

IN THE MATTER OF	*	BEFORE THE
	*	
UNIVERSITY OF MARYLAND	*	MARYLAND
	*	
ST. JOSEPH MEDICAL CENTER	*	HEALTH CARE
	*	
Docket No. 18-03-2415	*	COMMISSION
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# **STAFF REPORT REQUEST FOR PROJECT CHANGE AFTER CERTIFICATE OF NEED APPROVAL**

## **I. INTRODUCTION**

### **Background**

University of Maryland St. Joseph Medical Center (SJMC) is a 219-bed general hospital located at 7601 Osler Drive in Towson (Baltimore County). SJMC is owned and operated by the University of Maryland Medical System. SJMC serves inpatients requiring general medical/surgical/gynecological/addictions, obstetric, pediatric, and acute psychiatric services.

On October 16, 2018, the Maryland Health Care Commission (Commission) approved a Certificate of Need (CON) application, Docket No. 18-03-2415, for a five-phase capital project to modernize and reconfigure SJMC’s surgical, cardiac catheterization, and coronary care unit facilities at an approved cost of \$60,000,000. The sources of funding for the project were identified as \$40 million in cash and \$20 million in philanthropic donations. SJMC reports that substantial progress has been made and this project is now near completion.

The project was authorized with the following condition:

Any rate increase proposed by the hospital related to the capital cost of the project shall not include the amount of the projected construction cost for the space that exceeds the per bed square footage limitation in COMAR 10.24.10.04B(9) or those portions of the contingency allowance, inflation allowance, and capitalized construction interest expenditure that are based on the excess space.

This condition was meant to address the renovations to SJMC’s cardiac surgery unit (CSU) that were originally planned on the ground floor. The original renovation plan would have resulted in inpatient nursing unit space for the CSU that exceeded the 500 feet per bed standard under COMAR 10.24.10.04B(9). However, in November of 2020, SJMC was granted a request for project change after Certificate of Need approval that involved the relocation of its CSU and the creation of a Patient Safety and Innovation Center. The new location of the CSU is compliant with the 500 feet per bed standard. Accordingly, this condition is no longer applicable.<sup>1</sup>

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<sup>1</sup> This is according to SJMC’s most recent Quarterly Progress Report for the period of 10/17/21 through 01/16/22.

## **Requested Change in Approved Number of Operating Rooms**

The project, as approved, includes conversion of the operating room (OR) designated by SJMC as OR 11 into support space at the end of Phase 5, the final phase of project implementation. SJMC now requests approval to retain this room as an additional general purpose OR.<sup>2</sup>

As part of this requested project change, SJMC anticipates that additional renovations to OR 11 will occur in Phase 5. Specific updates to the OR 11 space include electrical system upgrades, the addition of secondary isolation panels, and altering the room layout to be consistent with SJMC's other modernized ORs. SJMC also plans to resurface the OR's floors, walls, and ceilings with materials that enhance prevention of infections. The estimated cost of the renovations to OR 11 is \$400,000 and additional moveable equipment will increase the total project cost estimated to \$500,000. The original floorplan and post-change floorplan are included as Exhibit 1.

Prior to a water incursion incident that occurred in May 2016, SJMC had 15 general purpose ORs and four special-purpose cardiac surgery ORs for a total of 19 rooms. From the date of this incident to the present, SJMC has operated between 10 to 12 general purpose ORs and three special purpose ORs (two cardiac surgery and one hybrid room), with the exception of a brief period at the start of the COVID-19 pandemic in 2020 during which a reduced OR inventory was operated. Upon completion of the approved project, SJMC will have an inventory of 12 general purpose ORs and three special purpose ORs for a total of 15 ORs.

## **Rationale for Requested Change**

SJMC provided updated assumptions and a need projection using recent surgical volumes and the capacity assumptions from the General Surgical Services State Health Plan Chapter at COMAR 10.24.11.06. The total case volumes presented in its analysis represent those cases and the surgical minutes that have been or will be performed in SJMC's general purpose ORs.

