11
Total Acute Care	147	148	+1
Rehabilitation	20	15	-15
Total	167	163	-4

Source: Modified Exemption Request

Notes: The 12 psychiatric beds are replacing 24 psychiatric beds currently operated at SMC-D. All of the beds at SMC-D are being eliminated. This general hospital is being replaced by an FMF.

C. Background

The applicant has described these projects as growing out of a strategic planning process designed to set a course that would address the challenges it faces due to inefficiencies inherent in operating low-volume, resource-intensive hospitals that are aging and costly to maintain, facing declining utilization, and a number of environmental challenges, including: a lack of public transportation resources that limits the population’s access to services; difficulty in recruiting and retaining experienced providers; and limited community-based population health resources that are essential for establishing an effective continuum of care. Appendix 1 provides a statement of Shore’s assessment of its operating environment, vision, and goals. The document ends with this summary and conclusion:

UM SRH is proposing the reconfiguration of its facilities and services after an in depth and lengthy planning process that evaluated the needs of its service area population and engaged numerous community stakeholders. This ... planning process resulted in recommendations, including the conversion of UM SMC at Dorchester to an FMF and the replacement of UM SMC at Easton. UM SRH is confident that its proposals enjoy widespread community support. The new care delivery model will provide accessible, high-quality care to patients, and it will create substantial cost savings and operational efficiencies. Consolidating acute care at UM SMC at Easton will result in more efficient and effective delivery of care as well as improved quality. It will also improve the long-term financial outlook for UM SRH, securing financial sustainability for the future. Finally, by modernizing its facilities and care delivery model, UM SRH will enhance its ability to recruit and retain needed health care providers to the region. For all of these 4

reasons, UM SRH is proposing the reconfiguration described in the three applications pending before the Commission.

II. Qualification for Exemption of Certificate of Need Review

COMAR 10.24.01.04 permits exemption from CON review for several actions proposed by a merged asset system. One of those permitted actions is the “[m]erger or consolidation of two or more hospitals or other health care facilities, if the facilities or an organization that operates the facilities gives the Commission 45 days written notice of their intent to merge or consolidate.” COMAR 10.24.01.04A.(1) The facilities that are the subject of this request are components of a merged asset system. Shore provided written notice on July 13, 2018 and additional information was submitted between October 9, 2018 and February 21, 2010.

III. Notice by the Commission to the Public

MHCC requested publication of notices of receipt of the request for the exemption from CON in the *Star Democrat* and *Dorchester Star*. The notice was also published in the *Maryland Register*. No comments were received in response to these notices.

IV. Public Information Hearing

A public information hearing is required under certain circumstances when a hospital requests an exemption from CON review for the closure or partial closure of a hospital or for the conversion of a general hospital to a limited service hospital. *See* COMAR 10.24.01.04D. Because the current exemption request involves the consolidation of two facilities under one license, a public information hearing is not required. However, a public information hearing was convened on the project that gave rise to this project, the conversion of SMC-D to an FMF.

V. Determination of Exemption from Certificate of New Review

The applicable regulations COMAR 10.24.01.04E direct the Commission to issue a determination of exemption from CON review if the merged asset system has provided the required information and the Commission finds that the proposed action:

- A. Is in the public interest;
- B. Is not inconsistent with the State Health Plan; and
- C. Will result in more efficient and effective delivery of health services.

A. Is in the Public Interest

Shore maintains that this consolidation is in the public interest, as a necessary corollary to the conversion of SMC- Dorchester to an FMF – in order “to continue to provide adequate access to these services (acute psychiatric hospital services) for residents of the service area.” As previously noted, this project will introduce acute psychiatric hospital services for adults at SMC-E, as a replacement for the service unit currently located at SMC-D. It will also downsize the

pediatric unit and the acute rehabilitation hospital at SMC-E, to align with the small patient census being experienced for these services.

In a separate report, MHCC staff has concluded that the proposed conversion of SMC-D to an FMF is consistent with the applicable standards of the State Health Plan. Therefore, staff agrees with Shore that the proposed renovations at SMC-E are necessary to preserve reasonable access to psychiatric hospital services for adults in the Mid-Eastern Shore area. The physical plant of SMC-D is nearing the end of its useful life and would require significant investment to modernize. Creation of an FMF campus in Cambridge and modernization of the larger SMC-E, only 15 miles away, is a logical and cost-effective plan for a future in which the need for traditional inpatient hospital facilities is unlikely to warrant maintaining two general hospitals in such close geographic proximity. For more detail on these issues, the Commissioners are referred to that separate report on the conversion of SMC-D to an outpatient campus, featuring an FMF with observation bed capacity.

Staff recommends that the Commission find the consolidation of inpatient care at SMC-E proposed as a corollary of the conversion of SMC-D to an FMF is in the public interest.

