GALLAGHER
EVELIUS & JONES LLP
ATTORNEYS AT LAW

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: Request for Certificate of Exemption from CON Review
Conversion of University of Maryland
Shore Medical Center at Dorchester to Freestanding Medical Facility

Dear Ms. Potter:

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

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

Sincerely,

Thomas C. Dame

Sincerely,

Mallory Regenbogen

TCD/MMR:vtl
Enclosures

#653942
012516-0006

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
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Roger L. Harrell, MHA, Health Officer, Dorchester County Health Department
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UM Shore Regional Health
Conversion of UM Shore Medical Center at Dorchester
to a Freestanding Medical Facility

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

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.**

   Applicant Response

Comparing an unadjusted charge per visit between the existing freestanding medical facility pilots ("FMF Pilots") in Maryland versus the planned Cambridge FMF is not a fair comparison for two reasons: 1) the Cambridge FMF is planned to have observation services, which are not offered at the FMF Pilots, and 2) rate realignment policy changes implemented by the HSCRC have shifted revenue from inpatient services to outpatient services. Adjusting for the rate realignment policies implemented by the HSCRC over the last several years: 1) shifting 25% out of the inpatient ("IP") routine centers and 2) not rate realigning the EMG and CL rate centers have artificially inflated outpatient services, more specifically emergency services. Table 32 below shows the FY 2018 charge per visit comparison for emergency services at the FMF Pilots, UM SMC at Dorchester, and UM SMC at Dorchester adjusted for HSCRC's rate realignment policies:

Table 32
Comparison of FY2018 Charge Per Visit
for Emergency Services at FMF Pilots and UM SMC at Dorchester

Facility	Total Charges	Visits	Average Charge per Visit
Bowie FSE	$20,721,062	31,282	$662
Queenstown FSE [1]	7,034,873	15,195	463
Germantown FSE	14,185,579	24,565	577
Weighted Average for FSE	$41,941,514	71,042	$590
UM SMC at Dorchester - Only ED visits	$13,153,807	17,032	$772
Adjusted UM SMC at Dorcheter - Only ED Visits [2]	$9,074,029	17,032	$533

Source: FY18 Outpatient Abstract data - ED visits identified as visits with ED charges and no Observcation charges
Notes:
(1) Queenstown FSE currently charges 20% below approved rates to hit Approved GBR
(2) Adjusted UM SMC at Dorchester reflects removal of 25% R&B shift and realignment of EMG and CL rate centers

Therefore, after identifying only emergency room visits without observation and adjusting for rate realignment policies, the ED charge per visit of $533 in Cambridge compares favorably to two out of three of the facilities and is below the weighted average of all three facilities ($590 per visit).

Additionally, Table 33 below provides a breakdown of the projected revenue for the Cambridge FMF by service line. This projected revenue does not include the retained revenue that will be used for capital and is stated in FY 2018 dollars based on CY 2017 experience.

Table 33
Projected Revenue by Service Line at the Cambridge FMF

Service Lines	FY 2018 Approved Revenue
Emergency	$11,914,665
Observation	3,335,027
PDC	542,150
Cardiac Rehab/Pulmonary Rehab	446,303
CAT Scan	289,271
Infusion	157,992
FMF Total	$16,685,408

Notes:
[1] Distribution based on CY 2017 experience

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?**

Applicant Response

In fiscal year 2018, Shore Health System ("SHS," which represents the entire facility) had deductions from gross revenue equaling 22.1% compared to the projected deductions from gross revenue of the FMF equaling 18.2%. The projected FMF deductions from gross revenue were derived from detailed historical results of the service lines that will be offered at the FMF. The primary driver of the difference in deductions from gross revenue between the two projections is that SHS includes approximately $49 million in unregulated patient service revenue with a higher percentage of deductions from gross revenue. Table 34 below breaks out SHS gross patient revenue between regulated and unregulated for fiscal year 2018 as reported in the corresponding hospitals' annual filings:

Table 34
SHS FY2018 Patient Service Revenues and Deductions

	Regulated	Unregulated	Total
Gross Patient Service Revenue	$ 269,078	$ 49,105	$ 318,183
Less: Deductions from Gross Revenue	42,654	27,595	70,249
Net Patient Services Revenue	226,424	21,510	247,934
Deductions from Gross Revenue %	*15.9%*	*56.2%*	*22.1%*

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.**

Applicant Response

Refer to Table 35 below for a listing of professional fees by physician specialty. Emergency Department physicians and mid-level practitioners (nurse practitioners) leading the observation unit represent the two highest specialties with $1.1 million and $.5 million in projected professional fees, respectively, in fiscal year 2022. SHS projected these amounts using historical costs from the fiscal year 2017 trial balance and adjusting for anticipated changes in volumes upon conversion to an FMF, as the new facility is expected to retain historical outpatient volumes.

Additional information regarding projected FTEs and salaries per FTE will be provided at a follow-up meeting scheduled for February 12, 2019 between SHS and the HSCRC.

Table 35
Cambridge FMF
Professional Fees by Specialty FY2022
($'s in thousands)

Department	Professional Fees
Emergency Department	$ 1,124
Observation Unit	463
Laboratory	110
Cardiology	81
Total Professional Fees	$ 1,778

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.

Applicant Response

Please see Table 36 below for a detailed breakout of the projected other expenses by department and expense type. Based on the fiscal year 2017 historical trial balance activity and the updated anticipated facility configuration, the total projected other expenses for fiscal year 2022 has increased to $4,933,000 (versus $4,862,000) in the updated financial projection, as shown in detail below. Expenses related to billing are included in "Strategy and Finance."

Table 36
Cambridge FMF
Projected Overhead Expense Detail FY2022
($'s in thousands)

	Department - FY2022 $'s in Thousands								
Expense Type	Emergency Department	Observation	Behavioral Health	Laboratory	Cardiac Rehab	Infusion	Intensive OP Program	Imaging	Total
Purchased Services	$ 610	$ 133	$ 43	$ 36	$ 56	$ 38	$ 38	$ 106	$ 1,060
Ambulance Transfer	250	250	-	-	-	-	-	-	500
Utilities	134	29	9	8	12	8	8	23	274
Shared Services/Corporate Allocations									
Shared Service									
IT Services	321	70	23	19	29	20	20	56	559
Strategy and Finance	218	48	16	13	20	14	14	38	380
HR Shared Services	96	21	7	6	9	6	6	17	167
Other Corp Shared Services	272	59	19	16	25	17	17	47	473
Corporate Shared Services	908	198	64	53	83	57	57	158	1,578
Corporate Allocations									
Medical Records	277	60	20	16	25	17	17	48	481
Admission/Registration	109	24	8	6	10	7	7	19	190
Case Management	88	19	6	5	8	6	6	15	154
Professional Nursing Costs	72	16	5	4	7	4	4	12	124
Other SHS Overhead	329	72	23	19	30	21	21	57	572
SHS Allocations	875	191	62	51	80	55	55	152	1,521
Total Other Expenses	**$ 2,777**	**$ 800**	**$ 179**	**$ 148**	**$ 231**	**$ 157**	**$ 158**	**$ 440**	**$ 4,933**

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?**

Applicant Response

The projected emergency room visits presented in Table F of the FMF Application are based on both inpatient and outpatient emergency room visits. In fiscal year 2018, UM SMC at Dorchester reported 2,075 inpatient emergency room visits in addition to the outpatient visits noted in this question for a total of 19,543 emergency room visits. Both the Applicant and local Emergency Medical Services personnel expect that the same patient conditions that are treated today at the UM SMC at Dorchester ED will continue to be brought to the FMF. As such, the Applicant expects to continue to receive the same volume of emergency department visits (both inpatient and outpatient) after the FMF conversion. To the extent that a patient requires a more acute level of care, the Cambridge FMF will make such a determination and facilitate the transfer of the patient to UM SMC at Easton or another appropriate inpatient facility after the patient has been screened and stabilized at the Cambridge FMF.