The request to retain an additional general purpose OR was based on several factors, according to SJMC. The hospital cites a new affiliation agreement with Kaiser Permanente (KP) and expected service line growth due to program development. The program development includes new surgeon recruitment, which has led to recent growth in surgical cases with volume trending toward pre-COVID-19 pandemic levels. SJMC also adjusted its projected case volumes to account for the trend of moving lower acuity outpatient case volume to ambulatory surgical centers and ambulatory surgical facilities.

### **New Affiliation with Kaiser Permanente**

SJMC and KP have entered into an agreement, which is expected to become effective May 1, 2022. Through this agreement, KP intends to end its existing Premier Partner Relationship with Greater Baltimore Medical Center (GBMC) and enter a relationship with SJMC to become a new KP Premier Partner hospital location. In accordance with this arrangement, KP will direct its patients to seek care at SJMC, and KP physicians will be permanently located at SJMC to handle

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<sup>2</sup> A general purpose OR is, typically, used for a wide range of both inpatient and outpatient surgical procedures. It is the most common type of OR operated by hospitals.

KP patient volume. This also means that KP surgeons will perform both inpatient and outpatient surgical cases at SJMC, supported by SJMC clinical support staff and facilities.

KP provided information on the actual KP member surgical cases performed at GBMC from June 1, 2020 to May 31, 2021. It reported a total of 711 cases: 522 inpatient cases and 189 outpatient cases. When the agreement becomes effective on May 1, 2022, KP expects to transition an annualized number of approximately 119 surgical cases to SJMC for the remainder of fiscal year 2022<sup>3</sup> and 756 cases in fiscal year 2023 to SJMC. The volume of KP surgical cases served at SJMC is expected to grow to 885 cases by fiscal year 2025, as shown in Table I-1 below, which was provided in the SJMC request.

**Table I-1**  
**Projected Kaiser Permanente Member Surgical Cases at SJMC**  
**FY2022 – FY2025**

	<b>FY2022 Budget</b>	<b>Projected</b>		
		<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>
General OR Cases				
Inpatient	87	555	598	650
Outpatient	32	201	216	235
<b>Total</b>	<b>119</b>	<b>756</b>	<b>814</b>	<b>885</b>

Source: Provided by KP to SJMC

In support of SJMC's request for this change in CON, KP submitted a response that states that none of the surgical cases that are anticipated to shift to SJMC can be performed at a KP ambulatory surgery center (ASC). KP policies require all surgical procedures that are appropriate for the ASC setting to be performed in such a setting, unless the patient's high acuity level dictates that the procedure be performed in a hospital setting for patient safety. KP currently operates one ASC in its Baltimore Service Area, the South Baltimore County Medical Center, located in Halethorpe, Maryland. According to KP, this facility has three ORs which are each currently operating 12 or more hours per day, using approximately 95 percent of the facility's available block schedule. In March 2022, KP expects to open a second ASC in its Lutherville-Timonium Medical Center, located in Lutherville-Timonium. This ASC will have three ORs and KP expects each OR to be used eight hours per day, at approximately 80 percent of its block schedule. The opening of the new Lutherville-Timonium ASC is expected over time to reduce the OR utilization levels at the South Baltimore County Medical Center to more optimal levels of eight hours a day at 80 percent of its block schedule.

### **Service Line Growth due to Program Development**

In addition to the surgical cases from the KP agreement, SJMC stated that it anticipates additional growth in the volume projections for certain service lines related to recruitment of new surgeons and the development of other partnerships which could influence surgical case volume. While two spine surgeons are retiring, SJMC is recruiting two new spine surgeons, each in fiscal

<sup>3</sup> The 119 cases are an annualized amount of the actual GBMC cases from June 1, 2020 to May 31, 2021, reflecting the fact that there will be two months left in the fiscal year when the SJMC/KP relationship is initiated on May 1, 2022.

years 2022 and 2023. The hospital expects the two surgeons' volumes will increase by fiscal year 2025 to 287 surgical cases.

