

December 22, 2023

VIA EMAIL

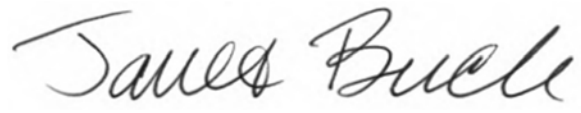
Ms. Ruby Potter
ruby.potter@maryland.gov
Health Facilities Coordination Officer
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

Re: **Request for Post-Approval Project Change**
Merger and Consolidation of UM Upper Chesapeake Medical Center and UM
Harford Memorial Hospital Exemption from CON Review – Docket Number 17-
12-EX003

Dear Ms. Potter:

On behalf of joint applicants University of Maryland Upper Chesapeake Medical Center and University of Maryland Harford Memorial Hospital, enclosed is a Request for Post-Approval Project Change regarding the construction project undertaken pursuant to the Exemption from Certificate of Need Review issued by the Commission on April 16, 2020.

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



James Buck
Alison B. Lutich
Gallagher Evelius & Jones LLP
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Baltimore, MD 21201
410.727.7702
jbuck@gejlaw.com
Counsel for Joint Applicants

Enclosures

GALLAGHER

GALLAGHER EVELIUS & JONES
ATTORNEYS AT LAW

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cc: Ben Steffen, Executive Director
Wynee Hawk, Director, Center for Health Care Facilities Planning & Development
Jeanne Marie Gawel, Chief, Certificate of Need Program
Alexa Bertinelli, Esquire, Assistant Attorney General
Caitlin E. Tepe, Esquire, Assistant Attorney General
Marcy Austin, Harford County Health Officer
Dr. Patricia Tomsco Nay, Executive Director, Office of Health Care Quality
Marco Priolo, Vice President of Finance/Chief Financial Officer, UM Upper Chesapeake Health
Mark Shaver, SVP Strategy, Physician Services & Business Development at UM Upper Chesapeake Health

IN THE MATTER OF	*
	*
CONSOLIDATION OF UPPER CHESAPEAKE	*
	*
MEDICAL CENTER AND HARFORD	* BEFORE THE
	*
MEMORIAL HOSPITAL	* MARYLAND HEALTH
	*
Matter No. 17-12-EX003	* CARE COMMISSION
	*
CON Exemption Granted April 16, 2020	*
	*
* * * * *	* * * * *

REQUEST FOR POST-APPROVAL PROJECT CHANGE

University of Maryland Upper Chesapeake Medical Center (“UCMC”) and University of Maryland Harford Memorial Hospital (“HMH”) as joint applicants and, by its undersigned counsel, respectfully requests the Maryland Health Care Commission (the “Commission”) approve a project change to the Exemption from Certificate of Need Review (“Exemption Approval”) issued on April 16, 2020, as described herein.

I. BACKGROUND OF APPROVED PROJECT

The Commission granted an Exemption from Certificate of Need Review on April 16, 2020, authorizing UCMC to construct a 78,870 square foot three-story bed tower (26,290 square feet per floor) above the existing two-story UM Kaufman Cancer Center to house 30 MSGA beds on the fifth floor, a 42-bed observation unit on the fourth floor, and shell space on the third floor. Further, the project included 21,250 square feet of renovations at the existing main hospital to expand support, food services, environmental services, IT, and a Fire Command Center for a high-rise building. (**Exhibit 1**, April 16, 2020 Exemption Approval.) The approved project is part of an overall reconfiguration of beds and services within the University of Maryland Upper Chesapeake Health System,

which also includes the development of UC Behavioral Health Pavilion, a special psychiatric hospital in Aberdeen, Maryland, the conversion of HMH to a freestanding medical facility (“UC FMF”) to be located below UC Behavioral Health in Aberdeen, and the transfer of inpatient beds and services from HMH to UCMC.

The Commission approved \$84,406,807 in total use of funds for the project, including \$73,590,773 in capital expenditures and a budgeted inflation allowance of \$2,448,512, for total capital costs of \$76,039,286, and \$8,367,521 in financing costs and other cash requirements.

The project is nearing completion and contemporaneous with this request, UCMC and HMH are submitting a request for first use approval for the fourth and fifth floor MSGA and observation beds on January 31, 2024. UCMC and HMH will be also submitting requests for first use approval of UC FMF and UC Behavioral Health Pavilion for February 6, 2024. At that time, HMH will cease operations as a hospital.

II. BASIS FOR REQUESTED PROJECT CHANGE

UCMC and HMH are requesting a project change to increase the capital costs associated with the project, most of which costs have already been incurred. UCMC and HMH are also requesting an extension of the performance requirements imposed on the project by approximately seven months to complete certain renovations of existing support service areas of the main hospital associated with the project.

