

September 13, 2019

Ben Steffen  
Executive Director  
Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215  
Ben.steffen@maryland.gov

Re: Response to July 10, 2019 Letter

Dear Mr. Steffen:

I write to respond to your letter dated July 10, 2019, in which the Maryland Health Care Commission (“MHCC”) raised certain concerns regarding UM Upper Chesapeake Health System’s pending Certificate of Need (“CON”) application to establish a special psychiatric hospital, and Requests for Exemption from CON Review to Convert UM Harford Memorial Hospital to a Freestanding Medical Facility and to Merge and Consolidate UM Harford Memorial Hospital (“HMH”) and UM Upper Chesapeake Medical Center (“UCMC”). Set forth below are responses to the issues raised in your July 10, 2019 letter and at our meeting on June 25, 2019.

## **I. Facilities for Observation Patients**

In your letter and at our June 25, 2019 meeting, you questioned HMH’s and UCMC’s high utilization of observation status in comparison to other Maryland hospitals and questioned whether such levels of observation produce benefits in terms of lower case-mix adjusted lengths of stay, inpatient admissions, readmissions, or reduced hospital expenses.

Since our June 25, 2019 meeting, UM UCH’s clinical staff has considered implementation of additional clinical practices that could better align UM UCH’s observation use rates with an identified peer group of hospitals. Through enhanced case management, utilization review, and triage evaluation processes, UM UCH estimates that it may be able to slightly reduce its observation utilization through either direct patient discharges or hand-offs to other outpatient departments or providers. UM UCH also estimates that through implementation of such clinical practices, approximately 34% of historical observation cases will result in direct inpatient admissions from the emergency departments at UCMC and the proposed freestanding medical facility in Aberdeen.

UM UCH anticipates submitting a Modified Request for Exemption from CON Review to Merge and Consolidate HMH and UCMC that will modify the complement of inpatient and

observation beds for the proposed expansion above the Kaufman Cancer Center. The November 21, 2018 modified exemption request sought approval to establish seventy-seven new observation beds at UCMC. The revised bed complement will include thirty private MSGA beds and forty-five semi-private observation beds. These beds will fully occupy two floors of the proposed new construction with the third floor constructed as shell space to accommodate needed expansion at the Kaufman Cancer Center. UM UCH will also anticipate submitting a modified Request for Exemption from CON Review to convert HMH to a Freestanding Medical Facility that will include a reduction in the number of observation beds from twenty-four to seventeen.

## **II. The Need for Acute Psychiatric Bed Capacity for Adults and the Setting for this Service**

Your July 10, 2019 letter questioned the need for forty inpatient psychiatric beds at the proposed special psychiatric hospital. UM UCH has reevaluated its need analysis and will be submitting a modified CON application that seeks to establish thirty-three inpatient psychiatric beds in an inpatient unit that is approximately 34,000 square feet.

Your letter also suggests that UM UCH could eliminate an entire floor of patients from the planned expansion at UCMC by making unspecified changes to observation utilization. As indicated above, while UM UCH anticipates it can make some changes to lower its overall observation use rate, by transitioning some observation patients to other outpatient departments or providers and by shifting observation cases to direct admissions, it is simply not realistic that UCMC could eliminate an entire floor of observation patients or inpatients in order to house an inpatient psychiatric unit, recognizing that UM UCH will be closing an acute general hospital in Havre de Grace.

As explained above, UM UCH anticipates submitting a Modified Request for Exemption from CON Review to Merge and Consolidate HMH and UCMC that will project a need for forty-five semi-private observation beds on one floor of the new construction and thirty private MSGA beds on the other. The floor directly above the existing Kaufman Cancer Center, to be constructed as shell space, is needed now for provision of cancer services. As a result, there is no possibility that an entire floor of planned expansion as set forth in the UM UCH's Request for Exemption from CON Review to Merge and Consolidate HMH and UCMC could be used to house an inpatient psychiatric unit.

Your letter explains that the Commission recently approved two CONs to establish special psychiatric hospitals, Washington Adventist ("WAH") and Anne Arundel Medical Center ("AAMC"). As detailed on pages 28 through 31 of the Modified Request for Exemption from CON Review to Merge and Consolidate HMH and UCMC and the response to Question 9 of the Commission's Requests for Additional Information dated March 22, 2019, UM UCH's proposed development of a special psychiatric hospital off of UCMC's campus is "actually the low-cost alternative" in the same manner as WAH's CON application.

In the November 21, 2018 Modified Request for Exemption from CON Review to Merge and Consolidate HMH and UCMC, UM UCH explained that, other than vertical expansion above the Kaufman Cancer Center, there are few available options on UCMC's campus for additional development. Each of the alternative locations for inpatient expansion at UCMC is more costly than the proposed \$27,181,640 in construction costs associated with the special psychiatric hospital at Aberdeen or lacks the square footage necessary to house the required number of inpatient psychiatric beds. The table below summarizes the estimation of construction costs only associated with expansion above existing buildings on UCMC's campus. Notably, the projected construction costs set forth below have not been updated for inflation since 2017. As a result, the costs presented are significantly understated in comparison to the projected construction costs associated with establishing a special psychiatric hospital in Aberdeen.