Using a baseline of 19,543 visits in fiscal year 2018, the Applicant projects emergency visits to grow in line with overall population growth of 0.2% per year throughout the entire projection period (fiscal years 2019 through 2024). This results in an increase in emergency room visits of 0.64% between fiscal years 2018 and 2022 for an updated projection of 19,668 visits in fiscal year 2022, as shown in Table 37 below.

Table 37
UM SMC at Dorchester
Historical and Projected Emergency Department Visits

	Historical			Projected at Dorchester			Projected at FMF		
	2016	2017	2018	2019	2020	2021	2022	2023	2024
ED Visits	**20,531**	**19,453**	**19,543**	**19,574**	**19,605**	**19,636**	**19,668**	**19,699**	**19,730**
% Change		*-5.3%*	*0.5%*	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

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?**

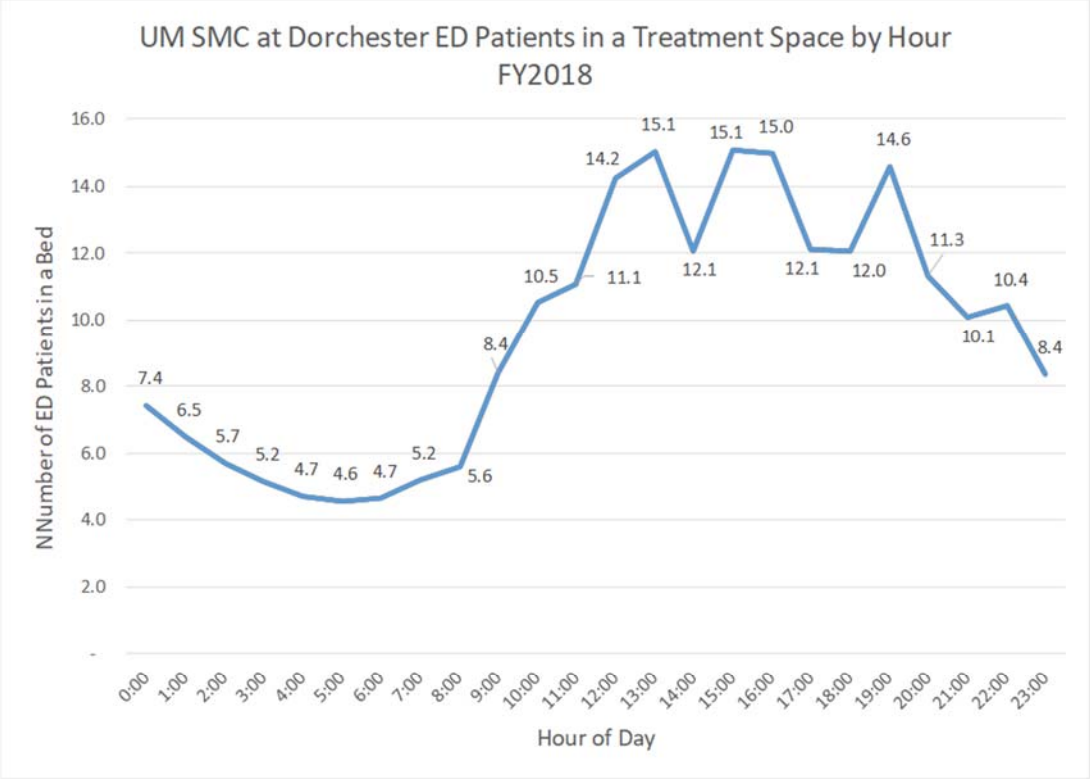
Applicant Response

As noted in the response 5 above, the Applicant expects to retain inpatient and outpatient emergency department utilization with an increase of 0.2% per year due to population

growth over the projection period, resulting in 19,668 projected emergency department visits in fiscal year 2022. As part of the analysis performed in planning for this project, the Applicant also reviewed internal patient level data from UM SMC at Dorchester that identified a patient's admit and discharge times from a treatment space in the emergency department. These data indicate that for fiscal years 2017 and 2018 the average emergency department visit at UM SMC at Dorchester lasted 4.38 hours and 4.43 hours, respectively.

