



January 23, 2023

VIA E-MAIL

Andrew Nicklas, JD
Deputy General Counsel & Director of Government Relations
Adventist HealthCare
820 W. Diamond Avenue, Suite 600
Gaithersburg, MD 20878

RE: Adventist Health Care Shady Grove Medical Ctr.
Request for Project Change after CON Approval
Docket No. 20-15-2443

Dear Mr. Nicklas,

The Maryland Health Care Commission (MHCC) received the Request for Project Change submitted on behalf of Adventist Healthcare Shady Grove Medical Center (SGMC) on September 15, 2022. SGMC's request has generated several questions and concerns about the request for project change after Certificate of Need (CON) approval.

SGMC's request initiated a review of the original CON that was approved on April 15, 2021. From the request we understand that the changes to this project include unanticipated upgrades to the central utility plant (CUP), and a substantial increase in the overall project cost. Consequently, the request includes that the approved project move forward with multiple contracts, and the cost and means of financing the project have also changed. The multiple contracts are a contract for the core and shell of the new patient tower, a subsequent contract for the fit-out of the tower interior, and a third contract for the renovation of existing hospital space.

CUP Upgrades

The originally approved budget for the CUP was approximately \$11.8 million. SGMC stated in the request that upgrades to the CUP are necessary to bring it up to current code and best practice standards. These proposed upgrades include:

1. Upgrades to meet current code requirements and best practice standards:
 - a. Installing a Life Safety Automatic Transfer Switch for the generators and emergency lighting,
 - b. Installing a Critical Branch Automatic Transfer Switch,

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- c. Replacing egress lights w/ LEDs fixtures,
 - d. Installing an equipment branch dedicated to the heating equipment, and
 - e. Replacing generator power wiring.
2. Installing 1300-ton chillers to ensure the CUP can serve the new tower and have additional capacity to support future needs.
 3. Replacing outdated boilers to serve the new tower as well as the rest of the hospital.

For the CUP upgrades, can you provide an explanation of why these “necessary upgrades” were not accounted for in the original CON request and why the upgrades are necessary now. We also ask that you provide a detailed project budget for this specific part of the project. This detailed project budget should include specific costs for each proposed upgrade and which costs have been obligated to date.

Substantial Project Cost Increases

The project cost has increased from the approved \$180,011,359 to \$247,657,497. This represents an increase of \$67,646,138 or about 37.6%. SGMC states that the substantial cost increases in overall project budget are a result of inflationary pressures and volatile market conditions resulting from the COVID-19 pandemic and its impact on the labor market and international conflicts further disrupting global supply chains. SGMC stated that it received guaranteed maximum price (GMP) proposals from its construction contractor for the construction of Phase 1 of the Project – construction of the new patient tower and CUP upgrades. Based on the information submitted, the applicant does not have a GMP bid on the second contract part of Phase 1 (fit out of interior of Tower) or a GMP bid on Phase 2 (renovation of existing space).

Provide an updated Table E (Project Budget with Uses and Sources of Funds) with the newly proposed budget. A blank Table E is attached. In the newly proposed budget, specify the cost increases due to building costs, materials, and labor costs for each line item. Also, provide a detailed explanation of why each of these specific cost increases are necessary.

Regarding the “guaranteed maximum price proposals” for Phase 1, is the cost of this phase fixed?

Please submit an updated Table L (Workforce Information).

Please fill out the attached Excel workbook that includes a worksheet for each phase, including all three contracts to reflect the total project cost. Each sheet in the workbook should be consistent with the format provided in the original CON Table E with columns for Hospital



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Building, CUP Upgrade, and Total. We need to be able to review the project plan for each phase by contract, by construction component, and in total.

Provide and describe the budget contingencies on the potential costs for all contract(s) and phases yet to be settled and identify any obligated budget amounts.

In the review of this request, we have not been able to calculate an updated MVS for the proposed new budget based on the information provided. Please resubmit the MVS calculations and provide all updated financial information relied on and the steps taken. Also consider the impact of Condition #2 in the original CON approval which states “Any future change to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude \$21,226,090, which includes the estimated new construction costs that exceed the Marshall Valuation Service guideline cost and portions of the contingency allowance and inflation allowance that are based on the excess construction cost.” Also, resubmit an updated Table D (Onsite and Offsite Costs Included and Excluded in Marshall Valuation Costs). A blank Table D is attached.

Also, what actions or considerations have been taken to minimize the scope of the cost overrun?

Originally SGMC’s sources of funds for the approved project were approximately \$10 million in cash from its operating budget, \$16 million in philanthropic donations, and approximately \$154 million were to be raised through authorized bonds. The applicant stated that still plans to raise \$16 million in philanthropic donations. It has raised just under \$8 million in charitable contributions to date. The bonds issued for the Project were completed in October 2021. The applicant stated that the remainder of the costs (approximately \$67.65 million) will be funded by cash from operations.

Please specifically identify the entity whose operations will fund the balance, (AHC or SGMC) and provide specifics on the mechanics of how the entity or entities will finance these project costs through operational funds? Please resubmit the Revenue and Expense statement that accounts for this change.

Due to the increase in the project budget, SGMC stated that it plans to file a partial rate adjustment application request with the Health Services Cost Review Commission (HSCRC) to help offset the cost of these increases. The applicant stated that HSCRC has been notified that this request is pending.

Is there a contingency financing plan in the event that HSCRC denies or only grants part of the requested partial rate adjustment application?



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Given the request to change the approved performance requirements, please update the project timeline given the potential for a multiphase construction plan.

We cannot move forward with SGMC's requested project change based on the information that SGMC has provided given the substantial project budget increase, thank you in advance for your assistance. If you have any questions, please contact me at laura.hare1@maryland.gov or phone (804-347-6024).

Sincerely,



Laura Hare Nirschl
Program Manager, Certificate of Need

Cc: John J. Eller, Baker, Donelson, Bearman, Caldwell & Berkowitz
Wynee Hawk, Chief, Certificate of Need