SJMC expects growth in several service lines in the next three fiscal years as shown in Table I-2 below. The "Breast/Plastic" service line is expected to return to pre-pandemic volumes. In addition, the development of a Bariatric Center of Excellence is projected to add 100 bariatric service cases by fiscal year 2025. Finally, SJMC stated that it anticipates growth of 50 cases by fiscal year 2025 in its thoracic service line due to its strengthened commitment to treat cancer patients in their communities.

The projected growth in these procedures is shown in Table I-2 below. These tables were provided by SJMC in its request.

**Table I-2**  
**Projected Growth in SJMC Service Line Surgical Cases**  
**FY 2022—FY 2025<sup>4</sup>**

	<b>FY2022 Budget</b>	<b>Projected</b>		
		<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>
General OR Cases (1)				
Spine (50% / 50%)	162	195	249	287
Breast / Plastic (5% / 95%)		200	250	300
Bariatric (100% / 0%)		50	75	100
Thoracic (100% / 0%)			25	50
<b>Total</b>	<b>162</b>	<b>445</b>	<b>599</b>	<b>737</b>

Source: UM SJMC senior management and clinical service line leaders

Note (1): Excludes cases included in Kaiser Permanente projection of surgical cases

### **Surgical Volumes Trending Towards Pre-Pandemic Volumes**

In fiscal year 2020, SJMC experienced a reduction in general OR cases as a result of the COVID-19 pandemic because many patients delayed surgical procedures that would otherwise have been performed. In fiscal year 2021, SJMC routinely operated at least 10 general purpose ORs, and additional ORs are expected to be utilized in fiscal year 2022 as surgical volumes recover to pre-pandemic levels. SJMC expects the case volume growth will continue as reflected in Table I-3 below.

SJMC also briefly discussed the average annual population growth in its surgical service area<sup>5</sup>, which at 0.06 percent a year is negligible. Table I-3 below reflects the historical, budgeted, and projected cases, while addressing all the factors discussed above.

<sup>4</sup> The percentages shown with the surgery type is the breakdown of total surgical cases; inpatient %/outpatient %

<sup>5</sup> "Surgical service area" is defined as the zip code areas ranked by frequency of surgical case origin through 85 percent of total surgical cases.

**Table I-3**  
**SJMC Historical, Budgeted, and Projected General Surgical Cases**  
**FY2019 – FY2025**

	Actual			FY2022	Projected		
	FY2019	FY2020	FY2021	Budget	FY2023	FY2024	FY2025
Actual and FY2022 Budget							
Inpatient	3,651	3,110	2,853	3,295	3,295	3,295	3,295
Outpatient	5,441	4,325	4,591	4,942	4,942	4,942	4,942
Total	9,092	7,435	7,444	8,237	8,237	8,237	8,237
Addition of Kaiser Cases							
Inpatient				87	555	598	650
Outpatient				32	201	216	235
Total	-	-	-	119	756	814	885
Addition of Service Line Growth							
Inpatient				81	157	236	307
Outpatient				81	288	363	430
Total	-	-	-	162	445	599	737
Subtraction of Cases Shifted to ASCs							
Inpatient				-	(50)	(50)	(50)
Outpatient				-	(279)	(279)	(279)
Total	-	-	-	-	(329)	(329)	(329)
Population Growth							
Inpatient				-	2	4	7
Outpatient				-	3	7	10
Total	-	-	-	-	5	11	16
Total General OR Cases							
Inpatient	3,651	3,110	2,853	3,463	3,959	4,083	4,209
Outpatient	5,441	4,325	4,591	5,055	5,155	5,249	5,337
Total	9,092	7,435	7,444	8,518	9,114	9,332	9,546

Source: SJMC

Note: SJMC stated that it has experienced a trend towards shifting low acuity surgical cases from the hospital setting to outpatient surgery settings and has taken this into account in projecting the need (FY 2023 through FY 2025) for the inventory of twelve operating rooms planned upon project completion.

