

February 26, 2021

VIA EMAIL

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

Re: Encompass Health Rehabilitation Hospital
Inpatient Rehabilitation Hospital
Matter No. 18-16-2423

Dear Ms. Potter:

On behalf of applicant Encompass Health Rehabilitation Hospital of Southern Maryland, LLC, we are transmitting its Response to Additional Information Questions Dated February 10, 2021 (Questions 6 + 7) in the above-referenced matter. WORD and EXCEL files will be provided to Commission Staff by separate email.

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

Sincerely,



Ella R. Aiken

ERA:blr

Enclosure

cc: Kevin McDonald, Chief, Certificate of Need
Suellen Wideman, Esq., Assistant Attorney General
Dr. Ernest Carter, Health Officer, Prince George's County Health Dept.
Dr. Diana E. Abney, Health Officer, Charles County Health Dept.
Dr. Meenakshi G. Brewster, Health Officer, St. Mary's County Health Dept.
Dr. Laurence Polsky, Health Officer, Calvert County Health Dept.
Dr. Nilesh Kalyanaraman, Health Officer, Anne Arundel County Health Dept.

#733446
013996-0001

**ENCOMPASS HEALTH REHABILITATION
HOSPITAL OF SOUTHERN MARYLAND**

**60-Bed Special Rehabilitation Hospital in Bowie, Maryland
Matter No. 18-16-2423**

Responses to Additional Information Questions Dated February 10, 2021

Encompass Health Rehabilitation Hospital of Southern Maryland, LLC (“Encompass”) submits the following response to Questions 6 and 7, and accompanying revised tables, in response to the Commission’s February 10, 2021 Request for Additional Information.

IMPACT ON FINANCIAL PERFORMANCE

6. Submit revised annual revenue and expense projections (Table G).

[Applicant Response](#)

Because this is a new facility, Encompass submitted only Table J with its application. Please see Exhibit 4, Revised Tables J and K.

TABLE E: PROJECT BUDGET

7. Please submit a revised budget by adding a column to the one you submitted making a comparison between the original budget and estimated modified budget. Here is a template:

[Applicant Response](#)

Please see Exhibit 4, Revised Table E, and Table 1 below. Please note that in the final version of Table E, project budget, that Encompass submitted prior to CON approval, it included Bed Purchase as a construction cost. Encompass has now moved this line item in both the table below and in the Revised Table E to a line item below Land Purchase.

Table 1 Summary Comparison of Revised Project Budget to Approved Project Budget				
A. Uses of Funds				
	Approved CON	Estimate	Variance	% Change
New Construction				
Building	\$17,840,840	\$21,566,286	\$3,725,446	20.9%
Moveable/Technology Equipment	\$4,100,000	\$5,372,352	\$1,272,352	31.0%
Architect/Engineering Fees (Including Site Prep)	\$3,758,827	\$4,908,398	\$1,149,571	30.6%
Permits	\$555,076	\$628,699	\$73,623	13.30%
Subtotal – New Construction	\$26,254,743	\$32,475,735	\$6,220,992	23.70%

Table 1
Summary Comparison of Revised Project Budget to Approved Project Budget

A. Uses of Funds				
	Approved CON	Estimate	Variance	% Change
Land Purchase Cost or Value of donated land	\$6,305,000	\$6,305,000	\$0	0%
Bed Purchase	\$2,321,000	\$2,321,000	\$0	0%
Total Capital Costs	\$34,880,743	\$41,101,735	\$6,294,615	17.8%
Legal Fees	\$1,500,000	\$1,500,000	\$0	0%
Total Uses of Funds	\$36,380,743	\$42,601,735	\$8,541,992	25.1%
B. Sources of Funds				
	Approved CON	Anticipated	Variance	% Change
Cash	\$34,059,743	\$42,601,735	\$8,541,992	25.1%
Pledges				
Gifts				
State Grants				
Total Sources of Funds	\$34,059,743	\$42,601,735	\$8,541,992	25.1%

Table of Exhibits

<u>Exhibit</u>	<u>Description</u>
4	Revised Tables E (Project Budget), J (Revised Annual Revenue & Expense Projections – Uninflated), and K (Revised Annual Revenue & Expense Projections – Inflated)

Table of Tables

<u>Table</u>	<u>Description</u>
1	Summary of Revised Table E, Project Budget

I hereby declare and affirm under the penalties of perjury that the facts stated in the Request for the Post-Approval Project Change of Encompass Health Rehabilitation Hospital of Southern Maryland and this response to the completeness questions and its attachments are true and correct to the best of my knowledge, information, and belief.

