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January 9, 2019

Via E-mail and USPS

Mallory Regenbogen, Esquire
Gallagher, Evelius & Jones
218 North Charles Street, Suite 400
Baltimore, MD 21201

**Re: Shore Health System Request for Exemption from CON -
Conversion of UM Shore Medical Center at Dorchester to a
Freestanding Medical Facility – Docket No. 18-09-EX006**

**Request for Exemption from Certificate of Need Review for
Merger and Consolidation of University of Maryland Shore
Medical Center at Dorchester to University of Maryland at
Easton – Docket No. 18-09-EX007**

Dear Ms. Regenbogen:

On November 20, 2018 MHCC requested that HSCRC provide its perspective on the two exemption requests referenced above (November 20 memo attached).

With regard to the Conversion of UM Shore Medical Center at Dorchester to a Freestanding Medical Facility, COMAR 10.24.19.04 C (3) (v) and (vi) require an applicant to convert an acute hospital to an FMF to receive:

- (a) a determination from HSCRC, issued pursuant to COMAR 10.37.10.07-2D, regarding each outpatient service to be provided at the proposed FMF for which the applicants seek rate regulation, and;
- (b) approved rates from HSCRC for each rate-regulated outpatient service at the proposed FMF.

Concerning the Merger and Consolidation of University of Maryland Shore Medical Center at Dorchester to University of Maryland at Easton In addition, MHCC requested that:

- a) HSCRC staff review the financial projections provided in this exemption request, and advise MHCC whether the project is financially feasible.
- b) HSCRC staff advise MHCC whether Shore's GBR proposal is likely to be approved.

On December 20 HSCRC staff responded with a set of questions for each exemption request that it would need answers to in order to advise MHCC regarding these proposals. Those questions are listed below. Please provide MHCC with a response to these questions (in separate correspondence for each project), with copies sent to HSCRC.

Conversion of UM Shore Medical Center at Dorchester to a Freestanding Medical Facility

1. Please provide the departmental break down of the projected revenue for the FMF. In FY 2018 the free-standing emergency room at Bowie reported \$20,721,062 as total HSCRC regulated revenue on 31,282 visits, or an average of \$662 per visit. In FY 2018 the Queens Town free-standing emergency room reported \$7,034,873 as total HSCRC regulated revenue on 15,195 visits, or \$463 per visit. In FY 2018 the Germantown free-standing emergency room reported \$14,185,579 as total HSCRC regulated revenue on 24,565 visits, or \$577 per visit. The Cambridge FMF CON shows projected total uninflated revenue in FY 2022 of \$18,962,000 on 19,578 visits, or \$969 per visit.
2. The projected total deductions from revenue for the FMF by itself equal 18.1% of revenue in FY 2024. For the entire facility the projected deductions from revenue equal 24.0% of revenue in FY 2024. Why would the FMF have much lower deductions from revenue than the entire facility particularly when the FMF is projected to have 3% self-pay patients while the entire facility is projected to have only .5% self-pay patients?
3. Please provide a list of the physician specialties included in the projected professional fees of \$1,778,000 in the CON including projected FTE's and projected salaries per FTE.
4. Please provide a departmental breakdown of the projected other expenses of \$4,862,000 including billing, medical records, IT services, and other administrative functions for the FMF.
5. Dorchester reported 17,468 outpatient emergency room visits for FY 2018. The projected FY 2022 FMF emergency room visits are 19,578, or 12% more than Dorchester's actual FY 2018 visits. Are the projected FMF FY 2022 emergency room visits still reasonable given the large difference between the actual and projected FY 2018 visits?
6. The projected FY 2022 FMF emergency room visits of 19,578 divided by 365 days results in an average of 54 patients per day. Multiplying the 54 patients by an average of 2.5 hours per visit results in an average time of 135 hours per day of emergency rooms needed. Dividing the 23 patient care rooms assumed in the CON results in an average of about 6 hours per day

of usage per room. If the actual FY 2018 visits are substituted for the projected visits the usage per room is even lower. Are there too many emergency rooms projected for the project?

