Enclosed is my Recommended Decision in the comparative review of two Certificate of Need applications proposing the introduction of cardiac surgery services in the Baltimore/Upper Shore health planning region established in COMAR 10.24.17 for regulatory oversight of cardiac surgery services. Having considered the applications, comments on the applications, responses to comments, and additional information in the record of this review, I recommend that the application of Anne Arundel Medical Center, Inc. (“AAMC”) for a Certificate of Need to introduce cardiac surgery services be APPROVED with conditions. I also recommend that the application of the University of Maryland Baltimore Washington Medical Center, Inc. (“BWMC”) to introduce cardiac surgery services be DENIED.
I recommend that, if the Commission adopts my Recommended Decision as its decision, the following conditions be placed on the Certificate of Need issued to Anne Arundel Medical Center:

1. If the cardiac surgery program at AAMC fails to achieve a volume of at least 200 open heart surgery cases in its second year of operation, AAMC will fully cooperate with MHCC’s required evaluation of closure of the program, under COMAR 10.24.17.04B(1)(b);

2. The Johns Hopkins Hospital will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has as any part of its basis, the lost revenue generated by cardiac surgery services that have shifted to Anne Arundel Medical Center; and

3. Anne Arundel Medical Center will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has, as any part of its basis, the objective of obtaining additional revenue from the provision of cardiac surgery services.

I recommend that Anne Arundel Medical Center’s application to establish cardiac surgery services be approved because it has the highest potential for establishment of a lower charge cardiac surgery program that will also be high performing. AAMC is the larger of the two applicant hospitals and has a larger service area base than BWMC from which to draw patients. Geographically, AAMC is better positioned than BWMC to draw from the two urban areas in which all but two of the programs serving Maryland residents are currently located: Baltimore City and County, with five programs; and Washington, D.C. and its two contiguous Maryland suburban jurisdictions, Montgomery and Prince George’s Counties, with six programs. Anne Arundel Medical Center is also better positioned to have the greatest impact on reducing travel time for cardiac surgery services, given the access it affords to the population of Maryland’s Eastern Shore in the mid-Shore jurisdictions of Caroline, Kent, Queen Anne’s, and Talbot Counties, and also to the population of northern Calvert County.

I recommend that only one new cardiac surgery program be created at this time. Each of the proposed programs has potential for reducing the charges paid by patients and payers for cardiac surgery services and each applicant hospital, working in collaboration with its partner hospital or system affiliate, could develop a safe and clinically competent program. AAMC has entered into a collaborative relationship with Johns Hopkins Medicine and the cardiac surgery program at The Johns Hopkins Hospital in Baltimore to develop its proposed cardiac surgery program. BWMC has proposed development of its program in collaboration with the cardiac surgery program at the University of Maryland Medical Center in Baltimore and the University of Maryland Medical System, of which it is a member hospital.

I note that I considered the market feasibility and the impact of two new programs being developed at the same time. However, a new cardiac surgery program is required by COMAR 10.24.17, the Cardiac Surgery Chapter of the State Health Plan, to achieve a required minimum volume of open heart surgery cases. The approval of two new cardiac surgery programs at the
same time could risk the creation of two low volume, underperforming programs that could require ongoing corrective actions by the Commission, possibly leading to closure of one or both programs. I concluded that the most prudent approach is to recommend approval of only the stronger application, that of Anne Arundel Medical Center.

**REVIEW SCHEDULE AND FURTHER PROCEEDINGS**

This matter will be placed on the agenda of a meeting of the Maryland Health Care Commission on January 26, 2017, beginning at 1:00 p.m., at 4160 Patterson Avenue in Baltimore. The Commission will issue a final decision based on the record of the proceeding.

As provided in COMAR 10.24.01.09B, each applicant and interested party may submit written exceptions to the enclosed Recommended Decision. Written exceptions and argument must identify specifically those findings or conclusions to which exception is taken, citing the portions of the record on which each exception is based. Each applicant and interested party must submit 20 copies of its written exceptions. Copies of exceptions and responses to exceptions must be emailed to all parties by the due date and time, but the required copies may be filed with the Commission by noon on the next business day.

I note that, because a participating entity does not have a right of judicial appeal, Commission regulations do not grant a participating entity the right to file exceptions to a Recommended Decision. I want to point out that a participating may, in accordance with COMAR 10.24.01.09C, request that the Chair of the Commission permit it to make an oral presentation to the MHCC before action is taken on an application for Certificate of Need. If Anne Arundel County desires to speak before the Commission takes action on my Recommended Decision, it should make such a request and file comments regarding the Recommended Decision by the deadline for the filing of exceptions.

Oral argument on the exceptions during the hearing before the Commission is limited to ten minutes per applicant and ten minutes per interested party, unless extended by the Chair of the Commission or the Chair’s designated presiding officer. The schedule for the submission of exceptions and responses is as follows:

- **Submission of exceptions**: January 11, 2017
  - No later than 4:00 pm

- **Submission of responses**: January 19, 2017
  - No later than 4:00 pm

- **Exceptions hearing**: January 26, 2017
  - 1:00 pm
IN THE MATTER OF  

BEFORE THE  

BALTIMORE/UPPER SHORE  

MARYLAND HEALTH  

CARDiac SURGERY REVIEW  

CARE COMMISSION  

Anne Arundel Medical Center  
Docket No. 15-02-2360  

University of Maryland  
Baltimore Washington Medical Center  
Docket No. 15-02-2361  

******************************************************************

Reviewer’s Recommended Decision

January 26, 2017

(Released December 30, 2016)
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APPENDICES

Appendix 1: Record of the Review

Appendix 2: Service Area Maps

Appendix 3: HSCRC Opinion Letter
I. INTRODUCTION

A. The Applicants

This is a comparative review of Certificate of Need (“CON”) applications, for the establishment of new cardiac surgery programs, filed by Anne Arundel Medical Center, Inc. (“AAMC”) and University of Maryland Baltimore Washington Medical Center, Inc. t/a University of Maryland Baltimore Washington Medical Center (“BWMC”). Both applicant hospitals are located in Anne Arundel County.

AAMC is a 370-bed independent, not-for-profit general hospital located at 2001 Medical Parkway, in Annapolis. It is the fourth largest general hospital in Maryland, based on FY 2016 average daily census. Its inpatient acute care services include medical/surgical, obstetric, and pediatric services.1

BWMC is a 293-bed, not-for-profit general hospital, located at 301 Hospital Drive, in Glen Burnie. It is one of eleven general hospitals affiliated with the University of Maryland Medical System (“UMMS”), and is the eighth largest general hospital in Maryland. Its inpatient services include medical/surgical, obstetric, pediatric, and acute psychiatric services.

B. The Projects

AAMC seeks to establish, in partnership with Johns Hopkins Medicine (“JHM”), a new cardiac surgery program at its hospital in Annapolis. As noted in its application, AAMC currently provides cardiology and vascular services, including screening and preventive programs, medical management of cardiac disease, diagnostic and interventional procedures, and endovascular procedures. AAMC states that “[its] ability to provide a continuum of basic through advanced cardia services for the population it serves is compromised by its restriction from offering cardiac surgery,” and that a cardiac surgery program “is necessary to improve safe access to a full range of care for its patients with heart disease.” (DI #3AA, p. 12). It proposes to develop the cardiac surgery program with “the support and expertise of JHM’s recognized cardiac surgery team” and projects that the program will be “among the least expensive” programs in Maryland, “and result in a $2M positive impact on the Medicare Waiver Test.” (DI #3AA, p. 12).

BWMC also seeks to establish a new cardiac surgery program at its hospital in Glen Burnie. Currently, the University of Maryland Cardiac Surgery Services Program provides cardiac surgery at two locations: the University of Maryland Medical Center (“UMMC”) in Baltimore City and the University of Maryland St. Joseph Medical Center (“UMSJ”) in Towson. BWMC describes its proposed cardiac program as “a third location for the existing University of Maryland (UM) Cardiac Surgery Services Program.” Cardiac surgeons and staff who provide cardiac surgery at UMMC will perform surgery at BWMC. Like AAMC, BWMC also claims that development of its program will result in “lower cost to patients and payers,” noting that “relative to other cardiac surgery programs, the proposed project will have lower variable costs because the costs will be shared with UMMC’s existing costs.” (DI #2BW p. 4)

1 AAMC also has a pending CON application (Docket No. 16-02-2375), seeking to introduce acute psychiatric services on separate premises from the existing hospital.
BWMC states that since the time of its exploration of the eventual affiliation with UMMS,\(^2\) it has examined the possibility of developing a cardiac surgery program primarily to serve patients in its service area. The proposed program is described by BWMC as a clinical benefit of its affiliation with UMMS for local residents. Other examples cited by BWMC as analogous include: the Tate Cancer at BWMC (affiliated with the UM Marlene and Stewart Greenebaum Cancer Center); The University of Maryland Center for Diabetes and Endocrinology at BWMC; the obstetrical services program at BWMC (affiliated with the UM Center for Advanced Fetal Care); and the primary and elective angioplasty services (affiliated with the UM Comprehensive Heart Center). (DI #2BW, p. 4)

Each applicant hospital has surgical facilities suitable for major surgery and the cost to upgrade the existing facilities to accommodate a new cardiac surgery program is not estimated to require large expenditures.\(^3\) AAMC plans to upgrade two operating rooms (“ORs”) and surgical intensive care rooms and purchase equipment needed to initiate the service. The estimated cost of the project is $2.5 million. BWMC estimates that only $1.26 million of equipment expenditures will be necessary to make the hospital capable for providing cardiac surgery. Both hospitals have upgraded their surgical facilities in the last ten to fifteen years.

C. Recommended Decision

I recommend that the Maryland Health Care Commission issue a Certificate of Need to Anne Arundel Medical Center, Inc. to introduce cardiac surgical services, through an affiliation with Johns Hopkins Medicine. AAMC will need to meet the performance requirements applicable to this CON approval and document that it has developed a cardiac surgery program in conformance with the plan contained in its CON application, Docket No. 15-02-2361, in order to obtain first use approval and initiating the service. I recommend that the CON be issued with the following conditions:

1. If the cardiac surgery program at AAMC fails to achieve a volume of at least 200 open heart surgery cases in its second year of operation, AAMC will fully cooperate with MHCC’s required evaluation of closure of the program, under COMAR 10.24.17.04B(1)(b).

2. The Johns Hopkins Hospital will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has as any part of its basis, the lost revenue generated by cardiac surgery services that have shifted to Anne Arundel Medical Center.

3. Anne Arundel Medical Center will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has, as any part of its basis, the objective of obtaining additional revenue from the provision of cardiac surgery services.

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\(^2\) The former North Arundel Hospital joined the University of Maryland Medical System in 2000.

\(^3\) For context, the capital expenditure threshold which is part of the scope of hospital CON regulation is currently just under $12 million, indexed for inflation.
I recommend that the Maryland Health Care Commission deny the application of Baltimore Washington Medical Center, Inc. for Certificate of Need to introduce cardiac surgical services. While lower charges for cardiac surgery could be obtained through implementation of this program and UMMS and BWMC have made a strong case that they could develop a quality program, my consideration of all the applicable standards and criteria leads me to recommend approval of only the stronger application in this review.

A longer summary of my review and recommendation is contained at the end of this Recommended Decision (Part V).

II. PROCEDURAL HISTORY

A. Record of the Review

The detailed procedural history for these applications is included as Appendix 1. The major features of the review process for these applications are as follows.

On February 20, 2015, AAMC and BWMC filed separate applications for a Certificate of Need to establish cardiac surgery programs at their respective hospitals. (DI #3AA and 2BW). Following submission of these applications, MHCC staff sent each applicant a request for additional information to complete each application. (DI #7AA, 10AA, 11AA, 5BW, and 7BW). On June 4, 2015, MHCC staff notified the applicants that the applications would be docketed on June 26, 2016. (DI #14AA and 11BW).

On July 23, 2015, the Anne Arundel County Health Department sought interested party status and filed comments on both applications. (DI #27GF). On July 27, 2015, pursuant to COMAR 10.24.01.08F, BWMC sought interested party status and filed comments on AAMC’s application. (DI #29GF). On the same day, and pursuant to COMAR 10.24.01.08F, AAMC sought interested party status and filed comments on BWMC’s application. (DI #28GF). Also on July 27, 2015, the MedStar Hospitals and LifeBridge sought interested party status and filed comments on both applications, and Dimensions sought interested party status and filed comments in the review of AAMC’s application. (DI #30GF, 33GF, and 34GF).

On December 15, 2014, CareFirst submitted a letter to MHCC staff expressing support for AAMC’s application. On July 27, 2015, CareFirst reiterated its support for the AAMC application. (DI #35GF).

On July 21, 2015, pursuant to COMAR 10.24.01.01B(30) and 10.24.01.08F(2), Anne Arundel County sought participating entity status in the review of both applications. (DI #26GF).

On July 15, 2015, pursuant to COMAR 10.24.01.01B(30) and 10.24.01.08F(2), the City of Annapolis sought participating entity status in the review of both applications. (DI #25GF).
On August 10, 2015, pursuant to COMAR 10.24.01.08E, BWMC filed a modification to its CON application. On August 25, 2015 AAMC filed comments on BWMC’s modified application. On September 28, 2015, BWMC filed a response to AAMC’s comments on the modified application.

Pursuant to COMAR 10.24.01.09A(1)(b), I was appointed to serve as Reviewer of each application on a comparative basis. On December 8, 2015, I issued a ruling on interested party and participating entity status. Both AAMC and BWMC as interested parties in the comparative review. Pursuant to COMAR 10.24.01.08F and COMAR 10.24.01.01B(20), I granted interested party status to each hospital seeking such status because each is authorized to provide the same service as that proposed by each applicant in the same planning region used for purposes of determining need under the State Health Plan or in a contiguous planning region. I granted interested party status to the Anne Arundel County Department of Health because it is a local health department in the jurisdiction in which the proposed service is to be offered. I also granted interested party status to the Anne Arundel County Department of Health because it is a local health department in the jurisdiction in which the proposed service is to be offered. I also granted interested party status to the Anne Arundel County Department of Health because it is a local health department in the jurisdiction in which the proposed service is to be offered. (DI #55GF). Pursuant to COMAR 10.24.01.01.B(2), I granted participating entity status to Anne Arundel County and denied this status to the City of Annapolis. (DI #56GF).

On July 15, 2016, I requested that HSCRC staff review each applicant’s financial projections and comment on the financial feasibility of each hospital’s proposal and the reasonableness of each hospital’s assumptions. By letter dated August 24, 2016, HSCRC staff provided comments in response to my request. (DI #68GF).

On October 5, 2016, I issued a request to each applicant, and each applicant’s partner/collaborating hospital, to provide certain binding commitments regarding matters raised by HSCRC’s review of the applicants’ financial projections. I also requested that AAMC revise its revenue projections to conform to HSCRC’s previously stated approach to correctly modeling revenue gains from market shifts of Maryland residents between hospitals. (DI #69GF).

By letter dated October 17, 2016, BWMC and UMMC made the requested binding commitments not to seek adjustments in their global budget revenue aimed at off-setting any revenue loss associated with the shift of cardiac surgery cases from UMMC to BWMC. Likewise, on the same date, AAMC and JHH made the requested binding commitments. AAMC also provided revised pro forma schedules of revenues and expenses. (DI #75GF).

On October 28, 2016, pursuant to COMAR 10.24.01.09A(2), I held a project status conference to address aspects of AAMC’s application that were potentially inconsistent with the applicable standards and review criteria. (DI #76GF). Specifically, I requested that

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4 The modified application committed BWMC and UMMC to accept 50% revenue variability for cardiac surgery cases shifted from UMMC to BWMC. (DI #17BW).
5 I subsequently struck these pro forma schedules from the record of the review prior to holding the October 28, 2016 project status conference. (DI #77GF).
AAMC modify its application by filing revised revenue and expense projections conforming with HSCRC’s current policy on changes in hospital volume resulting from shifts in market share and how those shifts would affect global budget revenue. (DI #89GF and 90GF).

On November 7, 2016, as a result of the project status conference, AAMC filed a modification to its CON application, in which it revised its original revenue projections. (DI #22AA). On November 14, 2016, BWMC, Dimensions and the MedStar hospitals filed comments on AAMC’s modified application. (DIs # 93GF, 94GF, and 96GF).

B. Interested Parties in the Review

Three hospital organizations, in addition to the two applicant hospitals, are interested parties in this review: Dimensions Health Corporation (“Dimensions”) d/b/a Prince George’s Hospital Center (“PGHC”), LifeBridge Health, Inc. (“LifeBridge”), and two MedStar Health hospitals (“MedStar Hospitals”), MedStar Union Memorial Hospital and MedStar Washington Hospital Center. Dimensions opposes the AAMC project. LifeBridge and the MedStar Hospitals oppose both applications. AAMC opposes the BWMC project and BWMC opposes the AAMC project.

Dimensions owns and operates Prince George’s Hospital Center (“PGHC”). PGHC is a provider of cardiac surgery that has never operated with high case volume. In the past three years, it has worked with UMMS to grow its program and has had some success while not yet reaching maintenance of the case volume target (200 cases per annum) set out in COMAR 10.24.17, the Cardiac Surgery and Percutaneous Coronary Intervention Services Chapter (“Cardiac Surgery Chapter”) of the State Health Plan for Facilities and Services (“SHP” or “State Health Plan”). UMMS is poised to incorporate Dimensions into its hospital system and Dimensions has been approved by MHCC to relocate PGHC to Largo and replace it with a new general hospital to be known as Prince George’s Regional Medical Center. Cardiac surgery has been approved as a service for the relocated hospital. Dimensions’ opposition to the AAMC project is based on its contention that a new program at AAMC will doom its rebuilding effort in cardiac surgery. (DI #30GF and 93GF).

LifeBridge operates a cardiac surgery program at Sinai Hospital of Baltimore, located in northern Baltimore City. It does not believe that additional cardiac surgery programs are needed in Maryland and will threaten the ability of existing programs such as the program at PGHC to build volume or, in the case of Suburban Hospital, to maintain appropriate volume. (DI #33GF).

The MedStar hospitals, MedStar Union Memorial Hospital in Baltimore City and MedStar Washington Hospital Center in Washington, D.C. (collectively, “MedStar Hospitals”), operate cardiac surgery programs. The MedStar Hospitals oppose both projects as unneeded, poorly planned, infeasible, less cost-effective than maintaining the current supply of programs, and lacking in sustainability. (DI #34GF and 95GF)

Anne Arundel County’s Department of Health is also an interested party in this comparative review. The Department’s comments, expressed in a letter from its County Health Officer, Jinlene Chan, M.D., M.P.H, support having a cardiac surgery program in Anne Arundel
County but do not explicitly favor one application over the other. Dr. Chan noted that Anne Arundel County has no cardiac surgery programs, despite a population of over 555,000. She also noted that the closest available cardiac surgery programs (Baltimore or D.C.) require a minimum travel time of 30 to 45 minutes for Anne Arundel County residents. Given this large population base that would support a cardiac surgery program, and the reduction in travel time, Dr. Chan urged MHCC to approve a cardiac surgery program in Anne Arundel County. (DI #27GF).

C. Participating Entity in the Review

Anne Arundel County is a participating entity in this comparative review. The County’s comments, expressed in a letter from its County Executive, Steven R. Schuh, support having a cardiac surgery program in Anne Arundel County. Like the health department, the County did not favor one application over the other, but noted a general absence of a cardiac surgery program in the County and stated that the travel time to programs in other jurisdictions has “created unnecessary risks and hardships for . . . County residents.” Specifically, the County cited a recent study showing a correlation between travel time and mortality and noting that when patients and their families are burdened by travel time, it may adversely affect their health status, compliance and well-being. The County “strongly urge[ed] the Commission to expand the cardiac surgery programs available to Anne Arundel County residents.” (DI #26GF).

D. Community Comments

On July 15, 2015, Mayor Michael Pantelides, on behalf of the City of Annapolis, filed a request for participating entity status as well as comments on the proposed applications. On December 8, 2015, I denied the City’s request for participating entity status, noting that it did not meet the qualifications for that status found in COMAR 10.24.01.01B(30). I stated that the City’s comments are part of the official record of this comparative review. The City’s comments support the introduction of a cardiac surgery program in Anne Arundel County, and specifically favor AAMC’s proposal over BWMC’s proposal. With respect to the general need for such a program within the County, the City noted the problems associated with long travel times to other jurisdictions for cardiac surgery services. With respect to its preference for AAMC’s proposal, the City stated that AAMC is “best positioned to meet this need,” and that the proposal provides “superior cost savings to patients and to the employer health plans that often finance their care.” The City also noted that a program located at AAMC will create greater access to care for a greater number of people (including Eastern Shore and Southern Maryland residents) than a program located at BWMC, just six miles to the south of UMMC. (DI #25GF)

CareFirst BlueCross BlueShield (“CareFirst”), filed comments stating its preference for AAMC’s proposed cardiac surgery program. In urging the Commission to approve the application, CareFirst stated its view that AAMC’s cardiac surgery program would meet the objectives of: (1) the federal Center for Medicare and Medicaid Services’ Triple Aim; (2) the Patient Centered Medical Home Program; and the Maryland All-Payer Model. In addition, CareFirst stated that AAMC’s proposed project “represents the most cost effective alternative for Maryland’s health care system.” AAMC’s average projected payment rate for cardiac surgery will be nearly 40%

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lower that the estimated payment rate at Washington Hospital Center for a comparable case mix and nearly 50% lower than the average payment rate at Johns Hopkins Hospital and University of Maryland Medical Center for a comparable case mix (DI #26GF).

Each applicant provided letters of support from a variety of sources, including elected officials, community organizations, the hospitals partnering with them to provide cardiac surgery, governing board members, physicians, and patients.

The AAMC CON application (DI #3AA, Appendix 3) contained 296 letters of support. The applicant grouped these letters under the following headings: (1) Elected Officials [14]; (2) Payers [two]; (3) Community Organizations [16]; (4) Board Members and Business Leaders [30]; (5) Patients [171]; and (6) Physicians and CRNPs [63]. Additionally, AAMC’s application included Resolutions in support of its proposed project by the AAMC Board of Trustees and the AAMC Foundation Board of Directors and three letters of support from the leadership of Johns Hopkins Medicine.

The BWMC CON application (DI #2BW, Exhibit 33) contained 115 letters of support. The applicant grouped the authors of these letters under the following headings: (1) Business and Industry [seven]; (2) Community Service [four]; (3) Education [one]; (4) County Government (16); [5] State Government [nine]; (6) Health-UMMS affiliated [30]; (7) Health-General [23]; (8) Individuals [21]; and (9) Religious [4].

III. BACKGROUND

A. Delivery of Cardiac Surgery Services

Cardiac surgery means surgery on the heart or major blood vessels of the heart, including both open and closed heart surgery. The Cardiac Surgery Chapter of the State Health Plan divides Maryland into four regions for purposes of forecasting demand for cardiac surgery and regulating the supply of cardiac surgery programs. These regions were established on the basis of the patient catchment areas for the State’s existing programs in 2014,7 Anne Arundel County is part of the Baltimore/Upper Shore Region, which includes the jurisdictions of Baltimore City, and Baltimore, Caroline, Carroll, Cecil, Harford, Howard, Kent, Queen Anne’s, and Talbot counties. This large region contains half of the State’s cardiac surgery programs and just under half (49.8%) of the State’s total population.8

The five Baltimore/Upper Shore cardiac surgery hospitals serviced approximately 74% of the adult cardiac surgery volume experienced by Maryland’s ten cardiac surgery programs in CY 2015. Four of the five centers are in Baltimore City, the second largest jurisdiction in the region9 and the fifth center is located in Baltimore County, the region’s largest jurisdiction.10

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7 Jurisdictions were included in each region based on where most of the cardiac surgery patients in the jurisdiction(s) used cardiac surgery services. See COMAR 10.24.17.03, page 7.
9 Baltimore City had a 2015 estimated population of 621,849.
10 Baltimore County had a 2015 estimated population of 831,138.
Arundel County has the region’s third largest population. The region’s existing cardiac surgery hospitals are members of four multi-hospital systems that collectively served 58% of the State’s total demand for adult inpatient medical/surgical hospitalization in 2015. UMMS has two centers in the region, UMMC and UM St. Joseph Medical Center. Johns Hopkins Health (The Johns Hopkins Hospital), MedStar (Union Memorial Hospital), and LifeBridge (Sinai Hospital of Baltimore) each operate a single program in this region.

The applicants in this review propose additional cardiac surgery program(s) in the region. While Anne Arundel County is in the Baltimore/Upper Shore Region because most of its adult cardiac surgery patients use the cardiac surgery facilities in the Baltimore area, a significant proportion of the jurisdiction’s cardiac surgery case load migrates to the Metropolitan Washington Region for this service.

Table 1 inventories the current and proposed Maryland and D.C. cardiac surgery programs by region, hospital system (if applicable), and hospital. The graph that immediately follows Table 1 shows that adult cardiac surgery case volume performed at Maryland hospitals increased strongly in the 1990s, a 74% increase between 1990 and the peak case volume year of 2000. Case volumes declined approximately 30% between 2000 and 2011, a recent inflection year, in that case volume has steadily increased since 2011, an increase of approximately 13% over the four-year period of 2011 to 2015. Percutaneous coronary intervention (“PCI”), commonly referred to as “angioplasty,” is a procedure whereby a catheter is inserted in a blood vessel and guided to the site of the narrowing of a coronary artery to relieve coronary narrowing. Thus it is an alternative to coronary artery bypass surgery, the most common form of cardiac surgery, in the treatment of some coronary artery disease cases. PCI case volume rose in the first decade of the current century, which is undoubtedly an important factor in the decline of cardiac surgery during that period, but the volume of PCI cases in Maryland also saw substantial decline beginning approximately ten years ago. This recent decline is believed to be related to changes in clinical decision-making on treatment options for coronary artery disease but could also be influenced by underlying changes in population health status.

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11Anne Arundel County had a 2015 estimated population of 564,125.
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<th>Hospital System/Hospital</th>
<th>City/Jurisdiction</th>
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<tr>
<td>The Johns Hopkins Hospital</td>
<td>Baltimore City</td>
<td>1,262</td>
</tr>
<tr>
<td>LifeBridge Health</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sinai Hospital of Baltimore</td>
<td>Baltimore City</td>
<td>409</td>
</tr>
<tr>
<td>MedStar Health</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MedStar Union Memorial Hospital</td>
<td>Baltimore City</td>
<td>626</td>
</tr>
<tr>
<td>University of Maryland (UM) Medical System</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UM Medical Center</td>
<td>Baltimore City</td>
<td>1,000</td>
</tr>
<tr>
<td>UM St. Joseph Medical Center</td>
<td>Towson/Baltimore County</td>
<td>454</td>
</tr>
<tr>
<td>UM Baltimore Washington Medical Center</td>
<td>Glen Burnie/Anne Arundel</td>
<td>-</td>
</tr>
<tr>
<td><strong>Anne Arundel Medical Center</strong></td>
<td>Annapolis/Anne Arundel</td>
<td>-</td>
</tr>
<tr>
<td><strong>WASHINGTON METRO REGION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adventist HealthCare</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Washington Adventist Hospital</td>
<td>Takoma Park/Montgomery</td>
<td>285</td>
</tr>
<tr>
<td>Dimensions Health System</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prince George’s Hospital Center**</td>
<td>Cheverly/Prince George’s</td>
<td>105</td>
</tr>
<tr>
<td>Johns Hopkins Health System</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suburban Hospital</td>
<td>Bethesda/Montgomery</td>
<td>212</td>
</tr>
<tr>
<td>MedStar Health</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MedStar Washington Hospital Center***</td>
<td>District of Columbia</td>
<td>1,694</td>
</tr>
<tr>
<td>George Washington University Hospital***</td>
<td>District of Columbia</td>
<td>193</td>
</tr>
<tr>
<td>Howard University Hospital***</td>
<td>District of Columbia</td>
<td>19</td>
</tr>
<tr>
<td><strong>LOWER SHORE REGION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peninsula Regional Medical Center</td>
<td>Salisbury/Wicomico</td>
<td>433</td>
</tr>
<tr>
<td><strong>WESTERN MARYLAND REGION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Maryland Reg. Med. Center</td>
<td>Cumberland/Allegany</td>
<td>174</td>
</tr>
</tbody>
</table>

*Proposed as a partner of Johns Hopkins Medicine in provision of cardiac surgery but not part of the Johns Hopkins Health system of hospitals.

**This hospital has been authorized to relocate to Largo. UMMS has entered into an agreement to acquire Dimensions Health System.


Data Source: HSCRC Discharge Data Base and DC Discharge Abstract
The following Tables 2 and 3 show case volume at Maryland hospitals for total adult cardiac surgery and open heart surgery from 2011 to 2015, the recent period of growth in case volume. As can be seen, the two academic medical center programs in Baltimore, Johns Hopkins and UMMC, have experienced a major share of this growth, with case volume increasing 26.7% over this period. In contrast, case volume at the other three community hospital programs in the Baltimore/Upper Shore region, Union Memorial, St. Joseph, and Sinai, saw growth of 12.5% during the same time frame, with growth limited to the latter two programs. The three Maryland programs in the D.C. suburbs saw a slight decline, -2.6% between 2011 and 2015 despite the revival of case numbers at Prince George’s Hospital Center, because of reductions in the caseload at Washington Adventist and little change at Suburban. Peninsula Regional experienced little change over this period and Western Maryland Regional saw a decline in case volume of over 20% during this period.

As can be seen in Tables 2 and 3, the proportion of cardiac surgery cases that are not classified as open heart surgery has grown, from about 6% statewide in 2011 to 13% by 2015. This case volume is concentrated at the two academic medical center programs in Baltimore, Johns Hopkins and UMMC and Union Memorial, all located in Baltimore. In CY 2015, among these hospitals, open heart surgery accounted for 76% (UMMC) to 85% (Union Memorial) of total cardiac surgery cases. Among the seven remaining community hospital programs, open heart surgery accounted for 92% (Peninsula Regional and Sinai) to 99% (St. Joseph and Suburban) of total cardiac surgery cases.

Open heart surgery means cardiac surgery during which cardiopulmonary bypass may temporarily assume the functions of the patient’s heart and lungs, including minimally open procedures that do not require the use of cardiopulmonary bypass support.
Table 2A: Adult Cardiac Surgery Cases, Maryland Hospitals
CY 2011-CY 2015

<table>
<thead>
<tr>
<th>Hospital</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johns Hopkins</td>
<td>969</td>
<td>1,026</td>
<td>1,142</td>
<td>1,182</td>
<td>1,262</td>
</tr>
<tr>
<td>University of Maryland</td>
<td>817</td>
<td>851</td>
<td>923</td>
<td>984</td>
<td>1,000</td>
</tr>
<tr>
<td>Union Memorial</td>
<td>688</td>
<td>575</td>
<td>588</td>
<td>636</td>
<td>626</td>
</tr>
<tr>
<td>St. Joseph</td>
<td>339</td>
<td>285</td>
<td>296</td>
<td>448</td>
<td>454</td>
</tr>
<tr>
<td>Peninsula Regional</td>
<td>426</td>
<td>378</td>
<td>431</td>
<td>431</td>
<td>433</td>
</tr>
<tr>
<td>Sinai</td>
<td>296</td>
<td>317</td>
<td>345</td>
<td>382</td>
<td>409</td>
</tr>
<tr>
<td>Washington Adventist</td>
<td>398</td>
<td>463</td>
<td>374</td>
<td>301</td>
<td>285</td>
</tr>
<tr>
<td>Suburban</td>
<td>205</td>
<td>279</td>
<td>205</td>
<td>244</td>
<td>212</td>
</tr>
<tr>
<td>Western Maryland</td>
<td>224</td>
<td>215</td>
<td>169</td>
<td>170</td>
<td>174</td>
</tr>
<tr>
<td>Prince George’s</td>
<td>15</td>
<td>18</td>
<td>8</td>
<td>29</td>
<td>105</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>4,377</td>
<td>4,407</td>
<td>4,481</td>
<td>4,807</td>
<td>4,960</td>
</tr>
</tbody>
</table>

Note: Adult is defined as aged 15 or older. Cardiac surgery is defined by the ICD-9 codes in COMAR 10.24.17 for CY 2011 through the third quarter of CY 2015. The case counts for the last quarter of CY 2015 are based on the same definition, but only ICD-10 codes are used in discharge abstracts for this period, so a crosswalk developed by the Centers for Medicare and Medicaid services of ICD-10 to ICD-9 codes was used to count cases. This crosswalk has not been officially adopted in State regulations.

Sources: HSCRC discharge abstracts, CY 2011-2015; CMS 2016 General Equivalence Mappings-Procedure Codes and Guide

Table 2B: Adult Open Heart Surgery Cases, Maryland Hospitals
CY 2011-CY 2015

<table>
<thead>
<tr>
<th>Hospital</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johns Hopkins</td>
<td>876</td>
<td>918</td>
<td>998</td>
<td>966</td>
<td>1,046</td>
</tr>
<tr>
<td>University of Maryland</td>
<td>739</td>
<td>741</td>
<td>792</td>
<td>802</td>
<td>759</td>
</tr>
<tr>
<td>Union Memorial</td>
<td>665</td>
<td>525</td>
<td>537</td>
<td>539</td>
<td>533</td>
</tr>
<tr>
<td>St. Joseph</td>
<td>335</td>
<td>278</td>
<td>296</td>
<td>447</td>
<td>451</td>
</tr>
<tr>
<td>Peninsula Regional</td>
<td>420</td>
<td>366</td>
<td>425</td>
<td>420</td>
<td>400</td>
</tr>
<tr>
<td>Sinai</td>
<td>294</td>
<td>317</td>
<td>343</td>
<td>380</td>
<td>378</td>
</tr>
<tr>
<td>Washington Adventist</td>
<td>347</td>
<td>331</td>
<td>320</td>
<td>291</td>
<td>265</td>
</tr>
<tr>
<td>Suburban</td>
<td>201</td>
<td>275</td>
<td>199</td>
<td>238</td>
<td>210</td>
</tr>
<tr>
<td>Western Maryland</td>
<td>222</td>
<td>213</td>
<td>163</td>
<td>168</td>
<td>166</td>
</tr>
<tr>
<td>Prince George’s</td>
<td>15</td>
<td>17</td>
<td>6</td>
<td>29</td>
<td>100</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>4,114</td>
<td>3,981</td>
<td>4,079</td>
<td>4,280</td>
<td>4,308</td>
</tr>
</tbody>
</table>

Note: Adult is defined as aged 15 or older. Open heart surgery is defined by the ICD-9 codes in COMAR 10.24.17 for CY 2011 through the third quarter of CY 2015. The case counts for the last quarter of CY 2015 are based on the same definition, but only ICD-10 codes are used in discharge abstracts for this period, so a crosswalk developed by the Centers for Medicare and Medicaid services of ICD-10 to ICD-9 codes was used to count cases. This crosswalk has not been officially adopted in State regulations.

Sources: HSCRC discharge abstracts, CY 2011-2015; CMS 2016 General Equivalence Mappings-Procedure Codes and Guide

The Cardiac Surgery Chapter includes a methodology for forecasting adult cardiac surgery case volume. The most recently published forecast (February 6, 2015) is for a target year of 2019.13 The methodology relies on the use rate trend for adult cardiac surgery observed over the most recent six-year period for which data is available to predict future case volume or, in the case of these most recently published projections, the six-year period of 2008 through 2013. This trend was negative during this applicable time period for the February 2015 forecast. Thus, a future of declining population use was assumed. Adult cardiac surgery case volume for the Baltimore Upper

13 Maryland Register, Vol. 42, Issue 3, February 6, 2015
Shore region was projected to decline approximately 12% between 2014 and 2019. The trend in cardiac surgery case volume between 2011 and 2015 (Table 2 above) indicates that updating the demand forecast for a target year of 2021 would be based on an increasing use rate trend, given that case volume is growing faster than the adult population.

B. Population of the Baltimore/Upper Shore Region

The Baltimore/Upper Shore region is projected to contain just under half of the State’s population and the region’s population is projected to be growing at a slower pace (7.7% between 2015 and 2030) than the statewide population (10% growth over the same period). It is slightly older than the state as a whole, with a projected elderly population (65+) of 14.5% compared to Maryland’s 14 percent.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Anne Arundel</td>
<td>559,603</td>
<td>77,775</td>
<td>606,700</td>
<td>120,986</td>
</tr>
<tr>
<td>Baltimore City</td>
<td>624,997</td>
<td>75,158</td>
<td>651,100</td>
<td>92,086</td>
</tr>
<tr>
<td>Baltimore County</td>
<td>832,048</td>
<td>132,756</td>
<td>862,200</td>
<td>183,032</td>
</tr>
<tr>
<td>Carroll</td>
<td>168,549</td>
<td>26,479</td>
<td>183,250</td>
<td>45,889</td>
</tr>
<tr>
<td>Harford</td>
<td>252,000</td>
<td>37,506</td>
<td>273,147</td>
<td>60,609</td>
</tr>
<tr>
<td>Howard</td>
<td>309,048</td>
<td>39,148</td>
<td>357,103</td>
<td>72,332</td>
</tr>
<tr>
<td><strong>Western Shore</strong></td>
<td><strong>2,746,245</strong></td>
<td><strong>388,622</strong></td>
<td><strong>2,993,500</strong></td>
<td><strong>574,934</strong></td>
</tr>
<tr>
<td>Caroline</td>
<td>33,900</td>
<td>5,040</td>
<td>40,450</td>
<td>8,111</td>
</tr>
<tr>
<td>Cecil</td>
<td>103,602</td>
<td>14,478</td>
<td>125,250</td>
<td>25,826</td>
</tr>
<tr>
<td>Kent</td>
<td>20,600</td>
<td>5,079</td>
<td>22,600</td>
<td>8,038</td>
</tr>
<tr>
<td>Queen Anne’s</td>
<td>50,150</td>
<td>8,705</td>
<td>60,348</td>
<td>14,894</td>
</tr>
<tr>
<td>Talbot</td>
<td>39,100</td>
<td>10,518</td>
<td>42,902</td>
<td>15,011</td>
</tr>
<tr>
<td><strong>Eastern Shore</strong></td>
<td><strong>247,352</strong></td>
<td><strong>43,820</strong></td>
<td><strong>291,550</strong></td>
<td><strong>71,880</strong></td>
</tr>
<tr>
<td>TOTAL REGION</td>
<td>2,993,597</td>
<td>432,642</td>
<td>3,225,050</td>
<td>646,814</td>
</tr>
<tr>
<td>MARYLAND</td>
<td>6,010,141</td>
<td>838,974</td>
<td>6,612,191</td>
<td>1,300,012</td>
</tr>
</tbody>
</table>

Source: Maryland Dept. of Planning, 2014 Population Projection Series

IV. REVIEW AND ANALYSIS

I note that the record in this review is voluminous. In my analysis of the applicable criteria and standards, I have sought to create a single document that can be used to gain a meaningful overview and discussion of the issues and questions raised in the review, as well as my findings and conclusions on the applications presented. The record requires a great deal of summarization to create a manageable overview and results in some repetition, which I have tried to minimize wherever possible. The actual substantive filings may be accessed at the following links:¹⁴ for AAMC, http://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/hcfs_con_aamc.aspx; and, for BWMC: http://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/hcfs_con_bwmc.aspx.

¹⁴ The MHCC’s general webpage for access to CON applications is found at: http://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/hcfs_con.aspx
A. The State Health Plan

**COMAR 10.24.01.08G(3) Criteria for Review of an Application for Certificate of Need.**

(a) State Health Plan. An application for a Certificate of Need shall be evaluated according to all relevant State Health Plan standards, policies, and criteria.

The Cardiac Surgery Chapter, COMAR 10.24.17, is the chapter in the State Health Plan that is used in Certificate of Need review of projects involving cardiac surgery and PCI services, two services specifically regulated under Maryland’s CON law. The Cardiac Surgery Chapter was comprehensively updated in 2014 and this is the first time it has been used in a review of applications seeking to establish cardiac surgery services.

**COMAR 10.24.17.04 Commission Program Policies.**

A. Consideration of New Programs.

(1) Cardiac surgery.
   (a) A Certificate of Need is required to establish cardiac surgery services.
   (b) A hospital shall have a current population-based budget agreement, a total patient revenue agreement, or a modified charge per episode agreement with the Health Services Cost Review Commission before a hospital’s CON application to establish a cardiac surgery program will be docketed.
   (c) A hospital shall have provided both primary and elective PCI services for at least three years before filing an application for a CON to establish cardiac surgery services.
   (d) A new cardiac surgery program will only be considered in a health planning region if the most recently approved program in the health planning region has been in operation for at least three years.
   (e) A review schedule for receipt of letters of intent and applications seeking a CON to establish cardiac surgery services will be published in the Maryland Register for each health planning region where the condition in Paragraph .04A(1)(d) is met. Publication of a review schedule does not indicate that the Commission has determined an additional provider of cardiac services is needed in a region.

**Applicants’ Responses**

Each applicant documented that it met the qualifying criteria in subparagraphs (b) and (c) of this policy (DI #3AA, pp. 69-74 and DI #2BW, pp. 15-16 and 62).

**Reviewer’s Analysis and Findings**

The qualifications in this policy for consideration of a new cardiac surgery program are met by each applicant. Because all hospitals with cardiac surgery services in the Baltimore Upper Shore Region have been providing these services for more than three years, the requirement in subparagraph (d) is met.
AAMC and BWMC have each successfully provided both primary and non-primary PCI services for more than three years, as required by subparagraph (c) of this standard.

As required by subparagraph (b), each hospital has a global budget agreement with the Health Services Cost Review Commission. HSCRC provides for adjustment of these budgets over time. HSCRC’s methodology contains a “demographic” adjustment factor that uses changes estimated or projected for individual hospital service area populations as a basis for adjusting a hospital’s revenue base. The budgets can also be adjusted for shifts in market share among hospitals and other factors.

I find that each applicant meets the requirements of this policy.

.05 Certificate of Need Review Standards for Cardiac Surgery Programs.

An applicant for a Certificate of Need to establish or relocate cardiac surgery services shall address and meet the applicable general standards in COMAR 10.24.10.04(A), in addition to the applicable standards in this chapter.

Each applicant responded with information intended to demonstrate compliance with these general standards, applicable to any hospital CON application. These are basic threshold requirements for availability of information on charges, quality of care, and charity care policies applicable to general hospital reviews (DI #3AA, pp. 32-37 and DI #2BW, pp. 36-42, Exhibits 14-22).

Interested Party and Participating Entity Comments

No interested party or participating entity, other than BWMC, offered comment on the COMAR 10.24.10 general standards.

Comments on AAMC Application

BWMC Comments

BWMC states that AAMC failed to comply with the general standard for Quality at COMAR 10.24.10.04(A)(3)(b) because it did not disclose any quality measures in the most recent update of the Maryland Hospital Performance Evaluation Guide for which the hospital’s score was within the bottom quartile of all hospitals’ reported performance and that also fell below a 90% level of compliance with the quality measure (DI #29GF, p. 32).

BWMC notes that MHCC has implemented a new and significantly re-designed Hospital Performance Evaluation Guide in which quality measure performance within the bottom quartile of all hospitals is not readily apparent. It also notes that AAMC discussed its performance relative to data reported on the Centers for Medicare and Medicaid Services Hospital Compare website.

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15 Each hospital has a total patient revenue agreement with HSCRC, which we shall refer to using the more commonly used term, the global budget agreement.
Applicant’s Response to Comments

Anne Arundel Medical Center

In response, AAMC notes that the Maryland Hospital Performance Evaluation Guide relies heavily on the Hospital Compare data and that it states that it has “adequately documented its quality improvement processes as a hospital” and that its performance under the CMS Hospital Compare metrics are “excellent,” with only one unfavorable metric (emergency department turnaround time) for which it provided an action plan. It notes that BWMC has acknowledged that the new version of the Performance Guide does not make quartile performance “readily apparent.” (DI #45GF, pp. 34-35).

Reviewer’s Analysis and Findings

For some time, MHCC staff and Reviewers have noted that Part (b) of this standard is outdated with respect to the changes that have occurred in the Maryland Hospital Performance Evaluation Guide. (For example, in the most recent hospital project review of COMAR 15-04-2370, a project proposed by Calvert County Memorial Hospital, considered by MHCC at its November 17, 2016 meeting, the staff report noted that “subpart (b) of this standard is essentially obsolete” and noted that, “in its quality reports, MHCC now focuses on two priority areas: (1) patient experience, as reported by the Centers for Medicare and Medicaid Services (CMS) in its Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) survey; and (2) healthcare associated infections, as tracked by CDC’s National Healthcare Safety Network (“NHSN”).” It noted that this standard will be amended in the future to make it relevant to current hospital performance reporting.