Furthermore, emergency departments are subject to fluctuations in demand and must be built to accommodate periods of peak demand. To ensure that the Cambridge FMF will be able to accommodate such peak utilization, the Applicant initially identified the peak hour for all days across the year during which patients are in a treatment space using the UM SMC at Dorchester internal patient level emergency department data. As a result of input from MHCC Staff, rather than use a single peak hour to project peak utilization, the Applicant adjusted its peak projection by identifying the average number of patients during the peak eight-hour period. In fiscal year 2018, the highest utilization of ED treatment spaces at UM SMC at Dorchester was during the eight hours from 12:00 noon to 8:00 PM. While there was an average number of 9.6 ED patients in a treatment space throughout the day, the peak utilization from 12:00 noon to 8:00 PM averaged 13.8 patients in a treatment space as shown in Table 38 below.

Table 38
UM SMC at Dorchester
Number of Emergency Department Patients in a Treatment Space by Hour
FY 2018



Average Number of ED Patients in a Treatment Space	9.6
8 Hour Peak Period Number of Patients in a Space (1)	13.8
8 Hour Peak Period Adjustment Factor	144%

Note (1): Reflects the hours of 12:00 noon to 8:00 pm

The Applicant calculated a peak period adjustment factor by taking the proportional difference between the eight-hour peak utilization period and the average number of patients in a treatment space during the day. Applying the ACEP guidelines for visits per treatment space to the peak period adjusted emergency department visits generates the number of treatment spaces needed. The resulting calculation, as shown step-by-step in Table 39 below indicates that a need of 22 emergency department treatment spaces is reasonable and necessary in order to effectively meet the expected fluctuations and surges in demand at UM SMC at Dorchester.

Table 39
UM SMC at Dorchester
Projected Emergency Department Treatment Space Need

	Historical			Projected at Dorchester			Projected at FMF		
	2016	2017	2018	2019	2020	2021	2022	2023	2024
ED Visits	**20,531**	**19,453**	**19,543**	**19,574**	**19,605**	**19,636**	**19,668**	**19,699**	**19,730**
% Change		*-5.3%*	*0.5%*	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Average Number of ED Patients in a Space		9.7	9.6						
8 Hour Peak Number of ED Patients in a Space		14.0	13.8						
Adjustment for 8 Hour Peak Utilization		143%	144%	144%	144%	144%	144%	144%	144%
Peak Period Adjusted ED Visits		**27,905**	**28,096**	**28,140**	**28,185**	**28,230**	**28,275**	**28,320**	**28,365**
ACEP Visits per Treatment Space [2]									
High Space Need		1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225
Low Space Need		1,409	1,409	1,409	1,409	1,409	1,409	1,409	1,409
Weighted Average		1,309	1,308	1,308	1,308	1,308	1,308	1,308	1,308
ED Treatment Space Need									
Based on Peak Period Adjusted ED Visits		**21.3**	**21.5**	**21.5**	**21.5**	**21.6**	**21.6**	**21.7**	**21.7**
Requested Treatment Spaces							**22**	**22**	**22**

Note (1): Reflects eight-hour average of highest number of ED patients in a treatment space from 12:00 noon to 8:00 pm
Note (2): Reflects average of American College of Emergency Physicians guide for 25,000 and 30,000 ED visits.

Source for ED visits: UM SMC Internal ED Data Set.

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%?**

Applicant Response

The Applicant will provide this response at a later date.

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?**

Applicant Response

The Applicant recognizes that based on the current HSCRC methodology, charges at both Dorchester and Easton are greater than their respective peer group. Both Dorchester and

Easton were part of a group of rural hospitals that moved to Total Patient Revenue ("TPR") three years prior to the rest of the hospitals in Maryland moving to GBR. Unfortunately, the current ICC peer group for the UM Shore Regional Health facilities includes many hospitals that were not early adopters of TPR. The impact of this discrepancy between the hospitals is significant. The Applicant is willing to discuss alternative proposals with the HSCRC to obtain approval for the proposed consolidation and FMF construction. A follow-up meeting has been scheduled for February 12, 2019.

INDEX OF TABLES

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

#632160
012516-0006

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

#653939
012516-0006

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

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