maryland
health services
cost review commission

Memorandum

To: Wynee Hawk, Chief, CON, MHCC
Jeanne Marie Gawel, Analyst, CON, MHCC

From: Katie Wunderlich, Executive Director, HSCRC
Jerry Schmith, Director, Revenue & Regulation Compliance, HSCRC
Bob Gallion, Associate Director III, Revenue & Regulation Compliance, HSCRC

Date: March 6, 2023

Re: University of Maryland Capital Region Health (UMCRH) Capital Region Medical Center (CRMC) – Certificate of Need (CON) for Recommencement of Level III Neonatal Intensive Care Unit (NICU) Services

This memo is in response to your memo directed to us dated February 9, 2023, regarding a request for our review, comment and analysis pertaining to the feasibility of the proposed project and its impact upon the hospital's Global Budget Revenue (GBR).

BACKGROUND

As stated in the above noted memo, on January 17, 2023, UMCRH submitted a CON Request for the recommencement of Level III NICU services at CRMC. Level III NICU services were previously provided at Prince George's Hospital Center (PGHC) in Cheverly, Maryland; however, the Level III NICU designation was voluntarily relinquished in October 2020, and subsequently PGHC relocated to Largo, Maryland and resumed operations as CRMC in 2021.

THE PROJECT

The proposed project involves a Level III NICU. There are no other Level III NICU programs in Prince George's County, which is the second most populous county in Maryland. CRMC expects that the unit will treat a minimum average daily census (ADC) of 6.4 patients. There is no construction or renovation needed for the proposed project because CRMC

was designed to operate Level III NICU services. There are no incremental capital related costs associated with this project. Also, there will be no changes required to staffing levels. The applicant states that it can open the program immediately after receiving regulatory approvals.

HSCRC STAFF REVIEW, DISCUSSION, AND OPINION

Staff reviewed the rate file for CRMC/PGHC and noted that in October 2020, UMCRH voluntarily downgraded the nursery services from Level III NICU services to Level II Special Care Nursery services following a patient complaint and subsequent internal process review. Subsequently, CRMC has operated with Level II services since its opening in 2021. The NICU rate was not removed from the rate order, nor was the GBR reduced for service change. UMCRH simply charged at the lesser nursery rate rather than the higher NICU rate. Staff intends to make no change to the rate order or to the GBR upon recommencement of the NICU services at CRMC.

Staff reviewed the Table G (P&L Uninflated Entire Facility) as submitted by UMCRH management which is to represent all of Capital Region Health inclusive of Capital Region Medical Center, Laurel Medical Center, and Bowie Health Center. As per review of Responses dated March 1, 2023, the Table G historical and projected P&L for periods FY2021 through FY2028 are modeled after a similar Table G historical and projected P&L for periods FY2020 through FY2027 which was submitted with the related Laurel CON submission dated January 13, 2023, save for changes due to incremental revenues and expenses associated with the Level III NICU. Additionally, such responses also indicated that FY2022 P&L was sourced from FY2022 budgeted values for CRH, not actual audited financials.

CRH Operating Loss measures (in 000s) as presented in the audit report are as follows:

	2020	2021	2022
By Division:	($18,092)	($30,266)	($64,522)
By Hospital:	($19,344)	($32,667)	($59,550)

CRH Operating Loss measures (in 000s) as presented in the submissions are as follows:

	2020	2021	2022
As submitted:	($18,100)	($30,267)	($20,730)

Given that the audited measures by division closely tie to the submissions for FY2020 and FY2021, staff took note of the variance apparent as reflected in the submission for FY2022. Such understated loss in Table G for 2022 sets up the presentation for the planned performance improvements to overcome the losses within the projected period. Our initial impression of this presentation is that it may represent a negative cushion of $44M in the projections.

Staff reviewed the Table G assumptions included in the submission and the Responses dated March 1, 2023, as they relate to the observed contractions in Gross Patient Service Revenues for FY2026, FY2027, and FY2028 relative to the respective prior years' projected revenues. The contractions were attributed to "shared savings adjustments" as per the responses. The contraction over the three projected years ending FY2028 is $1,650,000. Staff researched the planned reduction in GBR attributed to "All Payer Rate Reduction for TCOC Performance" to get back to HSCRC/federal contract compliance and noted such contraction over the two years ending FY2024 is to be $885,200. Although the timing of the proposed adjustments is considerably different, the contraction as measured by the CRH submission represents a potential cushion of $765K in the projections.

Measured cumulative planned performance improvements of $45.3M are reflected in the assumptions to Table G for the five years ended FY2028, of which nearly 30% are as undefined. This is consistent with the planned performance improvements of $40.2M for the first four years ended FY2027 as reflected in Table G for the Laurel CON submission, of which just over 20% are undefined. Staff took note of the difference in presentations of planned performance adjustments between the two CONs for CRH submitted just days apart. As per the responses dated March 1, 2023, the planned performance improvements are components of both the annual operating plan and the five-year plan for CRH. Here again, the starting point (FY2022) measures are important to the concluding point (FY2028) when considering the results of planned performance improvements between the two points.

Focusing on the last year (FY2028) of the six years projected in Table G, the Operating Income is projected to be $6,876,000 with the benefit of yet to be realized performance improvements of $45,300,000, which by implication could be an Operating Loss of -$38,424,000 without the benefit of planned performance improvements. Cash flow from operations inclusive of performance improvements in FY2028 is projected to be a positive $41,307,000, which could be a negative -$3,993,000 if such improvements are not fully realized. Again, such concluding projections may be optimistic given that the starting point of Operating Income (FY2022) may be $44M overstated.

The Table H projections (P&L Inflated Entire Facility) for CRH are modeled after those of Table G and incorporate assumptions for annual inflation. Staff researched the rate files for the three hospital facilities in CRH and concluded that the 2.58% annual inflation assumption is reasonable.

Also, the assumptions for inflation on operating expenses range from 2% to 4%, which staff concludes as reasonable.

In conclusion, the projected operating results for CRH may have been presented optimistically. It is quite possible the CRH may not reach profitability within the six years ended FY2028. However if the consolidated UMMS is willing to absorb any resulting losses incurred by CRH, while honoring its consolidated debt covenants, then the NICU service recommencement (which is projected to have relatively immaterial and near breakeven operating results) may be deemed to be feasible.