For this reason, I find that both applicants have adequately addressed the currently relevant components of this standard and demonstrated that they actively address needed improvement in aspects of their performance in which measurements indicate subpar performance.

A. Cardiac Surgery Standards.

(1) Minimum volume standard.
An applicant proposing establishment or relocation of cardiac surgery services shall document that the proposed cardiac surgery program will meet the following standards:
(a) For an adult cardiac surgery program, demonstrate the ability to meet a projected volume of 200 open heart surgery cases in the second full year of operation; the program shall attain a minimum annual volume of 200 open heart surgery cases by the end of the second year of operation.
(b) For a pediatric cardiac surgery program, demonstrate the ability to meet a projected minimum case volume of 130 open heart surgery cases per year; the program shall attain a minimum annual volume of 130 cases by the end of the second year of operation.
(c) For a program performing both adult and pediatric cardiac surgery, demonstrate the ability to meet a projected minimum of 50 open heart pediatric cardiac surgery cases per year, and 200 adult open heart surgery cases per year; the program shall attain a minimum annual volume of each type of cardiac surgery cases by the end of the second year of operation.
(d) The applicant’s demonstration of compliance with the Minimum Volume and Impact standards of this chapter shall address the most recent published utilization projection of cardiac surgery cases in Regulation .10 for the health planning region in which the applicant hospital is located and any other health planning regions from which it projects drawing 20 percent or more of its patients. The applicant shall demonstrate that its volume projections and impact analysis are consistent with the projection in Regulation .10 or, alternatively, demonstrate why the methods and assumptions employed in the Regulation .10 projections are not reasonable as a basis for forecasting case volume.

Applicants’ Responses

Anne Arundel Medical Center

AAMC projects that its cardiac surgery program will perform 241 cases in the first year of operation (FY 2017), 337 in its second year, and 387 cases in its second third years of operation. It projects that most of this volume (approximately 92-93%) will originate in its defined service area, consisting of Anne Arundel County, four Eastern Shore Counties (Caroline, Kent, Queen Anne’s, and Talbot), and portions of northern Calvert County and eastern Prince George’s County. It cites an adult population projection of 895,000 to 913,000 for this service area during the 2017 to 2019 period projected as the first three years of AAMC cardiac surgery program operation. It projects achieving a market share of 25% of cardiac surgery cases in its defined service area in the first year of operation and that it will ramp up to a 40% market share by Year 3 of operation (DI #3AA, p. 77).

AAMC describes its projections as resting on consideration of four major factors: (1) cardiac surgery need of inpatients and outpatients currently treated at AAMC; (2) volume shifts from the Johns Hopkins Hospital (“JHH”) cardiac surgery program to AAMC as a function of the collaborative AAMC/JHM cardiac surgery program at AAMC; (3) cardiology market share growth at AAMC and referral redirection anticipated with a new program at AAMC; and (4) cardiac surgery use rates for the service area population (DI #3AA, p. 78).

AAMC states that its approach to case volume projection began with consideration of “existing clinician relationships” and “existing inpatient and outpatient hospital volume.” (DI #3AA, p. 78). It notes that physicians from AAMC discussed the proposed program with six cardiology practices affiliated with AAMC to document the referral base for cardiac surgery represented by these practices and to estimate the percentage of cases these cardiologists would refer to its new cardiac surgery program. AAMC concluded that its existing base of affiliated cardiologists would generate a volume of cardiac surgery cases in excess of 200 cases per year, even if use rates decline as assumed in the State Health Plan volume projections.

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16 These five counties are located in the Baltimore/Upper Shore Region. Calvert and Prince George’s County are in the Metropolitan Washington Region because the cardiac surgery programs in that region handle most of the demand for cardiac surgery that originates in those jurisdictions.
17 AAMC Cardiology Specialists, Annapolis Cardiology Consultants, LLC., Chesapeake Cardiac Care, P.A, Bay Cardiology, Chestertown Cardiology, and Cardiology Associates (DI #3AA, p. 79).
From this clinician-based analysis of the six cardiology practices, AAMC calculated a base volume estimate of 422 total cardiac surgical referrals for 2014. Assuming that this 2014 base volume would decline because of the Cardiac Surgery Chapter’s assumption of a declining population use rate, AAMC calculated base volume projections for 2017-2019 of 406 cases, 395 cases, and 393 cases, respectively. AAMC assumed that it could capture 67% percent of the base volume projected for the first year of operation, 2017, yielding 272 cases in that year, and 79% in the following two years, yielding 312 cases in Years 2 and 3 of operation (DI #3AA, p. 79).

AAMC next looked at the number of hospital transfers and referrals for cardiac surgery arranged for hospital patients through a review of the case records of all inpatient and outpatient direct transfers arranged from AAMC to other hospitals for cardiac surgery. This included all patients transferred for cardiovascular bypass surgery and valve surgery and a portion of patients transferred specifically for evaluation for cardiac surgery. AAMC assumed that 50% of those patients transferred for evaluation for cardiac surgery actually received cardiac surgery. It also determined the number of outpatients undergoing cardiac catheterization in the AAMC catheterization lab who were subsequently referred for cardiac surgery or surgical evaluation. This review yielded what the hospital calls the “existing cardiac surgery patient base” at AAMC. It identified a total of 237 cardiac care patients at AAMC who were transferred from or referred from AAMC and, based on AAMC’s assumption, received surgery. This included 162 direct hospital-to-hospital transfers made from AAMC and 75 outpatients referred for cardiac surgery following a cardiac catheterization at AAMC. The hospital assumed 80% of the patient base would remain at AAMC for cardiac surgery if the hospital offered this service, yielding a total of 188 estimated AAMC cardiac surgery cases (DI #3AA, p. 80).

AAMC assumes, based on consultation of JHH surgical leadership at JHH and AAMC clinicians, that half of the cardiac surgery patients in its service area who are now served at JHH will shift to AAMC if a cardiac surgery program is developed. This assumption, net of the volume projections developed using the two approaches just described, yields an additional projected 45 cases.

The applicant describes the AAMC-JH Medicine cardiac surgery program partnership as a collaboration in which “patients at AAMC will be offered access to JHM surgeons at the patient’s own regional hospital, continuity of care under local cardiologists, and AAMC’s high quality of care.” (DI #3AA, p. 80). AAMC states that 163 service area residents received cardiac surgery at JHH in 2013, yielding 82 cases based on the assumed 50% shift to AAMC. AAMC states that it adjusted this estimate to account for the numbers already developed from the review of transferred patients previously described and determined that 37 of these patients were already “documented” in the transfer analysis, yielding a net addition of 45 cases (DI #3AA, p. 81). AAMC projects an ability to capture a 40% market share of cardiac surgery originating in its service area by the third year of its cardiac surgery program’s operation. It states that its expectation is based on AAMC’s historical performance as a provider of specialty services and its geographic location. AAMC is particularly well positioned to serve residents of Anne Arundel and the midshore [Eastern Shore] counties currently isolated from local cardiac surgery hospitals (DI #3AA, p. 81).
This applicant also states that it currently enjoys a 40% service area market share for its joint replacement program and a 32% service area market share for its bariatric surgery program. It believes it will achieve comparable results for cardiac surgery, given the lack of local providers for this service and its established “dominance [as a] provider of cardiac services for Anne Arundel County residents.” (DI #3AA, p. 82). AAMC also looks to its PCI patient origin as a basis for projecting that an AAMC cardiac surgery program will attract cases from outside its service area equivalent to eight percent of its total cardiac surgery cases.

AAMC notes that it used the above-discussed analyses to develop its projected ramp-up from 241 to 387 cardiac surgery cases during its first three years of operation. In discussing the reasonableness of its “market share target,” AAMC again references: (1) its base of hospital transfers and hospital referrals; (2) the market share it has achieved in general for adults and in specialty programs, including PCI services, where it commands “nearly 20%” market share in the defined service area;” and (3) the volume shifts expected from JH through its collaboration with JH Medicine. It notes that AAMC has recently affiliated with physician practices in Kent County. AAMC describes its proposed program as the “only cardiac surgery provider within a 60 minute drive for thousands of area residents.” (DI #3AA, p. 83). AAMC anticipates further expansion of its caseload for PCI and general cardiology and believes that “payer-provider contracts that channel books of business to high quality, low cost providers” will both support its market share assumptions (DI #3AA, p. 83).

Baltimore Washington Medical Center

BWMC projects case volumes for six years, FY 2016 to 2021, on the basis of its defined service area and expected shifts in cardiac surgery case load from existing hospitals. With respect to its service area, BWMC includes: (1) a local five zip code area primary service area (“PSA”), consisting of Glen Burnie, Pasadena, Severn, and Brooklyn zip code areas; (2) an eight zip code area secondary service area (“SSA”), consisting of north and central Anne Arundel zip code areas; (3) a 47 zip code area tertiary service area (“TSA”), labeled as the “Upper Shore areas;” and (4) a 22 zip code area quaternary service area (“QSA”), primarily Anne Arundel County zip code areas and some Prince George’s County areas, described as the “other service area.” (DI #2BW, Exhibit 4). In the sixth forecast year of operation, 2021, BWMC projects that 84 cases (31% of total) will originate in the PSA, 48 cases (18%) will be residents of the SSA, 50 cases (19%) will travel to BWMC from the TSA’s Upper Shore areas, and 87 cases (32%) will originate in the QSA’s other service area (DI #2BW, Exhibit 23).

BWMC concludes that it will perform cardiac surgeries that would otherwise be performed at the University of Maryland Medical Center, at other Maryland hospitals, or at D.C. hospitals. In the first six years, it assumes that most cases will represent a shift in case load from the University of Maryland Medical Center. In the first partial year of operation of its cardiac surgery program, BWMC projects 84 cases, classifying 76% of these cases (64) as cases which would otherwise be performed at UMMC. By Year 2, the first full year of operation, it forecasts 204 cases, with 71% (145 cases) shifting from UMMC. By 2021, BWMC predicts a caseload of 270 cases, with only 56% (150 cases of this load) identified as shifting from UMMC. Cases shifting

18 All of the general hospitals operating in what can be called the “Mid-Shore” area of the Eastern Shore are UMMS hospitals. This area consists of Caroline, Dorchester, Kent, Queen Anne’s, and Talbot Counties.
from Maryland hospitals other than UMMC are assumed to account for a growing proportion of total cases over time, increasing from 15% (12 cases) to 27% of total cases (74 cases) between 2016 and 2021. BWMC predicts that cases will shift to it from DC hospitals, with 8 in 2016 (6% of total cases) to 46 cases by 2021 (17% of total cases). BWMC employs a case severity adjustment in its model to reflect that BWMC will not be the program of choice for some service area cases (DI #2BW, Exhibit 23).

BWMC projects that its service area will generate 616 cardiac surgery cases in FY 2016. It addresses the most recent published MHCC utilization projection of cardiac surgery cases by predicting this service area case load to decline to 545 cases by 2021. It assumes that 30% of the UMMC case load originating in its service area will shift to BWMC in the first year of operation and that this will quickly rise to 80% and stabilize at that level by Year 4. It assumes that 5% of the other Maryland hospital cases originating in the BWMC service area will initially shift to BWMC and that this will increase to 33% by 2021. BWMC assumes that the DC hospital case shift will have a similar trajectory over the first six years, from 5% to 33% (DI #2BW, Exhibit 23).

It took a second step to verify and corroborate the reliability of its model by gathering estimates of referred cases from five supportive cardiology practices. This approach yields an estimate of 312 referred cardiac cases, which BWMC views as supporting its forecast model (DI #2BW, p. 45).

**Interested Party and Participating Entity Comments**

**Comments on AAMC Application**

**BWMC Comments**

BWMC states that AAMC has not documented that it will be able to achieve the minimum case volume because it “relies on undocumented statements and aspirational assumptions.” (DI #29GF, p. 6). It criticizes AAMC’s forecasting approach for not discounting for “severity of illness” and patient preference” and questions AAMC’s expectation that it will receive referrals for cardiac surgery from Cardiology Associates, a practice that is owned by MedStar. More generally, it claims the review of cardiology practices as referral sources by AAMC relies on “unsupported assertions that are insufficient to comply with this standard” and reviews the documentation provided by AAMC for this aspect of its analysis, finding that a more rigorous consideration of this particular evidence fully eliminating Cardiology Associates, would yield approximately a 40% smaller estimate of patient referrals. Beyond its critique with respect to discounting for care severity, BWMC also questions the assumption that 100% of referred patients will have surgery, noting that patients may ultimately be determined to be too clinically unstable for surgery or may die before surgery can be performed. It also notes that the elective nature of

19 The practices are: Arundel Heart Associates, P.A.; The Heart Center of Northern Anne Arundel County, P.A.; Chesapeake Cardiology at Shore Health; the UM School of Medicine Division of Cardiovascular Medicine; and Maryland Heart Associates, L.L.C.

20 BWMC suggests that AAMC’s projection of case volume should be discounted by 17%, noting that, in 2014, this proportion of all Maryland cardiac cases had a “Severity of Illness” rating of “Extreme” and states that such cases should only be handled by an academic medical center. (DI #29GF, p. 9)
most cardiac surgery allows patients to consider and exercise preferences that lead them to obtain care from other providers for a wide variety of reasons.

BWMC argues that AAMC’s analysis of inpatient transfers, outpatient transfers, and expected volume shift from JHH does not support AAMC’s view that its existing patient base is sufficient to meet the minimum volume standard. It states that this component of the AAMC analysis does not provide “a meaningful way to evaluate the appropriateness of AAMC’s surgery assumptions.” (DI #29GF, p. 12). BWMC claims that application of the assumptions “underlying the Commission’s projections” to the base numbers used in this component of the AAMC analysis would push the 2017 and 2018 projected case load below 200 cases, to approximately 180 cases in each year. BWMC cites inconsistencies in AAMC’s claims with respect to the shift of cases from JHH to AAMC (DI #29GF, p. 11).

BWMC states that AAMC’s market share assumptions are unrealistic and not supported by AAMC’s reference to market share achieved by AAMC in its provision of PCI, joint replacement surgery, or bariatric surgery. According to BWMC, AAMC does not adequately explain why the cardiac surgery market share assumptions relate to these other services in a meaningful way. It notes that AAMC’s “overall inpatient market share in the region (the defined AAMC service area) is only 24%” and, in general, concludes that AAMC has not adequately justified its likely ability to achieve higher market shares in cardiac surgery (DI #29GF, p. 16). It cites “an overwhelming preference for UMMS-affiliated cardiac surgical programs” in the mid-Eastern Shore, specifically noting its near 60% market share of these UMMS centers, and dismissing AAMC’s assumptions with respect to likely growth in AAMC market power in this region as resting on weak references to new physician affiliations in Kent County without supporting detail (DI #29GF, pp. 15-16).

BWMC also criticizes AAMC’s use of travel time in responding to this standard. It states that AAMC’s claim that an AAMC cardiac surgery program will be the only program within a 60 minute drive for thousands of area residents is not quantified. BWMC states that

it is unlikely that there are many residents in the proposed AAMC service area who do not live within 60 minutes of PGHC, MedStar Washington Hospital Center, UMMC, Johns Hopkins Hospital, Peninsula Regional Medical Center, or Christiana Hospital (in Delaware) (DI #29GF, p. 16).

It criticizes AAMC for providing no detail on payer-provider contracts as a basis for its market share assumptions (DI #29GF, p. 17).

BWMC states that AAMC failed to consider “the strength of PGHC and UMMS in AAMC’s proposed cardiac surgery service area,” noting that 58 cardiac discharges from PGHC over a recent six-month period originated in zip code areas that “overlap with AAMC’s proposed cardiac surgery service area.” (DI #29GF, p. 17). It also describes the PGHC cardiac surgery program as rapidly reviving.
**PGHC Comments**

This interested party does not address this standard in its comments. It references the AAMC CON application’s service area definition and market share assumptions only as part of its comment on the Impact standard at COMAR 10.24.17.05A(2).21

**Comments on BWMC Application**

**AAMC Comments**

AAMC states that BWMC is unlikely to meet this standard, claiming BWMC’s analysis is based on faulty assumptions.

AAMC states that BWMC’s market share assumptions are arbitrary and to high, given that BWMC is not located at great distance or travel time from its Baltimore area competitors. AAMC faults BWMC for applying high market share assumptions to important zip code areas where travel time differences between BWMC and other hospitals are slight or even favor the other hospital. (DI #28, pp. 3-4).

AAMC notes that BWMC has little margin for error in its analysis. Marginally missing the mark in its assumptions could mean a case volume that fails to reach 200 cases (DI #28GF, p. 3).

AAMC argues that BWMC has not shown it can generate a base of sufficient “existing, in-house demand,” forcing it to over rely on an assumption that it will rapidly capture high levels of market share in its defined service area to meet the case target of this standard (DI #28GF, p. 8). It contrasts the number of 2014 patients reported by BWMC to have received cardiac catheterization at BWMC and, in BWMC’s words, “later required “procedures that could have been performed at UM BWMC if cardiac surgery services were available.” It contrasts this number, 97 patients, with what it reports as a comparable number for AAMC in 2014, 162 patients (DI 28GF, p. 8).

AAMC notes that BWMC showed, in responding to completeness questions, that it had no credible basis for its assumption that it will have a 50% market share of the cardiac surgery market in its service area (DI #28, p. 10). AAMC argues that beyond the UMMS-affiliated hospitals, BWMC has no referral pattern to support application of this market share assumption for its entire service area and points to the low existing market share in peripheral regions of the service area such as Prince George’s, southern Anne Arundel, and the Eastern Shore counties (DI #28GF, p. 10).

Increasing cardiac surgery case severity over time, offered as a likely future by AAMC, would, according to AAMC, threaten BWMC’s ability to reach 200 cases under its assumption that all such cases will be excluded from a BWMC program (DI # 28GF, pp. 10-12). Again, the

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21Given that PGHC’s comments speak to the impact of this project on its cardiac surgery program and it opposes AAMC’s application on that basis, its comments will be considered at in my review of COMAR 10.24.17.05A(2) and the Impact criterion, COMAR 10.24.01.08G(3)(f).
thin margin of BWMC with respect to this threshold is the underpinning of AAMC’s argument on this question (DI #28GF, p. 12).

**Comments on Both Applications**

**LifeBridge Comments**

LifeBridge states that neither applicant established that there is a need for additional cardiac surgery programs in Maryland and neither is consistent with the SHP. LifeBridge points to Suburban Hospital’s experience as the State’s newest cardiac surgery program as a cautionary tale. It notes that Suburban Hospital projected reaching a case load of 350 cases per annum but, in recent years, has never surpassed 250 (DI #33GF).

**MedStar Hospitals Comments**

The MedStar Hospitals assert that each applicant uses faulty assumptions in its analysis of its ability to start a cardiac surgery program that will reach and maintain a case load of at least 200 cases per annum. The MedStar Hospitals state that neither application addresses the MHCC projection of decline in cardiac surgery cases, and each makes assumptions with respect to its ability to “entice patients and effectuate market shifts.” (DI #34GF, p. 22).

The MedStar Hospitals note that cardiac surgery case volume is declining as is inpatient care volume generally and that this trend is occurring both in Maryland and nationwide. (DI #34, p. 23) For this reason, the interested party states that the CON review process “ought not myopically focus on whether an applicant has been somehow able, to devise a methodological calculation of volume expectations based on purported market share shift to squeeze above the 200 procedures ‘entry requirement;’ ” (DI #34GF, p. 22).

The Medstar Hospitals assert that “there is no ‘unmet need’ for cardiac surgery services that existing providers cannot meet” (DI #34GF, p. 23), linking this assertion to its observation that cardiac surgery services use is declining and, thus, “growing” unused capacity at hospitals to delivery cardiac surgery (DI #34GF, pp. 23-24).

The interested party states that “letters from cardiologists” are a “dubious source of support” for the proposed projects and “a risky planning model” in trying to project cardiac surgery volume. “Cardiologists do not decide whether or not cardiac surgery will ultimately occur – surgeons do;” (DI #34GF, p. 24).

The MedStar Hospitals claim that the applicants’ assumptions for “shifting market share” are suspect. Taking significant market share from both Johns Hopkins and MedStar WHC, which AAMC projects, is not likely because these hospitals “operate well-established cardiac surgery programs set in well-developed systems of cardiac care delivery” providing “the full gamut of

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22LifeBridge’s comment addresses the adverse impact that adding either of these new programs could have on existing programs and on case volume, with the potential for an adverse impact on the quality of cardiac surgery. For this reason, I am brief in my summary here.
cardiac surgery services including the ability to treat very high risk surgical patients.” This shift in market share "from MedStar WHC in particular is unlikely.” (DI #34GF, pp. 24-25).

The interested party notes that the “Suburban Hospital experience” indicates the likelihood that a proponent of a new cardiac surgery service will “overestimate volume;” MedStar notes that Suburban has not developed a case volume far above 200 cases per annum during its first ten years; (DI #34GF, pp. 24-25).

The MedStar hospitals note that “the analogy” drawn by AAMC between cardiac surgery and bariatric and joint replacement surgery” is not valid. AAMC will “struggle to attain the expertise of existing high volume cardiac surgery providers.” (DI #34GF, p. 26).

**Applicants’ Response to Interested Party and Participating Entity Comments**

Anne Arundel Medical Center

AAMC organizes its response to IP comments using the framework of the four “distinct but interlocking methods” that it uses in projecting case volumes (DI #45GF).

With respect to criticisms of its “internally-generated cases based on AAMC experience,” it states “this is not a bald projection.” (DI #45GF, p. 5). The AAMC forecast was based on the actual number of patients already at AAMC, who have selected AAMC, and who require surgery. “AAMC's unique base of internally-generated referrals is one reason why analogies by LifeBridge and MedStar between AAMC's volume projections and those of Suburban Hospital is inapt.” (DI #45GF, p. 5).

With respect to Suburban Hospital’s experience in building cardiac surgery caseload, AAMC notes that it assumed declining use rates in its projections and Suburban did not (DI #45GF, p. 5). It also notes that Suburban Hospital is located within 11 miles of three existing cardiac surgery programs. AAMC is located more than 20 miles from Prince PGHC, more than 30 miles from JHH and Suburban, almost 90 miles from PRMC, and almost 30 miles from MedStar WHC and UMMC (DI #45, pp. 5-6).

AAMC states that “contrary to BWMC's allegations, AAMC properly documented this projection (its projection of case volume for an AAMC program).” (DI #45GF, p. 6). It states that records of all inpatient and outpatient transfers from AAMC to existing programs for cardiac surgery were reviewed and that it “validly assumed that 50% of the patients referred for evaluation for cardiac surgery would ultimately receive that surgery.” (DI #45GF, p. 6). It claims that this assumption “fit the experience of those AAMC cardiologists that make the majority of such referrals” (DI #45GF, p. 6) and observes that the remainder would include patients who need surgery but are too unstable for surgery or die before surgery. On that basis, it states that “no further discount on those grounds is warranted;” (DI #45GF, p. 6).

AAMC states that it “also validly assumed that 100% of the 95 patients specifically transferred for cardiac surgery received such surgery,” (DI #45GF, p. 6) noting that “even if BWMC is correct that some discount of approximately 5% is appropriate for transferred patients.
who die prior to surgery (though AAMC records do not indicate this level of mortality), even this 5% discount would only result in the loss of approximately 8 cases, as BWMC acknowledges;” (DI #45GF, p. 7).

AAMC states that “BWMC has documented far fewer internally generated cases: in FY 2014, only about 97 BWMC cardiac catheterization patients needed surgery, whereas in the previous year, 234 patients of AAMC (inpatients, and outpatients requiring cardiac catheterization) required transfer to a hospital with a cardiac surgery program.” (DI #45GF, p. 7). It notes that these are not the only source of patients, observing that “BWMC itself anticipates that adding a cardiac surgery program will attract patients who currently bypass it altogether and receive cardiac care from hospitals with existing programs” (DI #45GF, p. 7).

With respect to cases generated by AAMC’s affiliation with Johns Hopkins, AMC stated that the Cardiac Affiliation Agreement with JHH is “a durable foundation for projections” and that the approximately 50% of cases from its service area that AAMC estimates will shift from JHH “is conservative.” AAMC states that “many of the patients who end up receiving surgery at JHH already choose AAMC for their cardiac care (DI #45GF, p. 8).

With respect to the comments on use of surveys of cardiology practices, AAMC responds that all six of the cardiology practices surveyed by AAMC expressed support for AAMC’s program and that each has clinicians that have indicated their desire to use a program at AAMC. It states that “BWMC's Comment does not accurately represent the number of cases AAMC documented with respect to local cardiologists” and that BWMC mistakenly excluded two letters in its analysis that account for the gap BWMC identified (DI #45GF, pp. 9-10). AAMC observes that “when projecting volume based on these representations from local cardiologists, AAMC adequately accounted for patient preference and acuity” and “the decline in cases called for by the Commission's overall volume projections.” It states that, “In contrast, BWMC failed to account for patient preference or use rate decline, at least for those cases originating with the UM Division of Cardiovascular Medicine)” (DI #45GF, p. 10).

AAMC states that it “did not estimate that it would perform cardiac surgery on all patients referred for such surgery by these cardiologists; rather, the cardiologists themselves estimated what proportion of such patients would actually receive referrals to AAMC for cardiac surgery” and notes that “these cardiologists understand the typical acuity of their own cases and presumably have a sense of patient preference; the Commission should not layer another level of discount upon these estimates” (DI #45GF, p. 10).

AAMC states that its market share assumptions for the Eastern Shore are reasonable, noting that “AAMC has a substantial market share in various surgical fields in that region, despite BWMC's claims to the contrary. Based on its decade-long relationship with Johns Hopkins, AAMC expects that relationship to increase AAMC's market share.” (DI #45GF, pp. 11-12).

With respect to the “analogies to AAMC's market share in other surgical fields,” AAMC restated the market share it has achieved for joint replacement surgery (40%) and bariatric surgery (32%), surgical specialties it identifies as “highly competitive” and "not subject to certificate of need." (DI #45GF, p. 12).
Baltimore Washington Medical Center

BWMC defends the projections it developed to demonstrate compliance with this standard, stating that “AAMC’s analysis of proximity of residents in Northern Anne Arundel County is incorrect and irrelevant” (DI #42GF, p. 4). It notes that residents living in the five zip code areas (21225, 21090, 21226, 21227, and 21075) are not materially closer to UMMC than BWMC, as stated by AAMC. Two are closer to BWMC and the differences of three to five minutes for the other three are “immaterial and irrelevant” and, thus, AAMCs challenges to BWMC’s assumption about the number of cases it will receive from this area are not valid (DI #42GF, pp. 4-5). BWMC notes that a larger percentage of patients originating in these five zip code areas obtain all their inpatient care at BWMC (10%) than the comparable percentage for UMMC (7%). BWMC has a greater cardiology market share of these areas than UMMC (DI #42GF, p. 5). BWMC concludes that the City of Annapolis was inaccurate in using travel time to support a preference for the AAMC application. BWMC states that its hospital campus, “measuring in a straight line, is 10.3 miles south of UMMC, and is a minimum of 13.5 miles from UMMC by car. (Source: Google Maps.) Also, on a straight line, BWMC is only 11.5 miles from the Annapolis city limits.” (DI #GF42, p. 5).

The applicant states that it “appropriately discounted documented expected cardiologist referrals, and AAMC did not” (DI #42GF, p. 6). BWMC notes that AAMC questions BWMC’s assumption of a 10% increase in cardiology referrals at The Heart Center of Northern Anne Arundel but claims that it documented 81 referrals from this practice and projected an additional eight cases, based on the addition of a cardiologist. But it notes that these eight cases are not critical to BWMC’s ability to meet this standard. It states that AAMC has used similarly “undocumented” referrals in its case forecasting (DI #42GF, p. 7). BWMC states that it is inappropriate to compare the applications using different rates of decline in demand, as AAMC has done because the projected decline will impact the proposed projects equally. AAMC’s projected use rate decline is less than that in Commission projections for the two regions addressed in the AAMC forecast (DI #42GF, pp. 8-9). BWMC notes that AAMC’s criticism that BWMC must account for severity of illness in its referrals applies equally to AAMC, since AAMC also expects to treat patients of about the same severity/acuity (DI #42GF, p. 9). Referencing AAMC’s criticism of BWMC for not adjusting its cardiology referrals to account for patient and physician preference, BWMC claims that its analysis of referrals “necessarily accounts for physician preference, because physicians indicate that they expect to refer the cases in BWMC’s service area, which are documented, to BWMC.” (DI #42GF, p. 9). BWMC notes that “there is nothing inconsistent with BWMC’s assumption that physicians who estimate they expect to refer a certain number of cases to BWMC will likely do so. These referrals will overlap to some extent with the 80% shifting volume from UMMC, but will not overlap completely.” (DI #42GF, p. 10). BWMC responds to AAMC’s criticism of BWMC’s referral base analysis by claiming that it is not credible because the AAMC application recognizes the difference between surgery referral and cardiology referral data sets; (DI #42GF, pp. 10-11) BWMC “concedes that … a patient might occasionally prefer to go to a hospital other than the one his or her cardiologist recommends. However, BWMC does not believe this number is significant.” (DI #42GF, p. 11). It notes that, “In order to compare BWMC and AAMC on a level basis, one must first account for physician preference in AAMC’s documented referrals. Unlike BWMC, which documented the number of referrals a physician expected to make to BWMC, AAMC documented the total number of referrals a physician made, and then applied a
percentage to those referrals based on the qualifying language of the cardiologist” (DI #42GF, p. 11). Finally, BWMC claims that “AAMC’s attempt to reduce BWMC’s cardiology referrals by the 70% market share shift BWMC expects from UMMC in FY 2017 … is not valid” and that “there is no reason why BWMC’s assumption regarding one patient population must be applied to the other, nor does AAMC offer any support.” BWMC asserts that it “has sufficient volume from documented referrals alone to support its application, while AAMC does not” (DI #42GF, pp. 11-12).

BWMC states that it can “document minimum volume based on inpatient transfers from the hospital, and AAMC cannot.” (DI #42GF, p. 13). It states that “AAMC’s existing in house demand is based on unsupported assumptions regarding the percentage of referred or transferred patients who actually had surgery, whereas BWMC’s analysis is based on actual experience.” It notes that it “replicated this analysis to identify an ‘existing in-house demand,’ as defined by AAMC, of 208 patients, as compared to AAMC’s 224 patients.” (DI #42GF, p. 14). BWMC claims that it “completed a detailed review of patient records to identify the actual treatment each patient received instead of assuming (as AAMC did) whether a patient had surgery. Of the 208 transferred patients, UM BWMC identified 103 confirmed surgeries; of the 50 outpatient referrals, UM BWMC confirmed 43 actual surgeries, totaling 146 actual confirmed cases.” (DI #42GF, pp. 15-16). It concludes that “BWMC reasonably expects to achieve a market share in the cardiac surgery service area that is approximately equivalent to BWMC’s current market share of 50% for cardiology in its HSCRC service area” and that its “market share projections are reasonable based on the strength of its membership in UMMS, which will provide numerous strengths and advantages, including a powerful referral network throughout the proposed cardiac surgery service area.” (DI #42GF, p. 17).

BWMC states that it “appropriately discounted for severity of illness.” (DI #42GF, p. 17) It states that “AAMC’s suggestion that BWMC’s projections should account for an increased percentage of Extreme SOI (severity of illness) cases, which BWMC’s proposed program will not accept, is without merit” claiming that “the health care system’s increased emphasis on prevention and chronic disease management can also lead to reductions in extreme SOI. Without significant data, there is no basis to accept AAMC’s mere speculation over BWMC’s assumption based on actual experience.” (DI #42GF, pp. 17-18).

**Reviewer’s Analysis and Findings**

AAMC’s response to this standard was practical, well organized and well documented.

BWMC’s approach to evaluating the demand it would likely experience as a cardiac surgery hospital was also practical and sufficiently documented.

Similar and fairly conventional approaches to forecasting were employed by both applicants. BWMC did not appear to incorporate explicit market share assumptions in a conventional service area analysis approach, as AAMC did but, instead, made assumptions about how the distribution of cases to existing cardiac surgery hospitals will change as BWMC enters the market and a proportion of cases from UMMC and other Maryland and DC hospitals shifts to BWMC, an approach that obviously implies certain market share assumptions. Both applicants forecast the ability to reach a level of cardiac surgery that should allow compliance with the adult
open heart surgery part of this standard, given the high proportion of these community hospitals total cardiac surgical case load that would be open heart procedures.

Legitimate questions have been raised about the soundness and relevance of the information gathered by the applicants from physicians and the assumptions made by the applicant hospitals in their forecast models. My assessment is that both applicants took reasonable approaches to the development of forecasts but there is a basis for concluding that some assumptions about the market share levels they forecast, especially with respect to market share outside the collaborative framework which is proposed by both applicants to “steer” case volume to their new programs, are not assumptions that can be described as “conservative. This is shifting market share accomplished through direct competition for cardiac surgery patients. I believe the relatively stable case volume of 200 to 250 cases per annum recently experienced by Suburban Hospital’s cardiac surgery program is a relevant point of reference for soberly assessing what these new market entrants can achieve. Finally, I am mindful that further declines in the use rate of cardiac surgery may lie ahead or demand may stabilize, leading to some growth in demand. Gradual decline in the use rate large enough to shrink nominal case volume has been incorporated into both applicants’ projections and this may indeed play a role in pushing the applicant’s choice of assumptions about how quickly and how much they can penetrate and move competitors’ established referral patterns.

Based on my review of the applications, I constructed a simple alternative forecast model at the hospital service-area level, like the applicants. This is not a rejection of the applicants’ response to this standard. It is intended to provide some balance and allows both applications to be compared with consistent standards. The main attraction of this approach is that, first, it relies on established inpatient service areas, which both applicants used to inform their service area definitions but only as one factor. Second, it uses observed cardiac market shares within an identically constructed service area for similar existing programs. So, the model’s key moving parts are the population use rate, which is projected to be declining, consistent with the SHP model at the time these applications were filed, and observed cardiac market share.

The following volume projections are based on the applicants’ observed 85% relevance medical/surgical/gynecological/addictions (“MSGA”) service areas. This is a group of zip code areas that contributed, ranked by highest to lowest frequency, 85% of MSGA discharges. These service areas are smaller, geographically, and have smaller populations than the service areas defined by the applicants in their CON applications. Using zip code population estimates and projections supplied by Nielsen Company, the AAMC defined service area had an estimated adult population of about 843,000 in 2015; projected to increase to about 888,000 by 2020. The observed MSGA service area of AAMC has an estimated 2015 adult population of about 674,000 which is projected to increase to about 713,000 by 2020. BWMC defined a cardiac surgery service area with an estimated 2015 adult population of 642,000, projected to grow to 675,000 by 2020. The actual MSGA service area of BWMC has an estimated 2015 population of only 335,000, projected to move to 352,000 by 2020. Overlap of the service areas is significant, using both the applicants broader defined service areas and the observed MSGA service areas, although the observed service areas I have used as a balancing analysis have less overlap than is seen in the applicants’ defined service areas, especially with respect to AAMC. About 65% of the population in the AAMC defined service area was also included in the service area that BWMC defined for cardiac surgery
and about 86% of the BWMC service area population was also in AAMC’s defined catchment area. Overlap drops to 36% for AAMC when looking at observed MSGA service areas; to 73% for BWMC. This MSGA service area overlap is nine Anne Arundel County zip code areas.

Table 4: Zip Code Areas in the 85% Relevance MSGA Service Area of Both AAMC and BWMC and 2015 Adult (15+) Estimated Population

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>21054</td>
<td>Gambrills</td>
<td>8,867</td>
<td>1,701</td>
</tr>
<tr>
<td>21060</td>
<td>Glen Burnie</td>
<td>26,059</td>
<td>4,714</td>
</tr>
<tr>
<td>21061</td>
<td>Glen Burnie</td>
<td>44,967</td>
<td>6,918</td>
</tr>
<tr>
<td>21108</td>
<td>Millersville</td>
<td>14,475</td>
<td>2,473</td>
</tr>
<tr>
<td>21113</td>
<td>Odenton</td>
<td>26,636</td>
<td>3,508</td>
</tr>
<tr>
<td>21114</td>
<td>Crofton</td>
<td>20,642</td>
<td>2,640</td>
</tr>
<tr>
<td>21122</td>
<td>Pasadena</td>
<td>51,344</td>
<td>8,341</td>
</tr>
<tr>
<td>21144</td>
<td>Severn</td>
<td>26,889</td>
<td>3,651</td>
</tr>
<tr>
<td>21146</td>
<td>Severna Park</td>
<td>22,825</td>
<td>4,852</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>242,704</strong></td>
<td><strong>38,798</strong></td>
</tr>
</tbody>
</table>

Source: HSCRC Discharge Data Base for service area definition; Nielsen for population estimates

I used the hospitals’ CY 2014 MSGA service areas. The number of cases projected for these service areas based on the SHP methodology is shown in the following table.

Table 5: Cardiac Surgery Case Volume Projections for Applicant Hospitals’ 85% Relevance MSGA Service Area

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Projected Cardiac Surgery Discharges from 85% Relevance MSGA Service Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAMC</td>
<td>714</td>
</tr>
<tr>
<td>BWMC</td>
<td>353</td>
</tr>
</tbody>
</table>

Source: HSCRC Discharge Data Base and SHP cardiac surgery case forecasting methodology (COMAR 10.24.17)

Population data obtained from Nielsen. 2017 population interpolated using 2015 and 2020 projections supplied by vendor

In order to gauge the effect of the overlap in MSGA service areas on forecasted case volume if both proposed cardiac surgery programs were established, I adjusted for overlap in the service areas by pro-rating the total case projection proportional to the adult population projection of each zip code area to produce case projections at the zip code area level and allocating case counts for the nine Anne Arundel County zip codes appearing in each service area on the basis of an even (50:50) split of the cases to each hospital. I did not attempt to create a more complicated model adjusting market share for travel time, because the travel time differences are too small to expect this kind of consistent relationship and it is also useful to assume that use rates will tend to revert to the mean over time, so I did not model pockets of higher or lower use observed for these small areas over short periods of time.

The first of the two following tables display the service area cardiac surgery case base for 2017 and 2020 without adjustment for service area overlap, the base applicable to establishment of one or the other proposed project, but not both. These case projections are just taken from the preceding table.
The second table shows the adjustment for service area overlap. As can be seen, this adjustment has a much larger impact on the BWMC service area base, because it has a much smaller MSGA service area (15 zip code areas with a 2015 estimated adult population of 335,000) than AAMC (39 zip code areas with a 2015 estimated adult population of 674,000). As previously noted, BWMC also has a much larger level of overlap with the AAMC service area (73%) than AAMC has with the BWMC service area (36%).

Table 6: Cardiac Surgery Case Volume Projections for Applicant Hospitals’ 85% Relevance MSGA Service Area – No Adjustment for Overlap of MSGA Service Areas

<table>
<thead>
<tr>
<th>Hospital</th>
<th>2017</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAMC</td>
<td>694</td>
<td>668</td>
</tr>
<tr>
<td>BWMC</td>
<td>343</td>
<td>330</td>
</tr>
</tbody>
</table>

Source: HSCRC Discharge Data Base

Table 7: Adjusted Cardiac Surgery Case Volume Projections for Applicant Hospitals’ 85% Relevance MSGA Service Area – Adjusted for Overlap of MSGA Service Areas

<table>
<thead>
<tr>
<th>Hospital</th>
<th>2017</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAMC</td>
<td>569</td>
<td>548</td>
</tr>
<tr>
<td>BWMC</td>
<td>219</td>
<td>210</td>
</tr>
</tbody>
</table>

Source: HSCRC Discharge Data Base

I assumed a normative cardiac surgery market share range of 18% to 20% for cardiac surgery cases originating in the hospital’s MSGA service area based on recent comparable suburban hospital cardiac surgery experience. The following tables display this normative range (N1 and N2) and adds a maximum range of 25%. This maximum range was chosen because it allows for a marker of “best case scenario” success in building a referral base that has some credibility based on the analyses provided by the applicants with respect to their uptake of service lines in their service areas and recognizes there is only a limited sample of peer hospitals. Perfect comparability is not achievable. (e.g., Anne Arundel Medical Center would be a somewhat unique cardiac surgery site for Maryland. It has suburban and exurban characteristics and its size and the size of its service area set it apart from other existing hospitals.) This range is substantially more conservative than the 40% market share projected by AAMC in Year 3 or the market share implied in the BWMC analysis.

Again, the first table would be applicable to establishment of one of the proposed programs but not the other. It is not adjusted for market overlap. The second table takes the overlap into account and, thus, would predict the number of cardiac surgery cases the hospitals might be able to generate from their respective MSGA service area if both proceeded to develop cardiac surgery programs at the same time and achieved market share comparable to other similar community hospitals.

23 The cardiac surgery market share experience of Suburban, Washington Adventist, and UM St. Joseph’s in their respective 85% relevance MSGA service areas was used to establish this range. They are suburban community hospitals.
The next step in developing a forecast using this MSGA service area model is to adjust for the fact that any cardiac surgery hospital will draw some patients from beyond this established service area. On average, Maryland’s cardiac surgery hospitals have only generated about 75% of their total cardiac surgery case volume from their 85% relevance MSGA service areas, and the most comparable suburban hospitals have only generated about 66% of their cardiac surgery volume from their MSGA service area. The following two tables show the 66% adjustment factor applied to the cardiac surgery case volume projections shown in the two preceding tables, without adjustment for service area overlap (the single new program scenario) and with adjustment for service area overlap (the two new program scenario).

Table 8: Cardiac Surgery Case Volume Projections for Applicant Hospitals’ at Three Levels of Market Share – No Adjustment for Overlap of MSGA Service Area

<table>
<thead>
<tr>
<th>Market Share Assumption</th>
<th>2017</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AAMC</td>
<td>BWMC</td>
</tr>
<tr>
<td>N1 – 18%</td>
<td>125</td>
<td>62</td>
</tr>
<tr>
<td>N2 – 20%</td>
<td>139</td>
<td>69</td>
</tr>
<tr>
<td>Max – 25%</td>
<td>174</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: MHCC analysis based on Table 6

Table 9: Cardiac Surgery Case Volume Projections for Applicant Hospitals’ at Three Levels of Market Share – Adjusted for Overlap of MSGA Service Area

<table>
<thead>
<tr>
<th>Market Share Assumption</th>
<th>2017</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AAMC</td>
<td>BWMC</td>
</tr>
<tr>
<td>N1 – 18%</td>
<td>102</td>
<td>39</td>
</tr>
<tr>
<td>N2 – 20%</td>
<td>114</td>
<td>44</td>
</tr>
<tr>
<td>Max – 25%</td>
<td>142</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: Based on Table 7

This analysis used cardiac surgery case counts, so a final adjustment needs to be made, given that the target in this standard is open heart surgery cases. Like other community hospital cardiac surgery programs, one would expect that a very high proportion of the applicant hospital cases would fall within the open heart surgery category. In 2015, over 97% of the cardiac surgery
cases at the three hospitals used as a “peer” group for purposes of estimating a normative market share assumption range for the MSGA service area were open heart surgery cases. In the last five years for which a full year of data is available, the average proportion of total cardiac surgery caseload that was open heart surgery was 90 percent. Applying this 90% adjustment to the total service area cardiac surgery caseload serving as a base of this analysis but also recognizing that the case shifts facilitated by the applicant’s partner hospitals will tend to result in a higher proportion of less complex open heart surgery cases being shifted to these new programs, an adjustment factor of 94% is reasonable to use in this case. Applying this percentage here would reduce the 2020 forecast range for AAMC to 171 to 238 cases, with no adjustment for service area overlap and 141 to 196 cases with an adjustment for service area overlap. It would reduce the 2020 forecast range for BWMC to 84 to 118 cases, with no adjustment for service area overlap and 55 to 75 cases with such an adjustment.

These projections indicate that AAMC, if authorized to establish a cardiac surgery program in conjunction with denial of the BWMC proposal and, if able to penetrate the cardiac surgery market in its established MSGA service area at levels comparable to that of the most similar existing cardiac surgery hospitals, can project an ability to generate a case volume that approaches 200 open heart surgery cases per year. If it is highly successful, and can capture a 25% market share, it would be likely to generate a case volume of 200 or more cases. This is a market share that AAMC projected achieving in its larger defined service area in the first year of operation. But it also forecast an ability to capture 40% of the market by Year 3, an assumption that appears aggressive based on observed experience in Maryland.

