



**DATE:** April 20, 2023

**TO:** Commissioners

**FROM:** Wynee Hawk  
Chief, Certificate of Need

**SUBJECT:** Conversion of University of Maryland Laurel Regional Hospital to a  
Freestanding Medical Center  
Second Request for Post Approval Project Change  
Docket No. 18-16-EX002

---

Enclosed is the staff report and recommendation for a Second Request for a Project Change after Project Approval for an Exemption from Certificate of Need (CON) filed by the University of Maryland Capital Region Health (UM-CRH) to convert University of Maryland Laurel Regional Hospital to a Freestanding Medical Facility (FMF).

The project approved by the Commission in September of 2018 permitted UM-CRH to convert University of Maryland Laurel Regional Hospital to an FMF operating as the University of Maryland Laurel Medical Center (UM-LMC). The total estimated budget approved by the Commission in September of 2018 was \$53,225,855. In July 2022, the Commission approved a \$18,354,366 increase in total project costs. UM-CRH now requests an additional \$6,780,493 increase in total project costs attributed to the addition of a pedestrian connector bridge, delay in delivery of materials, design errors and inflationary increases in the cost of materials and products from the original construction estimates. The total cost of the project, if the Commission approves the second modification, will be \$78,360,714. The applicant will finance the cost of this project with bonds, interest from the bonds, cash, and grants.

The HSCRC reviewed the updated financial tables submitted in this Second Request for Post Approval Project Change and opined that while the projected operating results may be optimistic, because of the willingness of UMMS to absorb any resulting losses incurred by UM-CRH, the \$6.8M increased cost of bringing UM-LMC to a close may not materially impact UM-CRH's ability to manage the FMF.

Staff recommends that the Commission **APPROVE** this second request for project change based on staff's conclusion that the proposed project is a permissible modification as it does not include 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 2018 and in 2022 concerning the need and the positive impact of converting the hospital to an FMF.



**IN THE MATTER OF**

**CONVERSION OF**

\*

\*

**UNIVERSITY OF MARYLAND**

\*

**BEFORE THE**

**LAUREL REGIONAL HOSPITAL**

\*

**MARYLAND HEALTH**

**TO A FREESTANDING**

\*

**CARE COMMISSION**

**MEDICAL FACILITY**

\*

\*

**SECOND REQUEST FOR**

\*

\*

**POST APPROVAL PROJECT CHANGE\***

\*

\*

**Docket No. 18-16-EX002**

\*

\*\*\*\*\*

**STAFF REPORT**

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

**I. INTRODUCTION**

**Background**

Dimensions Health Corporation (Dimensions) is a not-for-profit health system owned by the University of Maryland Medical System (UMMS). UMMS acquired Dimensions on September 1, 2017. Dimensions does business as the University of Maryland Capital Region Health (UM-CRH). On September 20, 2018, the Maryland Health Care Commission (Commission) approved an exemption from Certificate of Need (CON) to convert University of Maryland Laurel Regional Hospital (UM-LRH) to a freestanding medical facility (FMF) operating as The University of Maryland Laurel Medical Center (UM-LMC).

The project was to be completed in two phases. The first phase included an operational conversion of UM- LRH from an acute care hospital to FMF operations using existing facilities of the former general hospital. The first phase was completed in January 2019.

The second phase involves construction of a new FMF building on the southwestern side of the former hospital campus. When the new construction is complete, the existing hospital building will be repurposed or demolished. Phase two, a newly constructed building with two floors totaling 75,855 square feet (SF), remains under construction. The original total budget for the project was approved at \$53,225,855. The FMF was approved for outpatient services, including: emergency, observation, diagnostic, imaging, outpatient surgery, behavioral health, primary care, and wound care.

## **Requested Project Change Summary**

On April 22, 2022, UM-CRH submitted its First Request for a Project Change to increase its budget by \$18,354,366, a 35% increase for the project. This increase brought the total expenditure from \$53,225,855 to \$71,580,221. In the First Request for Project Change, UM-CRH also requested changes in the physical plant design to the new FMF, increasing the square footage by 7,888 SF to house a community room, more outpatient services (Wound Care Center), more physician specialty clinic space and additional shell space for future expansions. The Commission approved this First Project Change Request in July 2022.