	Option 1 Cancer Center	Option 1A (Add Alternate) Cancer Center	Option 2 ACC	Option 3 Main Hospital	Option 4 Main Hospital Core	Option 5 Above D & T	Optimal <sup>1</sup>
BGSF (sf)	52,000	26,000	48,000	47,000	35,000	24,600	
DGSF (sf)	43,300	21,650	40,000	39,200	29,200	23,300	
# of Floors	2	1	2	1	1	1	60
# of Beds	60	30 (potential)	54	60	40	44	30
Room size (sf)	300	N/A	300	250	250	300	290-350
DGSF/Bed (sf)	722	N/A	742	667	653	730	664
Est. Cost per Bed (\$)	429,628	+69,340 (60)	541,816 <sup>2</sup> (57)	627,657	693,319 (40)	700,693	777
Estimated Cost (\$M)	25.8	4.2	30.9 <sup>2</sup>	37.7	27.7	21	

Options 1 and 1A constitute the proposed expansion above the Kaufman Cancer Center. As described above, these options are needed to accommodate inpatient and observation patients following the conversion of HMH, an 82-bed acute general hospital, to a freestanding medical facility and this space will not be available to house inpatient behavioral psychiatric services.

Option 5, considered construction of above the main hospital diagnostic and treatment core and is the only option for which uninflated construction costs are less than those for proposed special psychiatric hospital in Aberdeen. With only 24,600 square feet available, however, Option 5 would not provide the necessary space to house the projected need for thirty-three inpatient psychiatric beds. And, upon further evaluation, Option 5 would not be feasible because it would require construction immediately above UCMC's existing operating rooms and would require that the operating rooms be closed for an extended period of construction, which is not possible given UCMC's current operating room volume.

In addition to uninflated construction costs exceeding that of the proposed special psychiatric hospital in Aberdeen, Options 2, 3, and 4 each present operational challenges that are fully described in the November 21, 2018 Modified Request for Exemption from CON Review to Merge and Consolidate HMH and UCMC. Option 2, renovation of the fourth and fifth floors in the existing medical office building to house an inpatient unit, would require construction of a

new medical office building to accommodate the tenants currently on those floors. Options 3 and 4, which contemplate vertical expansion above the existing hospital towers, would require phased construction and temporary closures of inpatient units.

Moreover, none of the options for current expansion at UCMC presents an opportunity to accommodate the extensive outpatient behavioral health services, which are proposed for the special psychiatric hospital. As Commissioner Tomarchio recognized in her Report and Recommendation to approve AAMC's CON application to establish a special psychiatric hospital, co-location of inpatient and outpatient behavioral health services is necessary for successful patient hand-offs and transitions back to the community and can achieve staffing efficiencies. In recommending approval of AAMC's special psychiatric hospital, Commissioner Tomarchio determined:

AAMC's description of the project includes its plan to create a comprehensive mental health evaluation and treatment campus that will enhance continuity and effectiveness of behavioral health care, while perhaps lowering costs through shorter inpatient stays. AAMC has shown that the creation of such a model is unlikely to be accomplished through renovation of existing space on its general hospital campus.

\* \* \*

The applicant has presented a plan that commits it not to use the introduction of inpatient services to favor inpatient care for patients who can be effectively treated outside the special hospital's inpatient unit. Providing more and better space for outpatient services is a substantial part of the proposed campus expansion. Importantly, the consolidation of program space embodied in this project will make it possible for the inpatient and outpatient programs to share staff, something that cannot be effectively accomplished with the current scattered locations used by AAMC. This presents a positive aspect of this project from a cost perspective. It enhances the ability of the same staff members to work with patients in both settings, improving continuity of care.

While the freestanding option carries a higher capital expenditure, I find this aspect to be more than offset by the operational savings to be realized by ending the use of leased space by the ability to gain clinical staffing efficiencies, and also by the additional effectiveness in patient care and continuity.

*In re Anne Arundel Medical Center Mental Health Hospital*, Docket No. 16-02-2375, Reviewer's Report and Recommendation at 29-30 (April 19, 2018)).

In addition to the options considered above and in response to your July 10, 2019 letter, UM UCH evaluated an additional option to locate inpatient psychiatric services on UCMC's campus, which would involve construction of a new building on UCMC's campus. Total project costs for such a facility were estimated to be equivalent to that for the proposed special

psychiatric hospital in Aberdeen. The only available location to build such a facility on UCMC's campus, however, is on a portion of an existing surface parking lot and would require construction of another parking garage at a cost of approximately \$22.5 million.<sup>1</sup>

Additional estimated costs associated with a new building to house inpatient and outpatient psychiatric services at UCMC are projected to cost at least an additional \$11,800,000 as described below:

1. Entitlement and Site Design -\$1,000,000;
2. Off-site parking rental during garage construction - \$500,000;
3. Site Development - \$1,500,000;
4. Relocate helipad to roof of new parking garage due to flight line obstruction - \$2,000,000;
5. Complete new Campus Master Plan - \$800,000;
6. Additional construction costs of \$5,000,000 associated with mechanical; electrical, plumbing; and
7. Addition of turn lanes on both Tollgate Road and MacPhail Road - \$1,000,000.