SJMC also provided its projected FY 2022 surgical minutes for each type of inpatient and outpatient general OR surgical case, using FY 2021 OR times by type of case. See Table I-4 below. The average minutes per case for the KP surgical cases were provided by KP based on its historical experience. The average minutes per case for the service line cases at SJMC were based on the hospital's historical experience for each service line. The average minutes per case for the SJMC cases lost to ASCs was based on SJMC's average minutes per case for inpatient knee replacements and outpatient orthopedic cases.

**Table I-4**  
**SJMC Average Minutes per Case**  
**FY 2021**

	Average Minutes per Case		
	Inpatient	Outpatient	Average
FY2022 Budget	137	99	114
Kaiser Permanente	135	91	124
UM SJMC Service Line Growth			
Spine	234	146	190
Breast / Plastic	151	148	148
Bariatric	137	-	137
Thoracic	219	-	219
UM SJMC Cases Lost to ASCs	99	82	85

Source: UM SJMC Operating Room management

SJMC utilized an average turnaround time (TAT) of 41 minutes per case<sup>6</sup> to calculate its projected surgical minutes. This assumption reflects actual experience at SJMC based on its general purpose OR cases in fiscal year 2021. Table I-5 below presents: the projected total surgical minutes; the total TAT minutes associated with the projected general surgical cases; and the hospital's total projected surgical minutes for the ORs.

**Table I-5**  
**SJMC Historical and Projected Surgical Minutes**  
**FY2019 – FY2025**

	Actual			FY2022 Budget	Projected		
	FY2019	FY2020	FY2021		FY2023	FY2024	FY2025
General OR Minutes							
Inpatient	474,546	406,507	390,743	480,872	552,694	573,946	594,195
Outpatient	481,105	390,995	467,920	502,105	525,682	538,318	549,963
Total Surgical	955,651	797,502	858,663	982,976	1,078,376	1,112,264	1,144,158
Turn-Around Time	372,772	304,835	305,204	349,218	373,680	382,609	391,384
Total	1,328,423	1,102,337	1,163,867	1,332,194	1,452,056	1,494,873	1,535,542

Source: Actual and budgeted surgical minutes are from UM SJMC OpTime reports

Turn-Around Time reflects the application of TAT per case provided by UM SJMC OR management times the number of cases

Optimal capacity for a hospital general-purpose OR is defined as 1,900 hours or 114,000 minutes per room per year, which is 80 percent of full capacity<sup>7</sup>. COMAR 10.24.11.06A(1)(a)(ii). The projected OR minutes, which includes TAT, are divided by the 114,000 minutes per room per year standard to obtain the projected number of ORs needed by the facility. SJMC must demonstrate that this proposed OR is likely to be utilized at optimal capacity or higher within three years of completion of the project in order to demonstrate need under COMAR 10.24.11.05B(3), Need – Minimum Utilization for Expansion of an Existing Facility.

As demonstrated in Table I-6 below, the hospital expects each of the 12 general purpose ORs will be utilized at above “optimal capacity” within one year of completion of the original

<sup>6</sup> SJMC stated that this figure is from its OpTime reports.

<sup>7</sup> COMAR 10.24.11.06A(1)(a)(i), states that “full capacity” is defined as 2,375 hours or 142,500 minutes per room per year.

CON approved project<sup>8</sup>. While SJMC anticipates a need for 13.5 ORs by fiscal year 2025 using the optimal capacity standard and its projections, at this time the hospital is only requesting 12 ORs.

