

Andrew N. Pollak, MD
CHAIRMAN

STATE OF MARYLAND



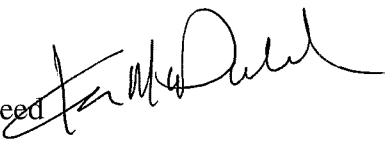
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MARYLAND HEALTH CARE COMMISSION

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MEMORANDUM

TO: Commissioners

FROM: Kevin R. McDonald
Chief, Certificate of Need 

DATE: December 11, 2020

SUBJECT: Gilchrist Hospice Care, Inc. and the Joseph Richey House, Inc. Docket No. 17-24-2412

Enclosed is the staff report and recommendation concerning a request for Project Change After Certificate of Need Approval filed by Gilchrist Hospice Care, Inc. and the Joseph Richey House, Inc. The project involves the relocation of a 22-bed hospice facility from 828 North Eutaw Street, to Stadium Place on East 33rd Street in the City of Baltimore.

As originally approved the project was a 22,000 square foot (SF) facility to be built at a total project cost of \$10,328,950. The applicant is requesting a \$3,487,152 increase (33.5%) in the approved cost of the project, bringing the total cost estimate for the project to \$13,886,102. Gilchrist states that the additional funds required will be covered by an additional \$3 million in philanthropy and an increase of \$500,000 in grant funds from the State of Maryland.

Staff recommends that the Commission APPROVE the proposed change to the authorized cost of this project.

IN THE MATTER OF

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BEFORE THE

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GILCHRIST HOSPICE CARE, INC.

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MARYLAND HEALTH CARE

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and

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JOSEPH RICHEY HOUSE, INC.

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COMMISSION

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Docket No. 17-24-2412

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**STAFF REPORT
REQUEST FOR PROJECT CHANGE AFTER
CERTIFICATE OF NEED APPROVAL**

I. BACKGROUND

Gilchrist Hospice Care, Inc. (Gilchrist) is licensed as a general hospice and is authorized to provide community-based hospice services to patients residing in Anne Arundel, Baltimore, Carroll, Frederick, Harford, Howard, and Prince George’s Counties, and in Baltimore City. It is a not-for-profit subsidiary of Greater Baltimore Medical Center Healthcare, Inc. (GBMC). In addition to providing community-based hospice services, Gilchrist operates three general inpatient hospice facilities: the Joseph Richey House (JRH), a 22-bed general inpatient (GIP) hospice facility in Baltimore City; a 28-bed free-standing GIP facility on the campus of GBMC, a general hospital, in Towson (Baltimore County); and a 9-bed GIP unit in Columbia (Howard County) that operates in space leased from Lorien Harmony House, an assisted living facility.

On July 19, 2017, the Maryland Health Care Commission (Commission) awarded a Certificate of Need (CON) to replace and relocate JRH from 828 North Eutaw Street in Baltimore City to Stadium Place, in the 900 block of East 33rd Street, in Baltimore City. JRH, which currently is owned and operated by Gilchrist, trades as Gilchrist Center Baltimore – Joseph Richey House Hospice Services. The replacement facility will function as a general inpatient hospice facility, as well as a hospice house where hospice patients who are unable to reside in their own homes would receive routine hospice services.

As originally approved the project was a 22,000 square foot (SF) facility to be built at a total project cost of \$10,328,950. It was to be funded by approximately \$3 million in cash, philanthropy of about \$6.9 million, and \$500,000 in State grants.

Requested Project Change

Gilchrist requests that the Commission approve a \$3,487,152 increase (33.5%) in the cost of the project, bringing the total cost estimate for the project to \$13,886,102. Gilchrist states that bids have come in with project cost estimates so much higher than the approved cost that Commission approval is required. Gilchrist attributes the cost increase to the following factors: (1) the original project cost estimate was developed prior to final architectural design and final design choices increased costs; (2) the approved facility was redesigned after CON approval, adding 4,500 SF to the 22,000 SF design approved in 2017; and (3) the 2017 site preparation cost

estimate proved insufficient. Unanticipated soil conditions will require significant structural fill and, consequently, higher site preparation costs.