A. Requested Increase in Capital Expenditures

UCMC and HMH are requesting a project change to increase the capital costs associated with the project by \$17,075,530, bringing the total capital costs to \$94,579,073. As discussed more fully in Section III, pursuant to COMAR

§ 10.24.01.17B(2), there is a permitted increase in capital expenditure of \$3,912,770, or 5.3%, resulting in an increase in capital costs of \$13,162,760 beyond the amount of allowable inflation.

Due to the elimination of an anticipated debt service reserve fund associated with the project, the projected increase in total use of funds is only \$13,379,892, for a total project cost of \$97,786,892. To the extent the Commission deems approval of these non-capital costs necessary, UCMC and HMH requests approval for this increase as well.

Notably, the increased capital costs and at the UCMC bed tower project are offset by cost savings at the UC FMF and UC Behavioral Health projects which are a combined \$5,976,952 below the approved capital costs and \$16,918,463 below the approved total use of funds.

A revised budget showing the approved costs, requested increase, and variance is attached as **Exhibit 2**, Revised Table E. As noted, the capital cost increases have already been incurred and paid for through the debt financing portion of the project, which was completed on July 15, 2020 as part of the UMMS Series 2020 bond financing.

Attached as **Exhibit 3** is an amended Marshall Valuation Service (“MVS”) analysis. As described more fully in that analysis, the revised cost per square foot of the new construction at \$549.70 is slightly over the MVS benchmark of \$35.95.

UCMC and HMH are requesting an increase in capital expenditures for several reasons. As described more fully below, UCMC’s and HMH’s total capital costs have increased due to: (1) architectural, engineering, and structural redesign and delays in construction due to previously unknown conditions of the existing roof and support beams on top of which the three-story project was constructed; (2) an underestimation of

project costs and inflation costs in the modified CON exemption request filed on October 21, 2019 as modified by the January 2, 2020 response to additional information requests; (3) the installation of equipment to create negative pressure in all 30 MSGA and 21 semi-private observation rooms in response to the COVID-19 pandemic; (4) a required significant redesign of mechanical systems and the required use of temporary electrical panels, chillers, and other mechanical equipment.

First, UCMC incurred approximately \$2.7 million in architectural and engineering fees above the projections in the approved budget. During the initiation of construction, the general contractor determined that certain of the supports of the existing structure at the Kaufman Cancer Center needed to be redesigned and modified in order to support the three-story tower above it. This additional structural and engineering design delayed construction by approximately 5 months. The time delay also contributed to the total increase in construction costs as a result of rising labor and materials costs during and following the COVID-19 pandemic. In total, thirty-two columns needed to be re-engineered and reconfigured to support the new structure above, contributing an additional three months to construction delays. During that time, UCMC had to incur costs associated with water remediation while the existing roof was being worked on to prevent water intrusion into the existing facility.

Second, the project costs were underestimated in the modified CON exemption request filed on October 21, 2019 as modified by the January 2, 2020. The project was approved on April 16, 2020 shortly after the start of the COVID-19 pandemic. The COVID-19 pandemic and economic market following it significantly affected labor and material costs beyond typical increases brought by the passage of time itself. When the

project was bid, the construction estimates were all higher than expected or budgeted. Further, during the course of the project, the general contractor was required to solicit additional sub-contractors to complete segments of the work because previously chosen suppliers and sub-contractors were unable to meet their obligations due to financial hardships and operational deficiencies.

In addition, it was learned that the roof of the Kaufman Cancer Center was not designed as a “crash pad” – i.e., it could not support a steel support beam if it fell during construction from penetrating the roof. Because the center was in use during construction, all structural steel work needed to take place in the evenings and overnight when the building was unoccupied adding a premium to the already inflated labor costs.

Third, as mentioned, the project was approved at the beginning of the COVID-19 pandemic. UCMC elected to make all 30 MSGA and 21 semi-private observation rooms (42 total beds) that were approved through the exemption request have negative air pressure in order to reduce the spread of COVID-19 and potential future airborne illnesses. The cost to do so was \$1.4 million.

Fourth, UCMC was required to incur approximately \$3.11 million associated with a significant redesign of the new mechanical installations to integrate with existing mechanical systems. This required the use of new and modified equipment for proper operations, including chillers, pumps, and electrical panels, each of which saw significant inflation and supply chain limitations following the COVID-19 pandemic. Moreover, during construction, more than \$1 million was required to use temporary electrical panels, chillers, and other mechanical equipment.

All of the above changed conditions resulted in UCMC requiring to incur a total of \$17,075,530 above the approved capital budget, excluding the inflation allowance. Given the changed allowable inflation of allowance of 3,912,770, UCMC and HMH seek an increase of approved capital costs in the amount of \$13,162,760. UCMC and HMH believe the requested increase in capital costs is conservative so that the facilities will not need to seek additional project changes.