**Table I-6**  
**SJMC Projected OR Need**  
**FY2022 – FY2025**

		<b>Actual</b>		<b>FY2022</b>	<b>Projected</b>		
	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>Budget</b>	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>
Total OR Minutes (1)	1,328,423	1,102,337	1,163,867	1,332,194	1,452,056	1,494,873	1,535,542
Optimal Capacity in minutes (1900 Hours)	114,000	114,000	114,000	114,000	114,000	114,000	114,000
OR Need at Optimal Capacity	11.7	9.7	10.2	11.7	12.7	13.1	13.5

Note (1): Includes both surgical and turn-around time

Source: SJMC

## II. APPLICABLE REGULATIONS

As previously noted, on October 16, 2018, the Commission approved a CON application, Docket No. 18-03-2415, for SJMC to modernize and reconfigure its surgical, cardiac catheterization, and coronary surgical unit facilities, at an estimated project cost of \$60,000,000, that resulted in 11 ORs upon project completion. COMAR 10.24.01.17B states that certain “changes that would place the project at variance with its Certificate of Need ... shall receive approval from the Commission ...,” including a “significant change in physical plant design.” This project change request seeks approval of an additional general purpose OR beyond the eleven approved in 2018, which is a significant change in physical plant design requiring Commission approval. Since 2019, the CON statute provides that a CON is required before a change in health care service that results in a change of hospital to OR capacity. Md. Code Ann., Health-Gen. § 19-120(j)(1)(ii). For these reasons, Commission approval of this change is required.

While the CON regulations prohibit certain types of project modifications without the issuance of a new CON, the Commission has discretion whether to approve SJMC’s proposed change. *See*, COMAR 10.24.01.17C. Pursuant to COMAR 10.24.01.17D(3), the Commission may approve the requested change, approve it in part or with conditions, deny the change with explanation, or require a complete CON review because the requested change is of sufficient scope to warrant complete review.

## III. COST INCREASE AND FINANCIAL IMPACT OF THE REQUEST

The approved cost of this project is \$60,000,000. According to SJMC, the approved project budget is not expected to increase as a result of this project change. The total estimated cost of the requested change is \$500,000, which includes \$400,000 in renovation expenses and \$100,000 for moveable equipment. SJMC stated that it has approximately \$1.3M remaining in its construction contingency budget and expects these contingency funds to cover these additional costs. Table III-7 reflects the current status of the project budget from the most recent quarterly progress report (period: 10/17/2021 through 01/16/2022).

<sup>8</sup> The completion of the original approved CON project was expected to occur by the end of fiscal year 2022.