These projections provide less support for BWMC’s ability to reach the 200 cases per year level. If BWMC initiated a program with no other competitors in Anne Arundel County, the high range market share assumption of 25% only generates 126 cases from its MSGA service area. Because of the overlap of service by both BWMC and AAMC in core Anne Arundel County zip code areas, the approach I have taken for adjusting for service area overlap would make the prospects significantly less favorable for BWMC.

It is possible, of course, that this service area overlap would not create a barrier for both BWMC and AAMC reaching normative or slightly above normative levels of market share in their respective MSGA service areas. This baseline analysis did not account for the impact of collaborative initiatives to shift case volume to BWMC, from UMMC, and to AAMC, from JHH. Both applicant hospitals have bases of support that could, theoretically, allow either hospital or both hospitals to achieve the minimum surgery case volume threshold included in the State Health Plan of 200 cases by the second year of operation. Cardiac surgeons performed 1,000 cardiac surgery cases at UMMC in 2015. My alternative forecast model suggests that AAMC, the larger applicant hospital, because of the MSGA service area it has established, is starting with baseline advantages when compared to BWMC. It would likely require less proactive support in shifting cases from JHH and AAMC is predicting that it is positioned to successfully compete, on a direct basis, for the cardiologists and surgeons in its service area who now refer patients to both MedStar WHC and UMMC surgeons. Johns Hopkins has a large cardiac surgery program (over 1,200 cases in 2015) and it is theoretically possible that JHH and AAMC could shift a higher number of Anne Arundel residents who seek cardiac surgery at JHH to a program at AAMC than AAMC has assumed in its CON application (50%),
But again, this less than conservative scenario is one in which BWMC, if unimpeded by competition from AAMC, approaches, with about 130 cases, the required threshold but does not reach it, at my high-end assumption of 25% market share. BWMC would need to achieve a 40% market share within its MSGA service area to hit the 200 case per annum level, using the other assumptions in my model, well above the normative levels I have assumed. This scenario would mean that BWMC and, if two programs were approved, perhaps AAMC, would be shifting more cases to their new programs from UMMC and JHH and, secondarily, other Baltimore area hospitals and WHC and, secondarily, the smaller programs of the D.C. suburbs, Washington Adventist and PGHC. Cutting away the market share of those programs is probably more difficult than either applicant hospital has portrayed in its application.

I conclude that AAMC has presented information and analyses that demonstrate the ability to meet a projected volume of 200 adult open heart surgery cases in the second full year of operation. I reached this conclusion after considering the AAMC analysis and testing its basic structure with more conservative service area and market share assumptions. The AAMC projection model addressed the most recent published MHCC utilization projection of cardiac surgery cases. Therefore, I find that the AAMC proposed project meets the requirements of this standard.

I conclude that BWMC has not presented information and analyses that demonstrate the ability to meet a projected volume of 200 adult open heart surgery cases in the second full year of operation. I reached this conclusion after considering the BWMC analysis and testing its basic structure with more conservative service area and market share assumptions. That test indicates that BWMC, working with a high level of integration as a component of the UMMC Cardiac Surgery Division, would need to exceed the recently observed performance of the most similar suburban cardiac surgery programs in Maryland and quickly establish a strong position of some dominance as a provider of cardiac surgery in its service area, with or without AAMC as a direct competitor in Anne Arundel County. AAMC, which can more readily make a case for compliance with this standard on the basis of its own medical/surgical market power, if approved with BWMC, would certainly increase the chance that BWMC would fail to reach the case target.

While UMMC operates a large cardiac surgery program and UMMS has the largest hospital system in the state, factors that suggest that BWMC could potentially expand its base to reach the 200 open heart surgery cases per annum use level, this projection requires a very expansive view of the proposed new program’s potential market strength. Therefore, I find that the BWMC proposed project does not meet the requirements of this standard.

(2) Impact.

(a) A hospital that projects that cardiac surgery volume will shift from one or more existing cardiac surgery hospitals as a result of the relocation or establishment of cardiac surgery services shall quantify the shift in open heart surgery and cardiac surgery case volume and the estimated financial impact on the cardiac surgery program of each such hospital.
(b) An applicant shall demonstrate that other providers of cardiac surgery in the health planning region or an adjacent health planning region will not be negatively affected to a degree that will:

(i) Compromise the financial viability of cardiac surgery services at an affected hospital; or
(ii) Result in an existing cardiac surgery program with an annual volume of 200 or more open heart surgery cases and an STS-ACSD composite score for CABG of two stars or higher for two of the three most recent rating cycles prior to Commission action on an application dropping below an annual volume of 200 open heart surgery cases; or
(iii) Result in an existing cardiac surgery program with an annual volume of 100 to 199 open heart surgery cases and an STS-ACSD composite score for CABG of two stars or higher for two of the three most recent rating cycles prior to Commission action on an application dropping below an annual volume of 100 open heart surgery cases.

Applicants’ Responses

Anne Arundel Medical Center

AAMC notes that its forecast model predicts that only three hospitals will experience an annual loss of more than ten cardiac surgery cases as a result of AAMC’s new program. It points out that those hospitals, Johns Hopkins Hospital, MedStar Washington Hospital Center, and UMMC are the largest cardiac surgery hospitals in Maryland and DC. Thus, AAMC concludes that its proposed program will not hinder the ability of any hospital with 200 or more cases to maintain a case volume well above 200 cases. It also projects that its program will not compromise the financial viability of programs currently operating with 200 or more cases (DI #3AA, p. 87).

AAMC states that the impact of its program on the costs per case and the charges per case of any competing Maryland hospital will be small, less than a 0.1% increase in all cases, with no projected impact on any competing hospital’s net income from operations (DI #3AA, p. 88). AAMC notes that HSCRC’s market adjustment policies were not “firmly established.” but that it was likely to use market share adjustments to reflect the expected shift in case location (DI #3AA, p. 89). A hospital with reduced cases will see its budgeted revenue reduced in an amount equivalent to 50% of the charges that the hospital would have made if it had retained the case.

AAMC states that the use of a 50% multiplier in the market shift adjustments is intended to leave whole the hospital which experiences relocated cases to a new program. The HSCRC policy is designed, according to AAMC, so that there will be no adverse financial impact on a Maryland hospital as a result of the hospital losing patients to AAMC’s cardiac surgery program; (DI #3AA, p. 90).

AAMC states that the existing Maryland cardiac surgery hospitals would be expected to have no reduction in their net income from services. It is assumed by AAMC that the affected hospitals will “manage the costs” of their smaller cardiac surgery services “appropriately” (DI #3AA, p. 90).
The applicant predicts that Washington Hospital Center will lose the most cases as a result of AAMC’s cardiac surgery service. AAMC notes that MedStar WHC, is paid for Medicare cases in accordance with the Medicare Inpatient Prospective Payment System and that other payers provide comparable per-case payment rates to WHC, with diagnosis related groups used to establish the scale of rates. Because DC hospital rates are not regulated as are Maryland hospital rates, AAMC expects that WHC will lose all of the revenue associated with the cases shifted to AAMC and would need to reduce its variable cardiac surgery costs accordingly (DI #3AA, p. 90).

AAMC states that, in the second year (FY 2018) of operation of its cardiac surgery services, the total loss of cases from both DC and Baltimore hospitals totals 337. Specifically, WHC will lose an estimated 221 cases, JHH will lose 69, and UMMC will lose 29. It projects that losses at other hospitals will be small, fewer than 10 at any particular hospital (DI #3AA, p. 92).

According to AAMC, its program will not cause any Maryland hospital that currently performs more than 200 cardiac surgery cases annually to experience a decline taking its volume below 200 cardiac surgery cases annually (DI #3AA, p. 92). AAMC also states that its program will not cause any Maryland hospital that performs between 100 and 190 cardiac surgery cases annually to decline to an annual case volume below 100 cases as a result of AAMC’s cardiac surgery program (DI #3AA, pp. 93-94).

AAMC’s key assumptions are: (1) AAMC will retain 80% of existing volume at AAMC that is currently transferred or referred to other hospitals for cardiac surgery; (2) the AAMC-JHM collaborative program will redirect 50% of the service area volume currently treated at JHH to AAMC by offering local access to a JHM surgeon and providing continuity of care through AAMC cardiologists; (3) AAMC will maintain and develop clinician relationships focused on cardiology practices that currently direct a significant percentage of cardiac surgery referrals to WHC; (4) additional volume projected to shift from hospitals other than JHH and WHC is assumed to mirror the distribution of AAMC’s 2014 transfer cases, by hospital, based on the assumption that a comparable base of referring physicians will support the AAMC program as it grows; (5) AAMC will continue to draw eight percent of its cardiac volume from outside its defined service area; (6) AAMC projects that out-of-area volume will correspond to the mix of cases from each hospital, as projected in the earlier categories (DI #3AA, p. 91).

Baltimore Washington Medical Center

BWMC states that almost all of the volume shift that will result from the establishment of its program will come from UMMC. It states that, to a much lesser extent, some volume will shift to its program from Johns Hopkins Hospital, Union Memorial Hospital, Sinai Hospital, Peninsula Regional Medical Center, Washington Adventist Hospital, and UM St. Joseph Medical Center. It also states that its program’s impact on any single cardiac surgery program will not cause the number of cases for that program to drop below this standard’s thresholds (DI #2BW, p. 46).

BWMC’s forecast model projects that, by the fifth year of operation of its cardiac surgery program, its annual impact in cases that would otherwise be handled by existing cardiac surgery programs will be 150 cases at UMMC, 46 cases MedStar WHC, 34 cases at JHH, 17 cases at
MedStar Union Memorial, and 11 cases at UM St. Joseph 11. BWMC projects that the three other hospitals will experience single-digit case loss (DI #2BW, p. 47).

BWMC states that, as a result of its proposed cardiac surgery program, Maryland’s rate payment methodology will react to the incremental shifts in volume [and] be net neutral to the affected hospital. Utilizing the 50% Variable Cost Factor, the expectation is that increases or decreases in revenue should offset variable cost increases and decreases. Therefore UM BWMC expects that existing cardiac surgery programs should not experience significant financial impact (DI #6BW, p. 10).

The applicant states that it used UMMC’s cost accounting system to estimate that the direct variable cost of cardiac surgery as a percentage of total cost at UMMC is 49.5%. It estimates that BWMC will experience a variable cost factor of 55%. BWMC uses these estimates to project a dollar impact on the hospitals other than UMMC that are projected to lose cases to BWMC, as shown in the following table (DI #6BW, p. 11).

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Revenue Impact</th>
<th>Cost Impact</th>
<th>Net Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johns Hopkins</td>
<td>315,033</td>
<td>311,163</td>
<td>($3,150)*</td>
</tr>
<tr>
<td>MedStar Union Memorial</td>
<td>152,689</td>
<td>167,958</td>
<td>15,269</td>
</tr>
<tr>
<td>Sinai of Baltimore</td>
<td>31,812</td>
<td>34,993</td>
<td>3,181</td>
</tr>
<tr>
<td>Peninsula Regional</td>
<td>76,828</td>
<td>84,511</td>
<td>7,683</td>
</tr>
<tr>
<td>Washington Adventist</td>
<td>25,543</td>
<td>28,097</td>
<td>2,554</td>
</tr>
<tr>
<td>UM St. Joseph</td>
<td>111,376</td>
<td>122,513</td>
<td>11,138</td>
</tr>
</tbody>
</table>

Source: BWMC First Completeness Response. (DI #6BW, p. 11)
Notes:
* BWMC assumes the UMMC variable cost factor (49.5%) for JHH, an academic medical center, and a factor of 55% for the community hospitals
**The correct figure, assuming the revenue and cost estimates are correct, would appear to be ($3,870).

Interested Party and Participating Entity Comments

Comments on AAMC Application

**BWMC Comments**

BWMC states that AAMC did not adequately address the impact of its proposed cardiac surgery program on PGHC. It notes that AAMC’s proposed program will have a negative impact on PGHC and, for this reason, does not comply with this standard. BWMC contends that AAMC’s program will cause PGHC’s volume to drop below 100 discharges and will decrease access for an underserved population. BWMC states that AAMC failed to consider the growing volume in cardiac surgery at PGHC (DI #29GF, p. 18). BWMC notes that the service area defined by AAMC overlaps extensively with the existing service area of PGHC (15 zip code areas). BWMC urges

24 BWMC explains that, “in the absence of actual service line data from other hospitals, [it] extrapolated using the experience of UMMC and [BWMC’s] proposal … to estate the costs on other facilities.”
the Commission to consider significant adverse impact of AAMC’s proposed program on PGHC, a cardiac surgery program that “deserves special protection because substantial resources have been invested to revitalize the cardiac surgery program at PGHC, the only such program in Prince George’s County, an underserved jurisdiction.” (DI #29GF, p. 19).

BWMC believes that AAMC understates the impact its program will have on other hospitals. It also notes that AAMC’s assumption that hospital costs are 50% fixed and 50% variable is not realistic. It states that hospital experience shows it is difficult to control expenses in the face of declining volume (DI #29GF, p. 19). BWMC says that an AAMC cardiac surgery program could have a potential adverse impact on existing providers reaching $10.1 million in FY 2018, assuming a market share adjustment to revenue equal to 50% of the $20.2 million, or $60,221 estimated average payment per case for all 337 relocated cases (DI #29GF, p. 20).

BWMC states that AAMC’s assumption that hospitals operate with a 50% variable cost structure is inconsistent with AAMC’s financial projections. It notes that total AAMC uninflated expenses from FYs 2017-18 and FYs 2018-19 are projected to grow with 38.5% and 39.0% expense variability, respectively, for an average of 38.8% expense variability as case volumes grow. If these expense variability assumptions are used to determine AAMC’s impact on other providers, based on BWMC’s adverse impact projection of $10.1 million in overall revenue losses by affected hospitals (50% of $20.2 million), the AAMC program would still result in a negative impact of $2.3 million on other providers, if one assumes that the affected hospitals will only be able to achieve cost reductions of 39% or $7.8 million (DI #29GF, p. 20).

BWMC relies primarily on volumes already in the UMMS system (66% of BWMC cases in Year 3) and revenue shifts within UMMS are transferred at 100%. Thus, the BWMC expected impact under the same 50% revenue variability and 39% expense variability assumptions is about one fifth of AAMC’s impact, or $469,000 (DI #29GF, p. 20).

Dimensions Comments

Dimensions states that the service area defined by AAMC for cardiac surgery includes nearly one half of the area of Prince George’s County and northern and central Calvert County. It notes that these areas are within PGHC’s service area, as defined by travel time, which is inconsistent with AAMC’s projection that no cardiac surgery discharges will shift from PGHC to AAMC. PGHC points out that the low number of cases at PGHC in 2012 and 2013 are not an exception to the requirements of this standard (DI #30GF, p. 8). It states that a cardiac surgery program at AAMC will be detrimental to PGHC’s efforts to rebuild the program by shifting cases to AAMC that would otherwise use the PGHC program, noting that the efforts by UMMS and PGHC to rebuild the program have, to date, been successful (DI #30GF, pp. 9-11). It notes that, in FY 2012, approximately 372 Prince George’s County residents received cardiac surgery from MedStar WHC, George Washington University Hospital, and Washington Adventist Hospital, about 75% of the total county residents who obtained cardiac surgery in that year. PGHC points out that AAMC projects that 233 cases will be shifted from those hospitals to AAMC (DI #30GF, pp. 11-12).

Dimensions further notes that AAMC did not demonstrate that its cardiac surgery program will not compromise the financial viability of the PGHC service. It states that PGHC has made a
significant investment in rebuilding its cardiac surgery program, estimated to have a fixed cost of $4.8 million (DI #30GF, p. 14). AAMC also is faulted by BWMC for not addressing impact on PGHC under paragraph (b)(iii) of the standard. While PGHC did not have 100 to 199 cases in 2012, 2013, or 2014, case volume achieved in the early months of 2015 indicate that PGHC will have 100 or more cardiac surgery cases in 2015. Dimensions states that the loss of 20 to 23 cardiac surgery cases would reduce PGHC’s projected cardiac surgery case volume of 116 in 2016 to fewer than 100 cases, specifically, between 93 and 96 cases (DI #30GF, p. 17).

Dimensions urged the Commission to consider the impact of AAMC’s project on PGHC in the future, when considering this standard, even though PGHC does not perform 200 cases per annum. It projects that PGHC will perform 220 cases in FY 2022. If AAMC shifts 44 cases in the Prince George’s County portion of the defined AAMC service area from PGHC, based on an assumption that AAMC will get 40% of the total cases from these 15 zip code areas, Dimensions projects that this will constitute an impact that drops an existing program from above 200 cases to below 200 cases (i.e., to 176 cases) (DI #30GF, pp. 18-20).

In June, 2016, Dimensions filed supplemental comments, noting that it had been successful in reaching an annual case volume of 100 cases in 2015 (DI #62GF) and renewed its opposition to the AAMC project on the basis of its likely negative impact on the ability of PGHC to continue to grow its program and reach the target caseload of the State Health Plan.

**Comments on BWMC’s Application**

**AAMC Comments**

AAMC did not specifically address BWMC’s compliance with this standard.

**Comments on Both Applications**

**LifeBridge Comments**

LifeBridge points out that the Commission has projected declining cardiac surgery case volume in the coming years and does not believe that the State Health Plan supports the view that access to the service is inappropriate or strained in a way that requires increasing surgical program supply to improve access. LifeBridge notes, (DI #33GF) that

> [w]ith general applicability to the issue addressed by this standard, the [proposed] projects create lower volume programs that have a higher potential for poorer patient outcomes and less favorable economic scale. It suggests that [the cardiac surgery programs at] Suburban and PGHC might experience the type of impact that the standard indicates is unacceptable

**MedStar Hospitals’ Comments**

The MedStar Hospitals ask the Commission to consider their arguments regarding the cost effectiveness of the proposed new cardiac surgery programs in relation to this standard. These
interested parties “ask that the Commission consider our arguments regarding the purported cost-effectiveness of both proposals.” (DI #34GF, pp. 28-29).

Applicants’ Responses to Comments

Anne Arundel Medical Center

AAMC states that it used “a valid methodology to estimate the volume loss and associated financial impact upon other hospitals entailed by AAMC's proposed cardiac surgery program.” (DI #45GF, p. 25). The applicant assumes that it will shift the same proportion of its cases from other hospitals as are currently transferred from AAMC to those hospitals, which it characterizes as a sensible assumption (DI #45GF, p. 25).

Regarding its impact on the cardiac surgery program at PGHC, AAMC states that it applied this same method when considering PGHC’s program. AAMC showed no impact to PGHC from the AAMC program, noting that no AAMC inpatients or cardiac surgery outpatients were transferred to PGHC from AAMC and “since PGHC only performed five cardiac surgery cases in CY 2013 …” AAMC states that its use of 2013 PGHC data was appropriate. (DI #45GF, pp. 26-27) The applicants says that the standard “plainly protect programs with current volume from dropping below a certain threshold. They do not protect programs with projected volume from failing to rise above the volume thresholds.” (DI #45GF, pp. 27-28).

AAMC insists that its proposed program will not prevent PGHC from reaching 200 cases, even if the Commission used Dimensions’ volume projections. It states that its proposed program “would take few enough cases from Prince George’s County that PGHC could reach 200 cases on County volume alone, while still leaving cases for other hospitals which currently draw cases from the County.” (DI #45GF, p. 28). AAMC points out that its projection shows that, in 2019, the AAMC program will only take 14% of cardiac surgery cases that originate in Prince George’s County. AAMC also notes that PGHC does not appear to anticipate reaching an annualized volume of 200 or more cardiac surgery cases until FY 2022 (DI #45GF, p. 29). It states that the PGHC cardiac surgery program has been in existence for decades and that it maintained its program when it performed 20 or fewer cases (DI #45GF, p. 29). In addition, AAMC notes that Dimensions did not produce any financial information to controvert AAMC's application other than that PGHC states that it will need to offset $4.8 million of program fixed costs (DI #45GF, p. 29). AAMC points out that PGHC is one of the most expensive hospitals in Maryland for cardiac surgery and that the proposed AAMC program will have among the lowest charges for cardiac surgery.

25 I provide a more complete summary of the MedStar Hospitals’ comments with respect to the costs and effectiveness of the applications in those sections of this Recommended Decision that more directly address the project review standard and criterion concerning costs effectiveness. The key point made by the MedStar Hospitals with respect to the Impact standard is general. The MedStar Hospitals do not specifically argue that either project will have the specific impact on existing programs that this standard deems to be salient. However, they believe a need for additional cardiac surgery programs has not been demonstrated and that distributing cardiac surgery case volume over a larger number of programs is contrary to what they consider an important underpinning of the Cardiac Surgery Chapter, i.e., that the number of cardiac surgery programs should be limited so that higher case volumes can be achieved, which is positive with respect to both quality and cost efficiency. Thus, they conclude that the proposed programs will have a negative impact on existing programs.
Regarding the interaction of the UMMS existing and the PGHC proposed cardiac surgery program, AAMC notes that neither Dimensions nor UMMS has how the programs at BWMC and PGHC (and its replacement Prince George’s Regional Medical Center, or PGRMC) will coexist. It states that, because PGHC/PGRMC and BWMC will rely on UMMS physicians, “the Commission should not assume that the programs at UMMC, BWMC, and PGHC would be impenetrable to each other based on the geographic location of the patient.” AAMC suggests that the Commission should require UMMS, BWMC, and Dimensions to detail the interaction among the three programs (DI #45GF, p. 30).

Responding to LifeBridge’s comments, AAMC states that its proposed cardiac surgery program would not cause Suburban Hospital’s program to decline below 200 cases. It notes that Suburban’s program could drop below 200 cardiac surgery cases due to declining case volumes even without a cardiac surgery program at AAMC (DI #45GF, p. 28, footnote 119).

Baltimore Washington Medical Center

BWMC states that its proposed program will have little impact on existing cardiac surgery programs, noting that “only 30.7% (70 cases) of the total projected volume would come from non-UMMS hospitals.” The applicant contrasts its source of cases with AAMC’s project, which relies on the shifting cardiac surgery volume from non-affiliated hospitals (DI #42GF, p. 2).

Reviewer’s Analysis and Findings

My review of the applications, interested party comments, and the applicants’ responses to comments convince me that each applicant has demonstrated compliance with this standard. It is not remotely likely that implementation of the AAMC project would result in dropping the case volume of MedStar WHC, JHH, or UMMC below 200 cases. These are large programs with large market share, which means that AAMC must seek to shift cases from these hospitals because that is where the case volume is currently concentrated. The other two Baltimore City and the single Baltimore County community hospital programs are not as likely to be greatly affected by an AAMC program and have large enough case volumes that marginal shifts, which are likely, will not be threatening in the manner outlined in this standard.

The Washington, D.C. area has six programs, including three Maryland hospital cardiac surgery programs, and their caseloads, other than MedStar WHC, are less robust.

Suburban has experienced a relatively steady volume of cases that have not regularly or greatly exceeded the annual case target but has stayed above the target. Washington Adventist’s case volume fell substantially between 2012 and 2015, slipping below 300 cases. This hospital’s service volumes have generally declined in recent years and the hospital is approved to develop a new hospital campus in Silver Spring and it is hoped that this will have a positive impact on the hospital’s ability to compete for surgeons and patients. Both of these programs have less room to lose cases than the Baltimore facilities, but both are drawing patients outside of the natural catchment area of AAMC and no definite conclusion can be made that an AAMC program would
be likely to result in these hospitals dropping below 200 cases. I believe a finding of this kind for this standard would need stronger evidence than is available in this review.

One Maryland hospital, PGHC, and one District of Columbia hospital, Howard University Hospital, experienced years of chronically low volume up to the time that the two applications under review were filed, well below 100 cases per year. For the last two years, with surgical support provided by UMMS, PGHC has built volume above the annual level of 100 cases and may be able to reach the target level within the next two years, if its recent pace can be maintained. George Washington University Hospital has typically been a low volume program, with annual caseloads between 150 and 200 cases. Like AAMC, these weaker programs would need to build market share primarily at the expense of MedStar, the dominant program in the region. It would appear that PGHC, which is also developing a replacement hospital to be owned and operated by UMMS, may be successful in reaching an acceptable level of use. As with Suburban and WAH, the impact of AAMC on George Washington University is likely to be marginal and probably not strong enough to result in this program dropping below 100 cases. Howard University’s case volume is so low that, as this standard suggests, it should not come into consideration in an analysis of impact that is part of considering the merits of a new program in or near the region.

A program at BWMC also would not cause concern with respect to this standard for the two large Baltimore programs and the MedStar Washington Hospital Center program. As noted, the other Baltimore area programs that would be likely to see some shift of their case volume to a new program in north Anne Arundel County but recent caseloads have been strong enough to not raise major concerns with a drop below 200 cases being caused by implementation of a program at BWMC or at both BWMC and AAMC, for that matter. It seems likely that the impact on D.C. area programs of a program at BWMC will be milder than that resulting from an AAMC program.

The existing programs that are most likely to experience the largest shift in cases are MedStar WHC (1,576 cardiac surgery cases in 2014), UMMC (759 open heart surgery cases in 2015), and JHH (1,046 open heart surgery cases in 2015). I conclude that each of these programs is too large to be compromised financially by the level of case shift that is likely, if either or both of the proposed programs are established. Of the other five community hospitals operating at a level of 200 or more open heart surgery cases, the most vulnerable would be Suburban Hospital, because it has averaged an annual open heart surgery case volume of only 216 cases in 2013 to 2015. However, I find that the service areas of the two applicant hospitals do not indicate the likelihood that a new program in Glen Burnie or Annapolis will draw a significant number of cases from Suburban or threaten its program’s financial viability. The other cardiac surgery hospitals would have to experience very high levels of market shift, based on recent open heart surgery caseloads, ranging from 25% (Washington Adventist) to 56% (UM St. Joseph), to fall within the critical impact range of this standard. A large impact on George Washington University Hospital would be required to drop it below 100 cases. I find that it cannot be concluded that either one of the proposed programs, individually, or both programs, collectively, would result in a drop in caseload below 200 cases at MedStar Union Memorial, UM St. Joseph, Sinai, or Washington Adventist or would compromise the financial viability of these programs. I also find that it neither of the proposed programs, individually, or both programs, collectively, would result in a drop in caseload below 100 cases at George Washington University Hospital or would compromise the financial viability of this program.
With respect to the impact of AAMC’s proposed program on the program at PGHC, the applicant states that the standard does not speak to the potential impact that a new program might have on the potential for a sub-performing program (with respect to volume) to reach acceptable case volume levels. AAMC cannot be faulted for not quantifying a case shift from PGHC to AAMC in its CON application, given that PGHC’s case volume was so negligible during the time frame in which AAMC was preparing its application. In calendar year 2015, MHCC’s analysis of the HSCRC discharge data base (See Tables 2 and 3 in this Recommended Decision.) indicates 29 open heart surgery cases at PGHC. When the AAMC application was filed, this number was not probably clearly available in the HSCRC data. The last calendar year available would have been 2014, with a reported eight cases at PGHC. Subparagraph (b)(iv)(emphasis added) of this standard requires me to consider whether an existing program, such as PGHC, that is performing over 100 cardiac surgery cases annually and has an STS rating of two or more stars “for two of the three most recent rating cycles prior to Commission action on an application,” will be caused to drop below an annual volume of 100 open heart surgery cases. I have considered the impact of each of the proposed programs on PGHC. I note that, based on the wording of the standard, I accepted into the record Dimensions’ June 24, 2016 filing updating its comments on AAMC’s application (DI #DI #62GF). These comments showed that PGHC had recently reached an annual volume of 100 cases and has also been given a three-star STS rating. As I discuss more fully below, I find that the establishment of a cardiac surgery program at AAMC and/or at BWMC would not be likely to cause PGHC’s annual volume to drop below 100 cases.

I note that, while a finding of non-compliance with this standard based on the potential impact of either proposed program on PGHC is not warranted, the issue of how these new programs will affect the ability of PGHC to rebuild its program is a legitimate concern. As noted below, I conclude that the markets that will be tapped for cases by PGHC, AAMC, and BWMC are sufficiently large that all three programs could reach the annual target volume of 200 open heart surgery cases without having an unacceptable impact on other programs, as defined by this standard.

In 2015, Anne Arundel County and the four jurisdictions contiguous to Anne Arundel (Baltimore County, Calvert, Montgomery, and Prince George’s) generated 1,588 open heart surgery cases that were performed at Maryland hospitals. Two Maryland jurisdictions that are not contiguous to Anne Arundel but geographically close, Baltimore City and Montgomery County, generated an additional 855 cases and the four Eastern Shore jurisdictions that are primarily served in the Baltimore/Upper Shore catchment area (Caroline, Kent, Queen Anne’s, and Talbot) generate another 108 cases that will use, to some extent, the cardiac surgery programs proposed for Anne Arundel County. This total of approximately 2,550 open heart surgery cases (and approximately 3,000 cardiac surgery cases of all kinds), which does not include the cases generated by the D.C. population, is large enough to accommodate the proposed new cardiac surgery programs and continued growth of the PGHC program to acceptable use levels. PGHC has reported in 2016 that it is more than halfway to the 200-case level (DI#62GF) and only marginal further penetration of the Prince George’s County and D.C. market will be required to reach a volume of 200 cases.

26 HSCRC Discharge Database.
Within a few years, PGHC’s cardiac surgery program is projected to be in a new hospital that will be more centrally located within Prince George’s County, functioning as part of UMMS. This further reinforces the likelihood that PGHC can revive its cardiac surgery program to acceptable use levels. A new cardiac surgery program at AAMC and, to a lesser extent, a new program at BWMC, is likely to draw some cases from PGHC’s service area and AAMC will be aggressively seeking to pull cases away from District of Columbia hospitals. But these will primarily be patients from the Annapolis area that has not historically been developed as a source of patients for PGHC. Also, the cardiac surgery cases most likely to shift from use of District of Columbia hospitals to PGHC are residents of Prince George’s County, most of whom will continue to be a primary market for PGHC and District of Columbia hospitals, with AAMC or BWMC functioning as second-order providers at greater distance and travel time.

Unquestionably, approval of either or both proposed programs would constrain the ultimate growth potential of all the Baltimore and District of Columbia area programs, especially the largest three programs—MedStar WHC, JHH, and UMMC. However, as noted, these are large programs that will continue to be relatively large programs even if PGHC revived itself to a maintenance volume of 200 or more cases and the two proposed programs were successfully developed to achieve similar use levels. Ultimately, the public policy issue presented is one of weighing the benefits of having a viable program at PGHC and additional programs in Maryland, in terms of access, cost reduction, and quality of care, against the marginal negative impact on these existing programs. I have addressed these tradeoffs throughout this Recommended Decision in my consideration of the applicable criteria and standards. In this case, I have found that AAMC’s proposed project complies with the specific requirements of this impact standard. I have also found that BWMC’s proposed project complies with the specific requirements of this impact standard. I have determined that public policy favors the establishment of the proposed program at AAMC, which will result in savings to the health care system through lower charges and better access for the relatively large population of Anne Arundel County and the population of the Eastern Shore.

.05A(3), Quality.
(a) An applicant shall demonstrate its commitment to provide high quality health care. An applicant seeking to establish cardiac surgery services shall have utilization or peer review and control programs with regularly scheduled conferences to:
(i) Establish protocols that govern the referral, admission, and discharge of cardiac surgery patients; and review compliance with established protocols.  
(ii) Establish and review a list of indications and contraindications to govern selection of patients for cardiac surgery; 
(iii) Establish a program to educate patients about treatment options; and monitor the effectiveness of the program.  
(iv) Establish mechanisms for monitoring long-term outcomes of discharged patients.  
(v) Review morbidity and mortality rates and other indicators of patient outcomes, and compliance with established processes of care as compared with regional or national averages; 
(b) Prior to first use approval, an applicant shall provide documentation of (i)-(iv).
Applicants’ Responses

Anne Arundel Medical Center

AAMC’s response to this standard starts with a listing of AAMC’s awards and recognitions, which it identifies as evidence of its commitment to high quality health care: 2013 and 2014 Delmarva Foundation Excellence Awards for quality improvement; Magnet Recognition through the American Nurses Credentialing Center; 2012 Leapfrog Top Hospital Recognition; 2011 American College of Cardiology Foundation’s NCDR ACTION Registry–GWTG Gold Performance Achievement Award; recognition by the Institute for Patient and Family-centered Care; and national accreditation and recognition for its Breast Center, Weight Loss Program, Chest Pain Program, Cancer Center, Stroke Center, Pathways Substance Abuse program, and other clinical programs (DI #3AA, p. 99).

AAMC also notes that the Maryland Institute of Emergency Medical Services System (“MIEMSS”) designated it as a Cardiac Intervention Center and that the Society of Cardiovascular Patient Care designated it as a Chest Pain Center with PCI. The hospital describes quality improvement at the hospital as integrated and collaborative, functioning in each department with teams, reporting to a hierarchy of quality improvement bodies, including AAMC’s Executive Quality Council, a Medical Staff Quality Review Committee, and the Board of Trustees Quality and Patient Safety Committee (DI #3AA, p. 99).

AAMC states that quality improvement efforts regarding cardiac surgery services will be done in conjunction with JHH. Patient selection and operative procedures will be based on the American Heart Association/American College of Cardiology (“AHA/ACC”) guidelines and practices employed by the JH Medicine Division of Cardiac Surgery will also inform patient and procedure selection, and post-operative management.

AAMC notes that it will participate in the database of the Society of Thoracic Surgeons (“STS”), with collection and submission of data reviewed by an AAMC Cardiac Surgery Advisory Committee. AAMC’s cardiac surgery program will also participate in the Maryland Cardiac Surgery Quality Initiative, a collaborative statewide program with the goals of: sharing data among Maryland cardiac surgery programs; identifying best practices; and improving outcomes in a cost-effective way.

AAMC described its existing quality-related committee, group, and meeting structure as summarized in the following table.

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<tr>
<th>Committee/Group</th>
<th>Functions</th>
<th>Meetings</th>
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| Emergency Department-Cardiac Catheterization Lab Quality | Review & analyze specific patient cases for continuous quality improvement  
Evaluate, monitor and disseminate key quality outcome indicators  
Utilize evidence based practice such as the ACS guidelines to develop protocols & standard operating procedures for care of cardiac patients  
Educate & consult with health care providers at all levels regarding patient care  
Develop & implement quality improvement measures | Quarterly          |
| Emergency Department – EMS Quality                  | Communicating outcomes of door to balloon metrics  
Updating EMS regarding certifications & requirements from certifications, outcomes of referrals, field activations & suggestions for improvements along with positive feedback  
Share STEMI, stroke & AMI core measures data & metrics with EMS  
Open forum discussions & formal educational offerings to improve capabilities of EMS team members | Quarterly          |
| Cardiology Mortality & Morbidity - Elective and Primary PCI | Provide case conferences with ECG’s and Cine films  
Review cases that did not meet system goals or resulted in adverse event or outcome.  
Discuss medical & interventional management | Monthly            |
| Cardiology Conference                               | Provide AMA/CME through didactic & interactive meetings on f cardiovascular disease topics  
Open to all cardiology staff | Three times per month (when M & M not meeting) |
| Cardiology Advisory Council                         | Communicates status of division of Cardiology to the health system & considers future plans & goals for operations & capital | Quarterly          |
| Interventional Cardiology                           | Support ongoing communication among interventional cardiologists  
Provide format for sharing quality performance metrics, process improvement and peer review with & by physicians  
Evaluate & track individual practitioners’ quality & outcomes - a peer review process specific to PCI/interventional cardiology | Quarterly          |
| Cardiac Operations Team                             | Address internal processes that impact requirements set forth by Society of Cardiovascular Patient Care in response to the Chest Pain Accreditation | Monthly            |
| Cardiac Workgroup                                   | Oversee care of STEMI & non-primary PCI patients to assure compliance with Maryland regulations  
Discuss operational overview, data, obstacles & updates related to process improvement for interventional cardiac patient | NA                 |
| Wayfinding                                          | Provide consistent & clear information to guide individuals to their destination using criteria set forth in Cycle IV Chest Pain Accreditation  
Establish wayfinding on evidence-based design principles | Monthly            |
| Heart and Vascular Unit Quality                     | Monitor:  
Intra-operative communication with family members  
Respiratory care  
Patient falls  
Inpatient first case OR delays  
Communication, teamwork & process improvement  
Interdisciplinary rounds  
Hand washing initiative  
Increased patient satisfaction and analyze for purpose of improving quality | NA                 |
Observation Unit Quality

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<tr>
<th>Observation Unit Quality</th>
<th>Issue Observation Unit Quality reports on:</th>
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<tr>
<td></td>
<td>4PTS (patient safety line) trends</td>
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<td>NDNQI indicators</td>
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<td>Core measures</td>
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<td>Unit-specific nurse regulatory praises</td>
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<td></td>
<td>Patient Satisfaction Survey results</td>
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<td>Nursing documentation and data</td>
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MIEMSS Regional STEMI QA

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<tr>
<th>MIEMSS Regional STEMI QA</th>
<th>Review STEMI processes, procedures, &amp; metrics at regional level</th>
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<tr>
<td></td>
<td>Enable MIEMSS to create standardized feedback template from all organizations involved in care of STEMI patients</td>
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<td></td>
<td>Work with area EMS to support education and quality</td>
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Resuscitation

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<th>Resuscitation</th>
<th>Critical Care team discussion of Code Blue and Rapid Response documentation &amp; case reviews</th>
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<tr>
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<td>Oversee stroke rapid response calls &amp; therapeutic hypothermia protocol.</td>
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<td></td>
<td>Review data focused on inpatients that develop chest pain</td>
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<td></td>
<td>Raise awareness for the in-house STEMI patient</td>
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Source: (DI #3AA, pp. 101-104).

With respect to paragraphs (a)(i) through (a)(v) of this standard, AAMC responded as follows:

(a)(i) Protocols governing referral, admission, and discharge of cardiac surgery patients

AAMC states that access to its program by referring physicians can take place through: (1) direct referrals through the cardiac surgery office; (2) call-ins to the AAMC operator connecting to an on call surgeon or, if not available, a cardiac surgery PA/NP; (3) direct contact with a specific cardiac surgeon; or (4) direct consultation with the NP/PA in-house during the day and immediately available at night. It notes that this information will be available on its website and printed on a laminated sheet with AAMC cardiac surgery information.

AAMC states that it will have standardized admission, discharge, and intra-hospital transfer processes for efficiency and safety. Patient safety will be optimized through use of “time out checklists” and through use of treatment protocols prior to beginning operations or initiating intra-hospital transfers (DI #3AA, p. 105). It notes that the treatment protocols will be developed for common clinical scenarios. It says that the standardized discharge process will include discharge teaching, communication to referring physicians, follow up appointments, and that patients will leave AAMC with a “discharge book” containing information on care plans, medication, wound care, and activity instructions.

(a)(ii) Indications and contraindications governing patient

According to AAMC, all indications for surgery will be identified consistent with good clinical practice based upon AHA/ACC guidelines and the usual and customary practice of the JHM Division of Cardiac Surgery (DI #3AA, p. 105).

(a)(iii) Patient education about treatment options

AAMC states that its team will provide initial surgical consultation for patients undergoing elective surgeries and to the patients’ families, including diagnostic information, testing,
indications, alternatives, risks, and expected benefits. Mortality risk will be predicted using an STS algorithm and written material on these topics (also available on the AAMC website) will be provided to the patient. Patient service coordinators will do pre-operative teaching and assist in planning for post-surgical care, discharge, and follow-up. A patient handbook, based on the current book currently in use at JHH will be provided to all patients and will be tailored to each patient’s specific needs.

(a)(iv) Mechanisms for monitoring long-term outcomes

AAMC plans for each discharged cardiac surgery patient to leave the hospital with follow-up appointments scheduled with the patient’s cardiologist and cardiac surgeon, as well as appointments for any required laboratory or radiology procedures. Each patient will be contacted by phone daily for the first three days following discharge and weekly until the post-operative visit. An AAMC/JHU employee will follow patients as required for the STS database, to which data for all AAMC cardiac surgery patients will be submitted, using existing JHU protocols.

(a)(v) Review morbidity and mortality rates and other indicators of patient outcomes/compliance with established processes of care as compared with regional or national averages

AAMC states that it will have bi-weekly cardiac surgery Morbidity and Mortality (“M&M”) conferences, with cardiac surgery staff participating in its Department of Surgery M&M program, including a separate monthly joint M&M conference with the JHU program. In weeks without a cardiac surgery M&M conference, the hospital will hold a quality improvement program meeting of AAMC clinicians. Joint quality improvement projects with JHH will be undertaken to address common to both hospital sites and to establish joint protocols.

All patient deaths will trigger a detailed “Phase of Mortality” review (DI #3AA, p. 107). Outcomes will be monitored through STS database participation.

Baltimore Washington Medical Center

BWMC states that it will implement utilization (or peer review and control) programs for cardiac surgery and will also participate in the quality assurance and performance improvement programs currently in place at UMMC (DI #2BW, pp. 48-53).

In discussing quality improvement programs and initiatives currently in place at BWMC, it notes its Quality Improvement ("QI") Department that administers a performance improvement program. This program involves data collection and analysis to measure improvement, evaluates problems, and monitors solutions. This department uses a “Plan, Do, Check, Act” model (DI #2BW, Table 25). It consults with clinical and administrative staff with a mission to integrate performance measurement hospital-wide for quality improvement, develop systems and processes measurement of outcomes, use quality indicators and regional and national benchmarks, and foster a culture of safety and harm reduction.

BWMC’s QI Department supports four peer review committees, including the surgical and medical committees. Its purpose is to review cases with unexpected outcomes and make
recommendations to the Medical Staff Quality Improvement Committee, which consists of department chairs.

Quality of Cardiac Services:

BWMC notes that it has a Cardiology Interdisciplinary Collaborative Practice Team (“the Team” which is one of four), which analyzes quality and process trends, makes recommendations for change, and develops initiatives supported by data and analysis. This Team meets monthly to: review performance of cardiac care measures; examine processes and protocols; identify areas for improvement; make recommendations for change; and evaluates the impact of changes. BWMC points to its focus on shortening DTB times as an example of the Team’s work. BWMC describes its communications process regarding quality assurance, noting that it distributes case worksheets to departments involved in cardiac services and maintains internal dashboards that include core measure data.

BWMC states that it convenes clinical case review meetings weekly, examining techniques, equipment, degree of disease being treated, and other variables in the cases. BWMC uses these meetings as a teaching tool and invites all staff disciplines to participate.

BWMC describes the process and staff used in data collection related to the National Cardiovascular Data Registry (“NCDR”) and a Data Quality Report. It notes that this work is the foundation for looking at performance and outcomes in the delivery of cardiac services at BWMC, with a focus on interventional services (DI #2BW, Table 25).

BWMC notes that it was recognized in FY 2013 for its commitment to high quality care for heart attack patients through its receipt of the American College of Cardiology Foundation’s NCDR ACTION Registry-GWTG Platinum Performance Achievement Award.

Regarding its assurance of patient safety, BWMC describes standardized policies and procedures, electronic medical records, the convening of daily safety huddles, standardization of scrub colors, and “Great Catch” awards program for reporting events that could harm patients (DI #2, Table 25).

The hospital addresses the patient experience of care by maintaining Standards of Service Excellence, which it developed to promote positive experiences and work culture. BWMC utilizes the Hospital Consumer Assessment of Healthcare Providers and Systems (“HCAHPS”) survey to measure patients’ perspectives on nine key topics and has chartered a Patient and Family Advisory Council to obtain advice on how to enhance patient and family-centered care. Additionally, it employs a full-time patient advocate and has a Patient Experience Oversight Committee that meets monthly to oversee activities aimed at improving the patient experience. The hospital reports that it actively solicits patient feedback and empowers every employee to facilitate “Service Recovery,” to immediately acknowledge patient concerns and respond with “sensitivity, respect, and professionalism.” (DI #2, Table 25).

Such as door-to-balloon (“DTB”) time in primary PCI procedures.
It describes the existing Quality Assurance and Performance Improvement Plan of the UM Division of Cardiac Surgery (“the Division”), which focuses on: identifying opportunities for improvement; promoting best practices; facilitating patient safety; ensuring optimal clinical outcomes; patient, family, and staff satisfaction; and creating the safest care environment possible. The Quality Assurance and Performance Improvement Plan facilitates compliance with external regulations and directives, as well as local, regional, and national regulatory and accreditation requirements.

BWMC states that the Division continually assesses, reviews, and monitors quality of care throughout the cardiac surgery care episode and is supported by a full-time dedicated Senior Nurse Quality Improvement Coordinator. At least bi-weekly, Division multi-disciplinary forums review quality of care, establish protocols and guidelines, review outcomes data, and identify clinical and process improvement projects. It notes that dedicated performance improvement sub-groups are established on an as needed basis. Routine elements such as readmissions, returns to the operating room, deaths, complications, and adverse events are tracked for rapid assessment, review, and intervention. (DI #2BW, p. 49).