Gilchrist states that the additional funds required will be covered by an additional \$3 million in philanthropy and an increase of \$500,000 in the anticipated grant funding from the State of Maryland.

II. APPLICABLE REGULATIONS

COMAR 10.24.01.17B provides that certain “changes that would place the project at variance with its Certificate of Need ... shall receive approval from the Commission ...” Gilchrist seeks to make several permissible modifications.¹

This project requires Commission action because: (a) the proposed change would increase the size of the building by slightly more than 20%, representing a significant change in physical plant design set forth in COMAR 10.24.01.17B(1); and, (b) it would incur “capital cost increases that exceed the approved capital cost inflated by an amount determined by applying the Building Cost Index published in *Health Care Cost Review* from the application submission date to the date of the filing of a request for approval of a project change” as provided in COMAR 10.24.01.17B(2).

Under COMAR 10.24.01.17D(3), the Commission may approve the requested change, approve it in part or with conditions, deny approval of the change for stated reasons, or require a complete CON review because of the scope of the requested change.

III. COST INCREASE AND FINANCIAL IMPACT OF THE REQUEST

Current Request Compared with the Original CON Approved Budget

Table 1, on the following page, compares the approved costs of this project with the applicant’s current cost estimate, reflecting the construction contract bids received.

As summarized previously, Gilchrist explained the increase in the estimated project cost as follows.

1. The original construction cost estimate was based on preliminary estimates that assumed a construction cost of \$300 per SF. The amended project estimate of \$330 per SF is based on the actual bids Gilchrist received, which were based on the final drawings, site surveys, material selections, and construction plans provided to contractors.
2. The applicant seeks to increase the building size from 22,000 SF to 26,500 SF in order to allow for the possible addition of eight beds in the future, increasing capacity from 22 to 30 beds, if demand warrants expansion. Citing increases in the elderly population, Gilchrist believes that the increased capacity will be required in the future, and states that including this shell space in the initial construction will avoid the excess cost and

¹ Gilchrist’s modification request does not involve an impermissible modification to the project (i.e., a change that would require submission and approval of a new CON application).

disruption to care that would occur if the additional space were constructed as a building addition at a later date. The addition of this shell space adds \$800,000 to the project budget.

- The applicant states that the estimated architectural and engineering fees, which include site preparation, increased by \$1.13 million. The amount of structural fill and grading needed at the site, due to the amount of clay present in the soil, was not anticipated in 2017.

The revised project budget also includes increased legal costs of \$299,604 and a reduce estimate of \$103,700 in permit fees.

Table 1: Project Budget Approved July 2017 and Current Project Cost Estimate, December 2020

A. Uses of Funds				
	Original CON	Current Estimate	Variance	% Change
New Construction				
Land Purchase	--	--	--	--
Building	\$7,260,000	\$9,390,500	\$2,130,500	29.3%
Fixed Equipment	958,950	986,950	28,000	2.9%
Architect/Engineering Fees (Including Site Prep)	1,300,000	2,432,748	1,132,748	87.1%
Permits	260,000	156,300	(103,700)	(40%)
Subtotal – New Construction	\$9,778,950	\$12,966,498	\$3,187,548	32.6%
Land Purchase Cost or Value of donated land	\$550,000	\$550,000	--	0%
Total Capital Costs	\$10,328,950	\$13,516,498	\$3,187,548	30.9%
Legal Fees	\$ 70,000	\$369,604	\$299,604	
Total Uses of Funds	\$10,398,950	\$13,886,102	\$3,487,152	33.5%
B. Sources of Funds				
	Original CON	Currently Anticipated	Variance	% Change
Cash	\$3,000,000	\$3,000,000	0	0%
Pledges	1,148,950	2,500,000	1,351,050	117.6%
Gifts	5,750,000	7,386,102	1,636,102	28.5%
State Grants	500,000	1,000,000	500,000	100%
Total Sources of Funds	\$10,398,950	\$13,886,102	\$3,487,152	33.5%

Source: Table 1, Project Budget, from original CON application and the Request for Project Change.

The Change in Project Cost Exceeds the Inflation Allowance in Current Regulations

As shown in Table 1 above, Gilchrist is projecting that the project, as now planned, would require an additional expenditure of approximately \$3.5 million. CON regulations provide for an inflation allowance, calculated using the building cost indices published on a quarterly basis by IHS Global Insight in *Healthcare Cost Review*. However, project cost increases that exceed that allowance are required to obtain Commission approval.