2/23/21

Date



Josh Beam
National Director, Business Analytics
Encompass Health Corporation

I hereby declare and affirm under the penalties of perjury that the facts stated in the Request for the Post-Approval Project Change of Encompass Health Rehabilitation Hospital of Southern Maryland and this response to the completeness questions and its attachments are true and correct to the best of my knowledge, information, and belief.

2.16.21

Date

John R. Tschudin, Jr.

John Tschudin
Director, Design & Construction
Encompass Health Corporation

I hereby declare and affirm under the penalties of perjury that the facts stated in the Request for the Post-Approval Project Change of Encompass Health Rehabilitation Hospital of Southern Maryland and this response to the completeness questions and its attachments are true and correct to the best of my knowledge, information, and belief.

2-21-2021

Date

Amber Hancock

Amber Hancock
Associate Director
SCO Development & Field Operations
Encompass Health Corporation

EXHIBIT 4

TABLE E. PROJECT BUDGET

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

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

	Approved CON	Estimated	Variance	% Change
A. USE OF FUNDS				
1. CAPITAL COSTS				
a. New Construction				
(1) Building	\$17,840,840	\$21,566,286	\$3,725,446	20.9%
(2) Site and Infrastructure	\$2,093,600	\$3,120,000	\$1,026,400	49.0%
(3) Architect/Engineering Fees	\$1,665,227	\$1,788,398	\$123,171	7.4%
(4) Permits (Building, Utilities, Etc.)	\$555,076	\$628,699	\$73,623	13.3%
SUBTOTAL	\$22,154,743	\$27,103,383	\$4,948,640	22.3%
b. Renovations				
(1) Building	-	-	-	-
(2) Fixed Equipment (not included in construction)	-	-	-	-
(3) Architect/Engineering Fees	-	-	-	-
(4) Permits (Building, Utilities, Etc.)	-	-	-	-
SUBTOTAL	-	-	-	-
c. Other Capital Costs				
(1) Movable Equipment	\$2,500,000	\$3,864,618	\$1,364,618	54.6%
(2) Contingency Allowance	\$1,110,151	\$1,851,471	\$741,320	66.8%
(3) Gross interest during construction period	\$840,000	\$840,000	\$0	0%
(4) Technology Equipment	\$1,600,000	\$1,507,734	-\$92,266	-5.8%
SUBTOTAL	\$6,050,151	\$8,063,823	\$2,013,672	33.3%
TOTAL CURRENT CAPITAL COSTS	\$28,204,894	\$35,167,206	\$6,962,312	24.7%
d(1) Land Purchase	\$6,305,000	\$6,305,000	\$0	0%
d(2) Bed Purchase	\$2,321,000	\$2,321,000	\$0	0%
e. Inflation Allowance				
TOTAL CAPITAL COSTS	\$36,830,894	\$43,793,206	\$6,962,312	18.9%
2. Financing Cost and Other Cash Requirements				
a. Loan Placement Fees	-	-	-	-
b. Bond Discount	-	-	-	-
c. CON Application Assistance				
c1. Legal Fees	\$600,000	\$600,000	\$0	0%
c2. Other (CON Consulting, Traffic Study, Comm. Support)	\$750,000	\$750,000	\$0	0%
d. Non-CON Consulting Fees				
d1. Legal Fees	\$0	\$0	\$0	0%
d2. Appraisal, traffic study, title costs, engineering	\$150,000	\$150,000	\$0	0%
e. Debt Service Reserve Fund	\$0	\$0	\$0	0%
f. ACE-IT Installation	\$289,000	\$289,000	\$0	0%
SUBTOTAL	\$1,789,000	\$1,789,000	\$0	0%
3. Working Capital Startup Costs	\$400,000	\$400,000	\$0	0%
TOTAL USES OF FUNDS	\$39,019,894	\$45,982,206	\$6,962,312	17.8%
B. Sources of Funds				
1. Cash	\$39,019,894	\$45,982,206	\$6,962,312	17.8%
2. Philanthropy (to date and expected)	-	-	-	-
3. Authorized Bonds	-	-	-	-
4. Interest Income from bond proceeds listed in #3	-	-	-	-
5. Mortgage	-	-	-	-
6. Working Capital Loans	-	-	-	-
7. Grants or Appropriations				
a. Federal	-	-	-	-
b. State	-	-	-	-
c. Local	-	-	-	-
8. Other (Specify/add rows if needed)	-	-	-	-
TOTAL SOURCES OF FUNDS	\$39,019,894	\$45,982,206	\$6,962,312	17.8%
Annual Lease Costs (if applicable)				
1. Land	-	-	-	-
2. Building	-	-	-	-
3. Major Movable Equipment	-	-	-	-
4. Minor Movable Equipment	-	-	-	-
5. Other (Specify/add rows if needed)	-	-	-	-

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

TABLE J. REVENUES & EXPENSES, UNINFLATED - NEW FACILITY OR SERVICE

INSTRUCTION: After consulting with Commission Staff, complete this table for the new facility or service (the proposed project). Table J should reflect current dollars (no inflation). Projected revenues and expenses should be consistent with the projections in Table I and with the costs of Manpower listed in Table L. Manpower. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). In an attachment to the application, provide an explanation or basis for the projections and specify all assumptions used. Applicants must explain why the assumptions are reasonable. Specify the sources of non-operating income.