B. Changes to Approved Performance Requirements

In the order approving the request for exemption, the Commission required that UCMC: (1) obligate not less than 51% of the approved capital expenditure for the project, as documented by a binding construction contract, within 24 months of the date of approval; (2) initiate construction no later than four months after the effective date of the binding construction contract; and (3) complete construction and document that the approved project has been completed, met all legal requirements, and is providing the approved new service within 24 months after the effective date of the binding construction contract. UCMC has largely complied with the performance requirements as set forth on **Table 1** below.

Table 1. Performance Requirements

Performance Requirements and Other Requirements	Performance Requirement Deadline	Current Estimate (Date)	Actual (Date)
1. Obligate 51 percent of the approved capital expenditure	No later than April 16, 2022	11/10/2021	11/10/2021
2. Initiate construction	Within 4 months of the effective date of a binding construction contract	12/17/2021	12/17/2021
3. Complete the project	No later than 24	Contractor	Contractor

	months after the effective date of the binding construction contract.	turned over on 12/4/2023 and occupancy of 4 th and 5 th floor beds expected 1/31/2024	turned over on 12/4/2023 and occupancy of 4 th and 5 th floor beds expected 1/31/2024
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While the performance requirements for CON and CON exemption projects were suspended during the declared state of state of emergency declared by the Governor on March 5, 2020, UCMC moved forward with the approved exemption project and initiated construction on December 17, 2021. Pursuant to the performance requirements, UCMC had until December 17, 2023 to complete construction. The bed tower component of the project was completed and turned over by the general contractor to UCMC on December 4, 2023. The MSGA and observation units will be ready for first use commencing on January 31, 2024. As a part of the approved project, however, UCMC must still complete renovations to the existing hospital to provide additional support, environmental services, and IT services. These renovations are expected to be completed in May 2024.

Due to the project delays associated with construction of the project identified in Section I above, including approximately 8 months of combined delays associated with architectural, engineering, and structural redesign and re-engineering and reconfiguration of thirty-two support columns, UCMC and HMM request that the Commission extend the performance requirements for completion of construction extend the performance requirements for occupancy of the bed towers by one month and extend the performance

requirements for completion of the renovation of the existing hospital through May 2024 in accordance with COMAR 10.24.01.12A(4).

III. COMPARISON OF NEW TOTAL PROJECT COSTS AND ALLOWABLE CURRENT PROJECT COSTS

To assess whether UCMC and HMH must obtain Commission approval to increase its capital as described above, the CON exemption-approved costs must be inflated by means of the inflation index set forth in the Commission’s regulations to determine the currently allowable project costs. *See* COMAR § 10.24.01.17B(2). This computation is based on the process outlined in the document on the Commission’s website: “Determining the Threshold for Required Approval of Changes in Certificate of Need Approved Capital Cost,” which was last updated on November 17, 2023.¹

The approved capital costs for the project were \$73,590,773. Applying the inflation index, which the Commission requires applicants to use in accordance with COMAR § 10.24.01.17B(2) permits 5.3169% inflation as calculated below.

Original Costing Date	2019:2				
Midpoint of Construction	2022:4				
Step 1	2020:2	%MOVAVG Line	1.2	1.012	A
Step 2	2021:2	%MOVAVG Line	1	1.01	B
Step 3	2022:2	%MOVAVG Line	1.6	1.016	C
	2022:2	CAPB18 Line	1.06		D
	2022:4	CAPB18 Line	1.075		E
	<i>E/D</i>			1.014151	F
		<i>A * B * C * F</i>		1.053169	5.3169%

¹
https://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/2023_3rd_Qtr_cost_indexes%20cap_cost_modification_20231117.pdf

The Total Current Capital Costs line in the approved Project Budget is \$73,590,773. Multiplying that amount by 5.3169% yields \$3,912,770. Hence, the Total Capital Costs above which a modification is required is \$77,503,543, calculated as follows:

$$\$73,590,773 \times .053169 = \$3,912,770.$$

$$\$73,590,773 + \$3,912,770 = \$77,503,543.$$

Pursuant to COMAR § 10.24.01.17B(2), because the projected total capital costs exceed the allowable total capital costs, UMMC must obtain Commission approval for the proposed increase.

IV. THE REQUESTED PROJECT CHANGES ARE APPROVABLE

Commission regulation COMAR § 10.24.01.17A requires notification of any proposed project changes. Certain types of proposed project changes are impermissible, including the following:

- (1) Changes in the fundamental nature of a facility or the services to be provided in the facility from those that were approved by the Commission;
- (2) Increases in the total licensed bed capacity or medical service categories from those approved; or
- (3) Changes in the medical service provided or approved.

COMAR § 10.24.01.17C.

The proposed changes identified in this filing do not change the fundamental nature of the project, will not result in an increase in the total licensed bed capacity as previously approved, and will not change the medical service provided or approved.

