

February 8, 2019

VIA EMAIL & HAND DELIVERY

Ms. Ruby Potter
Health Facilities Coordination Officer
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

Re: Shore Health System
Request for Certificate of Exemption from CON Review
Merger and Consolidation of UM SMC at Dorchester and UM SMC at Easton

Dear Ms. Potter:

On behalf of Shore Health System, Inc. *d/b/a* University of Maryland Shore Medical Center at Easton and University of Maryland Shore Medical Center at Dorchester, we are submitting four copies of its response to the additional information questions from the Health Services Cost Review Commission dated January 9, 2019. A WORD version will be provided under separate cover.

I hereby certify that a copy of this submission has also been forwarded to the appropriate local health planning agency noted below.

Sincerely,



Thomas C. Dame

Sincerely,



Mallory Regenbogen

TCD/MMR:v1
Enclosures

Ms. Ruby Potter
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cc: Kevin McDonald, Chief, Certificate of Need, MHCC
Paul Parker, Director, Center for Health Care Facilities Planning & Development, MHCC
Suellen Wideman, Esq., Assistant Attorney General, MHCC
Katie Wunderlich, Executive Director, HSCRC
Jerry Schmith, Director, Review and Compliance, HSCRC
Roger L. Harrell, MHA, Health Officer, Dorchester County Health Department
Scott LeRoy, MPH, MS, Health Officer, Caroline County Health Department
Fredia Wadley, MD, Health Officer, Talbot County Health Department
Pat Gainer, Acting Co-Executive Director, Maryland Emergency Medical Services
Systems
Kenneth D. Kozel, President & CEO, UM Shore Regional Health
Robert Frank, Sr. Regional V.P., Operations, UM Shore Regional Health
William Huffner, M.D., Sr. V.P., Medical Affairs & Chief Medical Officer, UM Shore
Regional Health
Ruth Ann Jones, Sr. V.P., Patient care Services & Chief Nursing Officer, UM Shore
Regional Health
Patti Willis, Sr. V.P., Strategy & Communications, UM Shore Regional Health
JoAnne Hahey, Chief Financial officer, UM Shore Regional Health
Michael Wood, Sr. Director of Reimbursement, UMMS
Megan Arthur, Senior Vice-President & General Counsel, UMMS
Sandra H. Benzer, Esq., Associate Counsel, UMMS
Darryl Mealy, V.P. of Construction & Facilities Planning, UMMS
Josh Repac, Berkeley Research Group, LLC
Craig Wheelless, Director, Health Care Advisory Services, KPMG, LLP
David Klahn, Vice President, HKS, Inc.
Andrew L. Solberg, A.L.S. Healthcare Consultant Services

**UM Shore Regional Health
Merger and Consolidation of UM SMC at Dorchester and
UM SMC at Easton**

**UM Shore Regional Health's Responses to
January 9, 2019 Completeness Questions from HSCRC**

- 1. There are some significant changes in projected expenses in the uninflated projected financial statements such as a reduction in projected salaries and benefits from \$113,417,000 in FY 2021 to \$107,520,000 in FY 2022 and an increase in other expenses from \$44,068,000 in FY 2021 to \$53,042,000 in FY 2022. We did not see where these changes were explained in the assumptions provided. We believe that Shore should provide all assumptions regarding the projected financial statements.**

[Applicant Response](#)

Both the Merger/Consolidation and the FMF Applications were prepared utilizing fiscal year 2017 trial balance detail and projected forward leveraging fiscal year 2018 year-to-date performance and Shore Health System ("SHS") Management's anticipated operating model(s) of these facilities in fiscal year 2022.

Based on these sources, UM SHS Management developed detailed assumptions on:

- (a) Patient Revenue
- (b) Deductions From Revenue
- (c) Salaries and Wages
- (d) Benefits
- (e) Professional Fees
- (f) Supplies
- (g) Purchased Services
- (h) Utilities
- (i) Incremental Facility Cost
- (j) Incremental Depreciation and Interest

These assumptions are provided in Exhibit 1 accompanying tables G, H, J, and K in the Applications.

In reference to the salaries and benefits question above, the decrease of \$5.9 million is primarily driven by the reduction in FTEs due to a reduction in facility support services based off anticipated fiscal year 2022 facility plans. In a follow-up meeting scheduled for February 12, 2019, between SHS and the HSCRC, SHS will answer any further questions related to projected revenues and expenses and their underlying assumptions.

- 2. Even though the assumptions state that deductions from revenue will remain constant throughout the projection period at the FY 2017 levels, the percentage of projected total deductions from revenue increase from 21.9% in FY 2017 to 24.0% in FY 2025 causing projected net revenue to decrease by \$8,311,000 from the level they would have been if deductions from revenue had been held constant as stated in the assumptions.**

Applicant Response

After review of the uninflated tables, the HSCRC staff is correct that the deductions from gross revenue presented in the uninflated tables is inappropriately increasing. As HSCRC staff will note, the deductions from gross revenue presented in the inflated table are held constant throughout the projection period and presented accurately. The uninflated tables will be corrected in the revised tables that will be submitted shortly.