**Table III-7**  
**SJMC's Project Cost Table**  
**Quarterly Progress Report**  
**10/17/2021—01/16/2022**

<b>Project Budget/Expenditures</b>	<b>CON Application</b>	<b>Current Estimated Total Cost</b>	<b>Binding Contract Obligations</b>	<b>Cumulative Expenditures</b>
<b>1. Capital Costs</b>				
<b>New Construction</b>				
Building	\$213,175	\$333,542	\$333,542	\$333,542
Site and Infrastructure	351,760	\$403,128	\$403,128	\$403,128
Architect/engineering fees	47,455	\$54,890	\$54,890	\$54,890
Permits (building, utilities, etc.)	3,000	\$3,000	\$3,000	\$3,000
<b>Subtotal- New Construction</b>	<b>\$615,390</b>	<b>\$794,560</b>	<b>\$794,560</b>	<b>\$794,560</b>
<b>Renovation</b>				
Building	\$30,967,646	\$39,219,968	\$39,614,796	\$30,122,099
Architect/Engineering Fees	5,746,321	\$5,623,218	\$5,614,761	\$5,284,129
Permits (Building, Utilities, etc.)	47,000	\$42,000	\$3,058	\$3,058
<b>Subtotal- Renovations</b>	<b>\$36,760,967</b>	<b>\$44,885,186</b>	<b>\$45,232,615</b>	<b>\$35,409,286</b>
<b>Other Capital Costs</b>				
Movable equipment	\$11,630,000	\$6,974,818	\$7,900,403	\$5,615,957
Contingencies	3,679,709	\$1,121,453		
Other (Project Management, Enabling Relocations)	2,050,000	\$5,158,787	\$5,104,262	\$4,300,226
<b>Subtotal Other Capital Cost</b>	<b>\$17,359,709</b>	<b>\$13,255,058</b>	<b>\$13,004,665</b>	<b>\$9,916,183</b>
<b>TOTAL CURRENT CAPITAL COST</b>	<b>\$54,736,066</b>	<b>\$58,934,804</b>	<b>\$59,031,839</b>	<b>\$46,120,029</b>
<b>Other Non-Current Capital Costs</b>				
Inflation allowance	\$2,878,934	\$0	\$0	\$0
<b>Subtotal Other Non-Current Capital Costs</b>	<b>\$2,878,934</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL CAPITAL COSTS</b>	<b>\$57,615,000</b>	<b>\$58,934,804</b>	<b>\$58,132,259</b>	<b>\$42,949,339</b>
<b>2. Financing Costs and Other Cash Requirements</b>				
CON Application Assistance	\$886,000	\$577,157	\$577,157	\$577,102
Non-CON Consulting Fees	1,499,000	\$488,039	\$488,039	\$488,039
Sub-Total	\$2,385,000	\$1,065,196	\$1,065,196	\$1,065,141
<b>Total Uses of Funds (1+2+3)</b>	<b>\$60,000,000</b>	<b>\$60,000,000</b>	<b>\$59,197,455</b>	<b>\$44,014,480</b>
<b>Project Square Footage</b>				
New Construction	316	316		
Renovation	87,174	87,174		

Source: SJMC Quarterly Report 10/17/21-01/16/22

SJMC stated that it does not expect this project change to have an impact on the per case cost of providing surgery services. SJMC will maintain staffing at present levels for the 12 general purpose ORs and has indicated that it has adequate staff to support its projected case volumes.

SJMC stated that this project change will not have an impact on surgical charges. However, SJMC specified that it anticipates it will receive a Global Budget Revenue (GBR) increase from the Health Services Cost Review Commission (HSCRC) that will equal a percentage of the total value of the cases that are expected to shift from GBMC to SJMC (which was discussed earlier in this report) (*supra* 2-3) and the HSCRC payment model currently in place.

While this change request was under review, SJMC informed staff that obligating the final Phase 5 of the approved project by April 1, 2022 would avoid delays in completion of the project that would otherwise result in increased project cost. In consideration of the specific circumstances of this project change, MHCC staff advised SJMC that the obligation could occur prior to Commission action on this change request, given that such obligation for Phase 5 would be within the currently approved project expenditure of \$60 million.

#### **IV. ANALYSIS AND RECOMMENDATION**

This request for a project change involves the retention and renovation of one OR that was in use at the time of project approval. There are no material changes to either the nature of the project, its approved capital costs, its financing mechanism, or its location, just a change in the original physical plant design with the retention of an additional OR. This does not change the findings the Commission made when the CON was issued in October 2018 concerning the need for the project. For these reasons, staff recommends that the Commission approve the applicant's request for this change in the approved project.

As previously noted, the condition placed on approval of this project in October 2018, with respect to rate adjustments related to capital costs, is no longer applicable.

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ST. JOSEPH MEDICAL CENTER	*	HEALTH CARE
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Docket No. 18-03-2415	*	COMMISSION
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## FINAL ORDER