The following types of changes to a project require formal Commission approval before:

- (1) A significant change in physical plant design;
- (2) A capital cost increase that exceeds the approved capital cost inflated by an amount determined by applying the Hospital Capital Market Baskets published by IHS Markit in Health Care Cost Review or other guidance approved by the Commission and posted on the Commission website from the application submission date to the date of the filing of a request for a project change;
- (3) A change in the financing mechanisms of the project; or
- (4) A change in the location of the project.

COMAR § 10.24.01.17B.

The proposed changes to increase capital costs requires Commission approval. The change to the performance requirements are also permitted by COMAR 10.24.01.12A(4), which provides “that the project implementation schedule may be reasonably modified by the holder during the period during which the project is being implemented with approval of Commission staff.” In an abundance of caution and to avoid redundant filings, UCMC and HMH have made the request for a change to the project implementation schedule with this Request for Post-Approval Project Change.

CONCLUSION

For all of the reasons set forth above, UCMC and HMH respectfully requests that the Commission approve the proposed changes described above.

Respectfully submitted,



James C. Buck
Alison B. Lutich
Gallagher Evelius & Jones LLP
218 North Charles Street, Suite 400
Baltimore MD 21201

(410) 727-7702
*Attorneys for UM Upper Chesapeake
Medical Center, Inc. and UM Harford
Memorial Hospital, Inc.*

Date: December 22, 2023

I hereby declare and affirm under the penalties of perjury that the facts stated in HMH's and UCMC's Request for Post-Approval Project Change dated December 20, 2023 are true and correct to the best of my knowledge, information, and belief.

12/20/23

Date



Marco Priolo
Vice President of Finance / Chief
Financial Officer
University of Maryland Upper
Chesapeake Health System

I hereby declare and affirm under the penalties of perjury that the facts stated in
HMH's and UCMC's Request for Post-Approval Project Change dated December 22,
2023 are true and correct to the best of my knowledge, information, and belief.

12/20/23

Date

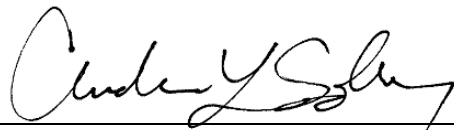


Phillip D. Crocker
Project Manager
University of Maryland Upper
Chesapeake Health System

I hereby declare and affirm under the penalties of perjury that the facts stated in
HMH's and UCMC's Request for Post-Approval Project Change dated December 22,
2023 are true and correct to the best of my knowledge, information, and belief.

12/22/2023

Date



Andrew L. Solberg

A.L.S. Healthcare Consultant Services

EXHIBIT 1

MARYLAND HEALTH CARE COMMISSION

Exemption from Certificate of Need Review

TO: Lyle E. Sheldon
President and Chief Executive Officer
University of Maryland Upper Chesapeake Health System, Inc.
500 Upper Chesapeake Drive
Bel Air, Maryland 21014

April 16, 2020
Date

17-12-EX003
Docket No.

RE: Request for Exemption from Certificate of Need Review – Consolidation of Upper Chesapeake Medical Center and Harford Memorial Hospital

PROJECT DESCRIPTION

Upper Chesapeake Medical Center (UCMC) and Harford Memorial Hospital (HMH), as joint applicants, have been granted an Exemption from Certificate of Need (CON) review for their plan to relocate beds from HMH to UCMC. The project will cease all inpatient services at HMH and construct an addition at UCMC located at 500 Upper Chesapeake Drive in Bel Air. UCMC will become a hospital with a total physical bed capacity of 212 MSGA beds, and will construct a three-story building addition that will include physical space for 30 MSGA beds, a 42-bed observation unit, and shell space

ORDER

The Maryland Health Care Commission (MHCC) reviewed and considered the information provided by the joint applicants on the proposed consolidation to relocate 51 medical/surgical/gynecological/addictions beds from HMH to UCMC. MHCC staff found the request to be consistent with the applicable State Health Plan standards; is in the public interest; and will result in more efficient and effective health services. Based on this analysis and the record in this case, the Maryland Health Care Commission, on April 16, 2020, ordered that an exemption from Certificate of Need be issued to the joint applicants to consolidate the hospital beds at Harford Memorial Hospital into Upper Chesapeake Medical Center with the following conditions:

Any future change to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude:

- (1) \$9,531,995, which includes the estimated costs of excess space for inpatient nursing units and the cost of the portions of the contingency allowance, escalation and capital construction interest, and inflation allowance that are based on the excess construction cost; and
- (2) \$16,359,163, which includes the estimated costs of shell space and the cost of the portions of the contingency allowance, escalation and capital construction interest, and inflation allowance that are based on the excess construction cost.

PERFORMANCE REQUIREMENTS

In accordance with COMAR 10.24.01.12C(3)(b), the project is subject to the following performance requirements:

1. Obligation of not less than 51 percent of the approved capital expenditure for the project, as documented by a binding construction contract, within 24 months of the date of this Certificate of Need;
2. Initiation of construction no later than four months after the effective date of the binding construction contract; and
3. Up to 24 months after the effective date of the binding construction contract to complete the construction and to document that the approved project has been completed, has met all legal requirements, and is providing the approved new service.