BWMC provides an overview of the organizational and reporting structures used by UMMC for quality assurance and performance improvement. At a departmental level, it uses a “Quality Physician Champion” and “Senior Quality Improvement Nurse” leadership model (DI #2BW, p. 49). Bi-monthly quality meetings are convened to identify opportunities for quality improvement. Division leadership reports to a UM Comprehensive Heart Center Executive Committee and UMMC Performance Improvement Steering Committee with multi-disciplinary participation. This Steering Committee meets monthly with a long-term agenda for review of quality objectives and departmental quality improvement initiatives. It is supervised by the Medical Executive Committee and information on outcomes and initiatives are reported to the UMMC Executive Board’s Quality Committee, the UMMS Executive Board and the UMMS Quality Division. This division is led by the UMMS Senior Vice President and Chief Medical Officer who also serves as the Chief Quality Officer. This division also prepares a monthly “Quality Briefing Newsletter” for UMMS. (DI #2BW, p. 50).

BWMC describes the way in which the UM Division of Cardiac Surgery reports, tracks, and reviews trends in the occurrence of adverse events. For all such events, root causes are identified, interventions are implemented, and action plans are generated and communicated to departmental Quality Improvement Teams and leadership. It states that blame-free reporting of all events is encouraged and reporting employees and those who spot problems and prevent adverse events or mitigate such events from producing worse outcomes are recognized, , and acknowledged (DI #2BW, p. 51).

With respect to paragraph (a) of this standard, BWMC stated that its proposed program will participate in peer review and control programs. With respect to subparagraphs (a)(i) through (a)(v) of this standard, BWMC responded as follows:
(a)(i) Protocols governing referral, admission, and discharge of cardiac surgery patients

BWMC states that its protocols for referral, admission and discharge will follow best practice guidelines and the established guidelines of UMMC. It describes the evaluation, diagnostic workup, pre-operative instructional and educational components of the protocol for referral and admittance of patients for cardiac surgery. BWMC states that discharge planning begins on the scheduled day of surgery and describes the information provided to patients and family members, patient evaluation, and post-surgery care planning and location. Patients discharged to home will have access for three days after surgery to a home health nurse. BWMC has a rehabilitation program for cardiac patients. Nurse practitioners and social workers will consult in the development of post-operative plans of care.

(a)(ii) Indications and contraindications governing patient selection

The UM Division of Cardiac Surgery follows the Guidelines of the Society for Thoracic Surgery (“STS”) for appropriateness of care and this protocol will be used at BWMC. Physicians will use the STS risk calculator to assist in evaluation of a patient’s risk profile for surgery. Indications and contraindications for surgery will be established by disease progression and symptomatology using best practice guidelines.

(a)(iii) Patient education about treatment options

Patients will receive education regarding treatment options at the time of the referral for cardiac surgery by the attending cardiac surgeon who will be performing the procedure, and by the cardiac surgery nurse practitioners when they see the patients in clinic and once they have determined they are an appropriate surgical candidate. Educational videos are available for patient viewing. The UM Comprehensive Heart Center website is also a source of patient education. This website contains information categorized by disease, links to helpful sites, and patient stories. Information about the cardiac surgeons and their biographies are also a source for patients seeking information and making choices about their surgery options.

(a)(iv) Mechanisms for monitoring long-term outcomes

Post-procedure follow-up will be determined on an individual basis for each patient, based on the type of procedure and individual patient needs. All patients will be seen within two weeks of discharge, or sooner if the individual patient’s needs require. For long-term monitoring, patients will be followed in accordance with STS guidelines post-operatively from date of procedure through discharge and post-discharge. Cardiac surgeons will partner with community cardiologists in patient care to improve the transfer of care back to the referring cardiologist.

(a)(v) Review morbidity and mortality rates and other indicators of patient outcomes/compliance with established processes of care as compared with regional or national averages

The UM Division of Cardiac Surgery currently conducts Cardiac Surgery Monthly Morbidity and Mortality reviews. All patient clinical outcomes are tracked, trended, and followed on a quarterly and annual basis and reviews are based upon nationally established STS
benchmarks. Other sources for clinical benchmarking include the University Hospitals Consortium. The program will also participate in the Maryland Cardiac Surgery QI Collaborative. Individual Physician Scorecards are created and utilized for surgeon re-credentialing and privileging based on clinical outcome objectives.

**Interested Party and Participating Entity Comments**

No comments on either applicant’s compliance with this standard were filed by interested party Anne Arundel County Department of Health, by interested party LifeBridge Health, or by participating entity Anne Arundel County.

**Comments on AAMC Application**

No interested party or participating entity comments were filed specifically regarding compliance of the AAMC CON application with this standard.

**Comments on BWMC Application**

**AAMC Comments**

AAMC states that the quality assurance and performance improvement process outlined in the BWMC application “suffers from being overly entwined with UMMC’s existing quality processes,” with the potential for muddling lines of authority and accountability (DI #28GF, p. 23). Specifically, it questions the ability of adequate management resources for BWMC quality assurance efforts by UMMC’s Division of Quality and Safety. It questions the ability of UM Division of Cardiac Surgery bi-monthly quality forums to adequately review BWMC’s quality of care. It notes that this Division has its resources divided among three hospitals currently, UMMC, UM St. Joseph, and PGHC, and that BWMC will be a fourth program if the CON is approved. It states the CON application suggests that BWMC “may lack sufficient independence from UMMC (and UMMC generally) to be effective” (DI #28GF, p. 24).

**Comments on Both Applications**

**MedStar Hospitals Comments**

The MedStar Hospitals made one general reference to this standard, as follows:

The Commission’s clinical advisory group recommended that the ‘regulation of cardiac surgery services should place greater emphasis on quality rather than on volume.’ An essential component of quality is cost-effectiveness. As discussed in the Cardiac Surgery Services chapter of the SHP, ‘numerous research studies show a strong relationship exists between the volume of cardiac surgery performed and patient mortality and surgical complications.” (DI #34GF, p. 15).

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29 See COMAR 10.24.17.05A (3) – Quality of Care.
Applicants’ Responses to Comments

Baltimore Washington Medical Center

BWMC states that, contrary to AAMC’s comment, integration of the proposed BWMC cardiac surgery program with UMMS is a source of strength. BWMC notes that its proposed program would be part of a “world-renowned cardiac surgery program. It stated that the “system approach to quality improvement drives a culture of continuous improvement.” (DI #42GF, p. 3) It finds AAMC’s comment ironic, given that AAMC describes its own quality assurance and performance improvement effort regarding cardiac surgery as one that will benefit from its collaborative partnership with JHH. (DI #42GF, p. 3, footnote 16).

BWMC reiterates the benefits and advantages it would have by being within the UM Division of Cardiac Surgery. It describes UMMS’ support as adding to the quality assurance and performance improvement structure already in place at BWMC and notes that BWMC will develop a local operating council to implement best practices identified at the systems level, a feature of all the UMMS cardiac surgery programs (DI #42GF, p. 3).

With respect to AAMC’s specific comments, BWMC states that AAMC incorrectly implies that the BWMC’s Quality Assurance and Performance Improvement Plan would be managed by one nurse, based at UMMC. It states that BWMC’s statement about participation in the same quality assurance performance improvements programs as UMMC only meant that BWMC would create the same UMMC initiatives at BWMC, while also participating in system and BWMC-specific initiatives. BWMC’s performance improvement plan will be led by a number of team members. (DI #42GF, pp. 33-34). It also states that the UM Division of Cardiac Surgery bimonthly quality forum will be able to review BWMC’s protocols, guidelines, outcomes data, and clinical and process improvement projects, noting that many of the cases handled by BWMC will represent a shift of cases currently performed at UMMC, i.e., not actually case volume that will add to the workload of the forum. Finally, it notes that the bimonthly forum is just one of many quality improvement processes it has identified (DI #42GF, p. 34).

Reviewer’s Analysis and Findings

I find that AAMC has demonstrated its commitment to provide high quality cardiac surgery services consistent with the specific requirements of this standard. AAMC has described an organizational structure and processes that align with the requirements of this standard. It will have peer review programs and control utilization through use of protocols for appropriate selection of patients and choice of procedures that employ indications and contraindications governing selection of patients. Regular meetings or conferences of the bodies charged with implementing quality assurance and performance improvement will take place. It will also use protocols for referral, admission, and discharge of cardiac surgery patients. It has described its plans for follow-up of patients following surgery and it will engage in reviews of outcomes for surgery patients, including morbidity and mortality rates used with appropriate benchmarking. It has also described the manner in which patients will be educated about treatment options.

BWMC has also demonstrated its commitment to provide high quality cardiac surgery services consistent with the specific requirements of this standard. It has described an
organizational structure and processes that align with the requirements of this standard, consistent with the specific elements of the standard as described in the previous paragraph.

While there are differences in the outlines provided by the two hospitals, each has experience and a background that do not raise concerns with respect to the capability of each applicant to provide high quality care. Furthermore, each hospital is collaborating with or functioning within a system that features a large cardiac surgery program based at an academic medical center. Each proposed collaboration will involve direct provision of cardiac surgery and collaboration with the academic medical center partner in quality assurance and performance improvement for cardiac surgery.

No comments or evidence in this review call compliance with this standard into question for either AAMC or BWMC. AAMC’s comment that a cardiac surgery program at BWMC will not be independent enough of UMMC in its quality assurance and performance improvement processes and activities is not persuasive.

MedStar made a valid point with respect to the connection that is presumed to exist between the number of cases handled by a cardiac surgery program and outcomes. However, this point is directly addressed by the Minimum Volume standard, COMAR 10.24.17.05A(1), and the Need standard, COMAR 10.24.17.05A(6), both of which establish a threshold volume intended to address this volume/quality relationship. By contrast, this standard simply addresses the requirements that an applicant must meet to assure that it will be able to provide cardiac surgery safely to patients for which this treatment option is appropriate, to measure its performance in providing cardiac surgery in meaningful ways, and to work to improve performance, quality, and safety where such improvement is needed. Other standards are more germane to the issue raised by MedStar.

(4) Cost Effectiveness.
An applicant proposing establishment or relocation of cardiac surgery services shall demonstrate that the benefits of its proposed cardiac surgery program to the health care system as a whole exceed the cost to the health care system.

(a) An applicant that proposes new construction of one or more operating rooms, cardiac catheterization laboratories, or intensive care units, or any combination thereof, as necessary infrastructure for its proposed new cardiac surgery program shall document why existing resources at the applicant hospital cannot be used to accommodate the proposed cardiac surgery services.

(b) An applicant shall provide an analysis of how the cost of cardiac surgery services for cardiac surgery patients in its proposed service area and for the health care system will change as a result of the proposed cardiac surgery program, quantifying these changes to the extent possible.

(c) An applicant shall provide an analysis of how the establishment of its proposed cardiac surgery program will alter the effectiveness of cardiac surgery services for cardiac surgery patients in its proposed service area, quantifying the change in effectiveness to the extent possible. The analysis of service effectiveness shall include, but need not be limited to, the quality of care, care outcomes, and access to and availability of cardiac surgery services.
Applicants’ Responses

Anne Arundel Medical Center

In responding to this standard, AAMC initially notes that the project will not require construction of operating rooms or intensive care space. It states that its proposed program will shift cardiac surgery cases from MedStar WHC and Maryland hospitals that AAMC identifies as having higher charges for this service than AAMC will offer under the Maryland all-payor hospital rate model. AAMC notes that its analysis found that “the relocation of 337 cardiac surgery cases from Maryland and DC cardiac surgery hospitals to AAMC will reduce total aggregate hospital payments by slightly more than $8.2 million for those services.” (DI #3AA, p. 109).

AAMC defines "effectiveness" as “a combination of cost, quality, and patient experience factors to produce benefits in clinical outcomes, cost performance, and patient satisfaction.” It identifies its proposed cardiac surgery program as yielding benefits in each of these areas. (DI #3AA, p. 24).

AAMC states that its cardiac surgery program will reduce the need to transfer patients for cardiac surgery. This, in turn, will: improve quality of care/patient satisfaction for patients and their families; reduce duplication and costs associated with hospital transfers; and remove delays/barriers to timely care. AAMC states that, “[i]ncreasingly, patients requiring transfer from AAMC to another hospital for cardiac surgery have been delayed [due] to lack of an intensive care bed or denied due to patient's insurance status.” (DI #8AA, p. 24).

The applicant plans for its new program to maintain a single clinical management team, minimizing the risks/downsides associated with hospital transfers and supporting more effective care management. AAMC states that it will improve quality of care by improving continuity of care. (DI #8AA, p. 24). It notes that its cardiac surgery service will reduce travel time for an increasingly older and frailer patient population and for more than 800,000 adult service area residents. (DI #8AA, p. 25).

AAMC states that the new program will provide the service area with “greater access to new treatment modalities and clinical protocols by extending JHM-sponsored programs more directly” to the service area. It will “leverage JHM surgical manpower across the region and extend JHM-sponsored research protocols and new technology” to the service area. (DI #8AA, p. 25).

AAMC states that the new program will “positively impact Maryland's performance under the Medicare performance test.” It will “achieve a net reduction of $7.7 million in 'total health care spend' for hospital services.” (DI #8AA, p. 26).
BWMC states that paragraph (a) of this standard is not applicable because it is not proposing new construction of operating rooms, cardiac catheterization laboratories, or intensive care units. (DI #2BW, p. 54) With respect to paragraph (b), BWMC states that “the costs of cardiac surgery will be significantly reduced” through its establishment of cardiac surgery. BWMC notes that its charges are “markedly lower than at UMMC, from which most of the proposed case volume will be derived.” (DI #2BW, p. 54). It projects total savings to its service area of $2.4 million by the third year of operation based on a charge-per-case analysis. Approximately 89% of this savings is projected to be derived from 151 cases that BWMC projects would otherwise be performed at UMMC at a projected charge of $66,211 per case, compared with a projected charge at BWMC of $51,952. BWMC projects that its charges for cardiac surgery will be lower than the charges at five of six hospitals identified as experiencing a likely shift of cases to BWMC, if a program is developed (DI #2BW, pp. 54-55). It also states that the “personal and societal” cost savings will result due to reductions in travel cost and disruption of work time for patients and families.

With respect to paragraph (c), BWMC states that it will maintain the highest quality of care in its cardiac surgery program, which will “benefit from the UMMS system-wide collaborative initiatives to improve quality performance.” It states that “improving clinical performance at the enterprise level” is a strategic priority of UMMS, led by physicians and organized by clinical specialty. The goal is “a high performing network of providers delivering high quality, coordinated patient care.” (DI #2BW, p. 56). BWMC cites the following specific cardiac surgery initiatives: blood conservation; reduction of prolonged intubation occurrences; reduction of 30-day mortality; continued reduction of surgical site infections; reducing complications – observed over expected; reduction of 30-day readmissions; and reduction of overall cost of care (DI #2BW, p. 56).

BWMC modified its CON application on August 10, 2015, committing BWMC and UMMC to accept 50% revenue variability for cardiac surgery cases shifted from UMMC to BWMC, which the hospital noted was not required under the UMMS GBR agreement with HSCRC that permits revenue to be redistributed among UMMS affiliated hospitals without applying a revenue variability factor. (DI #17BW) According to BWMC, this will improve the cost effectiveness of its proposed project. BWMC presents two different calculations of projected cardiac surgery charges per case, a “rate center methodology” and a “traditional charge per case methodology” to calculate systems savings. It anticipates that the way in which HSCRC’s market shift adjustment methodology is “constructed” will mean that the traditional charge per case methodology will be used to determine allowable revenue to be added to BWMC’s GBR cap. However, it expects the rate center methodology will be used to determine the charges to be billed to payers. It uses this model to project that BWMC will realize a net GBR increase of $4.6 million in FY 2018 through the provision of cardiac surgery and existing cardiac surgery hospitals affected by the new BWMC program will experience a $6.5 million reduction in their cardiac surgery revenue, all incorporating the 50% variable cost factor, a net reduction in hospital charges in Maryland of $1.9 million and, specifically for Medicare, a projected payment reduction of approximately $690,000.
BWMC states that this analysis makes it clear that its proposed project is cost effective and is consistent with Maryland’s waiver agreement with the Centers for Medicare and Medicaid Innovation.

**Interested Party and Participating Entity Comments**

**Comments on AAMC Application**

**BWMC Comments**

BWMC claims that AAMC’s “low charge per case results in part from maintaining certain outpatient services as rate-regulated, which is not a cost-effective practice.” (DI #29GF, p. 21). It states that the proposed AAMC program “appears efficient [because] it has a broad base of rate-regulated outpatient services to which it can allocate its overhead costs.” (DI #29GF, p. 21). In contrast, BWMC and other hospitals that have moved “certain outpatient services to an unregulated setting,” have reduced the regulated outpatient services to which overhead cost can be allocated. Providing these outpatient services in a regulated setting, as AAMC will if its application is approved, can result in “higher charges to payers and patients, and is not the most cost effective way to deliver health care services.” (DI #29GF, pp. 21-22).

According to BWMC, the AAMC project will have a negative $5.8 million impact on the All-Payer Waiver Test because AAMC anticipates shifting cardiac surgery cases from DC hospitals. It states that this will have an “unfavorable impact on the requirement that Maryland maintain an annual limit on the all-payer total hospital revenue growth,” projected by BWMC to be in excess of $5.8 million in AAMC’s first two years of operation (DI #29GF, p. 22).

In commenting on the revised financial projections filed by AAMC on November 7, 2016 in response to my Project Status Conference request, BWMC criticizes AAMC’s reliance on shifting cardiac surgery cases from D.C. hospitals and the savings related to that shift, which BWMC finds to be “greatly overstated.” (DI #94GF, p. 22). BWMC also notes that some of the D.C. market shift may have already occurred or will soon occur as the PGHC program is revived (DI #94GF, p. 22). It points out that AAMC has provided no documentation to support its view that it is likely to obtain cases from Cardiology Associates, a practice owned by MedStar Health that currently refers cases to MedStar’s Washington Hospital Center, an interested party in this review (DI #94GF, pp. 22-23). BWMC states that the D.C. case shift projected by AAMC is undermined “by the experience of Suburban Hospital, a program developed in affiliation with JH Medicine, like the AAMC proposed program, and notes that HSCRC alluded to the Suburban experience as “instructive.” (DI #94GF, p. 23).

30 DI #22AA.
31 DI #90GF.
Comments on BWMC Application

AAMC Comments

AAMC contrasts the BWMC proposed project with its own proposal, noting BWMC’s much higher charge per case projection (approximately $52,000 at BWMC compared with $37,500 at AAMC, and states that the BWMC project with have little or no systems savings, with market shift savings involving UMMC and BWMC going “directly into UMMS pocket.” (DI #28GF, pp. 12-13).

AAMC claims that BWMC’s analysis of systems savings of $2.4 million is incorrect because it did not “apply the 50% volume cost factor” to its charges or the charges of other Maryland hospitals. AAMC’s analysis of BWMC’s proposal yields a savings estimate of only $129,000 with respect to Maryland hospitals and a net increase in spending for cardiac surgery of over $650,000 as a result of 30 cases projected by BWMC to shift from D.C. hospitals. Furthermore, AAMC claims that BWMC’s $2.4 million system savings figure was incorrectly calculated irrespective of the overstatement error, because it was based on multiplying hospital charges per revenue center by the relative value units per revenue center per case for BWMC’s case mix. AAMC states that, under the GBR system, a hospital’s allowable charge per case may be less than this product. AAMC states that the product of case mix-adjusted discharges and charge per case mix-adjusted discharge is the correct approach to calculating allowable charges (DI #28GF, pp. 13-14).

Responding to the BWMC’s August 2015 modification of its application, AAMC reiterated its focus on the greater cost savings of AAMC’s proposed program ($7.7 million is AAMC’s projection) when compared to BWMC’s proposed program ($3.5 million is cited by AAMC) (DI #46GF, p. 6). AAMC notes that projects drawing most its cases from D.C. hospitals as a major factor in this savings differential because D.C. hospitals will not retain any of the revenue lost when cases shift to AAMC. It points out that BWMC is primarily anticipating a shift from Maryland hospitals, which will retain half the revenue they would have received if the cases had not shifted.

AAMC also states that BWMC misapplied the rate center methodology in projecting AAMC’s cardiac surgery charge per case, and thus understated the superior savings that AAMC says is associated with its project (DI #46GF, p. 7).

Comments on Both Applications

MedStar Hospitals’ Comments

The MedStar Hospitals state that neither applicant demonstrated that its proposed project is more cost effective than providing the service through alternative existing facilities. They state that “maintaining the status quo” in respect to the supply of cardiac surgery programs is more cost effective, “since there is no need for any additional services, the cost to the health care system to add these new services is of no ‘benefit’” and the new programs would only add cost (DI #34GF, p. 14).
The MedStar Hospitals note that meeting higher levels of demand, if they occur, through higher use of existing facilities would be far less costly than creating a new program. Using “existing high-volume providers would clearly be more cost-efficient.” According to the MedStar Hospitals, the programs sought in these applications would “add cost to the system of existing providers, duplicate existing services, and stifle the opportunity of existing providers to achieve cost efficiencies in a shrinking market environment.” (DI #34GF, p. 14). They state that the Cardiac Surgery Chapter has a stated policy that

the public is best served if a limited number of hospitals provide specialized services to a substantial regional population base. This approach promotes both high quality care and an efficient scale of operation (DI #34GF, pp. 14-15).

Their view is that both projects would create “low, selective volume, cardiac surgery services … not intend[ed] to treat high-risk patients [and] would likely siphon lower risk patients away from existing providers, which may affect the existing providers’ cost-efficiency.” (DI #34GF, p. 15). Low volume programs such as those proposed would have difficult in achieving efficiencies. They cite a 2010 article that “indicates that health system costs could be reduced by $171 million annually if all patients who underwent CABG at low volume providers had instead chosen higher volume hospitals.” (DI #34GF, p. 15).

The MedStar Hospitals state that their Washington, D.C. and Baltimore cardiac surgery programs operate within a high volume system of care and are more likely to be cost-effective and have capacity to handle additional cases. They note that the Commission’s clinical advisory group recommended that the

regulation of cardiac surgery services should place greater emphasis on quality rather than on volume.” (See COMAR 10.24.17.05A(3) – Quality of Care). An essential component of quality is cost-effectiveness (DI #34GF, p. 15).

They argue that the cost savings claimed by the applicants should be disregarded because there has been no showing of need for either project and, thus, spending on these programs is unnecessary. They state that both applicants overestimate revenue and underestimate costs, primarily by not projecting sufficient staffing levels (DI #34GF, pp. 18-20).

The MedStar Hospitals “specifically … posit that AAMC would be focusing on simpler, less costly cardiac surgery patients. The high-cost patients would remain at the few existing providers with those capabilities, affecting their cost-efficiencies if they lose an undue proportion of patient volume for lower complexity procedures. There are no cost savings for the system, or for patients under this paradigm.” (DI #34GF, p. 29).

Applicants’ Responses to Comments

Anne Arundel Medical Center

AAMC states that BWMC and other interested parties have “not dented AAMC's case” for cost effectiveness. AAMC insists that its lower cost per case-mix-adjusted discharge (CMAD), compared to BWMC and to hospitals with cardiac surgery derives from AAMC's efficiency and commitment to cost effectiveness and is not derived from “spreading overhead costs to overused rate-regulated outpatient services, as claimed by BWMC.” (DI #34GF, p. 22). It states that the ratio of inpatient to outpatient hospital revenue is irrelevant. AAMC notes that HSCRC has adjusted the relative charge per CMAD of Maryland hospitals to account for relevant differences between hospitals (such as payer mix and medical education costs) and Medicare similarly derives a hospital's “Standard Rate” under the Inpatient Prospective Payment System. It points out that the level of a hospital's outpatient services is not used for this adjustment. It states that AAMC's efficiency is confirmed by overhead expense per licensed bed, noting that BWMC has overhead costs per bed that are 12.5% higher. (DI #45GF, p. 22).

According to AAMC, the impact of its program on the All-Payer Test is irrelevant. On the other hand, it notes that the Medicare Waiver Test remains unpredictable and that HSCRC cannot control Medicare expenditures on Maryland residents outside of Maryland or nationwide (DI #45GF, pp. 22-23).

AAMC contends that MedStar Hospitals citation of the Auerbach study is irrelevant. It states that the study’s findings are irrelevant to this review because of the volume of cases that AAMC will perform, noting that the study found savings would occur if the lowest volume hospitals (112 cases per year on average) shifted cases to higher volume hospitals. But it showed little savings would result from a shift of patients from the third highest or second highest volume hospitals to the highest volume hospitals (644 cases on average) (DI #45GF, p. 23).

AAMC notes that the MedStar Hospitals do not compare the charges for cardiac surgery at MedStar Washington Hospital Center to AAMC’s projected charges, suggesting that this means its cost saving analysis is correct. It also states that the MedStar Hospitals’ argument with respect to duplication of program cost mean that “a new competitor could never generate cost savings” and rejects this “logic.” (DI #45GF, pp. 23-24).

Baltimore Washington Medical Center

BWMC points to its August 2015 modification as showing that BWMC would not charge materially more than AAMC for each cardiac surgery case, about 2.5% by BWMC calculation. It explains by stating that “AAMC used the traditional ‘charge per case’ approach for estimating its charges, and BWMC used the ‘rate center’ approach. When the same approach is used for each applicant, the charges are similar (DI #42GF, p. 19). It adds that the comments made by CareFirst BlueCross BlueShield and by the City of Annapolis supporting the AAMC project relied on
“AAMC’s inaccurate comparison of cost effectiveness when identifying AAMC as a more cost effective provider.” (DI #42GF, p. 19).

**Reviewer’s Analysis and Findings**

AAMC defines the benefits of its proposed project as lower charges for cardiac surgery and improved availability and access to this service for its service area population. It has provided relevant information on how it will strive to build and maintain a program that will maintain high standards of quality performance, collaborating with The Johns Hopkins Hospital cardiac surgery program as a partner in the project and points to its track record in the provision of quality medical and surgical care. At the level of the health care system, it projects that initiating a cardiac surgery program as proposed will reduce expenses for cardiac surgery in Maryland.

BWMC also defines the benefits of its proposed project as lower charges for cardiac surgery and improved availability and access to this service for its service area population. It argues that its new program, when integrated with that of UMMC, will allow for a more efficient operating model for the delivery of cardiac surgery within UMMS, resulting in overall savings in the delivery of cardiac surgery at the health system level. BWMC also maintains that it can, through the combined resources and experience of UMMS, UMMC, and BWMC, develop a cardiac surgery program of high quality.

Each applicant has questioned the assumptions and methods made by the other applicant with respect to utilization, calculation of revenues and expenses, and calculation of net benefit to the health care system, the latter primarily in terms of the dollar savings associated with the other applicants proposed project. My assessment is that each has arrived at a similar end point in the somewhat iterative process of this review. Both have identified system savings that are relatively modest, in the context of the overall level of spending in Maryland for cardiac surgery. Both AAMC and BWMC offer a demonstration that, in terms of hospital expenditures necessary to perform cardiac surgery in Maryland and D.C., if case volume is redistributed in the manner they project, the benefit of reduced overall hospital expenditures will exceed the cost to the health care system created by the new programs. The estimated capital costs of the projects is modest, about $2.5 million for the AAMC project and $1.26 million for the BWMC project. Both hospitals employ the HSCRC payment model to project revenue redistribution within hospital global budget revenues as a basis for the demonstration of this aspect of reduced cost as a benefit of their respective projects. After establishing this base for a positive finding on this standard, the other benefits for patients in terms of travel time access and continuity of care, while less quantified, are assumed to build the strength of the case.

MedStar Hospitals is the only interested party that directly addresses cost effectiveness or, in the specific terms of the standard, the relationship between cost and benefits of the projects. MedStar Hospital’s comments describe a relationship between charges, costs, and a delivery system with additional programs and a redistribution of case volume that does not address the specific payment model for Maryland hospitals. Thus, the paradigm MedStar Hospitals puts forward is highly focused on added costs and MedStar Hospitals does not take a position on how average charges will fall if the applicants’ redistribution scenarios unfold as envisioned. In this view, adding programs, of necessity, means adding costs to the delivery of a service that MedStar Hospitals projects to be declining, as does the SHP. More importantly, MedStar Hospitals states
that more case volume can be serviced by the existing programs at lower costs, given the effect of economies of scale. From this perspective, there are no savings to be achieved in system costs by either project, both of which will primarily redistribute less complex cases to the applicant hospitals, increasing the unit cost of the existing programs, left with a higher acuity case mix that is smaller, in total.

These MedStar Hospitals comments are highly conventional economic observations but they fail to give the important attention needed to the Maryland payment model and how it comes into play. Both AAMC and BWMC have projected that their cost base will increase if they add cardiac surgery services but that their GBR caps will not sufficiently expand as a result of adding this service to cover these additional expenses. Revenue provided by cardiac surgery will decline at existing hospitals but, for Maryland hospitals, the payment model will soften this blow. MedStar Hospitals suggests that higher average case acuity, which will occur as part of the redistribution of cases, will bar meaningful reductions by these existing hospitals in their expenditure base for cardiac surgery, a position that I find to be unpersuasive. These hospitals may be unable to reduce their cardiac surgery expenses as volume declines to a level that fully offsets their revenue losses resulting from lower volume, but again, higher unit costs will not automatically mean proportionally higher charges at Maryland hospitals and charges matter to a degree that MedStar Hospitals does not recognize in its comments. The applicants have put forth a case that allows for the possibility that higher overall spending can occur if the number of cardiac surgery programs expands but that charges to patients and payers will be lower due to the Maryland payment model. Higher spending for the delivery of cardiac surgery services will obviously occur at any new program approved. Hospitals losing case volume as a result of the new program will reduce their spending for the delivery of cardiac surgery services, but these reductions may not offset the increase in spending at the new program and, under the payment model, these hospitals will continue to obtain part of the revenue associated with this lost case volume. Thus, overall system spending for the delivery of cardiac surgery may increase. However, the new cardiac surgery program will be charging less for the cases that would have otherwise been performed at the higher charge existing program and, thus, overall system charges will decrease. Isolating only on cardiac surgery production cost and charges, one can view this transaction as one in which both existing and new programs are experiencing lower overall profit margins but patients and payers are obtaining the benefit of lower charges. If quality of care can be maintained under such a scenario and the hospitals involved are strong enough to support the cardiac surgery operations with the revenues they take in while also reliably generating excess revenue over expenses, this charge reduction is difficult to dismiss as a system benefit, as MedStar Hospitals does.

MedStar Hospitals asserts that there is no need for additional cardiac surgery programs that can be demonstrated and does not recognize any benefit associated with reductions in travel time and expense worthy of consideration. I find that reductions in travel time will be beneficial for patients and their families but, for this service and the limitations that are rightfully imposed by applicable regulations on the supply of cardiac surgery programs, I do not believe the improvements in access are a benefit that would offset a scenario of no system saving of reduced charges or the likelihood that case volumes would fall to unacceptably low levels. The main problem with the MedStar Hospitals comments is that they do not recognize the need for reduced hospital charges or recognize the ability of AAMC or BWMC to charge less for cardiac surgery than most of the affected hospitals as a tangible system benefit.
With respect to the specific requirements of this standard, subparagraph (a) is not applicable. No new construction has been proposed by AAMC or BWMC.

AAMC has provided an analysis of how the cost of cardiac surgery services for cardiac surgery patients in its proposed service area and for the health care system will change as a result of the proposed cardiac surgery program, based on its analysis of service area demand and its assumptions about the market share it will achieve. As previously noted, it projects that its project will achieve system savings of $7.7 million. [A more in-depth discussion of systems savings follows in the Recommended Decision in my consideration of the Financial Feasibility standard, COMAR 10.24.17.05A(7).] I believe this projection may be optimistic, given that AAMC projects a higher case volume than I have found to be likely. However, I have found that AAMC can establish a cardiac surgery program that is large enough to meet the requirements of the SHP and will produce system savings commensurate with that case volume.

AAMC has also provided an analysis of how the establishment of its proposed cardiac surgery program will alter the effectiveness of cardiac surgery services for cardiac surgery patients in its proposed service area and quantified the change in effectiveness to the extent possible. It has explained the steps it will take to maintain the quality of cardiac surgery care, which will involve the use of experienced surgeons and perfusionists currently providing cardiac surgery services at Johns Hopkins Hospital. It has provided information on improved access and reduced travel time for cardiac surgery for persons in the AAMC service area, including areas of the Eastern Shore, associated with its project.

For these reasons, I find that the AAMC project complies with this standard. It has demonstrated that the benefits of its proposed cardiac surgery program to the health care system as a whole are likely to exceed the cost to the health care system.

BWMC has also provided an analysis of how the cost of cardiac surgery services for cardiac surgery patients in its proposed service area and for the health care system will change as a result of the proposed cardiac surgery program, based on its analysis of service area demand and its assumptions about the market share it will achieve. As previously noted, it projects that its project will achieve system savings of $1.9 million. [A more in-depth discussion of systems savings follows in the Recommended Decision in my consideration of the Financial Feasibility standard, COMAR 10.24.17.05A(7).]

BWMC has also provided an analysis of how the establishment of its proposed cardiac surgery program will alter the effectiveness of cardiac surgery services for cardiac surgery patients in its proposed service area and quantified the change in effectiveness to the extent possible. It has explained the steps it will take to maintain the quality of cardiac surgery care, which will involve the use of experienced surgeons and perfusionists currently providing cardiac surgery services at UMMC. It has provided information on the manner in which access could improve for cardiac surgery patients in the BWMC service area if its project is implemented, but has not taken the position that these improvements justify its project.
However, as previously discussed in this Recommended Decision, I have not found that BWMC has demonstrated that it can establish a cardiac surgery program large enough to meet the Minimum Case Volume requirements of the State Health Plan, especially if AAMC’s proposed project, which is likely to meet the Minimum Volume Standard, is approved. Coupled with the more modest BWMC projection of system savings, predicated on reaching higher volumes than I have found to be likely, I am compelled to find that BWMC has not proposed a project that complies with this standard. It has not demonstrated that the benefits of its proposed cardiac surgery program to the health care system, as a whole, are likely to exceed the cost to the health care system.

I recommend that the following two conditions be placed on any approval granted to the AAMC project. These are commitments that I asked for and received from the applicant and JHH. It is my hope that they will improve the chances that an AAMC cardiac program will be cost effective.

The Johns Hopkins Hospital will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has, as any part of its basis, the lost revenue generated by cardiac surgery services that have shifted to Anne Arundel Medical Center.

Anne Arundel Medical Center will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has, as any part of its basis, the objective of obtaining additional revenue from the provision of cardiac surgery services.

(5) Access.

(a) An applicant that seeks to justify establishment of cardiac surgery services, in whole or in part, based on inadequate access to cardiac surgery services in a health planning region shall:
   (i) Demonstrate that access barriers exist; and
   (ii) Present a detailed plan for addressing such barriers.

(b) Closure of an existing program, in and of itself, is not sufficient to demonstrate the need to establish a new or replacement cardiac surgery program.

Applicants’ Responses

Anne Arundel Medical Center

AAMC states that its proposed cardiac surgery program will improve access for nearly 900,000 adults residing in Anne Arundel County and the surrounding area (DI #3AA, pp. 110-128). It states that this will improve the continuity of care, minimize the need for patient transfers during acute episodes, bring JHH surgeons clinical capabilities closer to this same population, and provide lower cost cardiac surgery.

AAMC frames the access problem under the following headings. I have summarized the key points made by AAMC.
Anne Arundel County and the Eastern Shore

Anne Arundel County has an approximate population of 550,000 and accounts for more than 500 adult cardiac surgery cases, but neither of its two hospitals provide cardiac surgery. The cases generated by its residents can support a cardiac surgery program. For Anne Arundel County’s population, the average drive time to a hospital providing cardiac surgery is up to 40 minutes in normal traffic. Because the county does not have a program, travel time for many residents of the four Eastern Shore Counties AAMC has included in its service area may be more than one hour (DI #3AA, p. 110).

AAMC’s growth in cardiac care and care management

AAMC has one of the largest cardiac care and PCI programs in Maryland. In CY 2013, it performed more than 150 emergency PCI procedures and more than 240 elective PCI procedures. In 2014, it performed more than 1,000 cardiac catheterization procedures. In providing PCI services, it has performed well, with strong performance in shortening door-to-balloon time and achieving good outcomes and quality of care scores.

AAMC describes its cardiac service programming as constituting a broad continuum of services, including non-invasive and invasive diagnostic services, PCI, electrophysiology, surgical and non-surgical vascular procedures, and cardiac disease management, with advanced clinical services and high volume originating across eight jurisdictions. In this context, it describes cardiac surgery as the missing component of the continuum. Not having this component results in disjointed care management and delays in care. (DI #3AA, p. 111).

AAMC’s service area accountability

AAMC states that its GBR (global budget revenue) agreement with HSCRC makes it accountable for approximately 1.1 million residents living in eight different counties in Maryland. (It was clarified as part of this review that this statement refers to the service area defined for AAMC by HSCRC as a basis for updating its GBR for demographic changes.) (DI #3AA, p. 111 and DI #12AA, p. 4).

AAMC argues that being responsibly accountable to this population requires that it provide cardiac surgery services that are lower cost and closer to its service area population and will support better outcomes, efficient delivery of care, and better care management for a large population.

AAMC presents “evidence” of inadequate access (DI#3AA, pp. 112-115) under the following five headings. I have summarized the key points made by AAMC.

Delays in hospital to hospital transfers

AAMC identified 162 patients transferred from AAMC in FY 2014 for cardiac surgery, valve surgery, or immediate evaluation for surgery. It states that some transfers involved significant delays. Most delays involved transfer to Washington, D.C. hospitals and were related
to insurance coverage of the patient or lack of available beds at the receiving hospital. Self-pay patient transfers were delayed by reviews of the patient’s ability to pay or non-acceptance of the patient’s insurance plan.

**Travel time for the Mid-Shore**

AAMC states that more than 80% of cardiac surgery patients from the four Mid-Shore counties it includes in its service area traveled an hour or more to obtain this service, with most traveling to Baltimore (45%) and most of the balance traveling to D.C. hospitals (37%).

AAMC cited a 2014 journal article linking longer travel time for cardiac surgery in Pennsylvania to poorer clinical outcomes. The research, as explained by AAMC (DI #8AA, p. 27), found a mortality rate of 1.9% for patients living within ten miles of a cardiac surgery hospital and a mortality rate of 2.2% for patients living beyond ten miles of the cardiac surgery hospital. (The median distance for the closer patients was 8.8 miles and, for the more distant patients, 23.3 miles and only hospitals with 30 or more cardiac surgery cases were included in the study.)

**Mortality rates and episodes of care**

AAMC states that the State Health Plan’s assessment that “geographic access to cardiac surgery is not a problem” is narrowly based on the single trip made to obtain surgery. But a typical episode of care for a cardiac surgery patient may require post-surgical travel to the surgery hospital for consultation and follow-up clinical care that may best be provided by the team at that hospital. Thus, longer travel times and the disadvantages associated with them can be amplified for some patients. Under this heading, AAMC again referenced the Pennsylvania study noted in the preceding paragraph.

**Post-Discharge care**

Under this heading, AAMC extended its discussion of the need to think about access in terms of episodes of care, noting that emergent post-surgical complications may require a lengthy emergency transport to a distant cardiac surgery hospital. It suggests that the episode encompasses pre-operative education, follow-up care and care management. Having all of the services provided in an episode at one location reduces travel time and improves care coordination and the potential for effective care management.

**Underserved communities**

AAMC characterizes its service area population as one in which demand for cardiac surgery is growing, unlike the pattern seen in other parts of Maryland and one that has an increasing

34 “Unlike emergency PCI services, quick access to cardiac surgery and elective PCI services is not essential. One additional cardiac surgery program has been established in Maryland in the past decade and nine additional elective PCI programs have been established, while the volume of both cardiac surgery and PCI have steadily declined, for over ten years in the case of cardiac surgery, and for seven years in the case of PCI. Geographic access to cardiac surgery services and elective PCI is not a problem in Maryland, with respect to patient travel time or survival.” COMAR 10.24.17.03, p. 11.

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population at risk for heart disease. It also argues that it has serious disparities in health status and access for African Americans. It reviews selected health status and use statistics for Anne Arundel County, highlighting the worse health status indicators for African Americans. AAMC believes these factors provide further justification for approval of its proposed cardiac surgery program.

With respect to subparagraph (a)(ii) of this standard, establishing a cardiac surgery program is the AAMC plan for addressing access barriers and it recites the benefits that will come with implementation of this plan. These include more immediate access to care. It notes that, because of the All-Payer system in Maryland, patients will not experience the delays in care seen in Washington, D.C. hospitals, which have “disincentives” to serve self-pay patients without an ability to pay for care. (DI #3AA, p. 116). It also states that access will be broadened to new treatment modes and new clinical care protocols as a result of the proposed project implemented in collaboration with JH Medicine. The AAMC program will allow for an integrated continuum of care and strengthen care management. The hospital also states that it will “promote efforts to deploy specialists and improve local access to specialty services.” (DI #3AA, p. 116). The project will provide improved access to lower cost cardiac surgery, with average payment per case estimated to be 40% less at AAMC than the average payment at MedStar WHC (approximately $23,000 less) and 45% less than the average payment at the two Baltimore academic medical centers (about $30,000 less). Finally, AAMC puts forward a quantification of travel time reductions, stating that it will reduce travel time to cardiac surgery by more than 20 minutes for 180,000 adults. It provides an analysis and maps in support of its conclusion.

Baltimore Washington Medical Center

BWMC states that this standard is not applicable to its proposed project.35

Interested Party and Participating Entity Comments

No comments on either applicant’s compliance with this standard were filed by interested party Anne Arundel County Department of Health, by interested party LifeBridge Health, or by participating entity Anne Arundel County.

Comments on AAMC Application

BWMC Comments

BWMC states that AAMC’s proposed project cannot be justified on the basis of inadequate access to cardiac surgery services because MHCC has not recognized geographic access as a problem in the SHP. Cardiac surgery is usually elective and not urgent. The AAMC case relies on improving geographic access but has not identified other significant access barriers (DI #29GF, pp. 22-26).

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35 This standard only requires a response from “an applicant that seeks to justify establishment of cardiac surgery services, in whole or in part, based on inadequate access to cardiac surgery services in a health planning region.”
BWMC states that its program will have the important benefit of making cardiac surgery services more conveniently accessible but the current level of inconvenience experienced in Anne Arundel County does not rise to the level of an access barrier. It states that UMMS, with its multiple sites of service and, in particular, its Eastern Shore hospitals and affiliated clinicians, is better positioned to improve the continuum of care in the region through the proposed BWMC project than AAMC, with its single campus location in Annapolis.

BWMC argues that the gains in access that the AAMC project may afford could have the effect of reducing access for Prince George’s County by threatening the revival of the program at PGHC. It characterizes this trade-off as one that would provide improved access primarily to “more affluent residents of Anne Arundel County” at the risk of “negative impact on the access of minority and lower income residents in neighboring Prince George’s County.” (DI #29GF, p. 25).

**Comments on BWMC Application**

*AAMC Comments*

AAMC did not address BWMC’s compliance with this standard.

**Comments on Both Applications**

*MedStar Hospitals Comments*

MedStar Hospitals state that AAMC is claiming that access barriers to cardiac surgery exist because its project cannot be justified on the basis of unmet need (DI #34GF, pp. 10-14 and 29-30). MedStar Hospitals claim that the SHP’s conclusions on geographic access mean that there is no need for additional cardiac surgery programs to address geographic barriers to access.

MedStar Hospitals characterize the applicants’ arguments as ones that show their projects would “enhance” access but no demonstration of a barrier to access has been made. MedStar Hospitals note that BWMC does not claim that barriers exist.

With respect to AAMC’s use of this standard, MedStar Hospitals argue that “burdensome” travel times such as those identified for the Eastern Shore would be unacceptable for outpatient and primary care but this is not the case with cardiac surgery, as supported by the SHP. (DI #34GF, p. 11) MedStar Hospitals claim that the Pennsylvania study cited by AAMC does not show a significant relationship between travel time and mortality at the travel time reductions achievable through implementation of the proposed projects and also notes that the author did not claim that the research necessarily supports a “policy goal” of creating new programs to reduce access because of the benefits associated with higher program case volume.