UM-CRH now presents a Second Request for a Project Change to further increase its project budget by \$6,780,493, a 9.5% increase, bringing the total project budget from \$71,580,221 to \$78,360,714. UM CRH proposes to add a second story pedestrian connector bridge between the new FMF and an adjacent medical office building for an additional \$1,200,000. Further, UM-CRH attributes the increased cost to delays in delivery of materials, design errors in the electrical panels, and the substantial increase in the actual costs of products, services and materials from the original construction and equipment estimates. The applicant stated it intends to seek recourse from contractors and others for some of these items, hoping to moderate the cost overruns.

## **II. APPLICABLE REGULATIONS**

While the Commission's regulations do not explicitly address project changes of approved CON exemptions, COMAR 10.24.01.17, which addresses project changes after CON issuance, provides a framework and relevant considerations for reviewing this request. The Commission has previously applied this regulation to requests for project changes after approval of an exemption from CON review.<sup>1</sup>

COMAR 10.24.01.17B outlines permissible modifications to approved projects that require Commission approval. An impermissible modification would require the applicant to file a new CON application or exemption request and it may not be considered by the Commission as a project change request.<sup>2</sup> COMAR 10.24.01.17C.

This project requires Commission action because the project seeks a permissible modification that 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.

---

<sup>1</sup> *In the Matter of the Consolidation of Adult Acute Psychiatric Beds: Three LifeBridge Health General Hospitals*, Dkt. No. 19-24-EX011 (Sep. 23, 2021).

<sup>2</sup> Impermissible modifications are those that change the fundamental nature of the facility or services of the approved project, increase the total licensed bed capacity or medical services, or a change that requires an extension of time to meet CON performance obligations. COMAR 10.24.01.17C

### **III. COST INCREASE AND FINANCIAL IMPACT**

The applicant compared the original total project costs of \$71,580,221 approved by the Commission in July of 2022 with the current estimate for phase two of the project. The Second Request for Post Approval Project Change reflects a total project cost for phase two of \$78,360,714, an increase of \$6,780,493. The breakdown of the additional uses of funds in the budget increase include: \$4,757,000 for construction; \$1,582,517 for movable equipment and capitalized interest; \$228,527 for inflation allowance; and \$212,448 for financing costs. Full details on the budget and the changes since original approval are available in Appendix I.

#### **The Change in Project Cost Exceeds the Inflation Allowance**

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*.<sup>3</sup> However, project cost increases that exceed that inflation allowance are required to obtain Commission approval.

Using the building cost inflation index, staff verified the applicant's calculation of the inflation allowance of \$742,714. The formula resulted in a calculation of a total allowable capital cost of \$71,243,383. The actual projected capital costs of the project were \$77,068,714, which exceeds the calculated total. Pursuant to COMAR 10.24.01.17B(2), Commission authorization of the proposed cost increase is required.

#### **Impact on Financial Performance**

This project change request includes a total project cost increase of \$6,780,493 which will be financed by cash, authorized bonds and interest income from the bonds, with the bulk of the funding from bond increases and additional interest. The Global Budget Revenue (GBR) for both the FMF and UM-CRH is expected to increase with the Health Services Review Commission (HSCRC) annual update factors, shared savings, and demographic adjustments.

The applicant projects that while the new FMF as an emergency department with related ancillary services is expected to bolster emergency department utilization, the new FMF is still projected to have operational losses. The applicant states that these losses will be absorbed through the profits of UM-CRH for the FMF to remain financially feasible.

The HSCRC reviewed the updated financial tables submitted in this Second Request for Post Approval Project Change and determined that the FY2022 data, as submitted, did not align closely with the FY2022 Maryland Hospital Audited Financial Statements annual filing, whereas by comparison, the FY2020 and FY2021 data did align closely with the FY 2020 and FY 2021 Maryland Hospital Audited Financial Statements on file.<sup>4</sup> HSCRC stated this difference may result in an overstatement in the projections. HSCRC also remains concerned about the cumulative planned performance improvements of \$40.2M, of which 20 percent is undefined. If this performance improvement is not fully realized, the result could be a potential operating loss of \$38,570,000.

---

<sup>3</sup> [https://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs\\_con/documents/con\\_cap\\_cost\\_index\\_20210503.pdf](https://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/con_cap_cost_index_20210503.pdf).