Failure to meet these performance requirements will render this Exemption from Certificate of Need void, subject to the requirements of COMAR 10.24.01.12F through I.

CHANGES TO APPROVED PROJECT

Before making any changes to the facts in the Exemption from Certificate of Need application and other information provided to the Commission, University of Maryland Upper Chesapeake Health System must notify the Commission in writing and receive Commission approval of each proposed change, including the obligation of any funds above those approved by the Commission in this Certificate of Need, in accordance with COMAR 10.24.01.17. Pursuant to COMAR 10.24.01.17B(2), the project cannot incur capital cost increases that exceed the approved capital cost inflated by an amount determined by applying the Building Cost Index published on a quarterly basis by Global Insight in Health-Care Cost Review unless it obtains a modification of this Certificate of Need from the Commission. Instructions for determining the threshold that necessitates Commission review and approval of changes to the capital cost approved in this Certificate of Need are located on the Commission's website at: http://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/con_cap_cost_index_1st_qtr_2015.pdf

DESIGN APPROVAL AND FACILITIES LICENSURE BY MARYLAND DEPARTMENT OF HEALTH

This Exemption from Certificate of Need does not constitute a license or replace any approvals required by the Office of Health Care Quality (OHCQ) or other divisions of the Maryland Department of Health (MDH) to operate new space within an existing facility. UM UCHS must provide MDH with all information it requires for plan approval or approval to put renovated space within the facility into use, including information pertaining to project design and specifications.

QUARTERLY STATUS REPORTS

UM UCHS must file quarterly status reports on the approved project, beginning July 16, 2020, three months from the date of this Exemption from Certificate of Need, and continuing through the completion of the project.

REQUEST FOR FIRST USE REVIEW

University of Maryland Upper Chesapeake Health System must request in writing, not less than 60 days but not more than 120 days before the first use of the renovated space and initiation of adolescent psychiatric services, a first use review from the Commission, specifying the anticipated date of first use and documenting that the project has been substantially completed and will be completed, within 120 days or less, in a manner and at a cost consistent with this Exemption from Certificate of Need. Commission staff will review the request in consultation, as necessary, with OHCQ, and in accordance with COMAR 10.24.01.18, to determine whether the project is in conformance with the Exemption from Certificate of Need. First use approval does not constitute a license or replace any approvals required by OHCQ or others within MDH to operate new space within an existing health care facility. Therefore, University of Maryland Upper Chesapeake Health System should assure that OHCQ is notified of the imminent completion of the project and should arrange for completion of any inspections and or approvals required by OHCQ in a timely manner. First use approval remains in effect for 90 days. If first use of the renovated space does not occur within 90 days of approval, University of Maryland Upper Chesapeake Health System shall reapply for first use approval.

ACKNOWLEDGEMENT OF RECEIPT OF CERTIFICATE OF NEED.

Acknowledgement of your receipt of this Exemption from Certificate of Need, stating acceptance of its terms and conditions, is required within thirty (30) days.

MARYLAND HEALTH CARE COMMISSION



Ben Steffen Executive Director

cc: Patricia T. Nay, M.D., Executive Director, Office of Health Care Quality
Katie Wunderlich, Executive Director, Health Services Cost Review Commission
Russell Moy, M.D., Health Officer, Harford County
James Buck, Esq., Gallagher, Evelius & Jones LLP

EXHIBIT 2

TABLE E. PROJECT BUDGET

INSTRUCTION: Estimates for Capital Costs (1.a-e), Financing Costs and Other Cash Requirements (2.a-g), and Working Capital Startup Costs (3) must reflect current costs as of the date of application and include all costs for construction and renovation. Explain the basis for construction cost estimates, renovation cost estimates, contingencies, interest during construction period, and inflation in an attachment to the application.

NOTE: Inflation should only be included in the Inflation allowance line A.1.e. The value of donated land for the project should be included on Line A.1.d as a use of funds and on line B.8 as a source of funds