7. There are 743 observation patients projected for the FMF in FY 2022 staying 31,933 hours, or an average of 42 hours per patient. In FY 2018 Dorchester treated 700 observation patients who stayed 19,444 hours, or an average of 28 hours per patient. Why would the time that observation patients were treated increase by 50%?
8. In the most recent ICC calculations from FY 2017, Dorchester would be subject to a 17.52% revenue reduction and Easton would be subject to a 19.08% revenue reduction. Under the REM calculations with a profit adjustment Dorchester was 9.5% over the average for its peer group and Easton was 10.0% above the average for its peer group. What kind of rate reductions would Shore be willing to absorb in order to obtain approval for the proposed consolidation and FMF construction?

Merger and Consolidation of University of Maryland Shore Medical Center at Dorchester to University of Maryland at Easton

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.
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.
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?
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, MRI 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

Mallory Regenbogen, Esquire
January 9, 2019
Page 4

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 FY 2024.

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?
6. We noted that the historical financial statements in the Exemption request do not include non-operating 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?

Sincerely,



Kevin McDonald
Chief, Certificate of Need

cc: Thomas Dame, Esq.
Roger Harrell, MHA, Dorchester County Health Department
Fredia Wadley, M.D., Talbot County Health Department
Katie Wunderlich, HSCRC
Jerry Schmith, HSCRC
Paul Parker, MHCC
Ben Steffen, MHCC

MEMORANDUM

TO: Katie Wunderlich, Executive Director, HSCRC
Jerry Schmith, Deputy Director, Hospital Rate Setting, HSCRC

FROM: Kevin McDonald, Chief - CON, MHCC

DATE: November 20, 2018

**RE: University of Maryland Shore Regional Health Requests for Exemption from CON
Review: Merger and Consolidation of UM SMC at Dorchester and UM SMC at Easton
and
Conversion of UM Shore Medical Center at Dorchester to FMF**

As you are aware University of Maryland Shore Regional (“Shore”) has been engaged in a lengthy planning process concerning how to best configure its facilities and services.¹ This planning process has resulted in:

- A Request for Exemption from Certificate of Need to convert UM SMC at Dorchester to a freestanding medical facility (“FMF”), which would replace the current facility;
- A Request for Exemption from Certificate of Need to Merge and Consolidate UM SMC at Dorchester and UM SMC at Easton; and
- A CON application to replace Memorial Hospital at Easton.

The proposal to convert UM SMC at Dorchester to an FMF is estimated to cost \$42.4 million, while the merger of UM SMC at Dorchester and UM SMC at Easton is estimated to cost \$8.5 million. Both the FMF conversion and the merger/consolidation are to be financed with authorized bonds and arbitrage on that borrowing.

Ultimately Shore proposes to replace the existing hospital in Easton with a new facility with 121 acute care beds, 16 observation beds and 14 rehabilitation beds. Cost estimate is about \$350 million. It would be paid for with about \$311 million in bonds, \$25 million in philanthropy, and \$14 million in cash.

At this time MHCC staff seeks HSCRC’s advisement on the exemption requests. The CON application will be reviewed later.

Conversion of UM SMC at Dorchester to an FMF

Shore states that the existing facility in Cambridge – built between 1906 and 1960 -- has come to the end of its useful life, and its renovation is not cost-effective. It proposes to replace the

¹ See the attached UM SRH VISION FOR HEALTH CARE DELIVERY.

hospital with an FMF to be known as UM SMC at Cambridge. That facility will be approximately 42,000 gross square feet (“GSF”) and would be collocated with a medical office building of 51,000 GSF on the “UM Shore Medical Campus at Cambridge,” located just off US Highway Route 50 and Woods Road in Cambridge, approximately one mile from the existing UM SMC at Dorchester. It is planned to contain an emergency department with 23 patient care rooms; ten observation beds; a diagnostic imaging suite including x-ray, ultrasound, and CT; and a laboratory to be available 24/7/365. As stated above, the proposal to convert UM SMC at Dorchester to an FMF is estimated to cost \$42.4 million, to be financed with authorized bonds and arbitrage on that borrowing.