<sup>4</sup> <https://hscrc.maryland.gov/pages/hsp-afs.aspx>

HSCRC opined that the projected operating results for UM-CRH may have been presented optimistically and it is possible that UM-CRH and UM-LMC may not reach profitability within the five years ending in FY2027. HSCRC found that the profitability of the project rests largely on an undefined and unrealized performance improvement plan. HSCRC concluded, however, that if the consolidated UMMS is willing to absorb any resulting losses incurred by UM-CRH, while honoring its consolidated debt covenants, then the \$6.8M increased cost of bringing the Laurel project to a close may not materially impact UMMS's ability to manage the Laurel operation. The full HSCRC analysis and report in their memorandum to the Commission is included in Appendix II.

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

The project approved by the Commission in September of 2018 permitted the conversion of UM-LRH to an FMF at a total project cost of \$53,225,855. In July 2022, the Commission approved an \$18,480,221 increase in total project costs for inflationary cost increases and new project plans to add to the SF of the proposed project. UM-CRH now requests an additional \$6,780,493 increase in total project costs to cover additional increases in construction and project costs.

MHCC staff concludes that UMMS has the ability to absorb the cost increases of the project, even with HSCRC's concerns about the optimistic first year projections of FY2022, and the potentially optimistic assumptions in the performance improvement plan which may negatively impact the profitability of the project. The funding for the increased project cost will be from cash, authorized bonds, and interest income from the bonds.

Staff concludes that this second request is a permissible modification as it does not include 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 2018 and in 2022 concerning the need for and the positive impact of converting the hospital to an FMF. For these reasons, staff recommends that the Commission approve the requested change to the project.

IN THE MATTER OF

CONVERSION OF

UNIVERSITY OF MARYLAND

LAUREL REGIONAL HOSPITAL

TO A FREESTANDING

MEDICAL FACILITY

SECOND REQUEST FOR

POST APPROVAL PROJECT CHANGE\*

Docket No. 18-16-EX002

\*  
\*  
\*  
\*  
\*  
\*  
\*  
\*  
\*  
\*  
\*  
\*  
\*  
\*

BEFORE THE  
MARYLAND HEALTH  
CARE COMMISSION

\*\*\*\*\*

**FINAL ORDER**

Based on Commission staff's analysis of this second request for a project change after issuance of an exemption from Certificate of Need, it is this 20<sup>th</sup> day of April 2023, **ORDERED** that:

The request by University of Maryland Capital Region Health (UM-CRH) for changes to its September 20, 2018 Exemption from Certificate of Need to convert UM-LRH to an FMF at a total project cost of **\$78,360,714** is **APPROVED**.

**APPENDIX I: TABLE ON BUDGET CHANGES BY REQUEST**



## APPENDIX I: TABLE ON BUDGET CHANGES BY REQUEST

University of Maryland Laurel Regional Health Original Budget, April 2022 Change and Current Project Cost Estimate, January 2023

	Original Budget in Application	04/07/2022 1 <sup>st</sup> Change Request	% Change In 1 <sup>st</sup> Change Request	01/13/2023 2 <sup>nd</sup> Change Request	% Change In 2 <sup>nd</sup> Change Request	Total Project % Change
New Construction	\$30,240,000	\$41,500,000	37.2%	\$46,257,000	11.5%	53.0%
Renovation	\$120,855	-\$120,855	-100%	\$0	0.0%	-100%
Moveable Equipment	\$11,789,000	\$17,000,000	44.2%	\$18,232,000	7.2%	54.7%
Contingency	\$3,000,000	\$3,000,000	0%	\$3,000,000	0.0%	0%
Gross Interest	\$4,902,000	\$7,486,483	52.7%	\$7,837,000	4.7%	59.9%
Other	\$300,000	\$1,000,000	233.3%	\$1,000,000	0.0%	233.3%
Inflation Allowance	\$2,000,000	\$514,186	-74.3%	\$742,714	44.4%	
<b>Capital Costs</b>	<b>\$52,222,000</b>	<b>\$70,500,669</b>	<b>35.0%</b>	<b>\$77,068,714</b>	<b>9.1%</b>	<b>51.6%</b>
<b>Financing Costs</b>	<b>\$878,000</b>	<b>\$1,079,552</b>	<b>23.0%</b>	<b>\$1,292,000</b>	<b>19.7%</b>	<b>47.2%</b>
<b>Total Project Costs</b>	<b>\$53,225,855</b>	<b>\$71,580,221</b>	<b>34.4%</b>	<b>\$78,360,714</b>	<b>9.5%</b>	<b>47.2%</b>
Cash	\$125,855	\$125,855	0%	\$743,714	490.9%	490.9%
Authorized Bonds	\$38,100,000	\$55,455,428	45.6%	\$60,676,000	9.4%	59.3%
Interest Income from Bonds	\$500,000	\$1,624,793	224.9%	\$2,534,000	125.3%	406.8%
State Grants	\$14,500,000	\$14,500,000	0%	\$14,407,000	-0.6%	-0.6%
<b>Sources of Funds</b>	<b>\$53,225,855</b>	<b>\$71,580,221</b>	<b>34.4%</b>	<b>\$78,360,714</b>	<b>9.5%</b>	<b>47.2%</b>