These additional cost estimations do not include a \$2,000,000 loss on UCMC's recent parking lot expansion project investment or additional costs associated with construction and operation of the freestanding medical facility in Aberdeen, which would no longer share a physical plant with the proposed special psychiatric hospital. Further, in the scenario where additional behavioral health services would be located at UCMC, UM UCH fully anticipates an increase in behavioral health ED patients that would require an expansion UCMC's emergency department at a projected cost of \$8,160,000.

In total, construction of another building on UCMC's campus to accommodate inpatient and outpatient psychiatric services is projected to cost between \$42 and \$45 million more than if such a facility were built as a special psychiatric hospital in Aberdeen and delay the project by 1.5 to 2 years beyond the currently projected opening date for the proposed specialty psychiatric hospital. Thus, as with WAH and AAMC, establishing a new special psychiatric in Aberdeen is the least costly and best alternative.

To this end, each of the criteria credited by Commissioner Tomarchio in approving AAMC's CON to establish a special psychiatric hospital located off of AAMC's main hospital campus apply equally to UM UCH's proposed special psychiatric hospital:

1. Construction an inpatient psychiatric unit at UCMC would either be more costly or eliminate needed inpatient and observation space;
2. Establishing an inpatient psychiatric unit would not permit co-location of outpatient programming;
3. An inpatient psychiatric unit would be poorly located with no expansion possible;

---

<sup>1</sup> Locating inpatient psychiatric services anywhere on UCMC's campus is likely to require construction of another parking garage due to additional patients, visitors, and staff.

4. An inpatient psychiatric unit at UCMC would not allow for behavioral health staffing efficiencies and synergies.

*In re Anne Arundel Medical Center Mental Health Hospital*, Docket No. 16-02-2375, Reviewer's Report and Recommendation at 20-30 (April 19, 2018).

Finally, at our June 25, 2019 meeting and in your July 10, 2019 letter, you questioned the impact on the Medicaid Institutes for Mental Disease Exclusion ("IMD Exclusion") and its potential impact on the Maryland Medicaid Program. UM UCH estimates that if Medicaid paid the proposed special psychiatric hospital in the same manner as it presently pays existing Maryland IMDs, it would add approximately \$2.1 million to the Medicaid budget in the first year of operation. This estimation assumes that the special psychiatric hospital would be reimbursed at approximately 92.3% of inpatient charges without the State of Maryland being able to seek federal financial participation for such payments. To put this figure in perspective, combined federal and state Medicaid expenditures in Maryland in federal fiscal year 2017 were more than \$11.1 billion.<sup>2</sup>

Furthermore, UM UCH is negotiating with the Health Services Cost Review Commission to fund each of its three projects through retention of HMH's existing global budget. In the event that UM UCH were required to locate inpatient psychiatric services at UCMC rather than at a special psychiatric hospital, UM UCH would need to seek a significant increase to UCMC's global budget to account for an additional \$42 million to \$45 million in capital expenditures. Additional Medicaid expenditures at UCMC associated with such a rate increase would more than exceed the additional \$2.1 million in Medicaid payments associated with a special psychiatric hospital operating as an IMD.

### **III. Conclusion**

In summary, UM UCH intends to submit a modified CON application in the next few weeks to establish a thirty-three bed special psychiatric hospital in Aberdeen in alignment with its proposed full scope of regulated outpatient behavioral health services. As described above, locating inpatient psychiatric services at UCMC is not a viable alternative. UM UCH also intends to submit a Modified Request for Exemption from CON Review to Convert UM Harford Memorial Hospital to a Freestanding Medical Facility that will reduce the number of observation beds from twenty-four to seventeen as well as a Modified Request for Exemption from CON Review to Merge and Consolidate HMH and UCMC with a proposed bed complement of thirty inpatient beds and forty-five observation beds. With implementation of enhanced case management, utilization review, and triage evaluation processes, UM UCH's modified requests will present observation utilization that is more aligned with a peer group of Maryland hospitals.

---

<sup>2</sup> Source: <https://www.medicaid.gov/state-overviews/scorecard/national-context/annual-expenditures/index.html> (last visited Sept. 13, 2019).

Page 7  
Mr. Ben Steffen  
September 13, 2019

Thank you for your consideration of these matters. Please feel free to contact me if you require any questions.

In Good Health,



Lyle E. Sheldon, FACHE  
President and Chief Executive Officer  
UM Upper Chesapeake Health System, Inc.

cc: Katie Wunderlich, Executive Director, HSCRC  
Kevin McDonald, Chief, Certificate of Need  
Suellen Wideman, Assistant Attorney General  
Russell W. Moy, M.D., M.P.H., Health Officer, Harford County