

April 1, 2024

**VIA E-MAIL**

Mr. Tom Dame and Ms. Alison Lutich  
Gallagher Evelius & Jones Attorneys at Law  
218 North Charles Street, Suite 400  
Baltimore, MD 21201

Re: Request for Exemption from Certificate of Need (CON) Review  
Merger and Consolidation of the University of Maryland  
Rehabilitation and Orthopaedic Institute and the University of  
Maryland Medical Center – Docket 23-24-EX017

Dear Mr. Dame and Ms. Lutich,

The Maryland Health Care Commission (MHCC or Commission) and Health Services Cost Review Commission (HSCRC) staff have reviewed your responses to our respective agency's inquiries about the proposed merger and consolidation of acute inpatient rehabilitation and chronic care beds from University of Maryland Rehabilitation and Orthopaedic Institute (UMROI) to the University of Maryland Medical Center, LLC (UMMC). Based on the responses received on February 28, 2024, and March 15, 2024, MHCC has additional follow-up questions.

**MHCC**

1. UMROI/UMMC's responses to the completeness request dated January 25, 2024, raised questions related to Question 11, which focused on the Acute Care Hospital Services State Health Plan (SHP) Chapter.

In the March 15, 2024, submission, you referenced the SHP chapter effective on March 18, 2024, while in the February 28, 2024, submission, the previous SHP chapter appears to have been utilized.

Projects are governed by the SHP regulations in place at the time of submission. Given that the updated SHP chapter is silent on the effective date and this matter is still pending at the time the regulations became effective, we are amenable to applying the current SHP chapter if that is your preference. Please specify which Acute Care Hospital SHP chapter you prefer the Request for Exemption to be evaluated, either the SHP in effect when the request was submitted or the SHP effective March 18, 2024. Further, please review your

Request for Exemption, and all subsequent submissions to ensure consistency with the SHP standards and update accordingly.

2. For Question 13, answered via Exhibit 13, please submit UMROI's post-survey Quality Improvement Plan, addressing all recommendations identified by CARF in its accreditation review, as indicated in the Executive Summary of the CARF Accreditation Report at the bottom of page 5.
3. For Question 21, please respond to the following:
  - a. The Project Budget submitted in December 2023 listed a Total Use of Funds of \$207,315,000. However, UMROI/UMMC revised the budget in their March 15, 2024, completeness responses, indicating that the project's costs now amount to \$235,855,047, representing an increase of \$28.5 million or approximately 13.6% in project costs.

Despite this adjustment, UMROI/UMMC's response to Question 21(c) and (d) from the Commission's January 25, 2024, request for additional information was non-responsive.

The initial Project Budget (Table E) included costs for items such as third-party peer review of documents, third-party testing & scheduling, curtain wall testing, and a category labeled as "Other" in line A.2.f. UMROI/UMMC stated that these costs are "not applicable" in their revised response dated March 15, 2024, but did not provide an explanation supporting why these identified costs are deemed irrelevant.

Given the substantial increase in Total Project Cost, please clarify where these costs are: Are they recategorized within the project's expenses or eliminated? If these costs are still included, please revise Table E and provide a detailed response regarding the allocation.

- b. The Total Project Cost is \$235.9 million, an increase of \$28.5 million in recent months. Please elaborate on the factors contributing to the Total Project Cost increase of 13.6% in the last two months. Furthermore, do the Applicants have any evidence or assurance that there will not be similar cost increases before the completion of the proposed project?
- c. While your initial application suggested an anticipated \$55 million in state funding for the hospital's additional floors, it was acknowledged that this funding was not assured. Given this uncertainty and the unpredictability of future events that could



further affect State funding, please address how this has been factored into your plans.

- i. Please elaborate on whether there are any contingency plans for unanticipated increases in project costs, such as implications of the Francis Scott Key bridge incident? Please discuss any potential factors such as labor, supply chain disruptions for construction materials and supplies, or any other expenses related to the completion of construction for this project.
    - ii. Question 21(g), the applicants state that the fiscal year 2025 Governor's Capital Budget submitted in January 2024 does not include funding for the proposed UMROI/UMMC relocation project. Please provide details that support the applicants' reliance on this belief including the communication with the State on future negotiations and allocation of \$55.0 million for the proposed Exemption. What is the basis for the applicants' representation and the assumption that the State will fund this project in future State capital budgets?
  - d. For Question 21(h), please discuss the contingency plans UMMC has developed if the State does not set aside the \$55.0 million as a source of funds for this proposed project. Please submit documentation or evidence that the applicants have sufficient cash or allocated funds in place to finance the State funding portion for this project.
4. The Commission recently approved a project change for the University of Maryland Medical Center after project approval on October 19, 2023. Please explain why these changes were not included in the planning and construction of the mechanical penthouse, which is now proposed to be relocated to the top of the 14th floor instead of the 9th and 10th floors of the Greenebaum Comprehensive Cancer Center/Stoler Center?

