



MARYLAND HEALTH CARE COMMISSION

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TO: Commissioners

FROM: Wynee Hawk
Chief, Certificate of Need

A handwritten signature in blue ink, appearing to read "Wynee Hawk".

DATE: September 23, 2021

SUBJECT: LifeBridge Health, Inc., Consolidation of Acute Psychiatric Beds
Docket No. 19-24-EX011

Enclosed is the staff report and recommendation for a project change after exemption from Certificate of Need (CON) approval filed by LifeBridge Health, Inc. (LBH). As originally approved, the project would consolidate the acute psychiatric bed capacity and psychiatric inpatient services provided at Grace Medical Center at two other LBH general hospitals. The project included the conversion of an existing 6,500 square foot (SF) medical surgical “surge” capacity unit at Northwest Hospital into a 12-bed psychiatric unit with 12 private rooms. The required renovations at Northwest Hospital were projected to cost \$2 million and were expected to take approximately one year to complete.

LBH requests that the Commission approve a \$200,000 increase (10%) in the Northwest project, bringing the total cost estimate to \$2,200,000. LBH proposes to change the location of the new behavioral health beds from unit 4D, the original proposed location, to unit 4A. As a response to the pandemic, unit 4D was converted to negative pressure rooms. The new location in unit 4A is the same square footage (6,500 SF) as the original location and includes the original 12 beds in 12 private rooms. The increased cost is due to inflation and the project funding source, cash, remains unchanged.

Staff concludes that there are no material changes to the nature of the project, the location, or the immediate capacity. The requested change would not alter the findings that the Commission made in 2019 concerning the need and the positive impact of relocating the psychiatric beds from Grace to Northwest. For these reasons, staff recommends that the Commission approve the requested change to the project.

IN THE MATTER OF THE	*	
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CONSOLIDATION OF ADULT	*	BEFORE THE
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ACUTE PSYCHIATRIC BEDS:	*	
	*	MARYLAND HEALTH
THREE LIFEBRIDGE HEALTH	*	
	*	
GENERAL HOSPITALS	*	CARE COMMISSION
	*	
Docket No. 19-24-EX011	*	

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

I. INTRODUCTION

Background

LifeBridge Health, Inc. (LBH) is a health care system that operates six hospitals; four general and two special hospitals in Baltimore City, Baltimore County, and Carroll County. The LBH general hospitals are Sinai Hospital of Baltimore (Baltimore City), Northwest Hospital (Randallstown/Baltimore County), Carroll Hospital (Westminster/Carroll County), and Grace Medical Center (the former Bon Secours Hospital) located in Baltimore City. Adjacent to the Sinai Hospital campus, LBH operates Levindale Hebrew Geriatric Center and Hospital. This Baltimore City facility combines a special rehabilitation hospital, a special chronic care hospital, and a comprehensive care facility (nursing home).

On November 21, 2019, the Maryland Health Care Commission (MHCC) approved an exemption from Certificate of Need (CON) to consolidate the acute psychiatric bed capacity and psychiatric inpatient services provided at Grace Medical Center at two other LBH general hospitals. As originally approved, the project included the conversion of an existing 6,500 square foot (SF) medical surgical “surge” capacity unit at Northwest Hospital into a 12-bed psychiatric unit with 12 private rooms. The required renovations at Northwest Hospital were projected to cost \$2 million and were expected to take approximately one year to complete.

The project also included the renovation of an existing inpatient unit at Sinai Hospital, to allow for the addition of six private and nine semi-private rooms for adult psychiatric services.

The elimination of acute psychiatric beds at Grace Medical Center was a preliminary step to converting this general hospital into a freestanding medical facility, a project currently under review by MHCC.

Requested Project Change Summary

LBH requests that the Commission approve a \$200,000 increase (10%) in the Northwest project, bringing the total cost estimate to \$2,200,000. LBH proposes to change the location of the new behavioral health beds from unit 4D, the original proposed location, to unit 4A. The new location encompasses the same square footage (6,500 SF) as the original location and includes the original 12 beds in 12 private rooms. The proposed change will allow the hospital to continue to treat any COVID-19-positive patients in unit 4D, a unit that was converted to negative pressure rooms as a response to the pandemic. When compared to the original project budget, this changed project will involve an increase in renovation expenses of \$200,000, an additional \$40,000 in architectural fees, and \$50,000 in additional moveable equipment costs. The contingency expense budget estimate has been reduced by \$90,000, making the net increase in the project budget estimate \$200,000. The project funding source, cash, remains unchanged.