	Hospital Building	Central Plant	Total
A. USE OF FUNDS			
1. CAPITAL COSTS			
a. New Construction			
(1) Building	\$53,646,619	\$0	\$53,646,619
(2) Fixed Equipment	\$0	\$0	\$0
(3) Site and Infrastructure	\$3,364,804	\$0	\$3,364,804
(4) Architect/Engineering Fees	\$7,311,481	\$0	\$7,311,481
(5) Permits (Building, Utilities, Etc.)	\$417,785	\$0	\$417,785
SUBTOTAL	\$64,740,689	\$0	\$64,740,689
b. Renovations			
(1) Building	\$0	\$4,850,180	\$4,852,180
(2) Fixed Equipment (not included in construction)	\$850,000	\$3,886,462	\$4,736,462
(3) Architect/Engineering Fees	\$0	\$300,045	\$300,045
(4) Permits (Building, Utilities, Etc.)	\$0	\$142,879	\$142,879
SUBTOTAL	\$850,000	\$9,179,566	\$10,031,566
c. Other Capital Costs			
(1) Movable Equipment	\$7,788,688		\$7,788,688
(2) Contingency Allowance	\$150,000	\$150,000	\$300,000
(3) Gross interest during construction period	\$8,434,767		\$8,434,767
(4) Other (Specify/add rows if needed)	\$3,283,363		\$3,283,363
SUBTOTAL	\$19,656,818	\$150,000	\$19,806,818
TOTAL CURRENT CAPITAL COSTS	\$85,247,507	\$9,329,566	\$94,579,073
d. Land Purchase			
e. Inflation Allowance			
			\$0
TOTAL CAPITAL COSTS	\$85,247,507	\$9,329,566	\$94,579,073
2. Financing Cost and Other Cash Requirements			
a. Loan Placement Fees	\$725,040	\$79,366	\$804,406
b. Bond Discount			\$0
c. CON Application Assistance			\$0
c1. Legal Fees	\$304,498	\$33,332	\$337,830
c2. Other (Specify/add rows if needed)			\$0
d. Non-CON Consulting Fees	\$1,861,610	\$203,780	\$2,065,390
d1. Legal Fees			\$0
d2. Other (Specify/add rows if needed)			\$0
e. Debt Service Reserve Fund			\$0
f. Other (Specify/add rows if needed)			\$0
SUBTOTAL	\$2,891,148	\$316,478	\$3,207,626
3. Working Capital Startup Costs			
			\$0
TOTAL USES OF FUNDS	\$88,138,655	\$9,646,044	\$97,786,699
B. Sources of Funds			
1. Cash			
			\$0
2. Philanthropy (to date and expected)			
			\$0
3. Authorized Bonds			
	\$86,616,587	\$9,481,431	\$96,098,018
4. Interest Income from bond proceeds listed in #3			
	\$1,522,069	\$166,612	\$1,688,681
5. Mortgage			
			\$0
6. Working Capital Loans			
			\$0
7. Grants or Appropriations			
a. Federal			\$0
b. State			\$0
c. Local			\$0
8. Other (Specify/add rows if needed)			
			\$0
TOTAL SOURCES OF FUNDS	\$88,138,655	\$9,648,044	\$97,786,699
	Hospital Building	Other Structure	Total
Annual Lease Costs (if applicable)			
1. Land			\$0
2. Building			\$0
3. Major Movable Equipment			\$0
4. Minor Movable Equipment			\$0
5. Other (Specify/add rows if needed)			\$0

* Describe the terms of the lease(s) below, including information on the fair market value of the item(s), and the number of years, annual cost, and the interest rate for the lease.

EXHIBIT 3

Standard .04B(7) – Construction Cost of Hospital Space

(a) The cost per square foot of hospital construction projects shall be no greater than the cost of good quality Class A hospital construction given in the Marshall and Swift Valuation Quarterly, updated to the nearest quarter using the Marshall and Swift update multipliers, and adjusted as shown in the Marshall and Swift guide as necessary for terrain of the site, number of levels, geographic locality, and other listed factors.

(b) Each Certificate of Need applicant proposing costs per square foot above the limitations set forth in the Marshall and Swift Guide must demonstrate that the higher costs are reasonable.

The following compares the project costs to the Marshall Valuation Service (“MVS”) benchmark.

**I. Marshall Valuation Service
Valuation Benchmark**

Type	Hospital
Construction Quality/Class	Good/A
Stories	6
Perimeter	492
Average Floor to Floor Height	16.8
Square Feet	88,850
f.1 Average floor Area	14,808

A. Base Costs

Basic Structure	\$560.00
Elimination of HVAC cost for adjustment	0
HVAC Add-on for Mild Climate	0
HVAC Add-on for Extreme Climate	0

Total Base Cost \$560.00

**Adjustment for
Departmental Differential
Cost Factors** 0.88

Adjusted Total Base Cost \$492.59

B. Additions

Elevator (If not in base)	\$0.00
Other	\$0.00

Subtotal		\$0.00
Total		\$492.59
C. Multipliers		
Perimeter Multiplier		0.931774667
	Product	\$458.98
Height Multiplier		1.11
	Product	\$509.55
Multi-story Multiplier		1.010
	Product	\$514.65
D. Sprinklers		
	Sprinkler Amount	\$4.40
Subtotal		\$519.05
E. Update/Location Multipliers		
Update Multiplier		1.01
	Product	\$524.24
Location Multiplier		0.98
	Product	\$513.75
Calculated Square Foot Cost Standard		\$513.75

The MVS estimate for this project is impacted by the Adjustment for Departmental Differential Cost Factor. In Section 87 on page 8 of the Valuation Service, MVS provides the cost differential by department compared to the average cost for an entire hospital. The calculation of the average factor is shown below.