	Projected Years (ending at least two years after project completion and full occupancy) Add years, if needed in order to document that the hospital will generate excess revenues over total expenses consistent with the Financial Feasibility standard.							
Indicate CY or (FY)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5			
1. REVENUE								
a. Inpatient Services								
b. Outpatient Services								
Gross Patient Service Revenues	\$23,762,937	\$37,290,369	\$41,760,180	\$45,693,671	\$47,590,940			
c. Allowance For Bad Debt	239,105	376,508	422,394	462,176	481,361			
d. Contractual Allowance	7,494,800	11,748,227	13,140,399	14,377,992	14,974,814			
e. Charity Care	327,815	441,625	460,181	503,945	525,415			
Net Patient Services Revenue	15,701,217	24,724,010	27,737,206	30,349,558	31,609,351		\$ -	
f. Other Operating Revenues (Specify)								
NET OPERATING REVENUE	15,701,217	24,724,010	27,737,206	30,349,558	31,609,351		\$ -	
2. EXPENSES								
a. Salaries & Wages (including benefits)	11,171,543	16,048,267	16,511,925	16,981,987	17,116,500			
b. Contractual Services				-	-			
c. Interest on Current Debt				-	-			
d. Interest on Project Debt				-	-			
e. Current Depreciation				-	-			
f. Project Depreciation	1,839,971	1,849,613	1,864,078	1,883,363	1,907,471			
g. Current Amortization				-	-			
h. Project Amortization				-	-			
i. Supplies	562,649	852,923	956,872	1,046,992	1,090,452			
j. Other Expenses (Specify) - Note 1	3,251,971	4,023,750	4,289,233	4,519,398	4,630,394			
TOTAL OPERATING EXPENSES	16,826,134	22,774,553	23,622,107	24,431,740	24,744,817	\$ -	\$ -	
3. INCOME								
a. Income From Operation	(1,124,917)	1,949,457	4,115,098	5,917,818	6,864,534	\$ -	\$ -	
b. Non-Operating Income								
SUBTOTAL	(1,124,917)	1,949,457	4,115,098	5,917,818	6,864,534	\$ -	\$ -	
c. Income Taxes	(30,958)	53,649	113,248	162,858	188,912	\$ -	\$ -	
NET INCOME (LOSS)	(\$1,093,960)	\$1,895,807	\$4,001,851	\$5,754,959	\$6,675,622	\$ -	\$ -	

TABLE J. REVENUES & EXPENSES, UNINFLATED - NEW FACILITY OR SERVICE

INSTRUCTION: After consulting with Commission Staff, complete this table for the new facility or service (the proposed project). Table J should reflect current dollars (no inflation). Projected revenues and expenses should be consistent with the projections in Table I and with the costs of Manpower listed in Table L. Manpower. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). In an attachment to the application, provide an explanation or basis for the projections and specify all assumptions used. Applicants must explain why the assumptions are reasonable. Specify the sources of non-operating income.

	Projected Years (ending at least two years after project completion and full occupancy) Add years, if needed in order to document that the hospital will generate excess revenues over total expenses consistent with the Financial Feasibility standard.						
Indicate CY or (FY)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5		
4. PATIENT MIX							
a. Percent of Total Revenue							
1) Medicare	85.1%	85.7%	85.7%	85.7%	85.7%		
2) Medicaid	0.6%	0.6%	0.6%	0.6%	0.6%		
3) Blue Cross	4.6%	4.4%	4.4%	4.4%	4.4%		
4) Commercial Insurance	6.7%	6.4%	6.4%	6.4%	6.4%		
5) Self-pay	3.0%	2.9%	2.9%	2.9%	2.9%		
6) Other							
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%
b. Percent of Equivalent Inpatient Days							
Total MSGA							
1) Medicare	78.8%	78.8%	78.8%	78.8%	78.8%		
2) Medicaid	2.2%	2.2%	2.2%	2.2%	2.2%		
3) Blue Cross	6.2%	6.2%	6.2%	6.2%	6.2%		
4) Commercial Insurance	7.8%	7.8%	7.8%	7.8%	7.8%		
5) Self-pay	5.1%	5.1%	5.1%	5.1%	5.1%		
6) Other							
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%

TABLE K. REVENUES & EXPENSES, INFLATED - NEW FACILITY OR SERVICE

INSTRUCTION: After consulting with Commission Staff, complete this table for the new facility or service (the proposed project). Table K should reflect inflation. Projected revenues and expenses should be consistent with the projections in Table I and with the costs of Manpower listed in Table L. Manpower. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). In an attachment to the application, provide an explanation or basis for the projections and specify all assumptions used. Applicants must explain why the assumptions are reasonable. Specify the sources of non-operating income.

