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MARYLAND HEALTH CARE COMMISSION

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MEMORANDUM

TO: Katie Wunderlich, Executive Director, HSCRC
Jerry Schmith, Deputy Director, Hospital Rate Setting, HSCRC

FROM: Moira Lawson CON Analyst, MHCC

DATE: June 10, 2021

RE: Sheppard Pratt
Sheppard Pratt at Elkridge Replacement Hospital
Docket No. 15-23-2367

On September 20, 2016, the Maryland Health Care Commission (Commission) awarded a Certificate of Need (CON) to relocate and replace the Ellicott City special hospital to Elkridge (Howard County). As approved, the special hospital would include 155,507 square feet (SF) of new construction on a 39-acre campus located at the intersection of Routes 103 and Route 1 in Elkridge. The hospital will serve adolescents, young adults, the general adult population, adults with co-occurring conditions (i.e., adults with a primary psychiatric diagnosis and a secondary substance use disorder), and adults with psychotic disorders. The original approved project cost was \$96,532,907 with four funding sources; \$66.7 million in debt, \$14.86 million in cash, \$7.5 million in philanthropic gifts, and \$7.5 million in State grant funding.

On March 18, 2021, the Maryland Healthcare Commission approved a \$9,105,505 increase (+9.4%) in the approved cost of the project, bringing the total cost estimate for the project to \$105,638,412. Sheppard Pratt stated that construction bids came in higher than originally anticipated as a result of increased costs for building materials and cost increases attributable to the COVID pandemic. In addition, certain design changes added to the cost of materials and the associated design adjustments, and extension of the project timeline resulted in additional costs for architectural and engineering fees. Sheppard Pratt stated that the additional funds required would be covered by an additional \$9 million in philanthropy.

The applicant is currently requesting a budget increase of \$7.4 million. During a review by HSCRC of a rate request by Sheppard Pratt, it was determined that the applicant had underestimated the capitalized interest for the new hospital. The actual capitalized interest is \$9.7 million as compared to the original \$2.3 million budget. The increase is related to the timing of debt issuance and delays in construction. Additionally, there are significant changes to the funding of the project, with \$25 million of costs that were to be paid for by cash and philanthropy that will now be paid for by working capital loans. Other financing changes include a \$3 million increase in bonds, a \$2.5 million dollar increase in interest from bonds, and a \$2.5 million increase in state grant funding.

MHCC requests that HSCRC staff review the financial projections provided in the CON modification, and advise MHCC whether the project is financially feasible. Commission staff believes that the utilization projections presented in the application are reasonable, and would advise HSCRC's staff, in making comments on the revenue and expense projections and financial feasibility of the proposed project, to assume that volumes projected by the applicant will be achieved. In the application, Sheppard Pratt also states it will be requesting a rate increase from HSCRC. Please comment on the status of this request.

Please review and remark on any other pertinent aspects of this application. It would be most helpful to have your response by June 15. If you should have any questions on this matter, please feel free to contact me at (203) 715-3307, or Kevin McDonald at (410) 764-5982.

Enclosures

- CON Modification, June 8, 2021
- CON Modified Budget and Tables, June 8, 2021
- Sheppard Pratt response to MHCC questions, June 9, 2021
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cc: Thomas Dame, Esquire