Department/Function	BGSF	MVS Department Name	MVS Differential Cost Factor	Cost Factor X SF
ACUTE PATIENT CARE				
Med / Surg Patient Unit Level 5	26,290	Inpatient Unit	1.06	27,867
Observation Unit Level 4	26,290	Inpatient Unit	1.06	27,867
Dietary	870	Dietary	1.52	1,322
Dining Room	1,550	Dining Room	0.95	1,473
EVS	2,990	Mechanical Equipment and Shops	0.7	2,093
Facilities	2,100	Offices	0.96	2,016

Security	1,450	Offices	0.96	1,392
Shell Space Level 3	26,290	Unassigned Space	0.5	13,145
Existing Cancer Center	1,020	Outpatient Department	0.96	979
TOTAL	88,850		0.87962746	78,155

Cost of New Construction

A. Base Calculations	Actual	Per Sq. Foot
Building	\$53,646,619	\$603.79
Fixed Equipment	\$0	\$0.00
Site Preparation	\$3,364,804	\$37.87
Architectural Fees	\$7,311,481	\$82.29
Permits	\$417,785	\$4.70
Capitalized Construction Interest	Calculated Below	Calculated Below
Subtotal	\$64,740,689	\$728.65

However, as related below, this project includes expenditures for items not included in the MVS average.

B. Extraordinary Cost Adjustments

	Project Costs		Associated Cap Interest Contingency & Financing
Complexity Premium	\$7,464,662	Building	\$1,295,414
Demolition	\$1,143,552	Building	\$198,451
2/5 HVAC System	\$4,318,012	Building	\$749,346
OVHD Bridges	\$2,669,783	Building	\$463,313
Pneumatic tube	\$491,240	Building	\$85,250
Signage	\$139,496	Building	\$24,208
Elevator Premium	\$978,700	Building	\$169,843
Premium for Minority Business Enterprise Requirement	\$2,145,865	Building	\$372,392
Premium for Minority Business Enterprise Requirement	\$134,592	Site	
Total Cost Adjustments	\$19,485,902		\$3,358,216

Associated Capitalized Interest, Contingency, and Loan Placement Fees should be excluded from the comparison for those items which are also excluded from the comparison. Since only Capitalized Interest and Loan Placement fees relating to the Building costs are included in the MVS analysis, we have only eliminated them for the

Extraordinary Costs that are in the Building cost item. This was calculated as follows, using a Canopy as an example:

(Cost of the Canopy/Building Cost) X (Building related Capitalized Interest and Loan Placement Fees).

Explanation of Extraordinary Costs

Below are the explanations of the Extraordinary Costs that are not specifically mentioned as not being in contained in the MVS average costs in the MVS Guide (at Section 1, Page 3) but that are specific to this project and would not be in the average cost of a hospital project.

1. Complexity Premium - The complexity and necessary logistics of the project have a profound impact on the cost of construction. The project is bordered by a major road artery within 30 feet of the building footprint on the west, a road artery within 50 feet of the south elevation which is also the sole access point to the building's parking garage. On the north elevation, there is a direct attachment to the hospital and no setback from the main and sole loading dock and Central Utility Plant on the east elevation. These constraints require extraordinary methods of construction, safety, access for patients, guests and employees that will ultimately reduce construction productivity. The limited access requires a specialized tower crane that will be interior to the existing building, extreme measures to provide safe access of patients, guests, and employee in to and around the building site. The limited area around the building requires off-site staging and material storage which add logistic costs from the remote staging area and scheduling demands for delivery of materials to the construction site. The tower crane as the sole source of delivery of materials into the project along with an exterior elevator system for construction staff to reach the upper floors limit material and manpower into and out of the construction floors 3, 4 and 5.

The construction activity will occur immediately above the Cancer Center and immediately adjacent to the Main Hospital, specifically three (3) floors of in-patient rooms to the east and two floors of outpatient Cancer patients directly below the construction site. These constraints require additional consideration for noise, safety and the general need to maintain ongoing operations and respect our patient experience.

The roof of the existing building was determined not to have been designed as a crash slab and therefore the steel structure to create the added floors had to be installed at night when the building below was not occupied by patients and team members. In addition, the 2nd floor (floor immediately below the roof) houses a very large and active Cancer Infusion center and radiological pharmacy. The structure that was created during the initial Cancer Center Construction was designed to accept a structural steel frame, however, the planned columns that we to be used as the base of the steel structure were not as designed and therefore the structural design of the new structure had to be redesigned and the existing columns had to be modified with

additional reinforcement. This caused an issue with the parapet wall construction as it relates to weathertightness. Significant design and remediation were required to integrate the column and steel revisions to provide a weathertight structure as the construction sequences advanced. For the support services addition the main sewer line for the project was determined to not be as shown on the as-built plans and therefore additional structural precautions and enhancements were required since the new support services addition had to be built over the active sewer line that could not be relocated.