Source: Project Budget, from original CON exemption request and project change request letter dated 1/13/23

**APPENDIX II: HSCRC MEMORANDUM**



**Adam Kane, Esq**  
Chairman

**Joseph Antos, PhD**  
Vice-Chairman

**Victoria W. Bayless**

**Stacia Cohen, RN, MBA**

**James N. Elliott, MD**

**Maulik Joshi, DrPH**

**Sam Malhotra**

## **Memorandum**

To: Wynee Hawk, Chief, CON, MHCC  
Eric Baker, Analyst, CON, MHCC

From: Katie Wunderlich, Executive Director, HSCRC  
Jerry Schmith, Director, Revenue & Regulation Compliance, HSCRC  
Bob Gallion, Associate Director III, Revenue & Regulation Compliance, HSCRC

Date: March 14, 2023

Re: University of Maryland Capital Region Health (UMCRH) Laurel Medical Center (UMLMC) conversion to a Freestanding Medical Facility (LFMF) - Second Request for Post Approval Project Change

**Katie Wunderlich**  
Executive Director

**William Henderson**  
Director  
Medical Economics & Data Analytics

**Allan Pack**  
Director  
Population-Based Methodologies

**Gerard J. Schmith**  
Director  
Revenue & Regulation Compliance

.....

This memo is in response to your memo directed to us dated February 2, 2023, regarding a request for our review, comment, and analysis pertaining to the viability of the proposed project as amended by the Second Request for Post-Approval Project Change.

### **BACKGROUND**

As stated in the above noted memo, on September 20, 2018, the MHCC approved an exemption from Certificate of Need (CON) to convert Laurel Regional Hospital to an FMF operating as Laurel Medical Center. On July 21, 2022, the MHCC approved a Request for Project Change. On January 5, 2023, UMCRRH submitted a Second Request for Post-Approval Project Change, and on January 13, 2023, UMCRRH submitted a supplement to the earlier submission inclusive of a revised full table set and an affirmation of the Marshall Valuation Service (MVS) analysis. MHCC has requested HSCRC's staff to comment on the following statement on page 6 of the Second Request for Post-Approval Project Change: "The presentations of projected revenue in Tables H and K reflect the approved Global Budget Revenue (GBR) for UMCRRH in total, and UMLMC specifically. The GBR is projected to increase with the HSCRC annual update factors, shared savings, demographic adjustments, and other adjustments consistent with the HSCRC payment policies."

### **THE PROJECT**

The project, as initially approved, had two phases. The FMF was originally to be located in the hospital building (Phase 1) and then moved to a new building on the southwestern side of the campus (Phase 2). When the new building was complete, the existing hospital building was to be repurposed or demolished. The FMF was approved for outpatient services including emergency, observation, diagnostic, imaging, outpatient surgery, behavioral health, primary care, and wound care. Phase 1 was completed in January 2019. Phase 2 remains under construction. The approved Phase 2 building was to have two floors totaling 75,855 square feet. The total approved cost of the project was \$53,225,855.

In April 2022, UMCRRH submitted a Request for a Project Change to the MHCC to approve an \$18,354,366 increase (34.5%) in the project budget, which increased the total cost estimate to \$71,580,221. UMCRRH also requested changes to the physical plant design in the Phase 2 building by increasing the square footage by 7,888 square feet to house a community room, more outpatient services (Wound Care Center), more physician specialty clinic space, and shell space for additional clinics for future expansion. MHCC approved the project change in July 2022.

UMCRRH has now submitted a Second Request for a Project Change representing an increase of \$6,780,493, that results in a total project budget of \$78,360,714, which is an additional 9.5% increase over the first request, for a total increase of 47.2% from the original approved budget. Applicant states the increase is needed for the following reasons:

- (a) UMCRRH proposes to add a second story pedestrian bridge connecting the FMF to an adjacent medical office building. A third-party developer will construct the bridge, with the cost shared equally between UMCRRH and the medical office building developer. UMCRRH's share of the bridge cost is approximately \$1.2 million.
- (b) Delays in the delivery of certain materials, including electrical and HVAC components, have added significant costs to the project.
- (c) Errors in the original design of electrical panels have also added cost.
- (d) The cost of certain products, services, and materials has increased. This includes the cost of asphalt, HVAC materials, electrical labor and materials, network components, and security components.