- 3. It is our understanding that once the FMF is completed approximately 1 mile away from the current hospital in Cambridge, that the land where the hospital currently is located will be developed. Will the income generated from the development be offset against the cost of the new facility for rate-setting purposes?**

Applicant Response

At this time, it is unknown what costs will be incurred by SHS to prepare the site to allow a proposed sale to occur and what the potential proceeds from the sale of the current UM SMC at Dorchester property would be. Given this uncertainty, SHS assumed no additional cost or proceeds for the sale/development of the current UM SMC at Dorchester site.

- 4. The projected uninflated total revenue in FY 2021 is \$312,411,000 decreasing by \$2,219,000 to \$310,192,000 in FY 2022, a reduction of only .7%. Discharges are projected to decrease by 2.5% between FY 2021 and FY 2022 with patient days projected to decrease by 4.6% between FY 2021 and FY 2022 also. Although emergency room volumes are projected to remain constant between FY 2021 and FY 2022, MR1 volumes are projected to decline by 52% and Same Day Surgery volumes are projected to decline by 14%. Based on the projected decrease in supplies shown in the assumptions it would appear that Shore is projecting an overall volume decrease of 3.3% between FY 2021 and FY 2022.**

Could Shore provide the assumed detailed dollar amounts supporting the projected revenue for UM Easton, UM Dorchester, Queen Anne, and the new FMF at Cambridge for FY 2021 through FY 2022 showing:

- a. Projected GBR revenue FY 2021
- b. Revenue lost to other providers between FY 2021 and FY 2022
- c. Projected GBR revenue FY 2022

Please also provide projected annual net unregulated revenue by department for FY 2020 through FY2024.

Applicant Response

Please see Table 64 below detailing the GBR components of the UM SMC at Dorchester project, and SHS regulated and unregulated revenue.

Table 64
Projected GBR for SHS FY2021 and FY2022

	FY21	FY22
UM SMC at Dorchester Revenue Components		
UM SMC at Dorchester GBR	\$ 55,333	\$ -
UM SMC at Dorchester Ceases Operation	-	(56,683)
UM SMC at Dorchester Revenue Shift to:		
UM SMC at Dorchester Bed Merger/Consolidation to UM SMC at Easton	-	31,776
Cambridge FMF (Excluding UCC Markup)	-	20,409
Cambridge MOB (Unregulated)	-	2,401
Revenue Shift to Competitors	-	2,099
Total - DGH Revenue	\$ 55,333	\$ -
Shore Health System Regulated Revenue		
UM SMC at Dorchester	\$ 55,333	\$ -
Cambridge FMF	-	20,409
UM SMC at Easton (Includes IP Bed Transfer in FY22)	225,376	263,746
Queen Anne's	7,563	7,747
UM Shore Health System Regulated Revenue	\$ 288,272	\$ 291,901
<i>% Change</i>		1.3%
Unregulated Revenue (Presented for Informational Purposes Only)		
UM SMC at Easton - Unregulated	51,046	52,006
UM SMC at Dorchester / Cambridge MOB - Unregulated	2,729	6,365
Total - Shore Health System Unregulated Revenue	\$ 53,775	\$ 58,372
<i>% Change</i>		8.5%

Note - Regulated and unregulated revenue are assumed to increase at a 2.44% annual revenue growth factor

In a follow-up meeting scheduled for February 12, 2019 between SHS and the HSCRC, SHS will answer any further questions related to the projected unregulated revenues and expenses and their underlying assumptions.

- 5. The Exemption request lists projected MSGA patient days of 31,378 in FY 2018 which we assume is the basis for projecting patient days forward. Dorchester reported 5,859 actual MSGA patient days and Easton reported 22,301 actual MSGA patient days in FY 2018 for a total of 28,160 MSGA patient days, or 3,218 less patient days than projected. The 3,218 difference in patient days represents an average daily census of 9 patients. Is it possible that the volumes will decrease enough between now and FY 2022 where the proposed additional beds at Easton will not be needed?**

Applicant Response

The fiscal year 2018 patient days presented in the Merger/Consolidation Application were developed by annualizing six months of actual utilization data between July 2017 and December 2017. The Applicant has since updated this projection based on full fiscal year 2018 utilization sourced from the Maryland State non-confidential patient level data set. During this process, the definition of MSGA was refined to exclude rehabilitation discharges and patient days at UM SMC at Easton to better align with the annual filing data, resulting in a decrease to the MSGA patient days presented by the Applicant. After making these updates, the Applicant identified 27,974 MSGA patient days in total for both UM Shore Medical Center facilities (21,968 MSGA patient days at UM SMC at Easton and 6,006 MSGA patient days at UM SMC at Dorchester) for fiscal year 2018. This updated patient days figure represents a difference of less than 1% in the patient days presented in the fiscal year 2018 annual filings referenced in this question.