2. 2/5 HVAC System - With the elimination of the existing rooftop units new services must now be provided by the Central Utility Plant (CUP) and on the roof of the new expansion for the existing two floors plus the additional three floors. The combined total demand required for this five (5) story building requires relocation of existing chillers to accommodate the installation of new two (2) chillers, replacement of the existing Cooling Tower which is not expandable to meet the current demand, replacement of one (1) boiler of our existing three (3) boilers to provide the required redundancy, the replacement of the existing fire pump and an increase in the sprinkler supply lines for the additional water flow requirements and finally the addition of a Fire Command Center because the addition of the three floors classifies the building as “High Rise”. In essence, we are providing new mechanical systems for 2/5 of the ultimate build-out of the five-story building and additional support services required by the NFPA.

To maintain the construction schedule and sequencing, which were greatly impacted by supply chain product availability, we had to rent chillers, generators, pump motors, electric panels to allow the project to continue. In addition to this equipment, there were extensive enabling activities to connect the power, chilled water, steam, and associated utilities to the temporary services. Special arrangements were negotiated with the local AHJ to allow these activities and maintain the proper review and approvals.

3. OVHD Bridges - This expansion requires the construction of two enclosed access bridges to the main hospital that will connect on existing Main Hospital patient floors two and three. These connections require modifications to the main hospital at the connection points. For efficiency, the design contemplates shared structural components gained with a stacked design. Adding to the complex logistics of this project, this connector bridge construction will occur adjacent to occupied patient units and above the busy hospital loading dock.

4. Pneumatic tube - The hospital’s existing pneumatic tube system will be extended to the new facility and will utilize the bridge connection to connect to the new floors.

5. Elevator Premium - The construction of new elevator systems and the extension of the existing elevator shafts to the new floors will impact patient access and will require overnight construction activity so as not to impact the Cancer Center

outpatient experience during normal business hours. The shafts of the elevators were determined to require special carbon fiber vertical reinforcement since these shafts are the shear walls for the project. The foundation that these walls bear upon then had to be expanded and upgraded. The elevator doors in the shaft walls had to be increased in size to accept the new elevator cars. Only the premium over the anticipated MVS cost is included as an Extraordinary Cost. This was calculated as follows:

Elevator Cost in Budget		\$1,299,689
MVS Costs		
\$111,000 per Elevator	2 Elevators	\$222,000
\$6,000 per Stop	16 Stops	\$96,000
Subtotal:		\$318,000
Location Multiplier		0.98
		\$311,640
Update Multiplier		1.01
Final MVS Cost		\$320,989
Premium		\$978,700

6. Premium for Minority Business Enterprise Requirement – UMMS projects include a premium for Minority Business Enterprises that would not be in the average cost of hospital construction. This premium was conservatively projected to be 4%. UMMS consulted with its cost estimators/construction managers on the impact on project budgets of targeting 25% inclusion of MBE subcontractors or suppliers as part of its projects, and their conservative estimate is that it adds 3-4% to the costs, compared to projects that do not include MBE subcontractors or suppliers. This estimate has been confirmed through UMMS’ experience with past construction jobs. UMMS now uses this percentage in all of its construction cost estimates.

Eliminating all of the extraordinary costs reduces the project costs that should be compared to the MVS benchmark.

C. Adjusted Project Cost	Per Square Foot	
Building	\$34,295,309	\$385.99
Fixed Equipment	\$0	\$0.00
Site Preparation	\$3,230,212	\$36.36
Architectural Fees	\$7,311,481	\$82.29
Permits	\$417,785	\$4.70
Subtotal	\$45,254,787	\$509.34
Capitalized Interest, Financing, Contingency	\$3,586,137	\$40.36
Total	\$48,840,924	\$549.70

Building associated Capitalized Interest, Contingency, and Loan Placement Fees were calculated as follows:

Hospital	New	Renovation	Total				
Building Cost	\$53,646,619	\$2,850,180					
Subtotal Cost (w/o Cap Interest)	\$64,740,689	\$7,179,566	\$71,920,255				
Subtotal/Total	90.0%	10.0%		Net Interest	Financ.	Conting.	Total
Total Project Cap Interest, Cont. & Financing [(Subtotal Cost/Total Cost) X Total Cap Interest]	\$8,380,439	\$929,368	\$8,434,767	\$725,040	\$150,000		\$9,309,807
Building/Subtotal	82.9%	39.7%					
Building Cap Interest, Contingency, & Financing	\$6,944,353	\$368,945					
Associated with Extraordinary Costs	\$3,358,216						
Applicable Cap Interest & Loan Place.	\$3,586,137						

As shown below, the modified project's cost per square foot is 7% above the MVS benchmark.

MVS Benchmark	\$513.75
The Project	\$549.70
Difference	\$35.95
	7.00%