### **HSCRC STAFF REVIEW, DISCUSSION, AND OPINION**

HSCRC Staff (Staff) reviewed the Second Request for Post-Approval Project Change dated January 5, 2023, the Supplement to the Second Request for Post-Approval Project Change dated January 13, 2023, the Responses to MHCC Additional Information Questions dated February 24, 2023, and the Responses to HSCRC Additional Questions dated March 6, 2023.

Staff reviewed the revised table set dated January 13, 2023, inclusive of Table E (Project Budget). Table E reflects the increases of \$6,780,493 to the project budget's total uses of funds above and beyond that approved on July 21, 2022, by the initial post-approval project change. Such additional uses include: \$4,757,000 for construction; \$1,582,517 for movable equipment & capitalized interest; \$228,527 for inflation allowance; and \$212,449 for financing costs. Table E also reflects changes in the sources of funds as follows: additional cash needs \$743,714; increases to bonds \$5,220,572; additional income on bond proceeds of \$909,207; and reduced grant proceeds of \$93,000. As per review of responses dated March 6, 2023: the additional \$743k cash draw will be financed via UMMS intercompany loan to be paid back within five years; the

additional \$5.2M bond financing is an increase in allocation from UMMS corporate to CRH over the life of the existing MHHEFA bond issue, with no new borrowing needed; and the \$93k contraction in state grants represents the difference between the initial planned grant funding and the actual State Dept. of General Services draws through the grants' closing in 2022.

Staff reviewed Table F (Statistics Entire Facility) which covers all of UMCRH, inclusive of CRMC, LMC, and BHC. As per review of the Responses dated March 6, 2023, the data for FY2020 and FY2021 reconcile to the annual filings of the component hospital facilities as submitted to the HSCRC. However, the FY2022 data is referenced to the FY2022 budget, not to the annual filing. The measures of inpatient days and outpatient visits for FY2022 are overstated on Table F by approximately 3% as compared to the annual filing; such variance is judged immaterial. The CAGR for inpatient admissions and inpatient days reflect macro growth of 1.1% and 1.5% respectively for the five years ending FY2027. The CAGR for outpatient visits reflects macro growth of 2.8% for the five years ending FY2027. Such overall IP and OP growth rates appear reasonable.

Staff reviewed the Table G (P&L Uninflated Entire Facility) as submitted by UMCRH management. As per review of Responses dated March 1, 2023, related to the CRMC NICU CON, the FY2022 P&L was sourced from FY2022 budgeted values for CRH, not actual audited financials.

	2020	2021	2022
--	------	------	------

CRH Operating Loss measures (in 000s) as presented in the audit report are as follows:

By Division:	(\$18,092)	(\$30,266)	(\$64,522)
By Hospital:	(\$19,344)	(\$32,667)	(\$59,550)

CRH Operating Loss measures (in 000s) as presented in the submission are as follows:

As submitted:	(\$18,100)	(\$30,267)	(\$20,730)
---------------	------------	------------	------------

Given that the audited measures by division closely tie to the submissions for FY2020 and FY2021, staff noted the apparent variance as reflected in the submission for FY2022. Such understated loss in Table G for FY2022 sets up the presentation for the planned performance improvements to overcome the losses within the final projected period of FY2027. Initial impression of this presentation is that it may represent a negative cushion of \$44M in the projections.

Staff reviewed the Table G assumptions included in the submission and the Responses dated March 6, 2023, as they relate to the observed contractions in Gross Patient Service Revenues for FY2023, FY2026, and FY2027 relative to the respective prior years' projected revenues. The contractions were attributed to "shared savings adjustments" as per the responses. The cumulative gross contraction over these three projected years was \$1,646,000. Staff researched the planned reduction in GBR attributed to "All Payer Rate Reduction for TCOC Performance" to get back to HSCRC/federal contract compliance and noted such contraction over the two years ending FY2024 is to be \$885,200. Although the timing of the proposed adjustments is considerably different, the contraction as measured by CRH submission represents a potential cushion of \$761K in the projections.