MedStar Hospitals also challenge AAMC’s claims of transfer delays for cardiac surgery as a meaningful indicator of access barriers to the service. They note that the transfer agreement between AAMC and MedStar WHC has been in place since 2005, is renewed annually and that both hospitals, under the terms of the agreement, can raise issues with respect to its operation but no complaints by AAMC have been received by MedStar WHC. MedStar Hospitals claim that its
review of the cases described by AAMC in its application revealed that MedStar’s records on these cases did not match the narrative provided by AAMC. MedStar Hospitals also state the MedStar WHC’s policy is to accept transfers for cardiac surgery regardless of the patient’s insurance status. MedStar Hospitals note that more difficult cases would still be transferred, even if an AAMC program was developed (DI #34GF, p. 13).

**Applicants’ Responses to Comments**

Anne Arundel Medical Center

AAMC defends its claim that travel time is an access barrier that this standard supports as a justification for establishing a cardiac surgery program in Annapolis. It begins its response with a more detailed review of three cases involving patients who experienced refusal or delay in receiving what AAMC considers timely cardiac surgery services. (DI #45GF, pp. 12-18) In the first case, a patient experienced a delay related to insurance status review by MedStar and AAMC refutes the claim, made by MedStar in its comments, that the CON application was the first time it had any complaint with respect to this case. Affidavits by AAMC staff involved in the case are provided. In the second case, AAMC said that transfer was refused by MedStar WHC, contrary to the terms of the transfer agreement and AAMC notes that this refusal is why MedStar has no record of problems arising from this case. In the third case, according to AAMC, a delay of two days occurred because MedStar WHC stated it had no bed available.

AAMC refutes the claims by BWMC, MedStar, and LifeBridge that the SHP establishes that travel time cannot be a barrier to access that serves to legitimately justify a new cardiac surgery program. It claims that the statement concerning geographic access in the SHP speaks to Maryland, in general, and does not prohibit consideration of this access factor in a particular hospital case. It notes that its analysis of the longer travel times required for its service area population have not been contested but only the importance of these travel times has been disputed by the interested parties.

It states that the travel times it has documented are not a matter of convenience, as described by LifeBridge, but have serious negative consequences, referencing the Chou study and arguing that MedStar has incorrectly interpreted its findings. AAMC claims that the study shows that a 15-mile difference in travel distance can be associated with a 15% difference in the cardiac surgery mortality rate. It also claims that the policy inferences drawn by MedStar are not valid given the context of the study. Pennsylvania abandoned CON regulation and saw a proliferation of cardiac surgery programs, many of which have low volume. This does not mirror the Maryland experience and AAMC is not arguing that improving access should be pursued at any cost, only that it is an issue that supports the single new program it has proposed.

Baltimore Washington Medical Center

BWMC states that, while this standard is not applicable in its case, BWMC is a location that will provide better geographic access than the AAMC program because of the network of facilities and services provided within UMMS. (DI # 42GF, p. 27).
Reviewer’s Analysis and Findings

AAMC seeks to justify establishment of cardiac surgery services based on inadequate access to cardiac surgery services in a health planning region. It has defined a service area for its proposed cardiac surgery program that is primarily located in the Baltimore/Upper Shore health planning region but includes portion of two jurisdictions, Prince George’s and Calvert County, that are located in the Washington Metro region. The standard requires that AAMC demonstrate the access barriers exist and presentation of a detailed plan for addressing such barriers.

No closure of an existing cardiac surgery program plays any role in AAMC’s attempt to demonstrate the need to establish its proposed new service as a means for overcoming access barriers to cardiac surgery.

The primary access barrier identified by AAMC is travel distance and consequent travel time to cardiac surgery and this is outlined in AAMC filings as a barrier for some residents of Anne Arundel County and all residents of the four Eastern Shore jurisdictions it has included in its defined service area for cardiac surgery. Its application implies that a travel time of 40 minutes or more is burdensome and should be viewed as an access barrier. This is a travel time that some residents of Anne Arundel County would experience under normal driving conditions and that more would be likely to experience during times of high traffic and traffic congestion, a regular occurrence in the core of the Washington and Baltimore metropolitan areas, the primary destinations for AAMC’s defined service area population seeking cardiac surgery services. AAMC draws special attention to the Eastern Shore counties, where many residents would experience travel times of one hour or more to the Baltimore or District of Columbia area programs currently in operation. AAMC’s Annapolis location would serve to reduce the travel time for many of these Eastern Shore residents by 40 minutes to an hour or slightly more, depending on traffic conditions.

AAMC has also described delays in patient transfers for cardiac surgery under this standard. Because it is a large hospital that does not have a cardiac surgery program but does provide a substantial volume of cardiac diagnostic services, it is regularly involved in arranging for the transfer of patients who have an urgent need for cardiac surgery services. In these cases, it would appear that AAMC is experiencing a problem that any hospital that does not provide cardiac surgery would encounter. About 79% of Maryland’s general hospitals do not provide cardiac surgery but most would not encounter as many transferring patients as AAMC because of their smaller size. While all hospitals undoubtedly seek to make such transfers as “seamless” as possible, trying to avoid delays and complications, it is probably impossible to avoid some delay in patient transfers. In this case, AAMC has identified specific issues with transfer of patients to D.C.’s primary provider of adult cardiac surgery, MedStar WHC, as the primary source of delayed transfers.

Some interested parties have objected to geographic access as a justification for a new cardiac surgery program because of the clear indications in the State Health Plan that achieving a uniform level of relatively short travel times for cardiac surgery in Maryland is not an objective that should be pursued, given that it would, of necessity, require establishment of more programs that would make it more difficult to maintain the desired case volumes per program. As the interested parties point out, limiting the supply of programs, or “regionalization” of this service, is
believed to have benefits, in terms of better outcomes, that should be weighed against the benefits accruing from shorter travel times. In the case of cardiac surgery, which is not typically provided on an emergency basis, these interested parties advocate for a greater weight to be assigned to limiting the supply of programs. The decline in cardiac surgery case volume seen in recent years reinforces this view.

One interested party, Anne Arundel County’s Department of Health, and Anne Arundel County, a participating entity, highlight travel time and distance in their comments that support approval of one or both of the proposed new programs. The City of Annapolis’s comment also make this case in support of the AAMC project. CareFirst BlueCross Blue Shield also supports approval of the AAMC project and notes that it will improve access to care in the health planning region.

I find that AAMC has not demonstrated that travel distance and travel time or delays in patient transfers are an access barrier that can serve, in whole, as a primary justification for the project. While many residents of Anne Arundel and the Eastern Shore counties in the Baltimore/Upper Shore region are required to travel longer to a hospital with cardiac surgery services than most residents of the health planning region, the consequences and costs for most of these cases are not sufficiently burdensome that they require preeminent consideration in a decision to approve this project.

I do find that travel distance and travel time can serve, in part, as a secondary justification for the proposed AAMC project. When one realistically considers the general hospitals in Maryland that do not provide cardiac surgery services but have the size and capabilities that make them credible candidates for consideration as providers of this service, AAMC would rank first among these hospitals as a new site for cardiac surgery that would have the greatest potential for reducing travel time and distance for the service. I am persuaded by AAMC’s arguments that this reduction in travel time can produce tangible benefits in terms of more timely service and better coordinated care and care management. Given the clarity of the State Health Plan on this matter, improvements in access of the type obtainable through either of these proposed projects cannot be a primary justification but needs to be considered in the context of the complete picture.

BWMC did not seek to justify its establishment of cardiac surgery services based on inadequate access to cardiac surgery services in a health planning region.

.05A(6), Need.
(a) An applicant shall demonstrate that a new or relocated program can generate at least 200 open heart surgery cases per year based on projected demand for open heart surgery by the population in its proposed service area and an analysis of the market share that the applicant expects to capture for each zip code area in the proposed service area. An applicant shall demonstrate the reasonableness of the assumptions relied upon in defining its proposed service area.
(b) An applicant’s need analysis for a new or relocated program shall account for the utilization trends in the most recent published utilization projections of open heart surgery cases in Regulation .10 for:
   (i) The health planning region in which the applicant hospital is located; and
(ii) Any other health planning regions from which it projects drawing, or from which available evidence indicates that it will draw, 20 percent or more of its patients.

(c) An applicant’s need analysis for a new program shall include current information about the number of patients referred for open heart surgery following a diagnostic cardiac catheterization at the applicant hospital and address how this information supports the applicant’s demonstration that the proposed new program can generate at least 200 open heart surgery cases per year.

(d) Closure of an existing program, in and of itself, is not sufficient to demonstrate the need to establish a new or replacement program.

Applicants’ Responses

Anne Arundel Medical Center

AAMC states that forecasted population growth and change, as well as forecasted use of cardiac surgery by its service area population were the basis for its projections that it would serve at least 200 cardiac surgery patients per year, consistent with paragraph (a) of this standard. It also states that the market share assumptions it applied to its service area are evidence-based. (DI #3AA, p. 129).

AAMC describes its relevant service area as the geographic area from which 90% of its PCI patients are currently drawn. Its service area for cardiac surgery services includes: Anne Arundel (its primary service area); four Eastern Shore counties - Caroline, Kent, Queen Anne’s, and Talbot (its secondary service area); and portions of Calvert and Prince George’s County (the “GBR segment,” so-called because these zip code areas are “assigned to AAMC through it GBR agreement with HSCRC). AAMC states that this area was defined on the basis of geographic access concerns, high rates of outmigration, utilization of high cost hospitals, and “proximity to AAMC and demonstrated utilization of AAMC, particularly PCI services.” (DI #3AA, p. 130).

AAMC notes that the core sub-region of its total service area, Anne Arundel and the four Eastern Shore jurisdictions, accounts for approximately 80% of the medical cardiology and PCI volume at AAMC. It states that this five county sub-region “represents a distinct market within the much larger Baltimore Upper Shore region of “high need.” AAMC presents information and analyses showing that this sub-region: (1) is older; (2) has seen cardiac surgery use rates decline less steeply in the Eastern Shore counties (a decline of about one percent between 2008 and 2013, as compared to 3.25% for the region); (3) is likely to produce a steady demand for cardiac surgery in coming years; (4) is likely to see a shift in demand from its Eastern Shore counties to the Baltimore Upper Shore region hospitals and away from Washington, D.C. hospitals; and (5) has a base of AAMC-affiliated physicians in this five-county sub-region. AAMC states that it has 29 cardiologists on staff practicing in Anne Arundel County and one cardiologist on staff practicing in Kent County and Queen Anne’s County. (DI #3AA, pp. 132-33).

AAMC’s analysis and projection model assumes that the five-county region generated 691 of the total region’s 2,631 adult cardiac surgery cases in 2013 (26.2% of total) and will generate 669 of the region’s projected 2,313 cases in 2018 (28.9%). AAMC reports that, in 2013, about 30% of the cardiac surgery cases originating in the five-county area obtained this service at
MedStar WHC compared with 8.3% of the cardiac surgery cases originating in the Baltimore Upper Shore Region overall. (DI #3AA, p. 133).

AAMC also states that it has two cardiologists on its medical staff practicing in the Metropolitan Washington, D.C. region, an area that accounts for 15% of its medical cardiology discharges. The 23 Prince George’s County and Calvert County zip code areas included in its defined service area receive outreach programming that will grow in intensity under its GBR contract. (DI #3AA, p. 134).

AAMC profiles its defined service area: about 65% of AAMC’s representative patient population of PCI patients, medical cardiology patients, and inpatients transferred for cardiac surgery originate in Anne Arundel; 13.2% originate from the secondary service area of the Eastern Shore; and 5.8% originated from the GBR segments of Prince George’s and Calvert, leaving about 10% migrating to AAMC from outside the defined service area. The service area is estimated by AAMC to have seen a decline in its cardiac surgery use rate from 128.1 per 100,000 adults in 2008 to 109.3 in 2013. AMC projects this use rate to decline to 96.7 per 100,000 adults by 2019, generating 883 cardiac surgery cases in that year.

AAMC notes that its and JHH’s clinicians do not believe the continuing decline in use of cardiac surgery assumed in the model is likely. It cites two factors: (1) use rates appear to be “plateauing,” suggesting that the rate of decline seen in the last decade will not continue; and (2), changes in technology associated with less invasive procedures are likely to expand the surgical candidate pool among older adults, pushing the use rate up. AAMC estimates that MedStar WHC has the largest cardiac surgery market share in its defined service area (36%), followed by UMMC (28%), and JHH (17%). Among other interested party hospitals, MedStar Union Memorial was ranked fourth, at 7.5%, Sinai had a market share of 1.3%, and PGHC has a market share of 0.3%. (DI #3AA, pp. 135-138).

AAMC estimates that, in 2013, it had a 24% market share of all adult discharges, excluding cardiac surgery, in the defined service area, a 19% share of adult medical cardiology cases, and about 22% of adult inpatient PCI cases. It identifies its base of cardiologists as being largely represented by six cardiology practices with a total of 26 cardiologists. It states that each has expressed support for its proposed cardiac surgery program. It also attributes its current favorable position in the market and identifies as a harbinger of future success, AAMC’s “outreach/case identification initiatives.” These include its programs regarding: hypertension awareness; diabetes self-management; screenings; and heart health programs for high-risk individuals. It projects that it will be able to achieve a 25% market share of cardiac surgery in the first year of operation and expand its share to 40% by Year 3. (DI #3AA, pp. 139-140).

AAMC reviews steps, data, and assumptions that it has used under what it labels as two separate but supporting analyses; a “practice-based referral estimate” and a “transfers/referrals of AAMC hospital patients + market share growth” analysis. (DI #3AA, p. 142). In brief, AAMC, in the first analysis, notes that it had discussions with the previously noted affiliated cardiology practices and, based on this survey, projects an ability to attract 50% to 90% of the referrals from these practices, generating 272 to 312 cardiac surgery cases in the first three years of operation. (DI #3AA, p. 143).
In the second AAMC-centered analysis, the hospital addresses patients currently transferred from AAMC for cardiac surgery and JHH patients originating in the service area, net of “the currently transferred.” (DI #3AA, p. 144). It projects these two cohorts will produce 219 patients by Year 3. It projects another 155 patients from: further market share growth originating in the referral base of cardiologists (i.e., net of the first two cohorts of transfers from AMMC and purposefully shifted JHH patients); the synergistic effects of having cardiac surgery on AAMC’s chronic heart disease and PCI patient base, which will stimulate further growth in cardiac surgery referrals; and continued growth in market share on the Eastern Shore. Thirteen patients are projected to come from beyond the defined service area in Year 3. Thus, AAMC states that both approaches support its case projections. With respect to paragraph (c) of this standard, AAMC notes that, in the context of its second analysis, in FY 2014, cardiologists at AAMC referred 75 outpatients for cardiac surgery or valve surgery, following an outpatient diagnostic cardiac catheterization at AAMC. AAMC offers support for the quality of its market share assumptions by stating that transfers and referrals from AAMC for cardiac surgery establish a base 19% market share (DI #3AA, p. 149). It cites the projected shift of JHH cases in its service area that will add an additional four to five percent. It notes that the additional referrals expected on the basis of its survey of cardiologists add another projected three percent. Additional market share is less explicitly sourced. AAMC states that PCI “patients and clinicians are more likely to select AAMC as the provider of choice when cardiac surgery back-up is provided on site” and being a “full-service” hospital will add to its cardiac surgery market share (DI #3AA, p. 150). AAMC also cites its estimated 2013 market share of joint replacement and bariatric surgery in the overall adult market, 41% and 32% respectively, as supporting its cardiac surgery market share assumptions.

Baltimore Washington Medical Center

BWMC responds to this standard by referring to its response to the first cardiac surgery project review standard, Standard .05A(1), Minimum Volume. In responding to that standard, it projected reaching a case volume exceeding 200 in the second year of operation. It notes that it defined a service area fully located within the Baltimore Upper Shore region as a basis for its projections and assumed declining utilization, consistent with the most recently published MHCC projections, and paragraph (b) of the standard.

BWMC reports that, in fiscal year 2013, it performed 1,003 diagnostic cardiac catheterizations, with 133 of these patients referred for coronary artery bypass surgery, and that, in 2014, it performed 979 diagnostic cardiac catheterizations, with 145 of these patients referred for coronary artery bypass surgery. It states that this information corroborates its assessment of the “significant number of patients in the UM BWMC service area who need cardiac care and surgery”.

36 AAMC also notes that, in CY 2014, it performed 1,052 diagnostic cardiac catheterization procedures and that, in the last 7 months of 2014, 11.4% of those catheterizations resulted in cardiac surgery. It translates this into 120 cardiac surgery cases per year.

37 See discussion at Section __ of this Recommended Decision, supra, p. __.

38 See paragraph (c) of the standard.
would choose to be treated locally at BWMC.” It states that “these data corroborate UM BWMC’s assessment that there are significant numbers of patients in the UM BWMC service area who need cardiac care and would choose to be treated locally at UM BWMC.” (DI #2BW, p. 60). It also refers to letters of support submitted with the application.

**Interested Party and Participating Entity Comments**

No comments on either applicant’s compliance with this standard were filed by any interested party or participating entity with the exception of MedStar Hospitals.\(^{39}\)

**Comments on Both Applications**

**MedStar Hospitals Comments**

The MedStar Hospitals provide a single thread of comments on both this specific cardiac surgery need standard and the Need criterion, COMAR 10.24.01.08G(3)(b). (DI #34GF, p. 5). They state that each applicant failed to demonstrate an unmet need of the population for its proposed cardiac surgery service. The MedStar Hospitals also claim that “the SHP does not establish a methodology for determining the need for a new program in the state of Maryland” and that this standard describes no unmet need.\(^{40}\)

**Applicants’ Responses to Interested Party and Participating Entity Comments**

**Anne Arundel Medical Center**

AAMC states that the MedStar Hospitals’ assertion that the Cardiac Surgery Chapter does not establish a methodology for determining need is false. (DI #45GF, p. 4). Rather, AAMC concludes that the Chapter establishes a standard of need for new programs that an applicant demonstrate an ability to generate a least 200 cardiac surgery cases per year. AAMC states that the Chapter provides specific guidance on how this test is to be met, including accounting for utilization trends and patient referrals. AAMC states that the notion of excess capacity cited by the MedStar Hospitals does not appear in the Chapter, which “reflects the balance sought by the Commission between adequate access and adequate volumes at each program.” (DI #45GF, p. 4).

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\(^{39}\) Other interested parties did comment on COMAR 10.24.17.05A(1), the Minimum Volume standard, a related standard.

\(^{40}\) Because the MedStar Hospitals commented on need in their discussion of each applicant’s compliance with the Need criterion, COMAR 10.24.01.08G(3), Section __-__ of this Recommended Decision, infra, p. __, rather than on this standard, I will cover the bulk of the MedStar Hospitals’ comments regarding need under that criterion. Also, the MedStar Hospitals discuss the reasons why need cannot and has not been demonstrated by either application, but they do not specifically address the specifics of this standard in their comments on project need. Instead, they touch more directly on this standard in in their critique of the applicants’ case volume projections in comments on the Minimum Volume standard, COMAR 10.24.17.05A(1), discussed in Section __-__ of this Recommended Decision, supra, p. __.
BWMC refutes the MedStar Hospitals’ claim made that the Cardiac Surgery Chapter does not provide an applicable need analysis and states that it has appropriately established need under this standard, which BWMC states is the applicable Need standard of the SHP. It notes that the Chapter does not require an applicant to address existing capacity and rejects the MedStar Hospitals’ approach to claiming that there is sufficient cardiac surgery capacity as one that has no basis in regulation. (DI #42GF, pp. 2-4).

In its response to comments, BWMC reviews the analysis and assumptions it used to project an ability to perform 200 cardiac surgery cases per year (a direct response to the first project review standard, Minimum Volume, but relevant to this standard as well.) It notes its compliance with this standard’s requirements that it account for the utilization trends in the most recent published utilization projections of open heart surgery cases in its volume projections and states that it accounted for the cardiac surgery candidates being identified through diagnostic cardiac catheterizations at BWMC in its volume analysis.

**Reviewer’s Analysis and Findings**

This standard is related to the Minimum Volume Standard, and there is also a much more general Need criterion, COMAR 10.24.01.08G(3)(b) that must be addressed by all CON applicants. Paragraph (a) of this standard builds on the simple quantitative statement of minimally required adult program case volume found in the Minimum Volume standard, directing the applicant to: undertake a service area analysis at the zip code area level; analyze market share that will be needed in the service area to hit the case volume minimum; and explain why its service area assumptions are reasonable. Both standards direct an applicant to account for the SHP’s forecast of cardiac surgery volume. This standard adds an additional requirement – to identify the number of cardiac surgery candidates being identified by an applicant hospital in its diagnostic cardiac catheterization work and address how it supports the applicant’s case volume projection.

The applicants and the interested parties that addressed this standard tended to address these two standards and the general criterion together, and there are not clear and distinct divisions in the comments and responses to comments among these standards and the criterion. I have tried to organize and present these interwoven filings of the applicants and interested parties in this Recommended Decision to address the two standards and the single criterion separately using the conventional format that is typically used in recommended decisions, but there is a great deal of overlap in the filed material. I have tried to avoid large amounts of repetition in this Recommended Decision, so it is necessary for the reader to review the Minimum Volume standard, COMAR 10.24.17.05A(1), the Need standard, COMAR 10.24.17.05A(6), and the Need criterion, COMAR 10.24.01.08G(3)(b), in order to get a fuller and more integrated review of the need issues.

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41 See Section __ of this Recommended Decision, supra, pp._-_.
42 See Section __ of this Recommended Decision, supra, pp._-_.
43 See Section __ of this Recommended Decision, supra, pp._-_.
I have found that AAMC demonstrated that its proposed program can generate at least 200 open heart surgery cases per year from its proposed service area. I found AAMC’s analysis of market share to be questionable. AAMC defined a large service area that has a basis in the observed medical/surgical service area that it has commanded in recent years but goes beyond the relevance levels typically used in defining a hospital service area. Reaching a 40% market share of this extensive service area would be an exceptionally high level of success that should be tempered in considering this standard. However, AAMC’s overly aggressive assumption is used to generate a projection approaching 400 cases within three years. My analysis of a smaller service area observed at AAMC, its MSGA service area at 85% relevance, indicates that AAMC can reach a 200-case-per-annum level by performing in line with the market share experience of existing suburban community hospitals.\(^4^4\) Its partnership with JH Medicine provides an additional level of confidence that it will be able to reach this use level. For these reasons, I find that the AAMC project complies with subparagraph (a) of this standard. AAMC also satisfies subparagraph (b) because its projection model incorporates an assumption of declining demand in cardiac surgery.

AAMC, in response to subparagraph (c), provided current information about the number of patients referred for open heart surgery following a diagnostic cardiac catheterization at AAMC. It noted “clinician estimates” that 80% of surgical referrals generated by diagnostic catheterizations of this patient population were a component of its case volume projection. The most recent information it provided, for a partial year 2014, showed that 11.4% of its diagnostic cardiac catheterization procedures led to a cardiac surgery referral, or approximately 120 cases per year. I find that AAMC’s proposed cardiac surgery program complies with subparagraph (c) of the standard.

Subparagraph (d) of this standard is not applicable because no cardiac surgery program has closed in Maryland.

BWMC did not demonstrate that its proposed program can generate at least 200 open heart surgery cases per year from its proposed service area. For BWMC to be able to do so would require an exceptional level of penetration of its market and an even higher level of market share in the alternative service area definition that I used to test both applicants’ demand assessments, i.e., the observed MSGA service area providing 85% of MSGA discharges by order of frequency.\(^4^5\) BWMC’s system affiliation with UMMC is clearly a factor that could potentially provide the means for overcoming this organic service area weakness if, in collaboration with clinicians, it could shift large amounts of clinicians’ caseload from UMMC to the new suburban program, producing a very high BWMC market share. However, my analysis shows that this collaborative support would need to be much stronger in the case of BWMC than the support that would be required of JHH for the proposed AAMC project. This results primarily from AAMC’s larger service area. Furthermore, AAMC has locational advantages over BWMC with respect to service area and market share. AAMC’s location in Annapolis gives it more upside potential for shifting cases from two metropolitan areas, Baltimore and the District of Columbia, while BWMC is much more anchored in the Baltimore market.

Subparagraph (b) of this standard is satisfied by BWMC’s demand assessment. BWMC assigned corroborative value to the information it provided on cardiac surgery cases identified through its diagnostic cardiac catheterization program (subparagraph (c) of the standard) but did not indicate what assumption it would make with respect to how many of these cases would obtain surgery at BWMC, if that service were available.

With respect to the most direct comments from the applicants and the MedStar Hospitals regarding either this standard or the Minimum Volume standard, I noted in my consideration of the Minimum Volume standard that legitimate questions were raised concerning the forecast models used by both applicants. I questioned both applicants’ market share assumptions and reexamined case volumes that could be expected based on more conservative assumptions concerning service areas and market penetration.

AAMC’s forecast holds up even when the most critical components of its forecast model, its service area definition and market share assumptions, are tested. The same cannot be said of the BWMC forecast.

I find that the AAMC proposed cardiac surgery program has met this standard.

I find that the BWMC proposed cardiac surgery program does not meet this standard.

(7) Financial feasibility.
A proposed new or relocated cardiac surgery program shall be financially feasible and shall not jeopardize the financial viability of the hospital.

(a) Financial projections filed as part of a Certificate of Need application shall be accompanied by a statement containing each assumption used to develop the projections.

(b) An applicant shall document that:

(i) Its utilization projections for cardiac surgery are consistent with observed historic trends in the use of cardiac surgery by the population in the applicant’s proposed service area;

(ii) Its revenue estimates for cardiac surgery are consistent with utilization projections and account for current charge levels, rates of reimbursement, contractual adjustments and discounts, bad debt, and charity care provision, for cardiac surgery, as experienced by similar hospitals;

(iii) Its staffing and overall expense projections for cardiac surgery are based on current expenditure levels and are consistent with utilization projections and with reasonably anticipated future staffing levels as experienced by the applicant hospital, or, if applicable, the recent experience of similar hospitals; and

(iv) Within three years or less of initiating a new or relocated cardiac surgery program, it will generate excess revenues over total expenses for cardiac surgery, if utilization forecasts are achieved for cardiac surgery services.
Applicants’ Responses

Anne Arundel Medical Center

AAMC states that the proposed project is financially feasible and is projected to generate a positive margin by the second year of operation. (DI #3AA, p. 160). Regarding its volume projections, AAMC states that it projected its cardiac surgery discharges based on projected use rates for its defined service area and that these projections were based on its target market share for cardiac surgery in the defined service area. (DI #3AA, p. 161) It noted that it addressed the bases for this projection. This was discussed earlier in this report under the Minimum Volume standard. (see discussion regarding COMAR 10.24.17.05A(1), supra, pp. 16-18, and Table 14 below) AAMC states that its projections are consistent with the utilization trends that follow.

Regarding volume growth in its service area, AAMC notes that, between CY2012-2013, adult cardiac surgery volume in each of the sub-regions of its services area grew, reflecting population growth, the aging of the population, and the plateauing” of cardiac surgery use rates. AAMC concludes that adult cardiac surgery cases grew 15% in Anne Arundel County, 37% in the four Mid-Shore counties, and 17% in the Prince George’s County and Calvert County zip code areas included in its defined service area, for an overall service area growth rate of 20%.

AAMC states that its volume projections are based on the assumption that there will be less migration of patients to MedStar WHC because patients and their physician, as well as payers, will prefer cardiac surgery services that are closer to home, with access to cardiac surgeons from Johns Hopkins, as well as the greater affordability of AAMC’s program.

AAMC states that, as a “fundamental premise,” the mix of cases at AAMC will be comparable to the FY 2014 profile at other Maryland community hospitals (nonacademic medical centers) that provide cardiac surgery. (DI #3AA, pp. 161-162). This resulted in AAMC’s average length of stay assumption of 8.5 days and a case mix intensity assumption of 3.42.

<table>
<thead>
<tr>
<th>Table 14: AAMC: Projected Cardiac Surgery Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedure Type</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Cardiac Valve</td>
</tr>
<tr>
<td>Coronary Bypass</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

AAMC projects an average daily census for its cardiac surgery program of 5.7 surgical patients in the first year of operation, increasing to 9.0 patients by Year 3. (DI #3AA, Appendix 1, Table 1) Based on its review of recent cardiac surgery transfers from AAMC to other hospitals, AAMC projects that 74% of its projected cases would, without its cardiac surgery program, otherwise be transferred from AAMC to other hospitals for cardiac surgery. (DI #3AA, p. 162)

AAMC states that its projected charge-per-case for cardiac surgery is derived from its average charge-per-case at a case mix intensity of 1.0 ($10,962) and the average case mix intensity at community hospital open heart surgery providers (3.4209), yielding a projected charge per case of $37,501. (DI #3AA, p. 162) AAMC reduced its projected incremental revenue to account for
the impact of cases currently transferred from AAMC to other hospitals, cases that it expects to remain at AAMC and convert to cardiac surgery cases at the hospital.

AAMC’s initial 2015 revenue projections\(^46\) assume that its GBR would be adjusted for incremental volume related to the project (incremental cardiac surgery revenue less transfer cases) at an 85% variable cost factor for the first three years of the project. AAMC estimated deductions from revenue to be 15.3% based on the hospital’s actual experience for regulated services year-to-date in FY 2015. These deductions include uncompensated care, contractual allowances, and assessment payments. Projected net operational results were projected as shown in Table __-__ below.

### Table 15: AAMC: Projected Operating Revenue, Total Operating Expenses, and Net Income from Cardiac Surgery Operations and Total Operations

<table>
<thead>
<tr>
<th>Uninflated 2015 Dollars</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiac Surgery Program Operation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross patient services revenue</td>
<td>$6,618,453</td>
<td>$9,669,525</td>
<td>$11,225,855</td>
</tr>
<tr>
<td>Net patient services revenue</td>
<td>$5,440,821</td>
<td>$8,025,976</td>
<td>$9,345,110</td>
</tr>
<tr>
<td>Net operating revenue</td>
<td>$5,440,821</td>
<td>$8,025,976</td>
<td>$9,345,110</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$6,945,043</td>
<td>$8,010,222</td>
<td>$8,473,780</td>
</tr>
<tr>
<td>Income from operations</td>
<td>($1,504,222)</td>
<td>$15,755</td>
<td>$871,330</td>
</tr>
<tr>
<td><strong>All AAMC Operations ($000s)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross patient services revenue</td>
<td>$558,860</td>
<td>$561,911</td>
<td>$563,468</td>
</tr>
<tr>
<td>Net patient services revenue</td>
<td>$473,160</td>
<td>$475,745</td>
<td>$477,064</td>
</tr>
<tr>
<td>Net operating revenue</td>
<td>$503,317</td>
<td>$505,902</td>
<td>$507,221</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$472,194</td>
<td>$469,003</td>
<td>$465,561</td>
</tr>
<tr>
<td>Income from operations</td>
<td>$31,123</td>
<td>$36,899</td>
<td>$41,660</td>
</tr>
</tbody>
</table>

Source: DI #3AA, Appendix 1, Tables G and J

AAMC states that its clinicians and administrators developed staffing models for its project by looking to community hospital cardiac surgery programs in Maryland and considering “benchmark information” provided by its consultants.

### Table 16: AAMC: Staffing of Proposed Program

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management</strong></td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Direct Care</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physician Assistant</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Registered Nurses</td>
<td>18.0</td>
<td>20.6</td>
<td>21.7</td>
</tr>
<tr>
<td><strong>Support Staff</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical</td>
<td>10.2</td>
<td>11.5</td>
<td>12.3</td>
</tr>
<tr>
<td>Professional</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>30.4</td>
<td>34.2</td>
<td>36.2</td>
</tr>
</tbody>
</table>

Source: DI #3AA, p. 163

\(^46\)AAMC’s 2015 original revenue projections were revised in its November 7, 2016 modification that was filed after the October 27, 2016 project status conference. (DI #22AA; DI #90GF). For purposes of clarity I note, at this point in my description of AAMC’s response to this standard, that AAMC’s original 2015 assumption allowed for a larger revenue expectation for AAMC than the policy later articulated by HSCRC with respect to treatment of variable costs in 2015 and how shifts in service volume among Maryland hospitals would be recognized by HSCRC in hospital global budget revenue. AAMC later acknowledged (see comments and responses to comments later in this part of my Recommended Decision) but also believed that the payment model, which was still under development, provided HSCRC with the flexibility to recognize alternatives to the 50% variable cost treatment in allowing hospitals to develop new services feasibly.
AAMC states that it relied on its current salary and benefit structure to project staffing expenses and notes that its partner, Johns Hopkins Hospital, is projected to provide cardiac surgeon and perfusionist coverage for the new service. (DI #3AA, p. 163).

AAMC plans to pay for the project with cash reserves. The approximate capital expenditure will add annual depreciation expenses related to renovation ($451,000 over 20 years) and equipment (about $2.05 million over seven years) totaling $315,319. (DI #3AA, p. 164). AAMC notes that in 2015, it had a positive operating margin and was projected to maintain a positive operating margin in the first year of operation, when it projected an operating loss from cardiac surgery operations, and throughout the projection period. (DI #3AA, p. 164).

**HSCRC Comments, Project Status Conference, and AAMC Modification to Application**

On July 15, 2016, I requested that HSCRC staff review each applicant’s financial projections and comment on the financial feasibility of each hospital’s proposal and the reasonableness of each hospital’s assumptions. (DI #64GF). On August 24, 2016, HCSRC staff provided comments on AAMC’s 2015 application, stating that,

under the current HSCRC policy for market shift changes of Maryland residents, hospitals with increased volumes that are taken from other Maryland hospitals are allowed to retain 50% of the revenue associated with the additional volume” [and specifically noted that “AAMC’s assumption that it would be able to retain 85% of the cardiac surgery revenue [associated with Maryland residents] is contrary to HSCRC policy on market shifts ….”] (DI #68, pp. 1-2).

HSCRC staff concluded that “AAMC has other sources of revenue to apply to the project and, therefore, we do not believe a change in this assumption would impact the feasibility of the new program.” HSCRC staff stated that

AAMC and BWMC could deliver cardiac surgery volumes with the increases in revenue under the new payment model using the resources that are provided in the system, including the population adjustment, capacity from reduced avoidable utilization, and reallocation of overhead already funded in the system as evidenced in each hospital’s profits to cover the difference between marginal cost and fully allocated costs that includes existing overhead. However, this would require a commitment from the hospitals to avoid seeking a rate increase in a separate action. (DI #68, pp. 2-3).

I asked AAMC to revise its revenue projections to conform with what HSCRC clearly stated in August 2016 is the correct approach to modeling revenue gains from market shifts of Maryland residents between hospitals and I also asked both applicants for the commitment that HSCRC viewed, in the comments it provided, as a requirement if the financial performance scenarios and overall systems savings outlined by the applicants were to be realized. I also requested that each applicant’s partner/collaborating hospital make similar commitments not to seek adjustments in its global budget revenue aimed at offsetting any revenue loss associated with the shift of cardiac surgery cases to its partner applicant hospital. (DI #69GF). In response, AAMC
and JHH provided the requested commitment not to seek adjustments in global budgeted revenue related to cardiac surgery services. (DI #75GF). AAMC also provided revised pro forma schedules of revenues and expenses, which I subsequently struck from the record of this review prior to holding a project status conference (DI #77GF).

At the October 27, 2016 project status conference, I requested that AAMC modify its application by revising its 2015 revenue projections in accordance with HSCRC’s 2016 guidance. (DI #90GF). The final set of pro forma projected revenue and expense projections submitted by AAMC are summarized in Table 17 below. (DI #22AA). AAMC presents two alternative sets of revenue and expense projections from cardiac surgery operations. The first it labels as “direct revenues and expenses to be generated by AAMC’s proposed cardiac surgery service, as a service line, from billable charges.” AAMC states that this version “lists the projected income derived from charges to patients and payers for cardiac surgery at AAMC, comparing it to the direct costs of the program.” (DI #22AA, p. 2).

The second schedule, labeled in Table 17 below as “retained revenues, expenses, and income” is described by AAMC as a schedule that “ascribes to AAMC’s proposed cardiac surgery service only the revenue AAMC expects to retain, as a facility, as a result of the service line revenue generated by AAMC’s proposed cardiac surgery service [and] discounts the service line revenue generated by AAMC’s proposed cardiac surgery service by 50%.” (DI #22AA, pp. 2-3). As AAMC notes, this schedule is provided “pursuant to the HSCRC market shift adjustment policy's 50% variable cost factor, rather than 85%.” (DI #22AA, p. 7).

Table 17: AAMC: November 2016 Revised Revenue and Expense Projections, Cardiac Surgery Operations and Overall Operations

<table>
<thead>
<tr>
<th>Uninflated 2015 Dollars</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct revenues, expenses, and income from cardiac surgery operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue from inpatient cardiac surgery services</td>
<td>$7,557,221</td>
<td>$11,147,964</td>
<td>$12,980,221</td>
</tr>
<tr>
<td>Gross patient services revenue</td>
<td>7,557,221</td>
<td>11,147,964</td>
<td>12,980,221</td>
</tr>
<tr>
<td>Net patient service revenue</td>
<td>6,400,966</td>
<td>9,442,326</td>
<td>10,994,247</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>6,945,043</td>
<td>8,010,222</td>
<td>8,473,780</td>
</tr>
<tr>
<td>Net income from operations</td>
<td>($544,076)</td>
<td>$1,432,104</td>
<td>$2,520,467</td>
</tr>
</tbody>
</table>

| Retained revenues, expenses, and income from cardiac surgery operations |
| Revenue from inpatient cardiac surgery services | $3,778,611 | $5,573,982 | $6,490,110 |
| Gross patient services revenue | 3,778,611 | 5,573,982 | 6,490,110 |
| Net patient service revenue | 3,200,483 | 4,721,163 | 5,497,124 |
| Total operating expenses | 6,945,043 | 8,010,222 | 8,473,780 |
| Net income from operations | ($3,744,559) | ($1,432,104) | ($2,520,467) |

<table>
<thead>
<tr>
<th>All AAMC operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net patient service revenue</td>
</tr>
<tr>
<td>Other operating revenue</td>
</tr>
<tr>
<td>Net operating revenue</td>
</tr>
<tr>
<td>Total operating expenses</td>
</tr>
<tr>
<td>Net income from operations</td>
</tr>
</tbody>
</table>

Source: DI #22AA, Tables G, J1 and J2

Along with the revised set of schedules in its November 2016 modifications, AAMC addresses this standard, in the context of these changes, as I requested at the project status conference. AAMC reiterates that “HSCRC will permit allocation of certain future adjustments
to AAMC’s global revenue [including] the ‘population adjustment [and] capacity from reduced avoidable utilization.” (DI #22AA, p. 8). AAMC equates the operating margin it generates from its overall operations with HSCRC’s August 24, 2016 memo to me referencing “re-allocation of overhead already funded in the system.” (DI #22AA, p. 8). AAMC notes that its projection in Year 2 of a negative $3,289,059 budget impact resulting from its cardiac surgery program is the equivalent of approximately 0.65% of AAMC’s FY 2018 revenue ($502,597,216). (DI #22AA, p. 8).

AAMC recommends that, in analyzing financial feasibility, the Commission accept AAMC’s “direct” revenue scenario for the following reasons: (1) the financial feasibility standard “distinguishes between the viability of the project itself, and the impact of the project on the hospital as a whole;” (2) the philosophy of the State Health Plan is to consider each project on its own merits; and (3) AAMC’s view is sensible, given that HSCRC has found its project to be financially feasible under the GBR model (DI #22AA, p. 9).

AAMC notes that its operating margin of $54.3 million is larger than the projected difference between the expenses of its proposed service and its projected budget increase associated with cardiac surgery (-$3.3 million). On this basis, it argues that the Commission should adopt the view that the project is financially feasible under either the GBR Budget methodology or as a proposed project standing alone (DI #22GF, p. 11).

Baltimore Washington Medical Center

BWMC states that its proposed cardiac surgery program would not, as a stand-alone program, achieve excess revenue over total expenses within three years (DI #2BW, p. 61). The applicant explains that,

under the Global Budget Revenue agreements between the HSCRC and most Maryland hospitals, it is not possible to achieve financial feasibility of a new stand-alone cardiac surgery program because revenue can only be achieved through market share adjustments and certain other adjustments to revenue (DI #2BW, p. 61).

BWMC notes that the proposed program is financially feasible when viewed “as a new location in the larger cardiac surgery program managed by the UM Division of Cardiac Surgery.” Analyzing the “combination of the proposed program with the existing cardiac surgery program at UMMC,” BWMC states that “the combined program would be financially feasible immediately.” (DI #2BW, p. 61).
### Table 18: BWMC: Projected Operating Revenue, Total Operating Expenses, and Net Income from Cardiac Surgery Operations and Total Operations

<table>
<thead>
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</thead>
<tbody>
<tr>
<td><strong>Cardiac Surgery Program Operation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross patient services revenue</td>
<td>$1,703,238</td>
<td>$4,132,446</td>
<td>$4,615,868</td>
<td>$5,035,243</td>
<td>$5,334,357</td>
<td>$5,459,251</td>
</tr>
<tr>
<td>Net patient services revenue</td>
<td>$1,544,837</td>
<td>$3,748,129</td>
<td>$4,186,592</td>
<td>$4,566,965</td>
<td>$4,838,262</td>
<td>$4,951,540</td>
</tr>
<tr>
<td>Net operating revenue</td>
<td>$1,544,837</td>
<td>$3,748,129</td>
<td>$4,186,592</td>
<td>$4,566,965</td>
<td>$4,838,262</td>
<td>$4,951,540</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$2,943,376</td>
<td>$5,568,759</td>
<td>$6,072,257</td>
<td>$6,533,798</td>
<td>$6,827,505</td>
<td>$6,845,491</td>
</tr>
<tr>
<td>Income from operations</td>
<td>$(1,398,539)</td>
<td>$(1,820,630)</td>
<td>$(1,885,665)</td>
<td>$(1,966,833)</td>
<td>$(1,989,243)</td>
<td>$(1,893,950)</td>
</tr>
<tr>
<td><strong>All BWMC Operations ($000s)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross patient services revenue</td>
<td>$438,290</td>
<td>$442,201</td>
<td>$445,922</td>
<td>$449,626</td>
<td>$453,255</td>
<td>NA</td>
</tr>
<tr>
<td>Net patient services revenue</td>
<td>$358,179</td>
<td>$361,593</td>
<td>$364,677</td>
<td>$367,740</td>
<td>$370,730</td>
<td>NA</td>
</tr>
<tr>
<td>Net operating revenue</td>
<td>$361,068</td>
<td>$364,510</td>
<td>$367,624</td>
<td>$370,716</td>
<td>$373,736</td>
<td>NA</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$348,692</td>
<td>$355,424</td>
<td>$358,985</td>
<td>$361,249</td>
<td>$363,685</td>
<td>NA</td>
</tr>
<tr>
<td>Income from operations</td>
<td>$12,375</td>
<td>$9,086</td>
<td>$8,638</td>
<td>$9,467</td>
<td>$10,052</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: March 30, 2015 Responses to Completeness Questions, (DI #6BW)

BWMC’s analysis reflects its operational view of a single cardiac surgery program operating at the two UMMS hospitals. It assumes an FY 2016 through FY 2021 projection of cases shifting from UMMC to BWMC that ranges from 64 in the first year to 150 cases by Year 6 of operation (with peak shift projected at 157 cases in FY 2019, or Year 4). See Table 19 below, which shows BWMC’s analysis that the program will result in a “net system improvement” ranging from approximately $700,000 to $770,000 in the second through sixth year of program operation at BWMC.