As the fiscal year 2018 MSGA patient days figure sets the baseline for the projection period, the Applicant has updated the bed need projection for fiscal year 2018 actual utilization. In addition to updating the patient days in the projection model, the Applicant also evaluated the assumptions within the model for reasonableness based on the full fiscal year 2018 utilization data. In the Merger/Consolidation Application, the Applicant assumed a projected decrease in the average MSGA length of stay of 3.2% per year at UM SMC at Easton beginning in fiscal year 2019 and continuing each year through the end of the projection period, which resulted in an 18% reduction in the average length of stay at UM SMC at Easton and a 15% reduction in the average length of stay across SHS between fiscal years 2018 and 2024.

As a result of ongoing population health initiatives, the average length of stay dropped by 7% at UM SMC at Easton between fiscal years 2017 and 2018, leading the Applicant to conclude that some of the benefits associated with these initiatives have been realized sooner than initially expected. Based upon this updated information, the Applicant determined the average length of stay assumption in the Merger/Consolidation Application may be too aggressive. As a result, in the updated bed need projection, the Applicant included average length of stay reductions of approximately 3% at UM SMC at Easton in fiscal years 2019 and 2020, and then assumed that the average length of stay will remain constant through the rest of the projection period. This results in a more reasonable reduction in the average length of stay of 6% at UM SMC at Easton and 5% across all of SHS between fiscal years 2018 and 2024.

The impact of this change on the projected average length of stay at UM SMC at Easton offsets the impact of the lower number of patient days in fiscal year 2018. As a result, the Applicant finds that the projected bed need remains approximately the same. The Applicant therefore considers the request for a total of 95 MSGA beds (17 related to patients from UM SMC at Dorchester and 78 at UM SMC at Easton) to continue to be reasonable.

6. **We noted that the historical financial statements in the Exemption request do not include nonoperating income. In reviewing the audited financial statements we noted that Shore generated \$7.8 million in non-operating income during FY 2018. Please estimate non-operating income for FY 2019 through FY2025. We also noted that Shore transfers to affiliates totaled \$18,187,000 during FY 2018 and \$22,886,000 during FY 2017. Please explain what these transfers were and whether the transferred amounts and the non-operating income could be used to fund the proposed project?**

Applicant Response

The transfers to affiliates in fiscal year 2017 and fiscal year 2018 comprised of payments to University of Maryland Community Medical Group, LLC (“CMG”) and Shore Medical Group, LLC (“SMG”), SHS’s Physician Group, and University of Maryland Medical System Enterprise Road Map and Strategic Priorities Allocation. As these allocations fund strategic wide UMMS initiatives, SHS cannot reasonably assume these transfer payments would be discontinued in the foreseeable future and be reallocated to fund day to day operations of SHS.

As the HSCRC noted, in fiscal year 2018 SHS had investment income of \$7.8 million, however, the fiscal year 2019 SHS budget includes \$2.4 million of investment income, a difference of \$5.4 million from fiscal year 2018 to fiscal year 2019. Furthermore in fiscal year 2019 to date (as of December 2018), SHS was approximately \$5.0 million below the investment income budget of \$2.4 million. Given the uncertainty and volatility in today’s financials markets, SHS believes it would be unreasonable to allocate “projected” investment dollars to care for the medical needs of the community in fiscal year 2022. Given this uncertainty, SHS has assumed a 2.0% investment earning rate based off the fiscal year 2019 budget and has not assumed any other non-operating expense over the projection period.

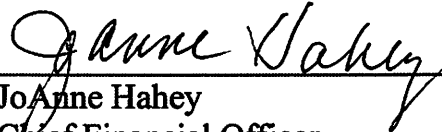
INDEX OF TABLES

Table 64 Projected GBR for SHS FY2021 and FY20223

I hereby declare and affirm under the penalties of perjury that the facts stated in this Response to Additional Information Questions Dated January 9, 2019 and its attachments are true and correct to the best of my knowledge, information, and belief.

2/8/2019

Date



JoAnne Hahey
Chief Financial Officer
UM Shore Regional Health

I hereby declare and affirm under the penalties of perjury that the facts stated in this Response to Additional Information Questions Dated January 9, 2019 and its attachments are true and correct to the best of my knowledge, information, and belief.

2/8/19

Date



Joshua Repac

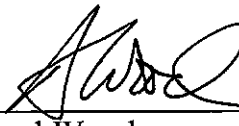
Director

Berkeley Research Group, LLC

I hereby declare and affirm under the penalties of perjury that the facts stated in this Response to Additional Information Questions Dated January 9, 2019 and its attachments are true and correct to the best of my knowledge, information, and belief.

2/8/19

Date



Michael Wood
Senior Director, Rate Setting, Reimbursement
& Revenue Advisory Services
UMMS