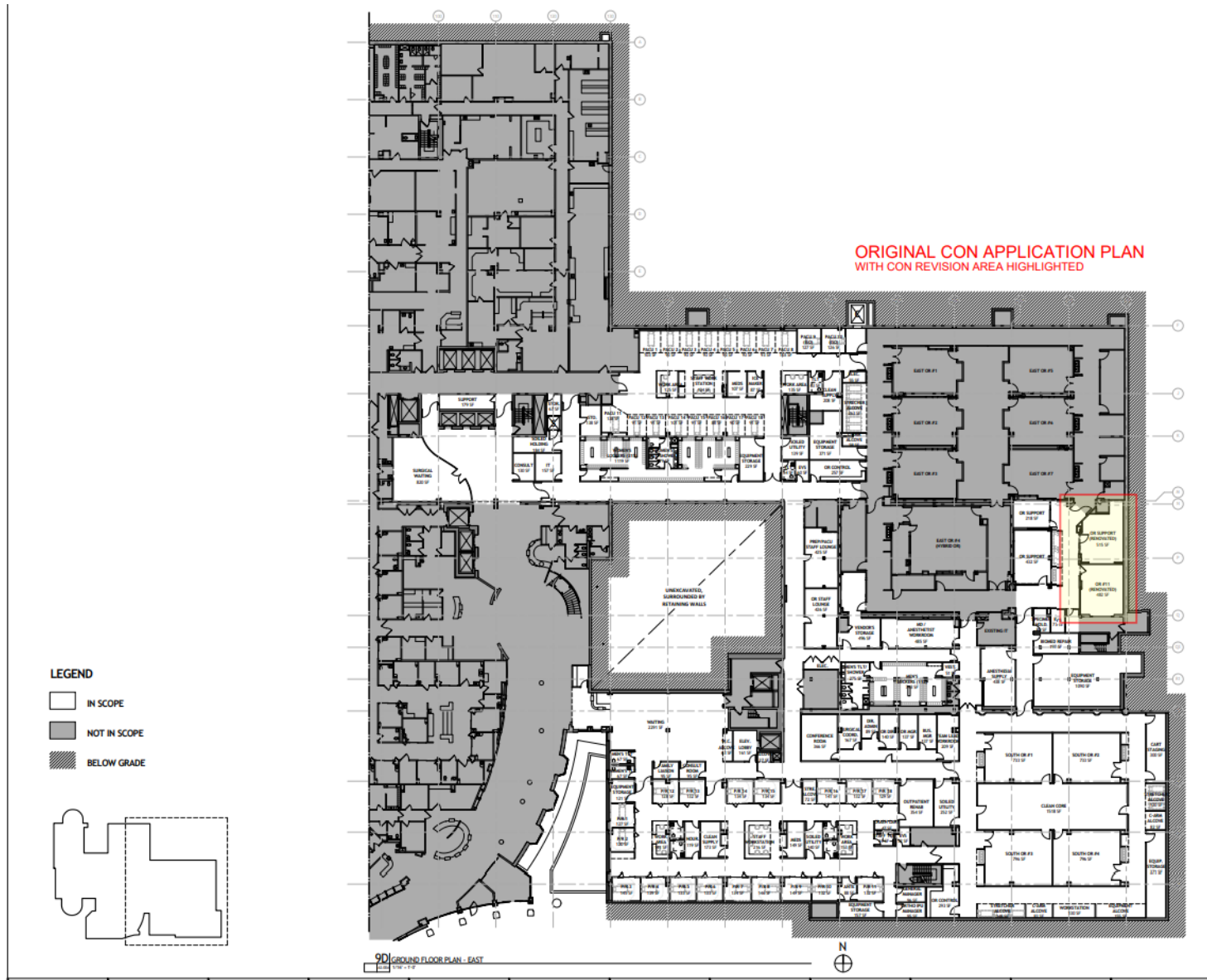
Based on Commission staff's analysis of the request by University of Maryland St. Joseph Medical Center for a project change after Certificate of Need approval, it is on this 21<sup>st</sup> day of April 2021, **ORDERED** that:

The request by University of Maryland St. Joseph Medical Center for a change to its October 16, 2018, Certificate of Need for modernization and reconfiguration of surgical facilities and other services, that would result in a total of 12 general purpose operating rooms at project completion, at an approved estimated cost of \$60,000,000, is **APPROVED**.

## MARYLAND HEALTH CARE COMMISSION

## Exhibit 1

### CON Approved Floorplan



# Exhibit 1 Continued Post-Approval Floorplan