B. Is not inconsistent with the State Health Plan or the institution-specific plan developed by the Commission

Commission Staff has reviewed this request for exemption in light of the applicant's response and the applicable State Health Plan ("SHP") standards of COMAR 10.24.10, which address acute care hospital services and COMAR 10.24.07, which address psychiatric hospital services. This review is outlined in Appendices to this report. Staff concludes that this proposal is not inconsistent with the applicable State Health Plan standards and recommends that the Commission find that it is not inconsistent with the State Health Plan.

C. Will result in delivery of more efficient and effective health care services

Shore states that consolidating the inpatient care services currently provided at two hospitals, in Cambridge and Easton, at a single hospital, the larger facility in Easton, will result in a reduction of 113 full time-equivalent staff that are currently part of the Shore work force and reduce operating expenditures by approximately \$9.1 million per year, when viewed in light of the planned creation of an FMF campus in Cambridge. Shore also cites a number of ways that the consolidation will enhance operational efficiency as well as patient safety. Some examples:

- Staffing patterns for the MSGA units at SMC-E are likely to be more appropriately balanced. Currently, units often have a low census but still have to maintain minimum staffing levels that are not optimally efficient. The proposed consolidation of service at SMC-E will result in MSGA units that, on average, operate at higher patient census levels and high bed occupancy, eliminating the need for inefficient staffing patterns;
- Consolidating intensive care provision at SMC-E will enhance quality and safety because SMC-E has a dedicated intensive care unit ("ICU") with 10 beds, while the smaller Dorchester hospital operates a combined ICU/Telemetry unit. Because Dorchester's

average ICU daily census is small, it is difficult to maintain staff competency levels. At the larger SMC-E unit, it will be easier to maintain proficiency and the specialized skills of the ICU nursing staff; and

- Staff that is currently shared between the two facilities, which includes wound care and ostomy specialists, dietitians, and the vascular access team, will stay in one place, available to all patients at all times.

Staff recommends that the Commission find that Shore has adequately demonstrated that the proposed consolidation of hospital facilities will result in the delivery of more efficient and effective care. Staff notes that the proposed reconfiguration of facilities at SMC-E is only intended to be in place for a few years, given the plan to relocate and replace the hospital and staff believes that Shore, which scaled down the consolidation plan over the course of this review, has appropriately minimized the changes necessary to the Easton hospital plant for the anticipated interim time period between the closing the Cambridge facility and the target date for opening the planned replacement hospital in Easton.

D. Other Considerations

HSCRC staff was asked to review and provide its opinion on Shore's financial projections, related to both the conversion of SMC-D to an FMF and the corollary facility consolidation that is the subject of this report.

HSCRC's review of the hospital to FMF conversion project was generally positive and found Shore's projection of FMF revenues to be reasonable. It stated that HSCRC staff is "willing to approve rates for the FMF and a revised GBR (global budget revenue) for Easton in the future. However, further discussions need to occur to ensure that the proposed rates are reasonable. As part of the approval of rates for the FMF and the revised GBR for Easton, staff will require that the portion of the savings related to the closure of Dorchester that Shore is allowed to retain in its revised GBR for Easton and the FMF approved rates will be used to fund the new proposed hospital in Easton." (This is a reference to the relocation and replacement of SMC-E for which Shore has filed a CON application.) HSCRC staff also stated that it "believes that substantial resources could be available which would allow Shore to complete the FMF and the consolidation of the inpatient service of Dorchester and Easton without an increase to rates." HSCRC's comments are appended.

VI. Conclusion and Staff Recommendation

Staff concludes that Shore's request to merge and consolidate the acute care hospital services of its general hospitals in Easton and Dorchester meets the requirements for an exemption from CON review, in light of the proposed replacement of the Dorchester hospital with an outpatient service campus, featuring an FMF. Staff has concluded that the consolidation is in the public interest, that it is not inconsistent with applicable provisions of the State Health Plan, and will result in a more efficient and effective delivery of hospital services in the affected service area of the two hospitals.

Staff recommends that the Commission **APPROVE** Shore's request for an exemption from a CON to consolidate SMC-E and SMC-D, if it approves the conversion of SMC-D to an FMF.

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* **HEALTH**
* **CARE**
* **COMMISSION**

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FINAL ORDER

Based on the Commission staff's analysis and recommendation, it is this 18th day of April, 2019 **ORDERED:**

That the request by Shore Health System, Inc. doing business as the University of Maryland Shore Medical Center at Dorchester ("SMC- Dorchester") and as the University of Maryland Shore Medical Center at Easton ("SMC- Easton"), for an exemption from Certificate of Need review to relocate medical-surgical and psychiatric beds that would be removed from service at SMC-Dorchester to SMC – Easton, be **APPROVED**. The approved expenditure is \$5,178,535.

MARYLAND HEALTH CARE COMMISSION