### Table 19: BWMC: Summary Financial Feasibility Analysis of Combined UMMC Cardiac Surgery Program and Proposed Cardiac Surgery Program (millions of $)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UMMC cases</td>
<td>1.289</td>
<td>1.255</td>
<td>1.222</td>
<td>1.191</td>
<td>1.164</td>
</tr>
<tr>
<td>UMMC operating margin</td>
<td>$39.86</td>
<td>$38.80</td>
<td>$37.78</td>
<td>$36.82</td>
<td>$35.99</td>
</tr>
<tr>
<td>UMMC case shift (Cases shifted from UMMC to BWMC)</td>
<td>64</td>
<td>145</td>
<td>151</td>
<td>157</td>
<td>154</td>
</tr>
<tr>
<td>Net revenue shift</td>
<td>$1.18</td>
<td>$2.69</td>
<td>$2.83</td>
<td>$2.93</td>
<td>$2.86</td>
</tr>
<tr>
<td>UMMC direct expense savings</td>
<td>$2.77</td>
<td>$5.27</td>
<td>$5.46</td>
<td>$5.65</td>
<td>$5.55</td>
</tr>
<tr>
<td>UMMC operating margin after shift</td>
<td>$41.45</td>
<td>$41.39</td>
<td>$40.42</td>
<td>$39.53</td>
<td>$38.68</td>
</tr>
<tr>
<td>BWMC net operating margin</td>
<td>($1.40)</td>
<td>($1.82)</td>
<td>($1.89)</td>
<td>($1.97)</td>
<td>($1.99)</td>
</tr>
<tr>
<td>System operating margin (UMMC post shift margin minus BWMC net operating margin)</td>
<td>$40.05</td>
<td>$39.57</td>
<td>$38.53</td>
<td>$37.57</td>
<td>$36.69</td>
</tr>
<tr>
<td>Net system improvement (system operating margin minus pre-case shift UMMC operating margin)</td>
<td>$0.19</td>
<td>$0.77</td>
<td>$0.75</td>
<td>$0.75</td>
<td>$0.70</td>
</tr>
</tbody>
</table>

Source: DI #2BW, p. 62, Table 7.
BWMC projects higher operating margins at UMMC after cases shift to BWMC, identifying the key components of this net system improvement as deriving from “operating room labor savings” (62% of projected improvement in Year 6), “labor savings from productivity” (32%), and “drug and supply savings” (4%). (DI #2BW, Table 7, p. 62).

BWMC’s 2015 application notes that “no specific policies or procedures have been published by the HSCRC that allow for a definitive analysis of revenue shifts as the result of volume movement between hospitals under the new GBR system.” (DI #2BW, p. 62). BWMC assumed in its analysis that: (1) revenue associated with volume shifting to BWMC from UMMC will be treated differently than volume coming from other hospitals in Maryland; (2) revenue associated with volume moving from UMMC to BWMC will remain within UMMS; (3) revenue associated with non-UMMS hospitals in Maryland will be treated as a market shift, with revenue recognized at BWMC at 50% of its then-current charges; (4) revenue associated with volume coming from D.C. hospitals will be recognized at BWMC at 50% of FY 2014 statewide average case rate; and (5) movement of volume from UMMC to BWMC will result in a decrease in direct costs at UMMC and a corresponding increase in direct costs at BWMC to support those cases, with BWMC having a lower length of stay and more efficient staffing (DI #2BW, pp. 62-63).

In completeness review, MHCC staff asked BWMC to provide more information regarding its assumption of cost reductions at UMMC as cases shift to BWMC (DI #5BW). The applicant stated that UMMC would operate with two fewer cardiac surgery teams when 150 cardiac surgery cases move to BWMC. It anticipates that this reduction in cardiac surgery cases will allow an internal shift of non-cardiac surgery cases being performed in the four cardiac surgery ORs to other rooms, presumably allowing a concentration of cardiac surgery in fewer ORs with more efficient staffing (DI #6, pp. 18-19).

As previously noted, BWMC projects that it will perform an average of 243 cardiac surgery cases between FY 2017 (its second year of operation) and FY 2021, and that an average of 151 of those cases would otherwise have been performed at UMMC. (see BWMC’s response to the Minimum Volume standard, supra, pp 18-190. BWMC projects an average daily census of 4.9 surgical patients in the second year of operation, increasing to 6.5 patients by 2021 as a result of the new program, with an average length of stay assumption of 7.8 days (DI #2BW, Exhibit 1, Table 1).

**BWMC’s Modified Application**

In July 2015, BWMC modified its application to include a commitment that BWMC and UMMC would accept 50% revenue variability for cardiac surgery cases shifted from UMMC to BWMC (DI#17BW, p. 1). It noted that the global budget agreement between the University of Maryland Medical System and HSCRC “permits revenue to be redistributed among UMMS affiliated hospitals without applying a revenue variability factor.” BWMC states that this modification makes its proposal to introduce cardiac surgery more cost effective and financially feasible. It presented a revised financial feasibility analysis, summarized in the Table 20 below.
Table 20: BWMC: Revisions to Summary Financial Feasibility Analysis of Combined UMMC Cardiac Surgery Program and Proposed BWMC Cardiac Surgery Program (millions of $)

<table>
<thead>
<tr>
<th>FY</th>
<th>FY</th>
<th>FY</th>
<th>FY</th>
<th>FY</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>UMMC cases</td>
<td>1.289</td>
<td>1.255</td>
<td>1.222</td>
<td>1.191</td>
<td>1.164</td>
</tr>
<tr>
<td>UMMC operating margin</td>
<td>$39.86</td>
<td>$38.80</td>
<td>$37.78</td>
<td>$36.82</td>
<td>$35.99</td>
</tr>
<tr>
<td>UMMC cases shift to BWMC</td>
<td>64</td>
<td>145</td>
<td>151</td>
<td>157</td>
<td>154</td>
</tr>
<tr>
<td>Net UMMS revenue shift</td>
<td>($0.93)</td>
<td>($2.10)</td>
<td>($2.19)</td>
<td>($2.27)</td>
<td>($2.23)</td>
</tr>
<tr>
<td>UMMC direct expense savings</td>
<td>$2.53</td>
<td>$4.74</td>
<td>$4.90</td>
<td>$5.07</td>
<td>$4.98</td>
</tr>
<tr>
<td>UMMC operating margin after shift</td>
<td>$40.18</td>
<td>$38.51</td>
<td>$37.44</td>
<td>$36.44</td>
<td>$35.63</td>
</tr>
<tr>
<td>BWMC operating margin</td>
<td>($1.40)</td>
<td>($1.82)</td>
<td>($1.89)</td>
<td>($1.97)</td>
<td>($1.99)</td>
</tr>
<tr>
<td>UMMS operating margin (UMMC post shift margin minus BWMC net operating margin)</td>
<td>$38.78</td>
<td>$36.69</td>
<td>$35.56</td>
<td>$34.47</td>
<td>$33.64</td>
</tr>
</tbody>
</table>

Source: DI #17BW, p. 8, Table 30.

BWMC states that “the UM Division of Cardiac Surgery, inclusive of UM BWMC, is financially feasible, yielding excess revenue over expenses in the range of $33 million - $38 million for the projected FY 2016 - FY 2021.” (DI #17BW, p. 9).

In October 2016, BWMC and UMMC, like AAMC and JHH, responded to my October 5, 2016 request that each commit not to approach HSCRC in the future to request an increase in global budgeted revenue that has, as any part of its basis, the objective of obtaining additional revenue related to changes in its provision of cardiac surgery services. (DI#76GF).

Interested Party and Participating Entity Comments

Three interested parties, Anne Arundel County Health Department, Dimensions, and LifeBridge, as well as participating entity Anne Arundel County, did not specifically address this standard in their comments.

Comments on AAMC Original Application

BWMC Comments

In response to AAMC’s 2015 application, BWMC states that AAMC’s proposal does not comply with this standard because its revenue projections are invalid, noting that “HSCRC finalized a policy for market shift adjustments to revenue on July 17, 2015 that uses a 50% revenue variability factor for incremental volumes.” (DI #29GF, pp. 27) BWMC provides an analysis of how application of the correct market shift adjustment would change AAMC’s revenue projections and result in losses from operation of the cardiac surgery program at AAMC ranging from $2.97 to $3.79 million in the first three years. (DI #29GF, p. 28).

BWMC also provided a “break-even” analysis of AAMC’s proposed cardiac surgery program that it claims shows that, using the correct variable cost factor to project revenues, the AAMC program can never be financially feasible on a stand-alone basis. BWMC states that the total number of cases needed for AAMC’s program to break even is 1,600 cases, nearly twice the number of cases that BWMC states are generated by the AAMC service area. (DI #29GF, p. 28).
Comments on BWMC Original Application

AAMC Comments

AAMC states that the BWMC application does not show that BWMC will have a sustainable cardiac surgery program, citing the losses projected by BWMC. AAMC notes that this is the result of BWMC’s revenue model that does not assume, as the AAMC model did in its application, that HSCRC would “permit a cardiac surgery program in Anne Arundel County to increase revenue at a level equivalent to 85% of charges rather than the new 50% variable cost factor for market shift adjustments.” (DI#28GF, p. 15).

AAMC also notes that BWMC likely overstated savings at UMMC, pointing out that savings resulting from the expected reduction of two cardiac OR teams at UMMC are not properly attributable to the proposed BWMC project. (DI #28GF, p. 15).

Regarding BWMC’s proposed staffing, AAMC states that BWMC may have overestimated its ability to achieve reductions in personnel expenses, suggesting that BWMC places too much reliance on current UMMC personnel performing “equivalent roles” at BWMC. i.e., a part-time perfusionist director, shared perfusionists among BWMC and two other UMMS programs, obtaining support and training from UMMC cardiac nurses, and contracted coverage with UMMS surgeons. (DI #28GF, p. 16).

AAMC also contends that BWMC’s project cost should include the $5.2 million it will use to replace three ORs because that expenditure is necessary to accommodate the cardiac surgery program. In this regard, AAMC suggests that BWMC may have under-projected surgical case times, making the case that additional OR capacity of appropriate size will be needed. (DI #28GF, pp. 16-17).

AAMC states that BWMC also failed to account for a projected decline in revenue proportional to BWMC’s projected reduction in charity care expenses, consistent with HSCRC rules. (DI #28GF, p. 18).

Comments on Both Original Applications

MedStar Hospitals

The MedStar hospitals state that neither application complies with this standard. (DI #34GF, p. 30) They state that neither has demonstrated revenue generation that exceeds expenses and BWMC explicitly stated this was the case, on a stand-alone basis. They claim that this failure is the result of unrealistic utilization and revenue projections (too high) and expense estimates (too low), based on incomplete analysis of staffing needs. The MedStar Health hospitals state that neither application disclosed “the true costs of a fully functioning cardiac surgery program” staffing costs of the proposed cardiac surgery programs are unknown (DI #34GF, p. 19) and staffing is not adequate to meet accreditation standards. (DI #34GF, p. 20).
Comments on AAMC Modified Application

As previously noted, after receipt of HSCRC staff’s comments (DI #68GF), I convened a project status conference and asked AAMC to modify its application by filing revised revenue and expense projections conforming with HSCRC’s current policy on changes in hospital volume resulting from shifts in market share and how those shifts would affect global budget revenue. (DI #90GF). Comments on AAMC’s modifications were filed by BWMC, the MedStar Hospitals, and Dimensions.47

BWMC Comments

BWMC reiterates its original position that AAMC’s application does not comply with this standard and states that the revised projections have not changed this fact. (DI #94GF, pp. 1-2). It notes that the proposed AAMC program will not generate excess revenue over expenses, as required by the Chapter. It states that AAMC made false claims in its October 17, 2016 filing of revised financial projections when it claimed that the revised projections and the original projections were “substantively” the same and that AAMC contradicted itself by claiming that it had “only added an additional revenue line to show that a portion of revenue was attributable to ‘reallocated revenue’ from other resources provided in the system” (DI #94GF, p. 5) while also admitting that its earlier projections assumed a variable cost factor of 85% as a basis for adjusting its GBR for incremental volume. BWMC states that AAMC’s November 7, 2016 filing contained a revenue and expense projection that was not consistent with my request at the Project Status Conference48 because it “portrays revenue as equal to billable charges.” (DI #94GF, p. 6). BWMC contends that AAMC’s second set of projections49 did comply with my instructions and demonstrates the failure of AAMC to meet the financial feasibility standard.

BWMC rejects what it characterizes as AAMC’s call for reinterpretation of the standard as “referring to billable charges rather than revenue,” noting that the standard became effective in 2014, after the initiation of the new hospital payment model and thus, MHCC “recognized the change to hospital revenue calculations” when the standard was adopted (DI #94GF, p. 6). BWMC goes on to observe that this does not mean the standard cannot be met, finding that HSCRC’s comments indicate that “HSCRC has the ability to grant rate increases in GBR revenue if GBR methodology does not provide sufficient revenue.” (DI #94GF, p. 10). It defines the problem of AAMC in this case to be twofold: (1) HSCRC’s lack of agreement to make such an accommodation; and (2) my request that AAMC and BWMC not seek such adjustments. BWMC states that the problem is not with the standard (DI #94GF, p. 10).

BWMC argues against AAMC’s suggestion that the standard can be met by demonstrating that “the viability of the hospital as a whole is not jeopardized” and notes that the express language of the standard, requiring generation of excess revenue from cardiac surgery, is the only valid

47 While PGHC filed comments in response to the November 7, 2016 filing by AAMC, those comments did not directly address this standard. (DI #93GF). Its comments are more appropriately considered under the criteria and standards addressing costs and impact of the proposed project.
48 See “Direct revenues, expenses, and income from cardiac surgery operations” shown in Table 17, p.80, supra.
49 See “retained” revenues, expenses and income” in Table 17, p. 80, supra.
interpretation of the standard’s requirements. It claims that AAMC held this same view of the express language of the standard, when AAMC commented on BWMC’s modified application submitted by BWMC in August, 2015 (DI #94GF, p. 11). BWMC states, that, at that time, AAMC argued that BWMC was trying to “revolutionize” the CON process by implying that “merged asset systems could leverage a profitable service in one part of the system to subsidize the creation of uneconomic facilities or services in another part of the system.” (DI #94GF, p. 11). BWMC contends that its application projects excess revenue generation through the provision of cardiac surgery by the UM Division of Cardiac Surgery, a two-hospital division expanding to a three-hospital division if BWMC establishes cardiac surgery services. It contrasts that with what it views as AAMC’s proposal that any program in its hospital can subsidize a cardiac surgery program that generates losses (DI #94GF, p. 11).

BWMC claims that AAMC’s proposed interpretation of this standard “is inapposite to the logic” that AAMC has used in another CON application currently under review. (DI #94GF, p. 12). It also faults AAMC for a lack of detail on the “shift” of revenue from other services to its cardiac surgery program. BWMC claims, based on certain assumptions, that the two ordinary adjustments50 to AAMC’s GBR and reallocation of overhead, all cited by BWMC as revenue sources for cardiac surgery, will not cover the projected losses from the provision of cardiac surgery. BWMC also claims that AAMC may be “double counting” in its reallocation of overhead because its calculated charge per cardiac surgery case ($37,501 in 2015 dollars) already includes an allocation for overhead (DI #94GF, pp. 18-19).

Finally, BWMC states that AAMC’s commitment not to seek additional revenue based on the provision of cardiac surgery services is overly vague because AAMC expressly stated that reallocating “revenue under the new payment model using the resources that are provided in the system [and] allocating revenue to the cardiac surgery program in connection with future revisions to the HSCRC’s GBR policy or rate methodologies” is allowable in conformance with its commitment (DI #94GF, p. 21). BWMC asks that I require AAMC to provide the requested commitment.

MedStar Hospitals Comments

MedStar Hospitals contends that the revised financial projections filed by AAMC fail to cure the flaws of the AAMC application with respect to criteria and standards that I identified as relevant in my request for revised financial projections from AAMC that include this standard. (DI#95GF, p. 2). The MedStar Hospitals identify the “fatal flaw” of the application as the lack of need for the proposed new cardiac surgery services. With respect to the financial feasibility standard, MedStar Hospitals state that the anticipated losses that AAMC now projects (in its projection of “retained” revenues) are not “the mark of a ‘financially feasible’ proposal, and [are] inconsistent with the SHP, which specifically requires that the program achieve more revenues than expenses on a standalone basis by the third year of operation.” MedStar Hospitals characterize the basis for a finding of financial viability by AAMC as “accounting manipulation.” (DI #95GF, p. 9).

50 The population adjustment and capacity from reduced avoidable utilization
The MedStar Hospitals reiterate some of its earlier comments to make the point that AAMC’s losses will be greater than the applicant has projected, because, in MedStar Hospitals’ view, AAMC has underestimated the expenses it will incur in providing a high quality cardiac surgery program and overestimated revenue that will be generated, because of its “infeasible volume projections.” (DI #95GF, p. 6). MedStar Hospitals state that AAMC’s underestimation of expenses results from its failure to include all of the necessary salary and contractual labor costs in its projections, which MedStar Hospitals state “demonstrates a lack of understanding of, or commitment to [by AAMC], an essential element of a quality program [that must have] adequate staffing by an entire team of specialists.” (DI #95GF, p. 7). MedStar Hospitals also assert that AAMC has not included realistic projections of drug price inflation.

MedStar Hospitals state that “AAMC’s volume projections also remain illogical and miscalculated,” pointing to MHCC’s projections of declining cardiac surgery case volume. (DI #95GF, p. 7) They contend that HSCRC, in its comments on the applications,51 supports MedStar’s view that AAMC is unlikely to reach the volume levels it projects, specifically pointing to the statement by HSCRC that “it is not likely that the ability of D.C. hospitals to negotiate charge levels for cardiac surgery will make it more difficult to shift volume away from these hospitals to new Maryland providers.” (DI #95GF, pp. 8-9).

MedStar Hospitals also question the value of the commitment made by AAMC with respect to additional revenues that might be sought to support operation of a cardiac surgery program, stating that “further, the HSCRC has never in fact taken action to enforce such a requirement on past CON applicants. The HSCRC in fact acknowledges that hospitals awarded a CON have the right to request rate increases to cover lost volumes, ‘unless specifically agreed to by hospitals during the CON process,’ which further limits the impact that these commitments have on AAMC and Johns Hopkins.” (DI #95GF, p. 5).

Comments on BWMC Modified Application

AAMC Comments

AAMC states that the BWMC’s modification is an attempt to fix the BWMC problem with this standard, which it admitted to failing in its CON application, by conflating the feasibility of cardiac surgery at BWMC with the profitability of cardiac surgery within UMMS as a whole.” (DI #45GF, p. 2). AAMC describes this as an illegitimate rewrite of the Cardiac Surgery Chapter that would “work a revolution in the CON process; merged asset systems could leverage a profitable service in one part of the system to subsidize the creation of uneconomic facilities or services in another part of the system.” (DI #46GF, p. 3). It also criticizes the apparent failure of BWMC to include UM St. Joseph Medical Center in its “system” perspective and references Prince George’s Hospital Center as a missing component.52 (DI #46GF, p. 4). AAMC also finds fault with the profitability that BWMC has projected for UMMS, claiming it is inconsistent with HSCRC’s mandates and methodologies and claims that UMMS has departed from standard accounting

51 DI #68GF
52 UMMS had articulated a plan for acquiring Dimensions Health System at the time AAMC made this comment and has since committed to this acquisition. AAMC is noting that, based on what was known at that time, PGHC was on track to become a fourth UMMS cardiac surgery program.
principles and use of the revenue and expense formats used in CON applications to produce an “unorthodox and opaque” financial feasibility analysis (DI #46GF, p. 4). Finally, AAMC states that BWMC did not attribute any incremental operating costs to its cardiac surgery program, using a dubious assumption that operating expenses will shift from UMMC to BWMC on a one-to-one basis. It suggests that if the UMMC cardiac surgery program is as profitable as claimed by BWMC (a 33% profit margin, according to AAMC), it would be preferable for HSCRC to take direct action to reduce UMMC’s revenue rather than shift revenue to a new uneconomical program as a way to reduce overcharging (DI #46GF, pp. 4-5).

**Applicants’ Responses to Comments**

Anne Arundel Medical Center

AAMC responded to the high variable cost factor assumption (85%) in its original application that was questioned by the interested parties by stating that it could “reasonably expect to retain 85% of the revenue generated by” its proposed cardiac surgery program, noting that “HSCRC has indicated that, for new services, it has the flexibility to provide targeted funding through the annual update process for individual hospital budgets.” (DI #45GF, p. 19). It states that “HSCRC recognized the opportunity to appropriately fund new programs which have the potential to achieve significant healthcare savings” and references a letter from HSCRC “expressing its intention to work with AAMC specifically to fund a new cardiac surgery program at AAMC.” (DI #45, p. 20). It claims that the revenue adjustment that it assumed is not inconsistent with Maryland’s agreement with CMS.

AAMC supports its staffing costs as reasonable in responding to claims that its staffing costs are based on an incomplete staffing plan. It argues that its plan has no omissions as suggested by MedStar Hospitals in their comments. It notes that it has contracted for JHH perfusionists and cardiac surgeons and that this contracting “saves AAMC from the cost and uncertainty of recruitment, and guarantees the availability of proven, skilled practitioners.” (DI #45GF, pp. 20-21). The costs of these contract professionals have been included in AAMC’s expense projections.

Similarly, AAMC notes that it will obtain the services of anesthesiologists and intensivists through existing contracts. Based on existing agreements, it expects to be supplied with anesthesiologists for cardiac surgery “without a subsidy” of the professional fees on which the contracting physician group relies and describes a similar arrangement for intensivists. (DI #45GF, p. 21).

Baltimore Washington Medical Center

BWMC responds stating that the “UM Division of Cardiac Surgery would be financially feasible standing alone.” (DI #42, p. 20). It contrasts this with what it characterizes as AAMC’s incorrect assumptions about how revenue would increase as the result of the new service volume introduced at AAMC under the new hospital payment model. Thus, BWMC concludes that the presentation of the AAMC program as one that is feasible, on a stand-alone basis, is invalid.
BWMC reiterates its analysis from its August 2015 modification that, viewed at a two-hospital surgery division level, its new cardiac surgery program should be found to be financially feasible, consistent with the treatment revenue under the hospital payment model when volume shifts from UMMC to BWMC (DI #42GF, p. 21). It responded to criticism of its staffing plan for cardiac surgery by two interested parties in affidavits from the clinical leaders of the UM Division of Cardiac Surgery stating that BWMC’s staffing plan is complete and supported by UMMC, with respect to how the plan envisions sharing of resources between the UMMC cardiac surgery program and BWMC’s new program. Specifically, it states that MedStar Hospitals misunderstood the manpower information provided in the BWMC application and overlooked information in reaching the conclusions stated in its comments on the BWMC project (DI #42GF, p. 22). The FTE levels alleged by MedStar Hospitals as inadequate, with respect to perfusionists and physicians are only for oversight, labeled as “administrative” and additional staffing in these categories is included in “direct care” expenses identified as contract employees, including perfusionist services ($166,000), anesthesia contract services ($141,650), and “CT assist” (described as “24/7 cardiac coverage for the OR (scheduled and emergency cases)” by a “3rd party company” in the amount of $293,250 (DI #42GF, Exhibit 33).

BWMC responded to MedStar’s call for both applicants to “to document the full staffing plans and related costs of their proposed cardiac surgery programs” by providing a new exhibit described as summarizing its staffing projections and adding comments to correct the “misunderstanding” and incomplete examination of previous filings that BWMC alleges on the part of MedStar (DI #42GF, Exh. 54). These notes specifically identify one additional FTE perfusionist, call coverage for anesthesiology in the amount noted in the previous paragraph, and “CT assist” as described and quantified in the previous paragraph.

BWMC describes the UM Division of Cardiac Surgery manpower and recent production data: 12 surgeons (two assigned to UM St. Joseph on a full-time basis/two operating one-two days per week; one surgeon assigned to PGHC full time/two others part time; nine at UMMC, assisting with coverage at St. Joseph and PGHC (DI #42GF, p. 23). It identifies “individual surgeon volumes” of 125 to 400 cases per physician\(^{53}\) and notes that St. Joseph physicians “carry a case load of approximately 200 cases per physician, per year.” (DI #42GF, p. 23). BWMC identifies ten departments that will be affected by cardiac surgery but that have available capacity to provide the needed support for cardiac surgery without the need for expansion of personnel. It notes that a fulltime nurse practitioner employed through the University of Maryland Community Medical Group will serve cardiac surgery patients on an outpatient basis but, given that the expenses and associated revenue or these clinical services are not incurred by BWMC, they are not included in BWMC’s projections (DI #42GF, p. 24).

BWMC states that MedStar Hospitals falsely raise the issue of non-compliance with the Joint Commission’s Proposed Requirements for Comprehensive Cardiac Center Certification Program (“CCCM”). BWMC states that the CCCM is a proposed certification program, “not yet adopted.” BWMC goes on to provide a review of the CCCM resources requirements and asserts that BWMC’s staffing plan for cardiac surgery includes these resources or that the resources are currently available (DI #42GF, p. 24).

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\(^{53}\) Presumed to be annual case volumes.
BWMC refutes AAMC’s claim concerning the replacement operating room project approved in 2015 as a component of this BWMC application for cardiac surgery. It states that cardiac surgery will be performed in two ORs currently in place and approved almost six years ago. It outlines recent trends in surgical case volume to make the point that it has sufficient OR capacity to implement the proposed program and provides projections of OR capacity and use intended to make the same point (DI #42GF, pp. 24-26).

BWMC responds to the AAMC comment concerning the impact of reduced charity care on global budget revenue by stating that the comment is unsupported and that the provision cited by AAMC as a basis for the comment does not exist in the UMMS GBR Agreement with HSCRC. BWMC states that the decrease in charity care has had “no material adverse effect on revenue.” (DI #42GF, pp. 26-27).

**Reviewer’s Analysis and Findings**

AAMC has shown that it could establish a cardiac surgery program and there would be little or no risk that implementation of the program would cause AAMC to generate losses from its hospital operations. However, AAMC has projected that, based on HSCRC policy with respect to recognizing additional revenue deriving from shifts in service volume from one hospital to another, the revenue AAMC would add as a direct effect of providing cardiac surgery will be less than the expenses of providing this new service. This creates a problem with respect to finding this application in compliance with this standard, based on the documentation requirement in subparagraph (b)(iv) and is thus, not surprisingly, the central issue with respect to financial feasibility addressed by both applicants and other interested parties in this review.

I find that AAMC has documented the assumptions it used in modeling revenues and expenses at the utilization levels projected. I found, earlier in this Recommended Decision, that AAMC could reach the minimum case volume required for a cardiac surgery program, primarily based on a hospital service area-level analysis. AAMC documented that its utilization projections are consistent with historic trends in the use of cardiac surgery by its service area population, as required by this standard. If AAMC achieves a case volume of 200 cases per year but is unable to significantly surpass this service volume in the first few years of operation, the information and analysis provided in this review indicates that, fundamentally, the pattern outlined in the previous paragraph will hold. That is, AAMC will not be able to account for higher cardiac surgery revenue than expenses under the current HSCRC policy for adjustment of GBR to account for inter-hospital case volume shifts but the marginal change in revenues and expenses will be unlikely to make the hospital’s overall operation unfeasible. Less revenue will be realized at lower case volumes and it is quite possible that operating losses could be nominally and/or proportionally larger, depending on whether AAMC is successful in managing expenses in line with volume. AAMC projects an average of 322 cases in the first three years of operation.

My findings with respect to the proposed BWMC program are similar. It is also likely to be able to establish a cardiac surgery program with minimal risk of causing the hospital to operate at a loss. Under HSCRC’s current payment policies and its market shift model used to project revenues, it is unlikely, on a stand-alone basis, to generate excess revenue over expenses in

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54 See my discussion of the Minimum Volume standard, COMAR 10.24.17.05A(1), see, supra, pp. 26-32.
delivering cardiac surgery services. BWMC also documented the assumptions it used in modeling revenues and expenses. However, I also found, earlier in this Recommended Decision, that BWMC would be unlikely to reach the minimum case volume required for a cardiac surgery program, based on a hospital service area-level analysis.\(^55\) BWMC projects an average of 243 cardiac surgery cases in years two through six of operation.

I previously found that each applicant overestimated its ability to achieve the cardiac surgery market shares it projects for its service area.\(^56\) While I conclude that AAMC can meet the required threshold volume of 200 cases per year, it may not be able to achieve the volume levels it projects.

The interested parties have raised some reasonable questions with respect to expense projections and assumptions underlying some of the secondary analyses presented by the applicants regarding the benefits of the proposed projects. However, each applicant has convincingly answered the questions raised with respect to its staffing plan. Each applicant is working with a system affiliate or partner hospital that is an academic medical center. Together, the two collaborating hospitals are the largest providers of cardiac surgery in Maryland and each applicant hospital is a relatively large community hospital with substantial experience in providing major surgery procedures and recovering patients from major surgery.

I find that there is substantial documentation in the record that each of the four organizations supporting at least one of the projects has a commitment to providing high quality health care, as evidenced by each hospital’s history of accreditation, certifications, awards, and other recognitions. Obviously, each applicant is expected to put forth a staffing plan that is lean and that assumes a high degree of collaboration and, especially in the case of BWMC, integration of staffing services at a multi-hospital division level. After carefully reviewing the argument and counter-argument presented, I find that each applicant has documented that its staffing and overall expense projections for cardiac surgery have a basis in current expenditure levels. Each applicant has considered future staffing levels in its staffing plan for cardiac surgery using both its own cost experience and the experience of similar hospitals.

AAMC provided a credible and realistic response to the MedStar Hospitals’ criticism of its staffing plan and, thus, its expense projections. I also found that BWMC provided a credible response to the criticism by AAMC and the MedStar Hospitals of BWMC’s staffing plan and expense projections. It appears that these interested parties understated some of the capabilities and resources provided in that plan and I conclude that BWMC documented collaborative support in personnel planning at a system level. BWMC made a convincing case in response to AAMC’s argument that its capital budget is erroneous and that BWMC is replacing OR capacity to implement the proposed project. BWMC also identified the effect of reduced charity care expense on revenue to be small under the new hospital payment model to date, effectively responding to AAMC’s comment on this issue. However, I cannot agree with BWMC’s description of program operational savings by UMMC because, as noted by interested parties, BWMC has not clearly and specifically linked all of the changes underlying those expense reductions to the start-up of a new program at BWMC.

\(^55\) See n. 54, supra.
\(^56\) See n. 54, supra.
With both AAMC and BWMC, I conclude that, based on comments and responses, the level of adjustment, if any, in staffing that either applicant hospital may find necessary as it implements a cardiac surgery program will be marginal and highly unlikely to change financial performance of the hospital. It is interesting that, while the MedStar Hospitals offered general criticism of the proposed staffing levels at AAMC and BWMC, it did not give specific details of the staffing of its cardiac surgery program at Union Memorial Hospital, and neither did LifeBridge provide such information about its cardiac surgery program at Sinai Hospital.

This leaves the key issue of assessing financial feasibility of these proposed programs. BWMC proposes that this assessment should be at the system divisional level, whereas AAMC proposed that financial feasibility should be assessed at the overall hospital level. Assessment at the program level, as in subparagraph (b)(iv)’s reference to generation of excess revenues over expenses for cardiac surgery, is a reasonable and conventional interpretation of the standard’s requirements.

It is important to note that HSCRC’s current policy on adjusting GBRs for market shifts is based on the idea that increases in service volume at a hospital provide an opportunity for more efficient production of services by the hospital. Higher production of services should allow for economies of scale in operation so there does not need to be a one-to-one correspondence between the additional dollars coming into the hospital and the expenses by the hospital to produce the additional services responsible for the revenue increases. The HSCRC’s current policy of not increasing the hospital’s budget to recognize all additional revenue associated with the shift in volume, incentivizes the hospital to increase expenses only to the degree absolutely necessary to handle the additional service volume.

HSCRC’s current policy shows that it also is cognizant that hospitals losing service volume are likely to experience increases in the unit cost of production. The “losing” hospital’s fixed costs, which are usually not adjustable in the short-to-medium term, will be spread over a smaller volume of service. In the short-term, the hospital must focus on reducing variable costs but this may also take time and, to address this cost-of-production problem, the hospital may need to evaluate broader changes in its service delivery model rather than merely implementing incremental staffing and other variable cost reductions that leave the fundamental mode of operation in place. It is for this reason that HSCRC’s current policy also provides these losing hospitals with the ability to retain some of the revenue that is leaving.

This cardiac surgery financial feasibility standard was adopted as proposed permanent regulation by the Commission on April 17 2014. At that time, HSCRC was only three months into implementation of the new GBR-based hospital payment policy. It had not yet established a final policy with respect to recognizing shifts in case volume from one hospital to another but had established a Payment Models Work Group, first convened on February 21, 2014, to discuss that

57 Effective January 1, 2014, the State of Maryland and the Center for Medicare and Medicaid Innovation entered into a new initiative to modernize Maryland’s all-payer rate-setting system for hospital services. This initiative, replacing Maryland’s 36-year-old Medicare waiver, allowed Maryland to adopt new and innovative policies aimed at reducing per capita hospital expenditures and improving patient health outcomes. More information on the HSCRC and Maryland hospital activities can be found on the HSCRC’s website: http://www.hscrc.maryland.gov
question, among others. Market shifts were not used as a basis for updating and adjusting hospitals’ budgeted revenue for the fiscal year that ended on June 30, 2015. Market shifts as a factor in adjusting GBR were not part of the HSCRC’s update process until FY 2016.\footnote{A detailed explanation of the factors used in updating GBRs for FY 2014 through FY 2016 can be found on the HSCRC website at http://www.hscrc.maryland.gov/hsp-gbr-tpr-update.cfm}

The CON applications in this review were filed in early 2015. As I previously noted, AAMC projected its financial projections on the basis that it would seek and obtain from HSCRC, through adjustment of its GBR, recognition of 85% of the full revenue associated with cardiac surgery cases shifting from other hospitals. At that point in time, HSCRC had already articulated a plan for using a 50% variable cost factor in adjusting GBR when case volumes shifted (or, in other words, when one hospital increased its market share of a service at the expense of another hospital). BWMC chose to use what could be considered HSCRC’s latest guidance, the 50% variable cost factor, in its projection model. By July 1, 2015, the manner in which market shifts were recognized in updating hospital budgets can be viewed as established by HSCRC, given that policy was used in the update of hospital GBRs at that time. Definitive guidance contrary to AAMC’s assumption was not provided until August 24, 2016, in HSCRC’s response to questions I posed on the projects. (DI #68GF).

When the Commission adopted this standard as proposed permanent regulation on July 27, 2014, it could not have foreseen that later HSCRC policy would make it extremely difficult (and virtually impossible) for a new cardiac surgery program to generate excess revenues over total expenses when isolating just on the revenues and expenses directly attributable to the cardiac surgery services. This is particularly true under the circumstances acknowledged in the Cardiac Surgery Chapter, where introduction of a new cardiac surgery program would necessitate redistribution of service volume among hospitals. The Commission did not intend for later-adopted HSCRC policy to thwart the MHCC’s intent to permit appropriate entry of one or more additional cardiac surgery programs in Maryland.

If it had been possible to know this about the new HSCRC payment model in the 2013 to 2014 period during which the Cardiac Surgery Chapter was developed, the Commission would not have adopted a standard that required a program to generate revenue over expenses. Instead, it is likely that the Commission would have adopted a financial feasibility standard more like the one that is in place for general hospital services. That standard, COMAR 10.24.10.04B(13) is, in its primary form, very similar to the cardiac surgery financial feasibility standard. It provides that “[a] hospital capital project shall be financially feasible and shall not jeopardize the long-term financial viability of the hospital.” However, the general hospital service standard goes on to state “that a hospital may receive a Certificate of Need for a project that does not generate excess revenues over total expenses even if utilization forecasts are achieved for the services affected by the project when the hospital can demonstrate that overall hospital financial performance will be positive and that the services will benefit the hospital’s primary service area population.”

Thus, while I believe the differences in these two standards were intentional, the ultimate jelling of the HSCRC’s new payment model’s policy details were, unfortunately, unknown at the time this standard was developed and adopted and the ultimate impact of HSCRC’s payment policies on the action of this standard were not foreseen. However, the standard, in its simplest
form, grants the Commission some flexibility, if certain other conditions hold. The simple overarching statement of the standard in .05A(7) is that “[a] proposed new or relocated cardiac surgery program shall be financially feasible and shall not jeopardize the financial viability of the hospital.” (emphasis added). This provision provides support for an alternative to an overly rigid interpretation of the requirement at subparagraph (b)(iv) to arrive at one that is in accord with regulatory intent in adopting the financial feasibility standard. If the only test of financial feasibility were adequate documentation that the program will be profitable on a stand-alone basis, there could never be any question that a proposed new program, if financially feasible, could ever be a basis for jeopardizing the financial viability of the sponsoring hospital. Thus the language in .05A(7) evidences the intent of the Commission, particularly given the policies of the HSCRC that were only firmly enunciated in August, 2016.

I find that, when the entirely of subsection (7) of the regulation and the context of its adoption is considered, the Commission’s regulatory intent was to permit flexibility in its assessment of financial feasibility at the hospital level, i.e., it permits the Commission to authorize introduction of a new cardiac surgery program (or relocation of an existing program) that meets all other standards and criteria if the financial viability of the hospital is not jeopardized by the introduction of the cardiac surgery program. I conclude that such flexibility is especially important with respect to the particular circumstances in this review. As I have previously discussed, I find that each project is likely to create a more cost effective alternative for the delivery of cardiac surgery in Maryland than is possible under the status quo. I also found that neither proposed program is likely to jeopardize the successful operation of any existing cardiac surgery program.

I find that each proposed program would be able, from a conventional accounting perspective, to generate payments for cardiac surgery, at their projected charge levels, that would exceed their expenses to provide the service. Each applicant’s inability to realize all the revenue that could be collected from billable charges is a function of Maryland’s hospital payment model and HSCRC’s current treatment of shifts in volume.

These realities compel each applicant to model its financial performance on the Maryland payment model’s rules for adjusting GBR in response to shifts in market share. Thus, to some extent, the perspective on assessment of financial feasibility imposed by a “blinders on” interpretation of subparagraph (b)(iv) of this standard is an artifact of the payment model. At some point, if a new programs is established, the dynamic of case volume shifting from one hospital to another will have no actual force or particular relevancy in looking at the performance of the involved hospitals. Eventually, a new program will begin to experience a relatively stable share of the cardiac surgery market in its service area and market share would also stabilize at the programs that exist today, i.e., the market would “settle” following a period of adjustment to the new market entrant. At that point, I believe it is highly likely that AAMC and BWMC, if each operated a cardiac surgery program, would be operating “in the black,” even if its cardiac surgery program has not reached projected volume levels and even if its program expenses are marginally higher than currently anticipated. I conclude that it would not be reasonable, at that point in time, to find that the hospital had not implemented the provision of cardiac surgery services on a financially feasible basis. My interpretation of this standard is in accordance with regulatory

history and the Commission’s mission to assure Marylanders’ access to quality health care services at a reasonable cost to patients and to the health care delivery system.

For this reason, I find that AAMC’s proposed project is financially feasible and that it will not jeopardize the financial viability of AAMC.

I also find that, from the narrow perspective of this standard and my assessment of the most logical way to interpret the standard, that BWMC’s proposed project would be financially feasible and that it would not jeopardize the financial viability of BWMC. However, I earlier found that the BWMC proposal is not feasible from a market standpoint, given the minimum case volume standard of the Cardiac Surgery Chapter and my assessment that BWMC would have difficulty reaching and maintaining an annual volume of 200 open heart surgery cases per year.

(8) Preference in comparative reviews.
In the case of a comparative review of applications in which all policies and standards have been met by all applicants, the Commission will give preference based on the following criteria.

(a) The applicant whose proposal is the most cost effective for the health care system.
(b) An applicant with an established record of cardiovascular disease prevention and early diagnosis programming that includes provisions for educating patients about treatment options.
(c) An applicant with an established record of cardiovascular disease prevention and early diagnosis programming, with particular outreach to minority and indigent patients in the hospital’s regional service area.
(d) An applicant whose cardiac surgery program includes a research, training, and education component that is designed to meet a local or national need and for which the applicant’s circumstances offer special advantages.

In this comparative review, I have not found that all applicants have met all policies and standards. Therefore, this standard is not applicable in this comparative review.

COMAR 10.24.01.08G(3) Criteria for Review of an Application for Certificate of Need.

(b) Need. The Commission shall consider the applicable need analysis in the State Health Plan. If no State Health Plan need analysis is applicable, the Commission shall consider whether the applicant has demonstrated unmet needs of the population to be served, and established that the proposed project meets those needs.

60 See my discussion of the Minimum Volume standard, COMAR 10.24.17.05A(1), see, supra, pp. 26-32.
Applicants’ Responses

Anne Arundel Medical Center

AAMC refers to its response to COMAR 10.24.17.05(6), the cardiac surgery project review standard for need, for its “applicable quantitative need analysis.” (DI#3AA, p. 204).

It states that its project would address an unmet need for “more affordable, local, and integrated cardiac care” for Anne Arundel County and its broader service area. It states that cardiac surgery is critical when a patient requires it and often life-saving in cases of advanced cardiac pathology. It states that access is “ultimately a matter of timely availability of the service to the patient when it is needed” and notes that the delays experienced by patients when transfer and transport are arranged and implemented can impact health status and that all delays add risks. Ultimately, delays in obtaining care are detrimental to quality of care. Timely access and availability are inherent in the definition of quality of care but it also identifies inter-hospital patient transfers as adding additional risk through communication problems and increased risk of medical errors associated with “hand-off” of patients. It notes that post-surgical complications can generate another round of quality issues when quick, local access of the service is not available. It references the discussion of the impact of reduced access to COMAR 10.24.17.05A(5), the Access project review standard for cardiac surgery. (DI#3AA, pp. 204-206).

Baltimore Washington Medical Center

BWMC’s sole response to this criterion was to reference its responses to COMAR 10.24.17.05A (1) and COMAR 10.24.17.05A (6), the Minimum Volume and Need cardiac surgery project review standards, respectively, that have been previously considered in this Recommended Decision. (DI #.2BW, p. 112).

Interested Party and Participating Entity Comments

Comments on AAMC Application

BWMC Comments

BWMC did not specifically address this criterion in its comments but did address the related Project Review Standard 1, Minimum Volume, and at one point equates that standard with need for the project. (DI#29GF).

Comments on BWMC Application

AAMC Comments

Similarly, AAMC did not specifically comment on this criterion but did address, at some length, the ability of BWMC to reach the 200 cases per year volume level. (DI#28GF). AAMC argues that BWMC is unlikely to reach 200 cases per year because BWMC’s analysis is based on faulty assumptions. The key points of its argument are described under my consideration of COMAR 10.24.17.05A(1) earlier in this Recommended Decision.
Comments on Both Applications

LifeBridge Comments

LifeBridge, while not specifically referencing this criterion, comments that neither applicant established that there is a need for additional cardiac surgery programs in Maryland and neither is consistent with the SHP. (DI#33GF). It cites the MHCC forecast of declining demand for cardiac surgery. LifeBridge faults the applicants for providing no evidence of inadequate servicing of need by existing programs. It claims that the applicants’ justification is grounded in providing greater convenience for patients and the applicant hospitals’ institutional goals. (DI#33GF, p. 2).

LifeBridge states that access to cardiac surgery, while a “legitimate consideration,” is “balanced against the benefits of regionalization” in the SHP and, in this case, the risk of reducing case volume at existing hospitals with a consequent negative impact on quality of care. It cites a 2014 journal article that found that higher risk-adjusted mortality for CABG was correlated with lower case volume programs. (DI #33GF, p. 2). It indirectly challenges the case volume projections of the applicants by noting that Suburban Hospital, the newest cardiac surgery program in Maryland, has not managed to build the case volume it projected. (DI #33GF, pp. 2-3).

MedStar Hospitals Comments

MedStar Hospitals provide a single thread of comments on both this Need criterion and the specific cardiac surgery need standard of the SHP, COMAR 10.24.17.05A (6). (DI #34GF, p. 5). MedStar Hospitals state that both applicants failed to demonstrate an unmet need of the population for their respective projects. They also claim that “the SHP does not establish a methodology for determining the need for a new program in the state of Maryland” (DI #34GF, p. 5) and that the SHP need standard for cardiac surgery describes no unmet need.

MedStar Hospitals provide a discussion of population need and the reasons why it claims that it has not been demonstrated by either of the applications. MedStar Hospitals note that MHCC has identified cardiac surgery case volume as declining in the Baltimore Upper Shore region between 2009 and 2014. They note that the SHP states that “geographic access to cardiac surgery services and elective PCI is not a problem in Maryland” and this “finding must be accepted as fact in this review.” (DI #34GF, p. 2). MedStar Hospitals claim that existing programs are operating below their service capacity, based on the higher case volumes experienced in the previous decade, and are capable of absorbing growth in demand, indicating a lack of need for additional programs. MedStar Hospitals also cite the SHP’s support for regionalization of cardiac surgery services as a policy that supports limiting the number of cardiac surgery programs to improve the chances for higher volume programs, higher quality service, and more efficient operation. It cites a journal article in support of what it describes as the SHP position. (DI #34GF, p. 3).

62 “Rationalizing Cardiology Care in an Era of Hospital Consolidation,” CardioSource WorldNews (May 2015).
MedStar Hospitals predict that cardiac surgery case volume will continue to decline due to the growth in preventive care and early intervention. (DI#34GF, p. 9). They state that new techniques, such as trans-aortic valve replacement, will replace the need for cardiac surgery and new drugs, treating, e.g., high cholesterol levels, will also dampen demand. (DI#34GF, p. 9). They also point to changing payment policies as a factor that would predict less surgery in the future. MedStar Hospitals claims that effective population health management will reduce costly inpatient service treatment whenever possible in order to profit under the new payment models. (DI#34GF, pp. 9-10).