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” LBH seeks to make a permissible modification.¹

This project requires Commission action because 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 the *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 the change in part or with conditions, not approve the change with explanation, 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, compares the approved costs of this project with the applicant’s current cost estimate, reflecting both the change in location of the proposed unit and the increases in costs due to inflation. LBH states that changing the location of the new unit will require new project drawings and plans which will cost \$40,000. Inflation will increase the final cost of the renovations by \$200,000 and moveable equipment by \$50,000. These costs are offset by a \$90,000 decrease in the contingency allowance.

¹ LBH’s change 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 or a request for exemption from CON).

Table 1: Project Budget Approved November 2019 and Current Project Cost Estimate, July 2021

A. Uses of Funds				
	Original	Current Estimate	Variance	% Change
Renovation				
Building	\$1,300,000	\$1,500,000	\$200,000	15.3%
Architect/Engineering Fees	\$140,000	\$180,000	\$40,000	28.5%
Permits	\$20,000	\$20,000	\$0	0%
Subtotal – Renovation	\$1,460,000	\$1,700,000	\$240,000	16.4%
Moveable equipment	\$350,000	\$400,000	\$50,000	14.4%
Contingency Allowance	\$190,000	\$100,000	(\$90,000)	(47.3%)
Total Current Capital Costs	\$2,000,000	\$2,200,000	\$200,000	10%
Total Uses of Funds	\$2,000,000	\$2,200,000	\$200,000	10%
B. Sources of Funds				
	Original	Currently Anticipated	Variance	% Change
Cash	\$2,000,000	\$2,200,000	\$200,000	10%
Total Sources of Funds	\$2,000,000	\$2,200,000	\$200,000	10%

Source: Project Budget, from original CON exemption request and Project change request letter dated July 27, 2021

The Change in Project Cost Exceeds the Inflation Allowance

LBH is projecting that the project, as now planned, would require an additional expenditure of \$200,000. CON regulations provide for an inflation allowance, calculated using the building cost indices published on a quarterly basis by IHS Global Insight in the *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.

On November 21, 2019, a total current capital cost of \$2,000,000 for this portion of the 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 \$64,000, or 3.2%, well below the estimated cost increase being proposed. Thus, COMAR 10.24.01.17B(2) requires Commission authorization of the proposed cost increase.

Impact on Financial Performance

This project change request includes a budget increase of \$200,000 which will be financed by cash. Northwest reported a net profit of approximately \$24 million in FY 2019 and therefore the Commission staff does not anticipate that this change will have an appreciable effect on LBH’s revenue and expenses.

IV. ANALYSIS AND RECOMMENDATION

The project approved by the Commission in 2019 permitted the relocation of 12 acute inpatient psychiatric beds from Bon Secours Hospital to Northwest Hospital at a cost of \$2 million. LBH now requests a \$200,000 increase in the project budget to cover new project plans to change the location of the proposed inpatient unit and an inflationary increase in costs. The increased project cost is being funded with cash.

Staff concludes that there are no material changes to the nature of the project, the location, or the immediate capacity, and that this requested change would not alter the findings that the Commission made in 2019 concerning the need for and the positive impact of relocating the psychiatric beds from Grace to Northwest. For these reasons, staff recommends that the Commission approve the requested change to the project.

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FINAL ORDER

Based on Commission staff's analysis of this request for a project change after issuance of an exemption from Certificate of Need, it is this 23th day of September, **ORDERED** that:

The request by LifeBridge Health, Inc. for changes to its November 21, 2019, Exemption from Certificate of Need to consolidate acute psychiatric bed capacity and psychiatric inpatient services at Grace Medical Center, specifically 12 beds, to Northwest Hospital at a total project cost of \$2,200,000 is **APPROVED**.