## HSCRC

1. Regarding the interest expenses on the profit and loss statement (Table G): HSCRC staff seeks clarification on whether the recorded values are either gross or net of interest income. Refer to the attached Excel spreadsheet illustrating the staff's calculations. Subsequently, please clarify the following concerns in both Part a. and Part b. below.
  - a. In reviewing the budget (Table E as revised 03/18/24), based on the expectation that interest earned on bond will increase at a 2.5% rate, staff has identified a discrepancy in this table. Subtracting interest earned from interest expensed yields a net interest incurred on project debt from '27 to '30 of \$18,863K. Adding back capitalized interest brings the interest closer to the \$42,242K reflected in the



amortization schedule (but still \$2.8 million higher). Please address and clarify this discrepancy.

- b. Table G shows interest expenses on project debt from '27 through '30 totaling \$25,229K.
  - i. Table E reveals capitalized interest on project debt of \$26,173K during the construction periods from '26 through '28, resulting in a combined amount of \$51,402K over the five years ending in '30.
  - ii. Additionally, amortization of \$174,489 over 30 years at 5% starting in '26 results in a total of \$42,242K for the first five years. This creates a difference of \$9,160K between these periods.
  - iii. Table E also reflects interest income on debt proceeds of \$6,366K. If this income is netted against interest expense on project debt, the difference would decrease to \$2,794K.

Given the figures above, is the interest on project debt as presented in Table G either net or gross of interest income on bond proceeds?

2. Usually, interest on current debt and depreciation of current assets are not affected by inflation. There are noted inconsistencies between the revised Table G and Table H regarding interest in '21, '22, and '26 and depreciation in '26. Please reconcile these differences.
3. A request for an increase to your Gross Budget Revenue (GBR) for incremental capital-related expenses due to this project was not noted in your 12/29/23 Exemption request. Based on a review of that submission, can you please clarify your current intent and whether UMMC is seeking an increase in its GBR or incremental GBR for capital to transfer the 58 beds from UMROI to UMMC?
4. Based on the 12/29/2023 Exemption request, revenue projections include \$65,765,000 of top-line patient service revenues from the transfer of 58 beds from UMROI to UMMC (FY2030 over FY2026) as shown in Table J, and \$94,782,000 in incremental revenues (FY2030 over FY2026) as shown in Table G, both without accounting for inflation. Following inquiries about the higher figures in Table G, the HSCRC discovered that costs were associated with GCCC operations. However, the \$94,782,000 closely matches the \$95,153,000 stated in UMMC's request. What components contribute to the revenue projections?



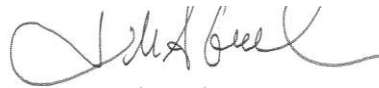
Tom Dame, Esq. and  
Alison Lutich, Esq.  
April 1, 2024  
Page 5 of 5

Please submit four (4) copies of the responses to completeness questions and the additional information requested in this letter within ten (10) working days of receipt. Also submit the response electronically, in both Word and PDF format to [mhcc.confilings@maryland.gov](mailto:mhcc.confilings@maryland.gov). Given the number of questions posed, as well as the time required for staff to compile these questions, we will grant an extension to the ten-day target specified in the regulation as soon as you request it.

All information supplementing the application must be signed by person(s) available for cross-examination on the facts set forth in the supplementary information, who shall sign a statement as follows: "I hereby declare and affirm under the penalties of perjury that the facts stated in this application and its attachments are true and correct to the best of knowledge, information, and belief."

If you have any questions regarding this letter, you may contact me either by phone at (410) 764-3371 (or [jeanne-marie.gawel@maryland.gov](mailto:jeanne-marie.gawel@maryland.gov)).

Sincerely,



Jeanne-Marie Gawel  
Acting Chief, Certificate of Need, MHCC

cc: Jerry Schmith, Principal Deputy Director, HSCRC  
Bob Gallion, Associate Director, HSCRC  
Allan Pack, Principal Deputy Director, HSCRC  
Stan Lustman, Assistant Attorney General, HSCRC  
Wynee Hawk, Director, Center for Health Care Facilities Planning and Development  
Alexa Bertinelli, Assistant Attorney General  
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Christopher Tully, Esq., Associate Counsel, UMMS  
Lucas Sater, Senior Director, Reimbursement and Revenue Advisory Services, UMMS  
Mariama Simmons, Chief, Outpatient Quality Initiative  
Patricia T. Nay, M.D., Office of Health Care Quality  
Ihuoma Emenuga, M.D., Commissioner of Health, Baltimore City Department of Health  
Ruby Potter, MHCC