MedStar Hospitals state that there are no access barriers to cardiac surgery services in Maryland that can “serve as a surrogate for proving “unmet need” by the applicants. (DI#34GF, p. 10-12). According to MedStar Hospitals, no barriers to access have been demonstrated or could be, given that the SHP does not find access to be an issue. They specifically state that BWMC only claims to be improving access for persons without automobiles, a claim that MedStar Hospitals find “farfetched” in the context of barriers to access. (DI#34GF, pp. 10-11). MedStar Hospitals see need as a disqualifying issue for the applicants which they are trying to overcome by resorting to claims of inadequate access. MedStar Hospitals state that the Chou study63 cited by AAMC as associating the access improvements that would be created through the proposed AAMC project with better outcomes does not make that case. Rather, MedStar Hospitals estimate levels of improvement at “an order of magnitude (in terms of travel distance) that is simply not relevant to these applications and their travel time arguments.” (DI#34GF, p. 1).

Finally, MedStar Hospitals dispute the information that AAMC provided concerning problems with transfer of patients and refusal of patients at MedStar WHC, based on its review of the record concerning transfers from AAMC and states that the Transfer Agreement between AAMC and MedStar’s District of Columbia hospital “has worked well and has been renewed annually.” (DI #34GF, pp. 12-14).

Anne Arundel County Comments

This participating entity did not comment on this standard. It supports authorizing the general hospitals in Anne Arundel County to provide cardiac surgery services. Its comment can be viewed as stating that the County needs better access to this service. (DI#26GF).

Applicants’ Responses to Comments

Anne Arundel Medical Center

AAMC states that MedStar Hospitals’ assertion that the SHP does not establish a methodology for determining need is false. (DI #45GF, p. 4) Rather, AAMC finds that the SHP establishes a standard of need for new programs which is that they demonstrate an ability to generate a least 200 cardiac surgery cases per year and provides specific guidance on how this test is to be met, including accounting for utilization trends and patient referrals. AAMC states that the “notion” of excess capacity cited by MedStar does not appear in the SHP. AAMC states that

63 Chou et al., “Travel Distance and Health Outcomes for Scheduled Surgery,” Medical Care, Vol. 52 No. 3 (March 2014).
the SHP “reflects the balance sought by the Commission between adequate access and adequate volumes at each program.” (DI #45GF, p. 4).

AAMC rejects the LifeBridge and MedStar Hospitals references to Suburban Hospital’s experience as a basis for doubting the credibility of AAMC’s projections, noting closer proximity of this Bethesda hospital to existing programs when compared to AAMC’s longer distance from the nearest existing cardiac surgery hospitals. DI #45GF, pp. 5-6) It concludes with a defense of its market share assumptions, citing the JH Medicine relationship, its success in other surgical fields, and the access improvement an AAMC project brings to Eastern Shore residents. (DI #45GF, pp. 11-12).

Baltimore Washington Medical Center

BWMC refutes the claim made by MedStar Hospitals that the SHP does not provide an applicable need analysis and states that it has appropriately established need under this standard, which BWMC states is the applicable Need standard of the SHP. It notes that the SHP does not require applicants to address existing capacity and rejects the MedStar approach to claiming that there is sufficient cardiac surgery capacity as one that has no basis in regulation. (DI #42GF, pp. 2-4).

Reviewer’s Analysis and Findings

I find that there is a need analysis in the State Health Plan, COMAR 10.24.17.05A(1), Need, that is applicable to this review. This project review standard requires that a hospital seeking to introduce cardiac surgery as a new service demonstrate the need for that service by analyzing the population it serves and demonstrating that it is capable of generating at least 200 open heart surgery cases per year from this population under reasonable assumptions concerning the market share of cardiac surgery the hospital will be able to achieve in the service area. The hospital must also incorporate MHCC’s most recent cardiac surgery demand forecast its need analysis and must identify how many patients diagnosed with coronary artery disease at its own cardiac catheterization facilities are referred for open heart surgery and address how that information supports its case volume projections. Finally, the SHP explicitly provides that the hospital cannot “demonstrate the need” for its new cardiac surgery program on the basis that an existing cardiac surgery program has closed.

The Need criterion at COMAR 10.24.01.08G(3)(b) has been a general criterion established in MHCC procedural rules for the review of CON applications for many years. The Need project review standard was first established in 2014 and its title and wording clearly indicate that it was intended to serve the purpose, under the Need criterion, of defining an applicable need analysis for projects involving the establishment of a new cardiac surgery program or the relocation of an existing cardiac surgery program.

In my review of this applicable need analysis, I find that the AAMC proposed project meets this standard and that the BWMC proposed project does not meet this standard, specifically subparagraph (a) of the standard. (See my consideration of COMAR 10.24.17.05A(6), Need and my consideration of the related standard, COMAR 10.24.17.05A(1), Minimum Volume, earlier in this Recommended Decision.) On that basis, I find that AAMC has demonstrated a need for its
proposed project through its compliance with the applicable need analysis of the SHP and that BWMC has failed to demonstrate a need for its proposed project through its failure to demonstrate compliance with the applicable need analysis of the SHP.

**COMAR 10.24.01.08G(3) Criteria for Review of an Application for Certificate of Need.**

(c) **Availability of More Cost-Effective Alternatives.** The Commission shall compare the cost effectiveness of the proposed project with the cost effectiveness of providing the service through alternative existing facilities, or through an alternative facility that has submitted a competitive application as part of a comparative review.

**Applicants’ Response**

Anne Arundel Medical Center

AAMC states that establishment of a cardiac surgery program at AAMC will create a more cost effective alternative for cardiac surgery services than can be found at the existing programs used by its service area population. (DI #3AA, p. 207).

It presents FY 2014 information on payments per cardiac surgery case and payment per case mix-adjusted cardiac surgery discharge for the Baltimore-Upper Shore region cardiac surgery hospitals, Washington Adventist, and D.C. hospitals (in the aggregate). All of the existing hospitals have higher payments per case and discharge than the corresponding payment rates AAMC calculates for AAMC. (DI #3AA, p. 208).

AAMC also states that, “throughout this application the significant improvement in closer access, coordinated episode of care, and an historical record of enhanced patient care experience” at AAMC are effectiveness factors that should be considered along with its cost reduction. (DI #3AA, p. 208).

Baltimore Washington Medical Center

BWMC references the collaborative planning undertaken with UMMC and cardiologists in the community and affiliated with the UM School of Medicine for both PCI services and, now, cardiac surgery (DI #2BW, p. 113).

It finds the absence of a cardiac surgery program in Anne Arundel County to be “notable” given that Baltimore City and County have five programs and the D.C. suburban counties of Montgomery and Prince George’s County have three programs. It notes that the SHP identifies the mid-Shore and Southern Maryland as regions with the poorest geographic access to emergent PCI services and states that its parent system, UMMC, has a significant footprint” these areas, given the position of UM Shore Health System and UM Charles Regional Medical Center in UMMS. (DI #2BW, p. 114).

It states that the alternative to its project, maintaining the status quo, will not meet the “need for high-quality, locally available cardiac surgery services in Anne Arundel County” and will not
provide the benefits of lower cost for cardiac surgery, integration of the BWMC and UMMC program, “enhanced geographic access for local residents,” especially indigent patients in the BWMC service area without transportation options, more and better outreach programs for cardiovascular disease prevention and treatments, and “integration and shared management of quality of care initiatives and programs for cardiac surgery care between UMMC, UM SOM, and UM BWMC.” (DI #2BW, pp. 114-115).

BWMC stated that the modification it filed in August 2015 made its proposed project more cost effective by allowing for HSCRC recognition of market shifts between UMMC and BWMC related to cardiac surgery in the same way that market shifts among non-affiliated hospitals would be recognized. It reiterated the point made in its CON application that its proposed project will also reduce “personal and societal costs,” beyond actual charge reductions (DI #17BW, pp. 2-6).

Interested Party and Participating Entity Comments

Comments made by AAMC, BWMC, and MedStar Hospitals (DIs #28GF, 29GF, and 34GF) on the cost effectiveness of the CON applications were focused on the Cost Effectiveness Project Review Standard (4) of COMAR 10.24.17, aiming the same set of comments at this general review criterion. For the sake of brevity, I will not repeat those comments here. The reader is referred to the Cost Effectiveness Project Review Standard already considered in this Recommended Decision at pages 52-62. In summary, with reference to the specific construction of this criterion, AAMC touts its position as a lower cost hospital than BWMC that will have lower charges for cardiac surgery. BWMC questions the actual cost effectiveness of the AAMC proposal, on the basis that its low-cost position is not a positive but, rather, is based on AAMC’s failure to shift a large enough volume of outpatient service out of the hospital to lower cost settings. It also finds AAMC’s assumptions about volume and, in particular, the proportion of cases that AAMC assumes will be shifted out of D.C. hospitals and the associated savings to be doubtful. MedStar Hospitals, with its position in opposition to both projects, emphasizes that denying both applications is the most cost effective alternative to these projects, given that this means no change in the supply of cardiac surgery programs and no additional cost related to increasing supply. No need exists for the projects and they provide no benefit, only negative impact on the existing service system.

The comments of Dimensions and LifeBridge (DIs #30GF and 33GF) do not address this criterion. Dimensions comments concern the impact of the AAMC project on the Prince George’s Hospital Center cardiac surgery program. LifeBridge comment is that no new cardiac surgery programs are needed in Maryland and also speaks to the negative impact that adding additional programs may have, particularly on PGHC and Suburban Hospital.

The comments of Anne Arundel Department of Health, an interested party, and Anne Arundel County, do not address this criterion.

Applicants’ Response to Comments

As with the comments, the response to comments by AAMC and BWMC is specifically identified, first and foremost, with the applicable Project Review Standard addressing cost effectiveness rather than this criterion. For brevity, I will not repeat those responses here and the
reader should review the Cost Effectiveness Project Review Standard already considered in this Recommended Decision at pages 52-62. In summary, AAMC reiterates its analysis of its lower charge position among the two applicants and BWMC calculates that the difference in charges is not very large when correctly calculated.

**Reviewer’s Analysis and Findings**

With regard to MedStar Hospitals’ comments that specifically addressed the issue of cost effectiveness, I found in my review of COMAR 10.24.17.05A(4), that MedStar Hospital’s comments did not recognize the need for reduced hospital charges or recognize the ability of AAMC or BWMC to charge less for cardiac surgery than most of the affected hospitals as a tangible system benefit. While MedStar Hospitals can reasonably argue that substantive barriers do not exist to obtaining cardiac surgery in Maryland through the facilities and staff already in place, which MedStar Hospital defines as a lack of “need” for either of the proposed project, this is not equivalent to finding that a reconfiguration of the delivery system for cardiac surgery that involves additional programs cannot produce a lower cost per unit of effectiveness in service delivery, if those additional programs are located at the right hospitals.

I also do not believe that hospitals likely to lose a substantive number of cardiac surgery cases if a new program is developed have no ability to reduce their variable costs and limit increases in unit cost associated with diseconomies of operating scale.

I find that the information and analysis provided by the applicants indicates that a cardiac surgery program located at AAMC is likely to have a lower cost to effectiveness ratio associated with its proposed cardiac surgery program than a program located at BWMC. This finding rests on the fact that AAMC is a larger hospital and has a larger service area population than BWMC and, because of its location and historic referral patterns, will be in a stronger position, geographically, than BWMC to shift cardiac surgery market share from two metropolitan areas. Therefore, it is likely to be able to build a larger volume of cases than BWMC without consideration of the efforts of the collaborating partner hospitals in assisting with establishment of case volume. Additionally, AAMC is a lower charge hospital than BWMC and the record establishes that it is likely to be able to provide cardiac surgery at a lower charge than BWMC. Lastly, the service area population of AAMC, on average, resides at a greater distance from existing cardiac surgery programs than the service area population of BWMC. The greater distance from existing programs increases the improved access benefit for the AAMC program when compared to the BWMC program.

In my earlier consideration of Project Review Standard (4) of COMAR 10.24.17, I found that the AAMC project complies with that standard, demonstrating that the benefits of its proposed cardiac surgery program to the health care system as a whole are likely to exceed the cost to the health care system. I noted that AAMC defines the benefits of its proposed project as lower charges for cardiac surgery and improved availability and access to this service for its service area population. In reviewing the project review standard for cost effectiveness, I found that AAMC provided a quantified analysis of how the cost of cardiac surgery services for cardiac surgery patients in its proposed service area and for the health care system would change as a result of the proposed cardiac surgery program. I also found that AAMC provided an analysis of how the establishment of its proposed cardiac surgery program will alter the effectiveness of cardiac
surgery services for cardiac surgery patients in its proposed service area. Finally, I found that AAMC provided information on improved access and reduced travel time for cardiac surgery that would be associated with creation of a cardiac surgery program at AAMC;

I also found that BWMC provided an analysis of how the establishment of its proposed cardiac surgery program will alter the effectiveness of cardiac surgery services for cardiac surgery patients in its proposed service area and quantified the change in effectiveness to the extent possible. It explained the steps it will take to maintain the quality of cardiac surgery care, which will involve the use of experienced surgeons and perfusionists currently providing cardiac surgery services at UMMC. It provided information on the manner in which access could improve for cardiac surgery patients in the BWMC service area. It made the case that it can be an effective provider of cardiac surgery services.

However, while it provided a positive quantified analysis of how the cost of cardiac surgery services for cardiac surgery patients in its proposed service area and for the health care system will change as a result of the proposed cardiac surgery program, as previously discussed in this Recommended Decision, I have not found that BWMC has demonstrated that it can establish a cardiac surgery program large enough to meet the Minimum Case Volume requirements of the State Health Plan, especially if AAMC’s proposed project, which is likely to meet the Minimum Volume Standard, is approved. Coupled with the more modest BWMC projection of system savings, predicated on reaching higher volumes than I have found to be likely, I find that BWMC has not proposed a project that demonstrates that it is the most cost effective alternative for improving access to cardiac surgery or reducing charges for this service.

I recommend that the following two conditions be attached to any approval granted to AAMC to establish a cardiac surgery program, that relate to cost effectiveness. The applicant and JHH have agreed to the commitment embodied in these conditions:

The Johns Hopkins Hospital will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has as any part of its basis, the lost revenue generated by cardiac surgery services that have shifted to Anne Arundel Medical Center.

Anne Arundel Medical Center will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has, as any part of its basis, the objective of obtaining additional revenue from the provision of cardiac surgery services.

**COMAR 10.24.01.08G(3) Criteria for Review of an Application for Certificate of Need.**

(d) Viability of the Proposal. The Commission shall consider the availability of financial and nonfinancial resources, including community support, necessary to implement the project within the time frames set forth in the Commission’s performance requirements, as well as the availability of resources necessary to sustain the project.
Applicants’ Responses

Anne Arundel Medical Center

AAMC references its financial projections for its proposed cardiac surgery program and the positive operating margin it projects based on the assumptions it has made with respect to adjustment of its GBR agreement as a demonstration that the project will contribute to the projected positive operating margin of AAMC and be sustainable. It also cites the reasonableness of its volume and expense assumptions (DI #3AA, pp. 209-210).

In reviewing key elements of its manpower plan, AAMC notes that the three surgeons (2.5 FTEs) anticipated to perform cardiac surgery at AAMC will be full time faculty members of the Johns Hopkins University School of Medicine who are Board certified by the American Board of Thoracic Surgery. Two will be based at AAMC. At least one cardiac surgeon will be on call at all times. The third surgeon will be at AAMC one to two days per week and will participate in on-call activities at night during the week and on weekends. The cardiac surgery team will include physician assistants with experience and/or training in cardiac surgery involved in patient evaluation, intra-operative assistance, post-operative care in the intensive care unit, the step-down unit and the outpatient clinic. Perfusionists will be full time JHU employees assigned to AAMC (DI #3AA, pp. 209-212).

Table 21: AAMC: Staffing Plan for Proposed Cardiac Surgery Program (Third Year of Operation); Current Staffing and Staffing Expenses in Applicable Staffing Categories

<table>
<thead>
<tr>
<th>Job Category</th>
<th>Current FTEs</th>
<th>Current Expense</th>
<th>FTE Changes Resulting from Proposed Project</th>
<th>Projected Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>REGULAR EMPLOYEES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>191.1</td>
<td>$26,681,926</td>
<td>0.5</td>
<td>$76,330</td>
</tr>
<tr>
<td>Direct Care</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physician Assistant</td>
<td>0.0</td>
<td>$0</td>
<td>1.1</td>
<td>$141,585</td>
</tr>
<tr>
<td>Registered Nurse</td>
<td>877.9</td>
<td>$74,567,461</td>
<td>22.7</td>
<td>$2,070,007</td>
</tr>
<tr>
<td>Total Direct Care</td>
<td>877.9</td>
<td>$74,567,461</td>
<td>23.8</td>
<td>$2,211,592</td>
</tr>
<tr>
<td>Support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical</td>
<td>806.5</td>
<td>$44,490,116</td>
<td>11.3</td>
<td>$646,957</td>
</tr>
<tr>
<td>Professional</td>
<td>244.2</td>
<td>$23,510,937</td>
<td>0.5</td>
<td>$65,896</td>
</tr>
<tr>
<td>Total Support</td>
<td>1,050.7</td>
<td>$68,001,053</td>
<td>11.8</td>
<td>$712,853</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,119.7</td>
<td>$169,250,440</td>
<td>36.2</td>
<td>$3,000,775</td>
</tr>
</tbody>
</table>

Source: DI #3AA, Appendix 1, Table L

AAMC states that it has strong community support for the proposed project and relates this to its history of cardiac service development which, in its view, has now reached the point that cardiac surgery is perceived as a “pressing” need. (DI #3AA, p. 212) It references the large number of letters of support from patients, physicians and other health professionals, elected officials, and members of AAMC’s Board of Directors. (DI #3AA, Appendix 3) Documentation of support from the existing JH program with which it will partner in developing the program was also provided. Some of the correspondence provided information about specific cases in which delays were experienced in transferring patients in Annapolis to other hospitals for cardiac surgery. AAMC states that a minimum of $5 million in program support has been pledged (DI #3AA, p. 212).
AAMC projects an ability to implement the project, once approved, within nine months. (DI # 3AA, p. 213) It documents the availability of funds necessary to implement the project with its audited financial statements.  (DI #3AA, Exhibit 6).

As previously noted, I convened a project status conference in the course of this review (DI #90GF) and asked AAMC to file revised revenue and expense projections conforming with current HSCRC policy on changes in hospital volume resulting from shifts in market share of services among hospital and how those shifts would affect global budget revenue.

AAMC’s modified revenue and expense projections (DI #22AA) followed the guidance of HSCRC with respect to revenue that AAMC would realize as the result of market shifts of cardiac surgery volume from other hospitals. These projections showed that AAMC would not generate excess revenues over expenses in the provision of cardiac surgery services. AAMC asks for consideration of the financial feasibility of its proposed project at an institutional rather than a service program level, because the losses projected in offering cardiac surgery are not large enough to substantively alter the ability of AAMC, as a whole to be profitable.

Baltimore Washington Medical Center

BWMC identifies the two years of audited financial statements of UMMS as documenting the availability of sufficient cash for funding the approximate $1.3 million cost of the proposed project. (DI #2BW, p. 116) It also projects an ability to implement the proposed new service within seven months of approval. DI #2BW, pp. 29-30).

BWMC included approximately 100 letters of community support for the project, highlighting support from the Anne Arundel County Executive, the County Health Officer, state legislators, leaders of religious and community organizations, and the leadership of the University of Maryland School of Medicine and Maryland Primary Care Physicians. (DI #2BW, pp. 116-117). BWMC also highlighted letters of support from cardiac surgery patients that spoke to their perspective on the benefit of having a cardiac surgery program at BWMC as an alternative to the more distant programs available in Baltimore City. (DI #2BW, p. 117).
In July 2015, BWMC modified its application to include a commitment that BWMC and UMMC would accept 50% revenue variability for cardiac surgery cases shifted from UMMC to BWMC. (DI#17BW, p. 1) It noted that the global budget agreement between the University of Maryland Medical System and HSCRC “permits revenue to be redistributed among UMMS affiliated hospitals without applying a revenue variability factor.” BWMC states that this modification makes its proposal to introduce cardiac surgery more cost effective and financially feasible.

**Interested Party and Participating Entity Comments**

Three interested parties, Anne Arundel County Health Department, Dimensions, and LifeBridge, as well as the participating entity, Anne Arundel County, did not specifically address this criterion in the comments they filed following docketing of the applications.
Comments on AAMC Application

BWMC Comments

While BWMC did not specifically reference this criterion, it commented on AAMC’s non-compliance with the financial feasibility standard in the Cardiac Surgery Chapter.\(^{64}\) In summary, it stated that AAMC’s program will not generate revenues that exceed expenses as required by the standard, if it had used the correct revenue model employing HSCRC’s policy with respect to revenue adjustment resulting from inter-hospital market shifts, rather than AAMC’s invalid assumption (DI #29GF, pp. 27-28).

Comments on BWMC Application

AAMC Comments

While AAMC did not specifically reference this criterion, in its comments regarding BWMC’s compliance with the financial feasibility standard of the Cardiac Surgery Chapter, COMAR 10.23.17.05A(7), it stated that the BWMC application does not show that it will have a sustainable cardiac surgery program (DI #28GF, p. 15).

Comments on Both Applications

MedStar Hospitals Comments

The MedStar Hospitals state that neither proposed project can demonstrate that, on an ongoing basis, there would be the available resources necessary to sustain the project. (DI #34GF, p. 17). They say that the core problem for both applications is “the fact that there is no unmet need to justify the addition of a new cardiac surgery service provider.”

The MedStar Hospitals also insist that each applicant has overestimated projected revenue and underestimated expenses, particularly for highly skilled personnel. They complain that, in addition to being short of the necessary staff resources, both applicants have incomplete staffing plan details. (DI #34GF, pp. 17-20).

For a summary of the MedStar Hospitals’ comments regarding the financial feasibility standard, COMAR 10.24.17.05A (7), see supra, pp. 85, 87-88.

Comments on AAMC Modified Application

BWMC, MedStar Hospitals and Dimensions filed comments on AAMC’s revised financial projections. Only MedStar Hospitals’ comments specifically reference this criterion. With regard to BWMC, the comments focus on the financial feasibility standard of the Cardiac Surgery Chapter, see supra, pp. 87-89, for a summary of these comments.

\(^{64}\) See discussion of the comments of the interested parties in the Financial Feasibility standard, COMAR 10.24.17.05A(7), see supra, pp. 84-89.
Comments on BWMC Modified Application

AAMC Comments

While AAMC did not specifically reference this criterion in commenting on BWMC’s modification, AAMC addressed the financial feasibility standard in the Cardiac Surgery Chapter, COMAR 10.24.17.05A(7), and claimed that BWMC had produced an “unorthodox and opaque” financial feasibility analysis that failed to document financial feasibility.65

Applicants’ Responses to Comments

As outlined in my summary of interested party comments regarding the applicants’ responses to this criterion, few comments were specifically directed at how each or both applicants addressed this criterion, which is related to COMAR 10.24.17.05A(7), the project review standard regarding financial feasibility. That standard drew many specific comments that bear, to some extent on this criterion. I again direct the reader to the “response to comments” summaries regarding the financial feasibility standard, see supra, p. 84-89.

Reviewer’s Analysis and Findings

Neither applicant specifically provided its financial projections for cardiac surgery in its response to this criterion, but the projections have been covered elsewhere in this Recommended Decision.66 In brief, BWMC has shown that, from the perspective of the integrated UMMC and BWMC program described in its application, operation of the BWMC program can be sustained and generate excess revenues and expenses under the utilization, revenue, and expenses assumptions it made. BWMC does not project that its additional realized revenue will exceed its marginal expenses for adding cardiac surgery to its service mix, on a stand-alone basis, under the HSCRC payment model for recognizing budgeted revenue adjustments related to market shifts. In the case of BWMC, the volume shifts come primarily from UMMC.

AAMC has shown that, as a general hospital operation with its projected ability to generate operating income under the State’s payment model, it can support the operation of a cardiac surgery program, under the same HSCRC treatment of revenue following market share shifts. With AAMC, these shifts are expected to come primarily from MedStar Washington Hospital Center and The Johns Hopkins Hospital.

My review of the record shows that each applicant has available financial and non-financial resources, including community support, necessary to implement its proposed cardiac surgery service and can meet the Commission's performance requirements in implementing its program. The availability of resources necessary to sustain either project has been widely and substantively questioned in this review and I have discussed this issue in depth in my review of the financial feasibility standard of the Cardiac Surgery Chapter.67 In summary, I found that, regarding the issue of long-term sustainability, there is negligible risk that implementation of either proposed

65 See my summary of AAMC’s comments on BWMC’s compliance with the financial feasibility standard, COMAR 10.24.17.05A(7), see supra, pp. 85, 88-89.
66 See discussion of the financial feasibility standard, COMAR 10.24.17.05A(7), see supra, pp. 76-95.
67 See my analysis of the Financial Feasibility standard, COMAR 10.24.17.05A(7), see, supra, pp.91-96.
program or both programs would cause either hospital to generate losses from its hospital operations. AAMC has documented the assumptions it used in modeling revenues and expenses at the utilization levels projected and has also answered the questions raised on its staffing plans. BWMC has documented the assumptions it used in modeling revenues and expenses at the utilization levels projected and has also answered the questions raised on its staffing plans.

Finally, AAMC, from a conventional accounting perspective, will be able to generate payments for cardiac surgery, at its projected charge levels, that will allow the hospital to be operationally profitable. The financial viability of AAMC will not be jeopardized. BWMC, from a conventional accounting perspective, will be able to generate payments for cardiac surgery, at its projected charge levels, that will allow the hospital to be operationally profitable. The financial viability of BWMC will not be jeopardized.

I found, in my review of the Minimum Volume standard, COMAR 10.24.17.05A(1),68 earlier in this Recommended Decision that only AAMC can demonstrate an ability to meet a projected volume of 200 adult open heart surgery cases in the second full year of operation, without making extraordinary assumptions with respect to service area and/or market share assumptions. The MedStar Hospitals argue that these projects are not viable because there is no need for the projects and because projected service volumes will not be achieved. They urge me to accept their view as a basis for a negative finding on the specific criterion of viability. I cannot do so because it is inconsistent with applicable regulations and MHCC regulatory history. The MedStar Hospitals call for a narrowing of the criteria and standards that MHCC has established for CON review to a single dimension and then seek to narrow perspective on this dimension. Their view is at odds with the approach to evaluating CON applications established in regulation, and also at odds with the Need standard in the Cardiac Surgery Chapter as well as with the general Need criterion in COMAR 10.24.01.08G(2), which points us to that State Health Plan standard. The MedStar Hospitals emphasize declining volume and the ability of existing programs to provide additional surgery if case volume grows, an elusive concept for a service that only requires hospital surgical facilities and an adequate staff to expand almost any existing cardiac surgery program. The MedStar Hospitals’ position would eliminate the Commission’s ability to consider the health care delivery system’s need for lower hospital charges or and the population’s need for improved access to services.

I find that AAMC has the resources necessary to sustain the operation of a cardiac surgery program and I also find that BWMC has the resources necessary to sustain the operation of a cardiac surgery program. I note that, as shown in the following two tables, AAMC and BWMC, based on their 2015 revenue, if authorized to provide cardiac surgery in 2015, would have ranked as the second and fourth largest community hospitals (data not shown) providing such a service in Maryland (without accounting for revenue gains from the service itself). Both hospitals also generate levels of excess revenue from operations that compare favorably with the experience of existing community hospitals that provide this service. AAMC did not generate excess revenue over expenses in FY 2015 or FY 2016. In FY 2015, this was the result of advanced refunding of bonds in late 2014, to obtain lower interest rates, which required funding of an escrow account with the amount required to call the bonds in 2019. AAMC recognized a non-cash, non-operating loss on extinguishment of the debt of approximately $32 million in FY 2015. In FY 2016, this

68 See my analysis of the Minimum Volume standard, COMAR 10.24.17.05A(1), see, supra, pp. 91-96.
was the primarily the result of net realized and unrealized losses on interest rate swap contracts, a loss of approximately $40 million. As shown in the following tables, AAMC had operating income in FY 2015 of $31.5 million and, in FY 2016, of $32.1 million. This compares very favorably with the operating income generated by non-academic medical center hospitals providing cardiac surgery. In FY 2015, only one community hospital with a cardiac surgery program, Sinai Hospital of Baltimore, reported a larger operating income figure.

Tables 23 and 24 below, profile the financial performance of the six multi-hospital systems and two single hospital organizations that operate Maryland cardiac surgery programs.

![Table 23: Financial Performance of AAMC and BWMC, FY 2014 and FY 2015](image)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Operating</th>
<th>Operating</th>
<th>Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014</td>
<td>FY 2015</td>
<td>FY 2016</td>
<td></td>
</tr>
<tr>
<td>Anne Arundel and Subsidiaries</td>
<td>508.3</td>
<td>489.5</td>
<td>18.8</td>
</tr>
<tr>
<td>UM Baltimore Washington Consolidated</td>
<td>380.2</td>
<td>368.2</td>
<td>12.0</td>
</tr>
<tr>
<td>Anne Arundel and Subsidiaries</td>
<td>535.8</td>
<td>504.3</td>
<td>31.5</td>
</tr>
<tr>
<td>UM Baltimore Washington Consolidated</td>
<td>410.2</td>
<td>388.0</td>
<td>22.2</td>
</tr>
<tr>
<td>Anne Arundel and Subsidiaries</td>
<td>551.1</td>
<td>519.0</td>
<td>32.1</td>
</tr>
<tr>
<td>UM Baltimore Washington Consolidated</td>
<td>387.7</td>
<td>373.4</td>
<td>14.3</td>
</tr>
</tbody>
</table>


![Table 24: Financial Performance of Hospitals Operating Cardiac Surgery Programs in Maryland and MedStar Washington Hospital Center, FY 2015](image)

<table>
<thead>
<tr>
<th>Cardiac Surgery Cases</th>
<th>Revenue</th>
<th>Operating</th>
<th>Operating</th>
<th>Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington Adventist</td>
<td>285</td>
<td>227.6</td>
<td>218.0</td>
<td>9.6</td>
</tr>
<tr>
<td>Prince George’s (Dimensions)</td>
<td>105</td>
<td>264.2</td>
<td>246.5</td>
<td>17.7</td>
</tr>
<tr>
<td>Sinai Consolidated (LifeBridge)</td>
<td>409</td>
<td>728.0</td>
<td>690.5</td>
<td>37.5</td>
</tr>
<tr>
<td>MedStar Union Memorial</td>
<td>626</td>
<td>431.2</td>
<td>421.1</td>
<td>10.1</td>
</tr>
<tr>
<td>MedStar Washington</td>
<td>1,694</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Peninsula Regional</td>
<td>433</td>
<td>393.8</td>
<td>378.3</td>
<td>15.4</td>
</tr>
<tr>
<td>Suburban Consolidated (JH)</td>
<td>212</td>
<td>275.1</td>
<td>262.9</td>
<td>12.2</td>
</tr>
<tr>
<td>The Johns Hopkins</td>
<td>1,262</td>
<td>2,096.7</td>
<td>2,028.3</td>
<td>68.5</td>
</tr>
<tr>
<td>UM St. Joseph Consolidated</td>
<td>454</td>
<td>391.0</td>
<td>398.7</td>
<td>(7.7)</td>
</tr>
<tr>
<td>University of Maryland</td>
<td>1,000</td>
<td>1,416.0</td>
<td>1,362.5</td>
<td>53.5</td>
</tr>
<tr>
<td>Western Maryland Regional</td>
<td>174</td>
<td>305.3</td>
<td>280.3</td>
<td>24.9</td>
</tr>
</tbody>
</table>


Table 25: Financial Performance of Hospital Organizations Operating Cardiac Surgery Programs in Maryland, FY 2014 (dollars in millions)

<table>
<thead>
<tr>
<th></th>
<th>Cardiac Surgery Programs</th>
<th>Cardiac Surgery Cases</th>
<th>Revenue[1]</th>
<th>Operating Expenses</th>
<th>Operating Income</th>
<th>Excess Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adventist HealthCare</td>
<td>1</td>
<td>301</td>
<td>695.3</td>
<td>682.9</td>
<td>12.4</td>
<td>14.7</td>
</tr>
<tr>
<td>Dimensions Health Corp.</td>
<td>1</td>
<td>29</td>
<td>382.4</td>
<td>381.2</td>
<td>1.2</td>
<td>47.4</td>
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<td>LifeBridge Health, Inc.</td>
<td>1</td>
<td>382</td>
<td>1,077.8</td>
<td>1,046.5</td>
<td>31.3</td>
<td>85.1</td>
</tr>
<tr>
<td>MedStar Health, Inc.</td>
<td>2</td>
<td>2,212</td>
<td>4,628.1</td>
<td>4,492.4</td>
<td>135.7</td>
<td>304.7</td>
</tr>
<tr>
<td>Peninsula Regional Health System, Inc.</td>
<td>1</td>
<td>431</td>
<td>380.2</td>
<td>373.9</td>
<td>6.3</td>
<td>31.1</td>
</tr>
<tr>
<td>Johns Hopkins Health System Corp.</td>
<td>2</td>
<td>1,426</td>
<td>5,125.5</td>
<td>4,938.7</td>
<td>186.8</td>
<td>338.3</td>
</tr>
<tr>
<td>UMMS Corp.</td>
<td>2</td>
<td>1,432</td>
<td>3,026.8</td>
<td>2,978.6</td>
<td>48.2</td>
<td>225.9</td>
</tr>
<tr>
<td>Western Maryland Health System Corp.</td>
<td>1</td>
<td>170</td>
<td>301.7</td>
<td>280.1</td>
<td>21.6</td>
<td>28.3</td>
</tr>
</tbody>
</table>

Notes: Cardiac surgery cases are for CY 2014. Source is HSCRC and DC Discharge Data Bases.
[1] Reported as “Total unrestricted revenues, gains and other support” by UMMS; “Total unrestricted revenue and other support:” by Dimensions and Peninsula; “Total revenues, gains and other support” by Western Maryland; “Total operating revenues” by LifeBridge and Johns Hopkins; and “Net operating revenues” by MedStar.

Table 26: Financial Performance of Hospital Organizations Operating Cardiac Surgery Programs in Maryland, FY 2015 (dollars in millions)

<table>
<thead>
<tr>
<th></th>
<th>Cardiac Surgery Programs</th>
<th>Cardiac Surgery Cases</th>
<th>Revenue[1]</th>
<th>Operating Expenses</th>
<th>Operating Income</th>
<th>Excess Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adventist HealthCare</td>
<td>1</td>
<td>285</td>
<td>746.6</td>
<td>725.9</td>
<td>20.7</td>
<td>21.1</td>
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<tr>
<td>Dimensions Health Corp.</td>
<td>1</td>
<td>105</td>
<td>393.2</td>
<td>374.3</td>
<td>19.0</td>
<td>20.1</td>
</tr>
<tr>
<td>LifeBridge Health, Inc.</td>
<td>1</td>
<td>409</td>
<td>1,213.1</td>
<td>1,162.4</td>
<td>50.7</td>
<td>65.5</td>
</tr>
<tr>
<td>MedStar Health, Inc.[2]</td>
<td>2</td>
<td>2,320</td>
<td>5,027.2</td>
<td>4,866.4</td>
<td>160.8</td>
<td>111.3</td>
</tr>
<tr>
<td>Peninsula Regional Health System, Inc.</td>
<td>1</td>
<td>433</td>
<td>397.9</td>
<td>384.0</td>
<td>13.9</td>
<td>25.8</td>
</tr>
<tr>
<td>Johns Hopkins Health System Corp.</td>
<td>2</td>
<td>1,474</td>
<td>5,540.1</td>
<td>5,321.2</td>
<td>218.9</td>
<td>94.1</td>
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<td>UMMS Corp.</td>
<td>2</td>
<td>1,454</td>
<td>3,373.5</td>
<td>3,255.8</td>
<td>117.7</td>
<td>95.1</td>
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<tr>
<td>Western Maryland Health System Corp.</td>
<td>1</td>
<td>174</td>
<td>312.0</td>
<td>288.3</td>
<td>23.7</td>
<td>23.1</td>
</tr>
</tbody>
</table>

Note: Cardiac surgery cases are for CY 2015 with exception of MedStar, which represents the sum of CY 2015 cases at Union Memorial and FY 2015 cases reported for MedStar Washington. Source is HSCRC Discharge Data Base and http://www.medstarwashington.org/our-hospital/facts-and-figures/#q={}
[1] Reported as “Total unrestricted revenues, gains and other support” by UMMS; “Total unrestricted revenue and other support:” by Dimensions and Peninsula; “Total revenues, gains and other support” by Western Maryland; “Total operating revenues” by LifeBridge and Johns Hopkins; and “Net operating revenues” by MedStar.

I find that AAMC demonstrated the availability of financial and nonfinancial resources, including community support, necessary to implement its proposed cardiac surgery program within the time frames set in the Commission's performance requirements. I also find that AAMC has demonstrated the availability of resources necessary to sustain its proposed program.

I find that BWMC demonstrated the availability of financial and nonfinancial resources, including community support, necessary to implement its proposed cardiac surgery program within the time frames set in the Commission's performance requirements. I also find that BWMC has demonstrated the availability of resources necessary to sustain its proposed program.
(e) Compliance with Conditions of Previous Certificates of Need. An applicant shall demonstrate compliance with all terms and conditions of each previous Certificate of Need granted to the applicant, and with all commitments made that earned preferences in obtaining each previous Certificate of Need, or provide the Commission with a written notice and explanation as to why the conditions or commitments were not met.

Applicants’ Responses

Anne Arundel Medical Center

AAMC identified five CONs it has received in the last twenty years and reports that all were completed “with all conditions.” (DI #3AA, p. 215).

Baltimore Washington Medical Center

BWMC reports on two CONs issued in the last 11 years. Both had two conditions, which BWMC reports that it met. (DI #2BW, pp. 118-19).

Interested Party and Participating Entity Comments

No comments were made by interested parties or participating entities with respect to this criterion.

Reviewer’s Analysis and Findings

MHCC records confirm that the applicant hospitals have performed well in implementing approved capital projects. I find that the performance of AAMC in implementing previously awarded CONs has been excellent. I find that the performance of BWMC in implementing previously awarded CONs has been excellent.

(f) Impact on Existing Providers and the Health Care Delivery System. An applicant shall provide information and analysis with respect to the impact of the proposed project on existing health care providers in the health planning region, including the impact on geographic and demographic access to services, on occupancy, on costs and charges of other providers, and on costs to the health care delivery system.

Applicants’ Responses

Anne Arundel Medical Center

AAMC states that its proposed project will have an impact on other hospitals, but it will not have an adverse impact on access or occupancy. (DI #2AA, p. 216). It provided the case
volume impact projections it had earlier provided in responding to the cardiac surgery Impact standard. It projects having the largest nominal impact on MedStar WHC, shifting 221 cases in 2018, the first year of full operation of the proposed program. It projects “relocating” 69 cases from JHH and 29 cases from UMMC. Only very small volume shifts are projected for other hospitals. As has been noted, these three hospitals have the largest cardiac surgery volume among Maryland and District of Columbia hospitals.

AAMC notes that, in Maryland, financial impact on hospitals losing volume to a new market entrant is mitigated by HSCRC policies that allow each such hospital to retain 50% of the revenue it would have received if it had held on the cases. It describes this policy as one that assures no adverse impact on Maryland hospitals in this situation, so long as the hospital can manage costs appropriately. (DI #2AA, pp. 217-218). For D.C. hospitals, no market share adjustments of this type would occur. MedStar WHC will lose all the revenue associated with cases it loses to AAMC, if AAMC establishes a new program. With respect to occupancy, AAMC notes that the impact of the program on census is relatively small and it also projects very small impacts on the cost per equivalent case mix adjusted discharge at the affected hospitals, ranging from a half of a percent increase at MedStar WHC down to less than a tenth of one percent increase at UMMC. (DI #2AA, pp. 218-219).

Baltimore Washington Medical Center

BWMC notes that its proposed program will have a positive impact on access, choice, and will result in lower costs for its service area population. (DI #2BW, p. 120). It references its response to the cardiac surgery project review standard for Impact, COMAR 10.24.17.05A(2). It also references its responses to: financial projections for the entire BWMC operation as a source of information on the impact of the project on BWMC’s revenues and expenses (DI #2BW, Exhibit 1); and, COMAR 10.24.17.05A(4), the cardiac surgery project review standard for cost effectiveness, for its discussion on costs to the health care system.69

Interested Party and Participating Entity Comments

No comments on either applicant’s compliance with this criterion were filed by interested party Anne Arundel County Department of Health, by interested party LifeBridge Health, or by participating entity Anne Arundel County.

Comments on the AAMC Application

BWMC Comments

As previously noted, BWMC states that AAMC failed to address the impact of its proposed cardiac surgery program on PGHC.70 (DI #29GF, p. 18). It states that the AAMC project will have a negative impact on PGHC and, for this reason, AAMC did not comply with this standard.

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70 This was a comment specifically addressed to the Impact standard for cardiac surgery. See my discussion of the Impact standard, COMAR 10.24.17.05A(2), see, supra, pp. 39-42.
**PGHC Comments**

PGHC also comments that AAMC failed to account for PGHC in its analysis of project impact. PGHC insists that the impact on its cardiac surgery program is likely to be existential. (DI #30GF). It notes that it is rebuilding a program that has operated at very low volume levels and states that its thus-far promising rebuilding effort is unlikely to succeed if AAMC is competing with PGHC to shift Washington, D.C. cases and if AAMC draws cases away from Prince George’s County and the PGHC service area.

**Comments on Both Applications**

**MedStar Hospitals Comments**

With specific reference to this criterion, the MedStar Hospitals state that each proposed cardiac surgery program would adversely impact some existing programs, as acknowledged by the applicants. (DI #34GF, p. 21). They state that neither applicant has acknowledged that MHCC has “already determined that geographic access to cardiac surgery is ‘not a problem’ in the state of Maryland,” implying that arguments with respect to the positive impact on access are invalid. It specifically references PGHC as a hospital with a “rebounding” cardiac surgery program that will be “undermined” by a new cardiac surgery program. (DI #34GF, p. 22).

**Applicants’ Responses to Comments**

Anne Arundel Medical Center

AAMC addresses the issue of impact on PGHC.71 (DI #45GF).

Baltimore Washington Medical Center

BWMC again states that its proposed program would have little impact on existing cardiac surgery programs, noting that “only 30.7% (70 cases) of the total projected volume would come from non-UMMS hospitals.” (DI #42GF, p. 2).

**Reviewer’s Analysis and Findings**

Each applicant has provided information and an analysis about the impact it projects for its proposed cardiac surgery program on: existing health care providers; occupancy; costs and charges of other providers; and costs to the health care delivery system. With respect to the impact of a new cardiac surgery program on PGHC, as I have already found, the markets that will be tapped for cases by PGHC and AAMC are sufficiently large that each can reach the target level of 200 cases per annum without having an unacceptable impact on other programs.

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71 Its response is summarized under my consideration of the cardiac surgery project review standard for Impact, COMAR 10.24.17.05A(2) see, supra, pp. 39-42.
Each proposed project would have a negligible impact on bed occupancy at the applicant hospitals and at affected hospitals. The average daily census associated with each proposed program, even when volume reaches stable levels, will be less than five patients.

Each proposed program would reduce charges for cardiac surgery, with AAMC likely to affect the largest charge reduction, per case and overall, based on my assessment that its potential for building case volume exceeds that of BWMC and its lower charge base. I view this as a positive impact on costs to the health care delivery system. Hospitals losing case volume to a new program are likely to see their unit cost increase, as fixed expenses are spread over a smaller base of cases. The affected Maryland hospitals will obtain some relief under HSCRC policies, which will allow them to retain 50% of the revenue associated with the lost cases. The hospitals likely to lose the most cases have large programs that can absorb this cost impact. Both applicant hospitals and their partners in the project, JHH and UMMC, have pledged not to seek additional budgeted revenue based on the impact of these projects. (DI #75GF; DI #76GF)

Each proposed program would have a positive impact on access to cardiac surgery. However, AAMC is geographically positioned to have the most positive impact on geographic access.

I find that AAMC’s proposed project will have a positive impact on charges for and access to cardiac surgery and a positive impact on health systems costs and would not have the result of increasing cost or charges at existing facilities that outweigh these positive impacts.