I note that Shore states that:

“Also incorporated into the revenue projections and described in the list of assumptions are assumptions related to the redistribution of the GBR with the transformation of UM SMC at Dorchester to an FMF. SHS will request that the HSCRC allow SHS to retain, in its GBR cap, 50% of the revenue at UM SMC at Dorchester related to patients that will seek care at other providers after the closing of UM SMC at Dorchester. Keeping this revenue will allow SHS to fund the capital costs and other strategic initiatives associated with the transformation of UM SMC at Dorchester and SHS. This form of funding will have no impact on the Maryland Demonstration Model while allowing for funding of needed capital investments.” (NOTICE OF INTENT TO SEEK EXEMPTION FROM CERTIFICATE OF NEED REVIEW FOR THE CONVERSION OF UNIVERSITY OF MARYLAND SHORE MEDICAL CENTER AT DORCHESTER TO A FREESTANDING MEDICAL FACILITY, p. 40)

My request concerning this project is twofold:

1. MHCC requests that HSCRC staff review the financial projections provided in this exemption request, and advise MHCC whether the project is financially feasible.
2. COMAR 10.24.19, contains two requirements for acceptance of the filed request by MHCC that require action by HSCRC.
 - a) First, COMAR 10.24.19.04C(3)(c)(v) requires that *The applicants receive a determination from HSCRC, issued pursuant to COMAR 10.37.10.07-2D, regarding each outpatient service to be provided at the proposed FMF for which the applicants seek rate regulation.*
 - b) Second, COMAR 10.24.19.04C(3)(c)(vi) requires that *The applicants receive approved rates from HSCRC for each rate-regulated outpatient service at the proposed freestanding medical facility.*

Please provide MHCC with the result of HSCRC’s rate determination process with regard to Shore’s FMF proposal.

Merger and Consolidation of UM SMC at Dorchester and UM SMC at Easton

Shore is proposing to merge and consolidate some acute medical-surgical and psychiatric services from UM SMC Dorchester to UM SMC Easton. The proposed merger would move 17 medical/surgical/critical care beds and 12 adult psychiatric beds to UM SMC Easton. This bed relocation will require renovating several existing patient rooms and reclaiming some rooms that were formerly patient rooms. The estimated cost is \$8,517,265, and it would be financed with authorized bonds and interest income on the bond proceeds.

Mallory Regenbogen, Esquire
January 9, 2019
Page 7

I note that Shore states that:

“SHS is requesting that the HSCRC approve a proposed Global Budget Revenue (“GBR”) Plan that redistributes revenue among SHS’s rate-regulated components, including UM SMC at Easton and the freestanding medical facility. The redistribution of SHS’s GBR will provide for a revenue base to support the plans for renovation at UM SMC at Easton as well as the construction of a freestanding medical facility, UM SMC at Cambridge. By taking this approach, the HSCRC and associated parties can avoid adding additional revenue to SHS and by extension to the State’s health care system.” (NOTICE OF INTENT TO SEEK EXEMPTION FROM CERTIFICATE OF NEED REVIEW FOR THE MERGER AND CONSOLIDATION OF CERTAIN BEDS AND SERVICES OF UNIVERSITY OF MARYLAND SHORE MEDICAL CENTER AT DORCHESTER AND UNIVERSITY OF MARYLAND SHORE MEDICAL CENTER AT EASTON, p. 27)

MHCC staff requests that:

- c) HSCRC staff review the financial projections provided in this exemption request, and advise MHCC whether the project is financially feasible.
- d) HSCRC staff advise MHCC whether Shore’s GBR proposal is likely to be approved.

I have attached excerpts from these exemption requests to help facilitate your review, as well as a document titled UM SRH Vision for Health Care Delivery. Please review and comment on any other aspects of these exemption requests as needed and appropriate. **It would be most helpful to have your response by December 5, 2018 to enable consideration at the December MHCC meeting** (December 20). If you should have any questions on this matter, please feel free to contact me at (410)764-5982.

Enclosures:

- Shore Request for Exemption From Certificate Of Need Review for the Conversion of University of Maryland Shore Medical Center at Dorchester to a Freestanding Medical Facility
- Shore Request for Exemption From Certificate of Need Review for the Merger and Consolidation of Certain Beds And Services of University of Maryland Shore Medical Center at Dorchester and University of Maryland Shore Medical Center at Easton
- UM SRH Vision for Health Care Delivery
- Excerpts to assist HSCRC’s review of Shore’s two Exemption Requests

cc: Thomas Dame, Esq.
Mallory Regenbogen, Esq.
Paul Parker, MHCC
Mariama Gondo, MHCC