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Health Services Cost Review Commission

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Memorandum

Date: February 15, 2019

To: Kevin McDonald, Chief, Certificate of Need

From: Gerard J. Schmith 
Director of Revenue and Compliance, HSCRC

Subject: University of Maryland Shore Regional Health Requests for Exemption from CON Review: Merger and Consolidation of University of Maryland Shore Medical center at Dorchester and University of Maryland Shore at Easton and conversion of University of Maryland Medical Center at Dorchester to a Free-Standing Medical Facility.

You have requested that HSCRC:

1. Review the financial projection projections for the consolidation of University of Maryland Shore Medical Center at Dorchester (Dorchester) and University of Maryland Shore at Easton (Easton) and conversion of University of Maryland Medical Center at Dorchester to a Free-Standing Medical Facility (FMF).
2. A determination regarding each outpatient service to be provided at the FMF.
3. Approval of rates from the HSCRC for each rate-regulated outpatient service at the proposed FMF.
4. A determination as to whether the proposed GBR for Easton and the FMF is likely to be approved.

The proposal to convert Dorchester to an FMF is estimated to cost \$42.4 million. The merger of Dorchester and Easton is estimated to cost \$8.5 million for renovations to increase inpatient bed capacity at Easton as Dorchester's inpatients are transferred to Easton after Dorchester is closed.

Ultimately, University of Maryland Shore Regional Health (Shore) proposes to replace the existing Easton hospital with a new facility at a new location costing approximately \$350 million to be financed with \$311 million in bonds, \$25 million in philanthropy, and \$14 million in cash.

Our comments are limited only to the consolidation of Dorchester and Easton and the FMF and the projected financial statements provided by Shore without the new proposed replacement hospital for Easton.

General Comments on Financial Feasibility

Data Reviewed

Staff reviewed the projected financial statements submitted as part of the CON exemption requests; assumptions provided for those projected financial statements; Shore's answers to staff's questions regarding the exemption requests; and the audited financial statements for the University of Maryland Medical System.

Sources of Funds

The proposed financing for both the \$42.4 million FMF and the \$8.5 million in renovations assumes 100% debt. Ideally the staff would like to see a substantial equity contribution for all proposed capital projects. Staff believes that a portion of the significant profits that Shore generated before equity transfers of over \$61 million for FY 2017 and FY 2018 (\$33 million in FY 2018) could be used as an equity contribution for the proposed project.

Staff Comments on Proposed Project

Staff notes that the existing Queens Town FMF provides laboratory and radiology services that Shore has not included as part of its CON exemption request. Staff also notes that in the CON exemption request for the FMF concerning the description of the project, Shore stated that it would be providing radiology services and 24-hour laboratory services.

In reviewing Shore's responses to staff's questions regarding the proposed FMF, Shore stated that it would retain all of Dorchester's current emergency room volumes including those patients who are now admitted to the inpatient unit at Dorchester in order to justify the number of treatment rooms proposed for the FMF. However, staff also noted that Shore has stated that after Dorchester is closed there will be some shift of Dorchester's services to other regulated and unregulated providers that are not related to Shore.

In the projected financial statements for the FMF Shore did not include any revenue for unregulated services despite including the following expenses for physician services:

1. Emergency services-\$1,124,000
2. Observation Unit-\$463,000
3. Laboratory-\$110,000
4. Cardiology-\$81,000.

Staff believes that if Shore includes the additional regulated revenue from laboratory and radiology services and the unregulated revenue from physician services in the FMF in its projections, there will

no longer be a need to subsidize the FMF emergency room charges for the \$4,079,778 related to the rate realignment impact as described in Shore's responses to the staff's questions on the project.

Staff Recommendation

Staff is recommending approval of the services to be provided at the FMF that were requested as part of the CON exemption request including:

1. Emergency room
2. Cardiac/Pulmonary laboratory
3. Infusion
4. Observation
5. Cat Scan
6. Psychiatric Day Care

Staff believes that Shore could modify its list of proposed outpatient services for the FMF to include laboratory and radiology services.

Staff is willing to approve rates for the FMF and a revised GBR for Easton in the future. However, further discussions need to occur to ensure that the proposed rates are reasonable. As part of the approval of rates for the FMF and the revised GBR for Easton, staff will require that the portion of the savings related to the closure of Dorchester that Shore is allowed to retain in its revised GBR for Easton and the FMF approved rates will be used to fund the new proposed hospital in Easton.

Staff believes that substantial resources could be available which would allow Shore to complete the FMF and the consolidation of the inpatient service of Dorchester and Easton without an increase to rates or patient charges.