I find that BWMC’s proposed project will have a positive impact on charges for and access to cardiac surgery and a positive impact on health systems costs and would not have the result of increasing cost or charges at existing facilities that outweigh these positive impacts. However, I have not found that BWMC’s proposed project should be approved, on the basis that it does not comply with all applicable criteria and standards.

V. REVIEWER’S RECOMMENDATION

This comparative review of proposals to establish new cardiac surgery programs in Maryland is the first conducted under a relatively new State Health Plan chapter that was influenced by statutory changes that involved a rethinking of regulatory oversight for both cardiac surgery and PCI services in Maryland. It is also a project review that is significantly influenced by the relatively new and evolving hospital payment model that was established in Maryland just two years ago that creates a global hospital budget for the state. The establishment of this model is important as it constrains growth in hospital revenue which was not necessarily fully considered at the time of the revision of the State Health Plan.

The State Health Plan (“SHP”) does not provide any clear indication that Maryland needs additional cardiac surgery programs. The decline in cardiac surgery volume that began about 15 years ago suggests a need for caution. While overall case volumes have stabilized and risen in recent years, this rebound has primarily benefited the largest programs and, in the case of the two Baltimore AMCs, the highest charge programs. Maryland still has a program, at PGHC, that is
operating at inappropriately low volume levels and the program in Western Maryland has also slipped below the 200 cases per annum volume target. As pointed out by several parties in this review, the SHP does not provide unequivocal support for the idea that improving access to cardiac surgery is an important need when considered in the context of avoiding the creation of poorly utilized programs.

Both of these projects are appealing in that they engage the Maryland academic medical centers in support of community hospitals, in a partnership or as a system component. The appeal is the promise this brings to the development of high-quality programs, sharing clinical resources, while also reducing charges for cardiac surgery cases that shift from the higher charge AMCs and other higher charge urban hospitals to the lower cost settings of AAMC and BWMC. As health care delivery technologies evolve, it is important that the health system reduce the costs of technologies and this is one important option that allows this taxpayers to receive the financial benefit of innovation that reduces costs. I believe this strategy brings strengths for developing cardiac surgery in Maryland at this point in time. The cost impact of the movement of surgery cases from high costs to lower costs settings should be monitored as it unfolds to confirm that this is a cost-reducing strategy and not one where costs are allowed to balloon elsewhere. We have asked for and received commitments from AAMC and Johns Hopkins to not approach the HSCRC for requests in increases in their rates due to shifts in cardiac surgery volumes.

I have concluded that AAMC brings the highest potential for establishment of a lower charge program that can also be high performing. It is the larger of the two applicants and has a larger service area base than BWMC upon which to draw patients. Geographically, it is better positioned than BWMC to draw from the two urban areas where existing programs are concentrated and also better positioned to have the most positive impact on reducing travel time for cardiac surgery services, especially for the population of the Eastern Shore and some areas of Southern Maryland. I have also concluded that only one new program should be created at this time. The potential for maximizing the reduction of charges for cardiac surgery led me to closely consider the ability for both of these proposed projects to go forward at this time. This possibility was also based on my belief that both hospitals, with the support of their partner hospitals, could do a good job in program development. As I looked through that scenario, I also considered the competitive dynamics that would result from having 2 new programs and the likely impact on volumes. I also looked at the impact on volumes objectively through the creation of a model that was applied to both applicants. However, in the end, I have concluded that the most prudent approach is to recommend approval of the strongest application and to deny the weaker proposal, especially given its high dependence on requiring academic medical center transfers to meet minimal volumes.

I am aware that this recommendation will not only disappoint UMMS and BWMC but will also be likely to have a meaningful impact on one of the MedStar Hospitals. The MedStar Washington Hospital Center probably has the greatest potential for reduced surgical cases as a result of an AAMC program. My recommendation will not necessarily be welcomed by PGHC, which is poised to join the UMMS system. My assessment is that MedStar Washington Hospital Center will continue to function as a major provider of cardiac surgery and other cardiovascular services despite added competitive pressure. In this case, I believe that the benefits to be gained in lower charges and improved access are of greater value to more people than the marginal
adjustments that MedStar will need to make in response to the competitive pressure. PGHC and UMMS will have to compete harder for referrals if AAMC joins them as an alternative choice for Prince George’s County and Anne Arundel County residents. But, as I stated in this Recommended Decision, there is sufficient demand in these jurisdictions to support both the PGHC program and a new program at AAMC at the 200 cases per year level. Obviously, neither program is guaranteed to succeed and it is not the objective of this review to provide such guarantees. I do not believe that Maryland stakeholders should forego the positive gains offered in the AAMC project to shelter existing providers from healthy competition. The recent performance of PGHC suggest that it may soon be operating at levels of volume it has not previously experienced, making its challenge one of holding market share as much or more as gaining market share, which may be an easier objective. It is also relevant that PGHC will be reborn at a new location with new hospital facilities in just a few years. This recent success may also provide some assurance that PGHC can effectively compete in an altered landscape.

The basis for my Recommended Decision to approve the AAMC project, with conditions, is my finding that AAMC complied with all applicable SHP standards in this review. I also found, under the other review criteria, that AAMC demonstrated that it would meet a need for lower charges for and improved access to cardiac surgery services, that it is a cost-effective alternative for meeting those needs, that it will be a viable project, and that it will have a positive impact on the health care system and generate systems saving while not having an adverse impact on existing hospitals that would warrant denial of the project.

The basis for my Recommended Decision to deny the BWMC project is my finding that BWMC did not comply with all of the applicable SHP standards in this review. I found that it did not comply with the Minimum Volume standard, the Cost Effectiveness standard, or the Need standard for cardiac surgery. BWMC did not propose the need for improved access as a justification for its proposed project under the cardiac surgery Access standard. With respect to the other review criteria, I found that the BWMC project did not demonstrate that it was needed under the applicable need standard of the SHP, COMAR 10.24.17.05A(1), Minimum Volume. I also found that it was not the most cost effective alternative for meeting the need for improved access and lower charges for cardiac surgery.

I am recommending that the AAMC proposed project, CON Docket No. 15-02-2360, be approved with three conditions:

1. If the cardiac surgery program at AAMC fails to achieve a volume of at least 200 open heart surgery cases in its second year of operation, AAMC will fully cooperate with MHCC’s required evaluation of closure of the program, under COMAR 10.24.17.04B(1)(b).

2. The Johns Hopkins Hospital will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has as any part of its basis, the lost revenue generated by cardiac surgery services that have shifted to Anne Arundel Medical Center.
3. Anne Arundel Medical Center will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has, as any part of its basis, the objective of obtaining additional revenue from the provision of cardiac surgery services.
Based on the analysis and findings in the Reviewer’s Recommended Decision, it is this 26th day of January, 2017, ORDERED:

That the application of Anne Arundel Medical Center for a Certificate of Need to introduce cardiac surgery services at a total project cost of $2,500,381 is APPROVED subject to the following conditions:

1. If the cardiac surgery program at AAMC fails to achieve a volume of at least 200 open heart surgery cases in its second year of operation, AAMC will fully cooperate with MHCC’s required evaluation of closure of the program, under COMAR 10.24.17.04B(1)(b).

2. The Johns Hopkins Hospital will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has as any part of its basis, the lost revenue generated by cardiac surgery services that have shifted to Anne Arundel Medical Center.

3. Anne Arundel Medical Center will not approach the Health Services Cost Review Commission to request an increase in global budgeted revenue that has, as any part of its basis, the objective of obtaining additional revenue from the provision of cardiac surgery services.

It is further ORDERED:

That the application of the University of Maryland Baltimore Washington Medical Center for a Certificate of Need to introduce cardiac surgery services is DENIED.
APPENDIX 1

Procedural Record
<table>
<thead>
<tr>
<th>Docket Item #</th>
<th>Description</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commission staff acknowledged receipt of Letters of Intent to file CON applications.</td>
<td>12/8/14</td>
</tr>
<tr>
<td>2</td>
<td>Montgomery to McDonald, Certificate of Service for Letters of Intent to local health departments.</td>
<td>12/8/14</td>
</tr>
<tr>
<td>3</td>
<td>The applicant filed its application for Certificate of Need.</td>
<td>2/20/15</td>
</tr>
<tr>
<td>4</td>
<td>The applicant certified that it delivered copies of its Application for Certificate of Need to the health departments of Anne Arundel County, Baltimore City, Baltimore County, Caroline County, Carroll County, Cecil County, Kent Count, Harford County, Howard County, Queen Anne’s County, Talbot County and Baltimore Washington Medical Center.</td>
<td>2/23/15</td>
</tr>
<tr>
<td>5</td>
<td>Commission staff acknowledged receipt of application for completeness review.</td>
<td>2/24/15</td>
</tr>
<tr>
<td>6</td>
<td>Various letters of support for the project were filed.</td>
<td>Various dates</td>
</tr>
<tr>
<td>7</td>
<td>Following completeness review, Commission staff requested additional information before a formal review of the CON application could begin.</td>
<td>3/10/15</td>
</tr>
<tr>
<td>8</td>
<td>Commission staff received responses to completeness questions from counsel for the applicants, Jonathan Montgomery.</td>
<td>3/30/15</td>
</tr>
<tr>
<td>9</td>
<td>Montgomery to McDonald, Certificate of Service for the completeness information.</td>
<td>3/31/15</td>
</tr>
<tr>
<td>10</td>
<td>McDonald to Widerlite, request for clarification on Chart 45</td>
<td>4/21/15</td>
</tr>
<tr>
<td>11</td>
<td>Commission staff requested additional information from the applicant.</td>
<td>4/22/15</td>
</tr>
<tr>
<td>12</td>
<td>Commission staff received responses to additional questions from counsel for the applicants, Jonathan Montgomery.</td>
<td>5/6/15</td>
</tr>
<tr>
<td></td>
<td>Date</td>
<td>Event</td>
</tr>
<tr>
<td>---</td>
<td>------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>13</td>
<td>5/8/15</td>
<td>Montgomery to McDonald, Certificate of Service for the completeness information.</td>
</tr>
<tr>
<td>14</td>
<td>6/4/15</td>
<td>Commission staff notified the applicant that the Formal start of the review of its application would be June 26, 2016.</td>
</tr>
<tr>
<td>15</td>
<td>6/5/15</td>
<td>Commission staff requested comments from Anne Arundel County, Baltimore City, Baltimore County, Caroline, Carroll, Cecil, Harford, Howard, Queen Anne’s, and Talbot Counties Health Departments on the application in this matter.</td>
</tr>
<tr>
<td>16</td>
<td>6/16/15</td>
<td>Montgomery to McDonald, Exhibit 28, Letter from Howard County Health Department in support of application.</td>
</tr>
<tr>
<td>17</td>
<td>6/17/15</td>
<td>Commission staff received Notice from Harford County that it declined to comment on this matter.</td>
</tr>
<tr>
<td>18</td>
<td>6/18/15</td>
<td>Commission staff received Notice from Baltimore County that it declined to comment on this matter.</td>
</tr>
<tr>
<td>19</td>
<td>6/22/15</td>
<td>Commission staff received Notice from Talbot County that it declined to comment on this matter.</td>
</tr>
<tr>
<td>20</td>
<td>7/27/15</td>
<td>Letter of support for AAMC from CareFirst BCBS</td>
</tr>
<tr>
<td>21</td>
<td>10/1/15</td>
<td>Commission staff to Hall acknowledging receipt to receive notification of the review.</td>
</tr>
<tr>
<td>22</td>
<td>11/7/16</td>
<td>AAMC’s Modification as a result of the project status conference</td>
</tr>
<tr>
<td>23</td>
<td>11/8/16</td>
<td>Disc containing AAMC’s Modification</td>
</tr>
<tr>
<td>Docket Item #</td>
<td>Description</td>
<td>Date</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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<tr>
<td>1</td>
<td>Commission staff acknowledged receipt of Letters of Intent to file CON applications.</td>
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<td>The applicant filed its application for Certificate of Need.</td>
<td>2/20/15</td>
</tr>
<tr>
<td>3</td>
<td>Commission staff acknowledged receipt of application for completeness review.</td>
<td>2/24/15</td>
</tr>
<tr>
<td>4</td>
<td>Dame to McDonald, Certificate of Service for application.</td>
<td>2/25/15</td>
</tr>
<tr>
<td>5</td>
<td>Following completeness review, Commission staff requested additional information before a formal review of the CON application could begin.</td>
<td>3/30/15</td>
</tr>
<tr>
<td>6</td>
<td>Commission staff received responses to completeness questions from counsel for the applicants, Thomas Dame.</td>
<td>3/30/15</td>
</tr>
<tr>
<td>7</td>
<td>McDonald to McCollum, request for second set of completeness information.</td>
<td>4/22/15</td>
</tr>
<tr>
<td>8</td>
<td>Dame to Potter, BWMC’s Response to second set of completeness questions.</td>
<td>5/6/15</td>
</tr>
<tr>
<td>9</td>
<td>Dame to Potter, Supplemental Response to completeness questions.</td>
<td>5/20/15</td>
</tr>
<tr>
<td>10</td>
<td>Dame to Potter, copy of letter Adil Daudi at UMMS that addressed certain statements made by AAMC.</td>
<td>6/3/15</td>
</tr>
<tr>
<td>11</td>
<td>Commission staff notified the applicant that the Formal start of the review of its application would be June 26, 2016.</td>
<td>6/4/15</td>
</tr>
<tr>
<td>12</td>
<td>Commission staff requested comments from Anne Arundel County, Baltimore City, Baltimore County, Caroline, Carroll, Cecil, Harford, Howard, Queen Anne’s, and Talbot Counties Health Departments on the application in this matter.</td>
<td>6/5/15</td>
</tr>
<tr>
<td>13</td>
<td>Dame to Potter, response to additional information question in docketing letter.</td>
<td>6/11/15</td>
</tr>
<tr>
<td>14</td>
<td>Commission staff received Notice from Harford County that it declined to comment on this matter.</td>
<td>6/17/15</td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td>Date</td>
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<tr>
<td>15</td>
<td>Commission staff received Notice from Baltimore County that it declined to comment on this matter.</td>
<td>6/18/15</td>
</tr>
<tr>
<td>16</td>
<td>Commission staff received Notice from Talbot County that it declined to comment on this matter.</td>
<td>6/22/15</td>
</tr>
<tr>
<td>17</td>
<td>The applicant filed its Modified Application for CON.</td>
<td>8/10/15</td>
</tr>
<tr>
<td>18</td>
<td>Commission staff posted Notice for Request for Comments on the Modified Application on the MHCC website.</td>
<td>8/11/15</td>
</tr>
<tr>
<td>19</td>
<td>Thomas Dame filed a clean copy of page 11 for BWMC’s modified application.</td>
<td>8/11/15</td>
</tr>
<tr>
<td>Docket Item #</td>
<td>Description</td>
<td>Date</td>
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<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>1GF</td>
<td>List of attendees for the Pre-Application Conference</td>
<td>12/17/15</td>
</tr>
<tr>
<td>2GF</td>
<td>Email from Thomas Dame on behalf of UM-BWMC to Commission staff requesting information on cardiac utilization and a 30-day extension to file CON applications for cardiac surgery. The applicant filed its application for Certificate of Need.</td>
<td>1/16/15</td>
</tr>
<tr>
<td>3GF</td>
<td>Letter to Commission staff from Jerry Walker, Chairman of the County Council of Anne Arundel County with a copy of a resolution urging the Commission to support the establishment of a cardiac surgery program in Anne Arundel County.</td>
<td>1/21/15</td>
</tr>
<tr>
<td>4GF</td>
<td>Email from Jonathan Montgomery on behalf of AAMC requesting that the Commission not extend the application due date.</td>
<td>1/22/15</td>
</tr>
<tr>
<td>5GF</td>
<td>Email from Suellen Wideman to Dame and Montgomery regarding the revised review schedule for applications for CON to establish cardiac surgery services and updated 2019 cardiac surgery utilization projections.</td>
<td>1/26/15</td>
</tr>
<tr>
<td>6GF</td>
<td>Email from Jonathan Montgomery on behalf of AAMC requesting clarification of Table L of the CON application for cardiac surgery.</td>
<td>2/4/15</td>
</tr>
<tr>
<td>7GF</td>
<td>Letter from Kevin McDonald to Montgomery and Dame regarding completion of Table L in the CON application.</td>
<td>2/6/15</td>
</tr>
<tr>
<td>8GF</td>
<td>Email from Wideman to Dame and Montgomery regarding documents in response to Dame’s request of January 16, 2015 for projections and data.</td>
<td>2/10/15</td>
</tr>
<tr>
<td>9GF</td>
<td>Commission staff requested that the Baltimore Sun publish notice of receipt of applications in this matter.</td>
<td>2/24/15</td>
</tr>
<tr>
<td>10GF</td>
<td>Commission staff requested that The Capital publish notice of receipt of applications in this matter.</td>
<td>2/24/15</td>
</tr>
<tr>
<td>11GF</td>
<td>Commission staff requested that the Maryland Gazette publish notice of receipt of applications in this matter.</td>
<td>2/24/15</td>
</tr>
<tr>
<td>12GF</td>
<td>Commission staff requested that the <em>Maryland Register</em> publish notice of receipt of applications in this matter.</td>
<td>2/24/15</td>
</tr>
<tr>
<td>13GF</td>
<td>Acknowledgment of receipt of MedStar’s request to receive notification on the review</td>
<td>2/24/15</td>
</tr>
<tr>
<td>14GF</td>
<td>Notice of receipt of applications as published in the <em>Baltimore Sun</em>.</td>
<td>3/3/15</td>
</tr>
<tr>
<td>15GF</td>
<td>Notice of receipt of applications as published in <em>The Capital</em>.</td>
<td>3/11/15</td>
</tr>
<tr>
<td>16GF</td>
<td>Emails from McDonald to Dame and Montgomery granting extension of time to file responses to the Commission’s completeness questions.</td>
<td>3/24/15</td>
</tr>
<tr>
<td>17GF</td>
<td>Commission staff requested that the <em>Baltimore Sun</em> publish notice of docketing of applications in this matter.</td>
<td>6/4/15</td>
</tr>
<tr>
<td>18GF</td>
<td>Commission staff requested that <em>The Capital</em> publish notice of docketing of applications in this matter.</td>
<td>6/4/15</td>
</tr>
<tr>
<td>19GF</td>
<td>Commission staff requested that the <em>Maryland Gazette</em> publish notice of docketing of applications in this matter.</td>
<td>6/4/15</td>
</tr>
<tr>
<td>20GF</td>
<td>Commission staff requested that the <em>Maryland Register</em> publish notice of docketing of applications in this matter.</td>
<td>6/4/15</td>
</tr>
<tr>
<td>21GF</td>
<td>Dame to McDonald and Wideman regarding whether the CON applications would be a comparative review or separate reviews.</td>
<td>6/9/15</td>
</tr>
<tr>
<td>22GF</td>
<td>Willis to Wideman request for clarification on preliminary procedure for MedStar’s interested party status.</td>
<td>6/11/15</td>
</tr>
<tr>
<td>23GF</td>
<td>Certification from the <em>Baltimore Sun</em> of publication of docketing of applications in this matter.</td>
<td>6/16/15</td>
</tr>
<tr>
<td>24GF</td>
<td>Certification from the <em>Maryland Gazette</em> of publication of docketing of applications in this matter.</td>
<td>6/27/15</td>
</tr>
<tr>
<td>25GF</td>
<td>Request from Mayor Mike Pantelides that Annapolis be a participating entity in the review.</td>
<td>7/15/15</td>
</tr>
<tr>
<td>26GF</td>
<td>Request from County Executive Steven R. Schuh that Anne Arundel County be a participating entity in the review and comments on applications.</td>
<td>7/21/15</td>
</tr>
<tr>
<td>27GF</td>
<td>Interested party comments from Anne Arundel Health Department.</td>
<td>7/23/15</td>
</tr>
<tr>
<td>Date</td>
<td>Description</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>7/27/15</td>
<td>Montgomery to Park, AAMC’s Comments on BWMC’s application for Proposed Establishment of Cardiac Surgery.</td>
<td></td>
</tr>
<tr>
<td>7/27/15</td>
<td>Dame to Potter, BWMC’s Comments on AAMC’s CON application or Proposed Establishment of Cardiac Surgery.</td>
<td></td>
</tr>
<tr>
<td>7/27/15</td>
<td>McSherry to Parker, Interested Party Dimensions Health Corp., d/b/a Prince George’s Hospital Center, comments on the AAMC application for Proposed Establishment of Cardiac Surgery.</td>
<td></td>
</tr>
<tr>
<td>7/27/15</td>
<td>McSherry to Parker, Request for Evidentiary Hearing.</td>
<td></td>
</tr>
<tr>
<td>7/27/15</td>
<td>McSherry to Parker, Request to be Advised of Further Notice of Proceedings.</td>
<td></td>
</tr>
<tr>
<td>7/27/15</td>
<td>Meltzer to McDonald, Interested Party Comments on AAMC and BWMC from LifeBridge Health.</td>
<td></td>
</tr>
<tr>
<td>7/27/15</td>
<td>Brennan to Parker, Interested Party Comments on AAMC and BWMC from MedStar Union Memorial and MedStar Washington Hospital Center.</td>
<td></td>
</tr>
<tr>
<td>7/27/15</td>
<td>Burrell to Parker, Comments from CareFirst BCBS on the applications.</td>
<td></td>
</tr>
<tr>
<td>7/31/15</td>
<td>McSherry to Parker, Attestation of Lisa Goodlett and Certificate of Service for Dimensions’ Comments on the AAMC application.</td>
<td></td>
</tr>
<tr>
<td>8/6/15</td>
<td>Email request from Richard McAlee representing LifeBridge Health, request to receive notice.</td>
<td></td>
</tr>
<tr>
<td>8/7/15</td>
<td>Brennan to Parker, request for an evidentiary hearing on behalf of MedStar.</td>
<td></td>
</tr>
<tr>
<td>8/10/15</td>
<td>Dame to Potter, request for evidentiary hearing on behalf of BWMC.</td>
<td></td>
</tr>
<tr>
<td>8/14/15</td>
<td>Wideman email to Dame, Montgomery, Brennan, Wills, McAlee, Suldan, McSherry, Schuh regarding guidance request on submitting response to Response to Comments.</td>
<td></td>
</tr>
<tr>
<td>8/14/15</td>
<td>Wideman email to Dame, Montgomery, Brennan, Wills, McAlee, Suldan, McSherry, Response to comments and comments on BWMC application would be due on 8/25/15</td>
<td></td>
</tr>
<tr>
<td>8/25/15</td>
<td>Dame to Potter, BWMC’s Response to Comments Submitted by Interested Parties.</td>
<td></td>
</tr>
<tr>
<td>8/25/15</td>
<td>Dame to Potter, Opposition to the City of Annapolis’ Request to be Granted participating Entity Status and Motion to Strike City of Annapolis’ Comments.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td>Date</td>
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</tr>
<tr>
<td>44GF</td>
<td>Dame to Potter, Opposition to the CareFirst BCBS’ Request to be Granted participating Entity Status and Motion to Strike City of CareFirst BCBS’ Comments.</td>
<td>8/25/15</td>
</tr>
<tr>
<td>45GF</td>
<td>Montgomery to Parker, AAMC’s Response to Interested Party Comments.</td>
<td>8/25/15</td>
</tr>
<tr>
<td>46GF</td>
<td>Montgomery to Parker, AAMC’s Comments on Modified Application of BWMC.</td>
<td>8/25/15</td>
</tr>
<tr>
<td>47GF</td>
<td>Burrell to Parker, CareFirst BCBS’ letter of 7/27/15 was intended as a letter of support for AAMC and not a request for participating entity status.</td>
<td>9/3/15</td>
</tr>
<tr>
<td>48GF</td>
<td>Emails request and granting of extension for BWMC to file response to AAMC’s comments on modified application.</td>
<td>9/4/15-9/8/15</td>
</tr>
<tr>
<td>49GF</td>
<td>Email for CareFirst BCBS’ Chet Burrell that he does not want to be copied on correspondence.</td>
<td>9/8/15</td>
</tr>
<tr>
<td>50GF</td>
<td>Email, AAMC request to replace Exhibit 23f with corrected version.</td>
<td>9/11/15</td>
</tr>
<tr>
<td>51GF</td>
<td>Montgomery to Parker, AAMC’s Response to BWMC’s Request for Evidentiary Hearing.</td>
<td>9/14/15</td>
</tr>
<tr>
<td>52GF</td>
<td>Montgomery to Parker, AAMC’s Response to BWMC’s Opposition to the City of Annapolis’ Request to be Granted Participating Entity Status and Motion to Strike City of Annapolis Comments.</td>
<td>9/14/15</td>
</tr>
<tr>
<td>53GF</td>
<td>Dame to Potter, BWMC’s Response to Comments Submitted by AAMC Concerning BWMC’s Modification to CON Application.</td>
<td>9/28/15</td>
</tr>
<tr>
<td>54GF</td>
<td>Aiken to Potter, Reply in Further Support of BWMC’s Motion to Strike City of Annapolis Comments.</td>
<td>10/9/15</td>
</tr>
<tr>
<td>55GF</td>
<td>Tanio to Montgomery/Dame/McSherry/Meltzer/Brennan/Chan Interested Party Status granted to MedStar Union Memorial, MedStar Washington Hospital Center, Prince George’s Hospital, Sinai Hospital, and Anne Arundel County Health Department.</td>
<td>12/8/15</td>
</tr>
<tr>
<td>56GF</td>
<td>Tanio to Pantelides and Schuh, Deny participating entity status to City of Annapolis, grant participating entity status to Anne Arundel County.</td>
<td>12/8/15</td>
</tr>
<tr>
<td>57GF</td>
<td>Montgomery to Parker, AAMC Motion to Enter Supplemental Statement of Support.</td>
<td>1/12/16</td>
</tr>
<tr>
<td>58GF</td>
<td>University of Maryland BWMC Response to AAMC Motion to Enter Supplemental Statement of Support.</td>
<td>1/26/16</td>
</tr>
<tr>
<td>No.</td>
<td>Description</td>
<td>Date</td>
</tr>
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</tr>
<tr>
<td>59GF</td>
<td>MedStar Health’s Opposition to AAMC Motion to Enter Supplemental Statement of Support and Motion for Declaratory Ruling to Close Substantive Record Pending Establishing of Evidentiary Hearing Procedures.</td>
<td>1/27/16</td>
</tr>
<tr>
<td>60GF</td>
<td>Email from Washington Adventist, Report for Record, Delivering Value in Cardiac Surgery for the State of Maryland.</td>
<td>1/28/16</td>
</tr>
<tr>
<td>61GF</td>
<td>Malick to Parker, Interested Party Dimensions’ Health Corporation d/b/a Prince George’s Hospital Center Opposition to AAMC’s Motion to Enter Supplemental Statements of Support.</td>
<td>6/24/16</td>
</tr>
<tr>
<td>62GF</td>
<td>McSherry to Parker, Interest Party Dimension Health Corporation d/b/a Prince George’s Hospital Center’s Motion to Supplement its Comments to the Application for CON of AAMC.</td>
<td>6/24/16</td>
</tr>
<tr>
<td>63GF</td>
<td>Montgomery to Tanio, Request a status update on the review.</td>
<td>7/14/16</td>
</tr>
<tr>
<td>64GF</td>
<td>Tanio to Kinzer/Schmith, Request HSCRC comments on applications.</td>
<td>7/15/16</td>
</tr>
<tr>
<td>65GF</td>
<td>Tanio to Montgomery/Dame/McSherry/Suldan/Brennan/Chan, Ruling on Request for Evidentiary Hearing.</td>
<td>7/21/16</td>
</tr>
<tr>
<td>66GF</td>
<td>Montgomery to Tanio, AAMC’s Response to Dimension’s Motion to Supplement Comments.</td>
<td>7/29/16</td>
</tr>
<tr>
<td>67GF</td>
<td>McSherry to Parker, Dimensions Response to AAMC’s Response to Dimensions’ Motion to Supplement Comments.</td>
<td>8/12/16</td>
</tr>
<tr>
<td>68GF</td>
<td>Kinzer/Schmith to Tanio, HSCRC Comments on applications.</td>
<td>8/24/16</td>
</tr>
<tr>
<td>69GF</td>
<td>Tanio to Montgomery/Dame, Request commitments from applicant to matters raised by HSCRC.</td>
<td>10/5/16</td>
</tr>
<tr>
<td>70GF</td>
<td>Emails Wideman/Montgomery/Dame, Response to October 5, 2016 letter should be submitted by October 14, 2016.</td>
<td>10/7/16</td>
</tr>
<tr>
<td>71GF</td>
<td>Montgomery to Tanio, Request Response to October 5, 2016 request be due by October 19, 2016.</td>
<td>10/11/16</td>
</tr>
<tr>
<td>72GF</td>
<td>Dame to Tanio, Comments on allowing AAMC to revise its financial schedule to conform with standard HSCRC policy.</td>
<td>10/11/16</td>
</tr>
<tr>
<td>73GF</td>
<td>Tanio to Montgomery/Dame, Response will be due October 17, 2016.</td>
<td>10/11/16</td>
</tr>
<tr>
<td>74GF</td>
<td>Montgomery to Tanio, Motion to Enter a Revised Curriculum Vitae.</td>
<td>10/5/16</td>
</tr>
<tr>
<td>#</td>
<td>From</td>
<td>Subject</td>
</tr>
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<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>75GF</td>
<td>Montgomery to Potter</td>
<td>AAMC’s response to the October 5, 2016 letter requesting commitments.</td>
</tr>
<tr>
<td>76GF</td>
<td>Olscamp to Tanio</td>
<td>BWMC’s response to October 5, 2016 letter requesting commitments.</td>
</tr>
<tr>
<td>77GF</td>
<td>Tanio to Montgomery/Dame/ McSherry/Meltzer/Brennan/Chan</td>
<td>Ruling and Notice of Project Status Conference and request availability of representatives to attend project status conference on 10/27/16</td>
</tr>
<tr>
<td>78GF</td>
<td>Dame to Tanio</td>
<td>BWMC seeks decision and direction concerning procedural posture of review</td>
</tr>
<tr>
<td>79GF</td>
<td>Aiken to Tanio</td>
<td>UMBWMC’s Motion to Strike the Modification of Anne Arundel Medical Center</td>
</tr>
<tr>
<td>80GF</td>
<td>E-Mail – Montgomery to Wideman</td>
<td>AAMC’s availability and representatives are for status conference</td>
</tr>
<tr>
<td>81GF</td>
<td>Dame to Tanio</td>
<td>BWMC’s availability for status conference</td>
</tr>
<tr>
<td>82GF</td>
<td>Willis to Tanio/Dame/ Montgomery/Meltzer/McSherry/ Chan</td>
<td>MedStar’s availability for project status conference</td>
</tr>
<tr>
<td>83GF</td>
<td>McSherry to Tanio</td>
<td>Dimension’s availability for status conference</td>
</tr>
<tr>
<td>84GF</td>
<td>E-mail’s Wideman/Dame/ Montgomery/Meltzer/Brennan/ McSherry/Chan</td>
<td>confirmation that 10/27/16 will be date of status conference</td>
</tr>
<tr>
<td>85GF</td>
<td>E-mail Wideman/Dame/ Montgomery/Meltzer/Brennan/ McSherry/Chan</td>
<td>Additional representative for AAMC for status conference</td>
</tr>
<tr>
<td>86GF</td>
<td>Tanio to Dame/ Montgomery/Meltzer/Brennan/ McSherry/Chan</td>
<td>Project Status Conference date and time</td>
</tr>
<tr>
<td>87GF</td>
<td>Dame to Tanio</td>
<td>List of BWMC’s representatives for status conference</td>
</tr>
<tr>
<td>88GF</td>
<td>McSherry to Tanio</td>
<td>List of Dimensions representatives for status conference</td>
</tr>
<tr>
<td>89GF</td>
<td>Transcript of Project Status Conference</td>
<td></td>
</tr>
<tr>
<td>90GF</td>
<td>Tanio to Dame/Montgomery</td>
<td>Project Status Conference Summary</td>
</tr>
<tr>
<td>91GF</td>
<td>Montgomery to Tanio</td>
<td>AAMC accepts invitation from status conference to revised application</td>
</tr>
<tr>
<td></td>
<td>Date</td>
<td>Description</td>
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</tr>
<tr>
<td>92GF</td>
<td>10/31/16</td>
<td>Tanio to Montgomery/Dame Meltzer/Brennan/ McSherry/Chan - Rulings and Pending Motions and Closing of Record</td>
</tr>
<tr>
<td>93GF</td>
<td>11/14/16</td>
<td>Jeffries to Tanio/Potter – Dimensions IP Comments of financial modification of AAMC</td>
</tr>
<tr>
<td>94GF</td>
<td>11/14/16</td>
<td>Dame to Tanio – BWMC’s IP Comments of financial modification of AAMC</td>
</tr>
<tr>
<td>95GF</td>
<td>11/14/16</td>
<td>Brennan to Tanio – MedStar’s IP Comments of financial modification of AAMC</td>
</tr>
<tr>
<td>96GF</td>
<td>11/14/16</td>
<td>Brennan to Tanio – MedStar’s Motion for Oral Argument</td>
</tr>
<tr>
<td>97GF</td>
<td>12/30/16</td>
<td>Supplementation of Record by addition of zip code area population data sets obtained by MHCC from Neilsen Claritas, FY 2016 audited financial statements of AAMC and UMMS, and FY 2014 and FY 2015 audited financial statements of other Maryland cardiac surgery hospitals and hospital systems</td>
</tr>
<tr>
<td>98GF</td>
<td>12/30/16</td>
<td>Tanio to Montgomery/Dame/ McSherry/Meltzer/Brennan/Chan – Ruling and notice of supplementation of record</td>
</tr>
</tbody>
</table>
APPENDIX 2

Service Area Maps

Map 1 illustrates the service area defined for cardiac surgery by AAMC in its CON Application (DI #3AA, Appendix 2) and the CY 2014 85% relevance MSGA service area of AAMC.

Map 2 illustrates the service area defined for cardiac surgery by BWMC in its CON Application (DI #2BW, Exhibit 4) and the CY 2014 85% relevance MSGA service area of BWMC.
APPENDIX 3

Health Services Cost Review Commission Staff Comment
Date: August 24, 2016

To: Craig P. Tanio
Commissioner/Reviewer, MHCC

From: Donna Kinzer, Executive Director, HSCRC
       Gerard J. Schmith, Deputy Director, Hospital Rate Setting, HSCRC

Subject: Applications for Certificates of Need to Establish Cardiac Surgery Services at Anne Arundel Medical Center (Docket No. 15-02-2360) and University of Maryland Baltimore Washington Medical Center (Docket No. 15-02-2361)

On July 15, 2016 you requested that we review and comment on the financial feasibility and underlying assumptions of proposed new Cardiac Surgery programs at Anne Arundel Medical Center (AAMC) and University of Maryland Baltimore Washington Medical Center (BWMC).

Per your request we will address each of the six specific questions outlined in your letter regarding the Certificate of Need (CON) applications for the two new proposed programs.

1. Does either or both applications accurately reflect the shifts in revenue that will occur under the new payment model if the applicant hospitals succeed in building the cardiac surgery case volume they project?

AAMC assumed that it would be able to retain 85% of the additional revenue associated with the cardiac surgery program. Under the current HSCRC policy for market shift changes of Maryland residents, hospitals with increased volumes that are taken from other Maryland hospitals are allowed to retain 50% of the revenue associated with the additional volume while hospitals that lose volume to other Maryland hospitals are allowed to retain 50% of the revenue associated with the lost volume. Additionally, under the HSCRC market shift policy, hospitals are not allowed to retain any of the increases in revenue related to volume increases that are not matched by reductions in other Maryland hospitals.

AAMC has projected that Maryland residents will comprise the 67% of its cardiac surgery cases that will come from D.C. and other out-of-state providers. Under the Hospital’s GBR agreement, AAMC would be able to retain 50% of the cardiac surgery revenue associated with these Maryland residents. Verifying the AAMC projections requires analysis of Medicare data (which the HSCRC
obtains monthly), commercial data (which is reported to MHCC with a greater lag time), and estimates from Medicaid. Likewise, Systems associated with Maryland-based providers are required to provide the HSCRC with claims data for their DC-based facilities under the GBR agreement. AAMC could also retain 50% of the revenue related to the 33% of its projected volume for transfers from other Maryland hospitals. AAMC’s assumption that it would be able to retain 85% of the cardiac surgery revenue is contrary to HSCRC policy on market shifts; however, as discussed below, AAMC has other sources of revenue to apply to the project and, therefore, we do not believe a change in this assumption would impact the feasibility of the program.

BWMC’s assumption that it will retain 50% of the new revenue associated with the cardiac surgery program is consistent with HSCRC market shift policy.

2. **Is the revenue impact at each of the applicant hospitals correctly modeled and is the revenue impact correctly modeled for the hospitals that are projected to lose cardiac surgery case volume if the new cardiac surgery programs are put into operation?**

Please see answer to Question 1 for the revenue impact at the applicant hospitals.

The applicants correctly modeled the impacts on revenue for those hospitals projected to lose significant cardiac surgery case volume if the new cardiac surgery programs are put into operation. However, as discussed below, those assumptions do not address the possibility that the affected institutions will “backfill” the cases from other areas of Maryland or for other services.

3. **Does each application provide a plausible scenario for an overall reduction in the cost of producing cardiac surgery services in Maryland and a reduction in the charges that will be incurred by payers for cardiac surgery services in Maryland, if the hospital is authorized to establish cardiac surgery services and is successful in shifting the projected volumes of service to their lower cost hospitals? More specifically, does each application provide sufficient information for HSCRC staff to assess the following capabilities and, if so, what is HSCRC staff’s assessment on:**

   a. **The capability of AAMC and the capability of BWMC to deliver cardiac surgery at the costs each hospital projects;**

   b. **The capability of AAMC and the capability of BWMC to deliver cardiac surgery with the increases in revenue that each hospital will realize under the payment model; and**

   c. **The capability of Maryland hospitals projected to lose cardiac surgery if either or both the AAMC and BWMC programs are approved to adjust their variable costs so that net income derived from this service will not be greatly affected?**

AAMC and BWMC could deliver cardiac surgery volumes with the increases in revenue under the new payment model using the resources that are provided in the system, including the population adjustment, capacity from reduced avoidable utilization, and reallocation of overhead already funded in the system as evidenced in each hospital’s profits to cover the difference between marginal cost
and fully allocated costs that includes existing overhead. However, this would require a commitment from the hospitals to avoid seeking a rate increase in a separate action.

In certain cases related to replacement facilities, a hospital could secure a CON exemption by taking the “Pledge,” which prevents a hospital from requesting an increase to revenue or patient charges related to the capital cost of the project in the future. However, in this case there is no such mechanism, per se, that would preclude a hospital from requesting a rate or revenue increase for an approved CON. If the hospital represents that it will not need an increase to accomplish the project during the CON process, the HSCRC staff would do all that it could to ensure that the hospital lived up to its statements. Under the current GBR methodology, hospitals have the right to approach the HSCRC to request an increase in their allowed GBR revenue if the GBR methodology does not provide sufficient revenue. Additionally, in the future, hospitals will be able to submit full rate applications requesting increases in rates if their approved GBR revenue is not sufficient. If not addressed in the CON process, this could leave the system open to unexpected hospital revenue increases from a new program.

Dimension Health Services (DHS) has provided the HSCRC with a proposed GBR arrangement that DHS believes will allow it to operate at a profit in the future based on a set of assumptions. One of DHS’ assumptions is that DHS’ cardiac surgery program will grow significantly over the next 5 years. AAMC draws some of its patients from Prince George’s County, and this could impact the DHS program. While many of the patients that would be served in DHS’ cardiac program may not be likely to travel to AAMC for services based on historic migration patterns, changes in volume levels at Washington Hospital Center resulting from a new program at AAMC may impact available capacity at Washington Hospital Center, making it more difficult for DHS to grow its volumes in the face of this increased capacity. Thus, there is the potential to directly or indirectly impact program volumes at DHS, and, therefore, its financial performance.

4. If a hospital currently providing cardiac surgery services experiences a net reduction in revenue because of the loss of cardiac surgery volume resulting from the creation of a new cardiac surgery program at AAMC or BWMC, or at both hospitals and that hospital is unable to reduce its cost sufficiently to offset this lost revenue, will that hospital be able to approach HSCRC and seek rate relief, negating the projected savings in charges that the applicants project to result from their prospective proposals? Does the payment model or HSCRC policy prevent such an outcome? Are there mechanisms by which hospitals, within the context of this project review, can waive any “right” to seek such rate relief, thus assuring that systemic savings for Maryland payers achievable by shifting cardiac surgery case volume to lower charge hospitals will actually occur and be sustained? Are there other mechanisms that would help insure system savings that we have not considered?

The CON process does not affect the rights of a competing or cooperating hospital to request rate increases to cover lost volumes in the event of a comprehensive rate review. The CON process does not limit this ability, unless specifically agreed to by hospitals during the CON process. Additionally, the savings may be undermined through “backfill,” whereby the hospital losing market share secures market shift for patients from another service area of the State or for an alternative
service for patients from the State. Nevertheless, there could be an inherent advantage of moving lower severity patients out of high cost academic medical centers and teaching facilities into lower cost settings, thereby freeing up capacity for new procedures under development, referrals of patients for highly specialized services from outside the service area, and other high value activities without expanding capacity at the academic medical center or teaching facility. Therefore, the desirability of moving services out of these settings should be weighed in considering the ability to assure cost savings over time through reducing the need for capacity in these high cost environments.

5. Does the shift of cardiac surgery case volume from Washington, D.C. hospitals to Maryland hospitals paid for by Medicare, which is more pronounced in the case presented by AAMC, have a concerning negative impact on the spending and savings targets HSCRC must meet under the Maryland waiver?

The Maryland Medicare waiver targets limit the increase in total annual Medicare spending per Maryland Medicare enrollee. Under the targets, Maryland would benefit if the average Medicare payment for a cardiac surgery patient is lower compared to the current Medicare payment at Washington area hospitals. For those Medicare cardiac surgery patients treated at AAMC, the estimated Medicare payment could be lower depending on how much additional revenue AAMC were allowed to generate under its GBR Agreement.

Of more concern, if a new cardiac surgery program at either AAMC or BWMC would result in new cardiac surgery cases that were not previously performed, the waiver would be negatively impacted.

6. Is it likely that the ability of D.C. hospitals to negotiate charge levels for cardiac surgery with individual payers will make it more difficult to shift volume away from these hospitals to new Maryland providers?

In the current environment, it is not likely that the ability of D.C. hospitals to negotiate charge levels for cardiac surgery with individual commercial payers will make it more difficult to shift volume away from these hospitals to new Maryland providers. This is because patients and doctors make the decisions about where patients receive services and not payers. Further, out-of-pocket costs for a high cost procedure are generally not affected by the choice of facility. However, as physicians and patients become more price sensitive through the use of PCMHs, ACOs, episode payments, value-based insurance design, and other mechanisms, the point of emphasis may change. There is an increasing number of employers, for example, that are determining which facilities employees can use for tertiary procedures, using both cost and outcomes measures. CareFirst encourages its PCMH physicians to consider episode costs when referring patients. If Washington Hospital Center lowers its episode prices in response to competition from AAMC, it could potentially affect facility selection in a more price sensitive environment.

In a situation with no additional variables, Washington Hospital Center’s net income could decrease by as much as half of the $12,000,000 in reduced revenue it may experience if AAMC’s program were approved. This loss in net income would provide a strong incentive for Washington Hospital Center to negotiate with third parties to retain the cardiac surgery volume.
that AAMC would be attempting to recapture, to backfill the same procedure from other areas of the state, or to backfill with some other service. The same analysis would apply to BWMC. The results are difficult to model in the short run. If the addition of the service at AAMC or BWMC results in increased volumes in the system due to increased supply, then system costs may be affected negatively. Conversely, if the outcome is slower growth, or contraction at high cost academic centers, then system costs may be affected positively, so long as the services produced by AAMC or BWMC are high quality efficient services with equal or better outcomes.

Finally, a look at prior CON cases can be instructive. For example, Suburban Hospital previously projected that it would perform more than 400 cardiac surgeries annually by 2008 in its cardiac surgery CON. Suburban is presently performing around 200 cardiac surgery cases annually. In spite of the fact that it is less expensive than Washington Hospital Center, it has been unable to attract a higher market share of these services historically. The recent overall statewide reduction in cardiac surgery also contributed to Suburban’s much lower than projected cardiac surgery volumes.

Please advise if you have further questions.