(https://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/con_cap_cost_index_20200127.pdf).

In July 2017, a total current capital cost of \$10,328,950 for this project was approved based on the applicant's cost estimate. Using the building cost inflation index noted above, the allowable inflation allowance for this project is approximately \$450,000, or 4.4%, well below the estimated cost increase being proposed. Thus, the regulations require Commission authorization of the proposed cost increase.

Impact on Financial Performance

As reported in the original CON application and staff report, the JRH operation has not generated excess revenue over expenses and is not projected to do so in the future. In its 2017 application, Gilchrist projected an operating loss of slightly more than \$1 million in the first year of operation of the replacement facility, with projected losses of \$916,000 and \$774,000 in the following two years, amounting to a cumulative loss for the first three years of about \$2.75 million. In the proposed modification losses are projected to be somewhat higher; the projected loss for the first year of operation is about \$1.36 million, and the cumulative loss for the first three years is about \$3 million.

But as noted at page 14 in the original staff report:

Gilchrist ... is currently subsidizing JRH and will continue to do so...as an 'essential' asset for the community. It states that 'between ongoing philanthropy, which continues to increase every year, and ongoing businesses of the overlapping Gilchrist enterprise,' JRH will be sustainable It notes that Gilchrist raises approximately \$4 to \$5 million in philanthropy and, as a result of historic and ongoing fundraising activities, has approximately \$149 million in reserves ... [and] anticipates ongoing success in its fundraising efforts.

IV. ANALYSIS AND RECOMMENDATION

The original project approved by the Commission in 2017 permitted the relocation of JRH to a new building, approximately three miles northwest of its current location, at a cost of \$10.4 million. Gilchrist now requests an increase in the project budget, to just under \$13.9 million, based on changes in the project's space and design made after the CON was issued and unanticipated soil conditions. Inflation in construction costs is not significant factor in this request.

Commission staff does not view the increased size and scope of the project as an issue of concern. Statutory changes supported by the Commission in 2019 allow existing hospices to increase their bed count without having to obtain CON approval. While the increase in the total project cost is not insignificant, Gilchrist states that additional philanthropic funding it has obtained, and additional grant support will fund the project changes. It acknowledges that the projected operating losses will require ongoing philanthropic support and cites a strong fundraising track record. Gilchrist states that JRH is an essential community service that it is committed to supporting.

The project's increased cost will not result in higher costs for the Medicare program, which is expected to be the source of about 85% of the facility's service revenue, because Medicare's reimbursement rates for hospice care are set based on a standard national base rate that is adjusted

for a local wage differential, not by the cost experience of specific facilities. Thus, any increase in construction costs will not increase the level of reimbursement from Medicare. Prices sought for the small proportion of patients paying for care out-of-pocket and patients covered by private third-party payors can, of course, reflect the higher cost experience of the hospice, although market forces will provide a limit to what a provider can charge.

Staff concludes that there are no material changes to the nature of the project, its location, or its immediate capacity, and that this requested modification would not change the findings that the Commission made in 2017 concerning the need for and the positive impact of creating a modern JRH. For these reasons, staff recommends that the Commission approve the requested changes to the project.

IN THE MATTER OF
GILCHRIST HOSPICE CARE, INC.
and
JOSEPH RICHEY HOUSE, INC.
Docket No. 17-24-2412

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BEFORE THE
MARYLAND HEALTH CARE
COMMISSION

FINAL ORDER

Based on Commission staff’s analysis of this request for project changes after Certificate of Need approval, it is this 17th day of December 2020, **ORDERED** that:

The request by Gilchrist Hospice Care, Inc., and Joseph Richey House, Inc. trading as Gilchrist Center Baltimore – Joseph Richey House Hospice Services for changes to its July 19, 2017 Certificate of Need to relocate the existing Joseph Richey 22-bed general inpatient hospice from 828 North Eutaw Street to a building with 26,500 square feet to be constructed at Stadium Place on East 33rd Street in the City of Baltimore, at a total project cost of \$13,886,102 is **APPROVED**,