	Projected Years (ending at least two years after project completion and full occupancy) Add years, if needed in order to document that the hospital will generate excess revenues over total expenses consistent with the Financial Feasibility standard.							
Indicate CY or (FY)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5			
1. REVENUE								
a. Inpatient Services								
b. Outpatient Services								
Gross Patient Service Revenues	\$24,397,406	\$38,915,504	\$44,303,033	\$49,280,274	\$52,178,087			
c. Allowance For Bad Debt	245,489	392,916	448,114	498,453	527,758			
d. Contractual Allowance	7,694,911	12,260,221	13,940,542	15,506,554	16,418,191			
e. Charity Care	336,567	460,871	488,202	543,501	576,058			
Net Patient Services Revenue	16,120,439	25,801,496	29,426,174	32,731,766	34,656,081		\$ -	
f. Other Operating Revenues (Specify)								
NET OPERATING REVENUE	16,120,439	25,801,496	29,426,174	32,731,766	34,656,081		\$ -	
2. EXPENSES								
a. Salaries & Wages (including benefits)	11,719,754	17,172,505	18,022,017	18,905,770	19,436,632			
b. Contractual Services				-	-			
c. Interest on Current Debt				-	-			
d. Interest on Project Debt				-	-			
e. Current Depreciation				-	-			
f. Project Depreciation	1,839,971	1,849,613	1,864,078	1,883,363	1,907,471			
g. Current Amortization				-	-			
h. Project Amortization				-	-			
i. Supplies	590,260	912,673	1,044,382	1,165,599	1,238,262			
j. Other Expenses (Specify) - Note 1	3,393,989	4,272,902	4,639,116	4,978,577	5,196,146			
TOTAL OPERATING EXPENSES	17,543,974	24,207,694	25,569,593	26,933,310	27,778,511	\$ -	\$ -	
3. INCOME								
a. Income From Operation	(1,423,535)	1,593,802	3,856,581	5,798,456	6,877,570	\$ -	\$ -	
b. Non-Operating Income								
SUBTOTAL	(1,423,535)	1,593,802	3,856,581	5,798,456	6,877,570	\$ -	\$ -	
c. Income Taxes	(39,176)	43,861	106,133	159,574	189,271	\$ -	\$ -	
NET INCOME (LOSS)	(\$1,384,360)	\$1,549,941	\$3,750,448	\$5,638,883	\$6,688,299	\$ -	\$ -	

TABLE K. REVENUES & EXPENSES, INFLATED - NEW FACILITY OR SERVICE

INSTRUCTION: After consulting with Commission Staff, complete this table for the new facility or service (the proposed project). Table K should reflect inflation. Projected revenues and expenses should be consistent with the projections in Table I and with the costs of Manpower listed in Table L. Manpower. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). In an attachment to the application, provide an explanation or basis for the projections and specify all assumptions used. Applicants must explain why the assumptions are reasonable. Specify the sources of non-operating income.

	Projected Years (ending at least two years after project completion and full occupancy) Add years, if needed in order to document that the hospital will generate excess revenues over total expenses consistent with the Financial Feasibility standard.						
Indicate CY or (FY)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5		
4. PATIENT MIX							
a. Percent of Total Revenue							
1) Medicare	84.8%	85.3%	85.2%	85.2%	85.1%		
2) Medicaid	0.6%	0.6%	0.6%	0.6%	0.6%		
3) Blue Cross	4.7%	4.5%	4.6%	4.6%	4.6%		
4) Commercial Insurance	6.8%	6.6%	6.6%	6.6%	6.7%		
5) Self-pay	3.1%	3.0%	3.0%	3.0%	3.0%		
6) Other							
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%
b. Percent of Equivalent Inpatient Days							
Total MSGA							
1) Medicare	78.8%	78.8%	78.8%	78.8%	78.8%		
2) Medicaid	2.2%	2.2%	2.2%	2.2%	2.2%		
3) Blue Cross	6.2%	6.2%	6.2%	6.2%	6.2%		
4) Commercial Insurance	7.8%	7.8%	7.8%	7.8%	7.8%		
5) Self-pay	5.1%	5.1%	5.1%	5.1%	5.1%		
6) Other							
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%