Staff reviewed the rate files of CRMC, LMC, and BHC from FY2020 through FY2022. The top line patient service revenues for FY2020 and FY2021 per Table G are approximately 4.6% greater than that of the rate file, which is judged to be a reasonable variance. The top line patient service revenue for FY2022 is approximately 13.3% greater than that of the rate file. FY2022 values per Table G are referenced to internal budgets, not the audited financials and are judged to be materially overstated. Given that projected revenues build from the starting point, such projected revenues may be optimistically presented or even materially overstated.

Measured cumulative planned performance improvements of \$40.2M are reflected in the assumptions to Table G for the four years ended FY2027, of which 20% are undefined. Such improvements are consistent with the planned performance improvements of \$45.3M for the five years ended FY2028 as reflected in Table G for the related CRMC NICU CON submission, of which nearly 30% are undefined. Staff noted the difference in presentations of planned performance adjustments between the two CONs for CRH submitted just days apart. As per the responses dated March 6, 2023, the planned performance improvements are components of both the annual operating plan and the five-year plan for CRH. Here again, the starting point (FY2022) measures are important to the concluding point (FY2027) when considering the results of planned performance improvements between the two points.

Focusing on the last year (FY2027) of the five years projected in Table G, the Operating Income is projected to be \$1,630,000 (0.4% margin) as measured inclusive of the benefit of yet to be realized performance improvements of \$40,200,000. The result by implication could be an operating loss of -\$38,570,000 measured without the benefit of planned performance improvements. Cash flow from operations inclusive of performance improvements in FY2027 is projected to be a positive \$39,395,000, which could be a negative -\$805,000 if such improvements are not fully realized. Again, such concluding projections may be optimistic given that the starting point of Operating Income may be \$44M overstated.

The Table H projections (P&L Inflated Entire Facility) for CRH are modeled after those of Table G and incorporate assumptions for annual inflation. Staff researched the rate files for the three hospital facilities in CRH and concluded that the 2.58% annual inflation assumption is reasonable. Also, the assumptions for inflation on operating expenses range from 2% to 4%, which staff concludes to be reasonable. Although the 2.58% inflation factor is deemed reasonable, the overstated starting value for FY2022 may yield overly optimistic top line revenue projections going forward.

Staff reviewed Table J (P&L Uninflated New Facility) as submitted by UMCRH management, which is to represent stand-alone Laurel Medical Center. Table J reflects an average annual operating loss of -\$4.5M for the five years ending FY2027, with an Operating Loss of -\$4.4M in the last year projected. Such operating performance measures are inclusive of yet to be realized cumulative planned performance improvements of \$4.0M (10% of the performance improvements planned for CRH). Such results by implication may be translated to an average annual operating loss of -\$7.0M for the five years ending FY2027 without the benefit of planned performance improvements. Average annual Cash Loss from Operations inclusive of performance improvements is projected to be -\$2.0M for the five years projected, or -\$4.5M without performance improvements.

Staff reviewed the rate files for LMC. The top line patient service revenues for FY2020 and FY2021 per Table J are approximately 18% lower than that of the rate files, which is likely attributed to the changes in operations to that facility. Top line revenues for FY2022 are approximately 10% lower than the rate files. Such a variance implies a conservative starting position for Laurel's projected revenues.

Staff reviewed Table K (P&L Inflated New Facility) noting that the operating margin measures and the cash flow measures continue to reflect losses throughout the five years projected notwithstanding the impacts of the inflation assumptions, which staff judged to be reasonable. The Table K assumptions are using 2.58% inflation to project forward, which is deemed a reasonable assumption, the resulting revenue projections should be reasonable and conservative.

Staff was not provided projected balance sheets for CRH; therefore, staff is not in a position to comment on projected days of cash on hand or projected debt service coverage ratios. Staff is of the understanding that although the obligated group member may be CRH, the obligated group for MHHEFA financing is UMMS consolidated.

In conclusion, the projected operating results for CRH may have been presented optimistically. It is quite possible that CRH and LMC may not reach profitability within the five years ending FY2027. However, if the consolidated UMMS is willing to absorb any resulting losses incurred by CRH, while honoring its consolidated debt covenants, then the \$6.8M increased cost of bringing the Laurel project to a close may not materially impact UMMS's ability to manage the Laurel operation. However, as cautioned above, the profitability of the project rests largely on a performance improvement plan that is still in part undefined and yet to be realized, and the operating margins as presented may be overstated, which collectively may place additional financial strain on CRH.