

March 1, 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 1 through 5) 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.

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**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

BASIS FOR REQUESTED PROJECT CHANGE

- 1. Are there reasons other than inflation that contribute to the increased construction costs?**

Applicant Response

The January 4, 2019, submission showed an overall cost for New Construction of \$22,154,743.¹ The current estimated overall cost for New Construction is \$27,103,383, an increase of \$4,948,640. The individual components of the increase are as follows: 1) Building—\$3,725,446; 2) Site & Infrastructure—\$1,026,400; 3) Architecture/Engineering—\$123,171; and 4) Permitting—\$73,623.

Encompass originally projected a construction start date in the second quarter of 2019. Encompass projected capital expenditure costs in the CON application using that quarter as the basis for cost estimates. Unforeseen delays in completing CON review and receiving approval moved the construction start date to the second quarter of 2021. At an estimated 5.5% annual inflation to construction costs, this yields an overall 11.0% construction cost increase. Encompass used this rate internally to make projections for the project, based on historical experience. Applied to the initial estimate of \$22,154,743 provided in the January 4, 2019 submission, inflation alone accounts for \$2,504,040 of the \$4,948,640 increase, or 50.6%. The remaining \$2,444,600 is explained below for each individual component.

Building costs as shown in Exhibit 4, Revised Table E, line A.1.a.1,² have increased from \$17,840,840 to \$21,566,286, a total increase of \$3,725,446. Using the formula above with a 5.5% inflation rate for 2 years, the inflation-adjusted cost for the Building is \$19,857,301, an increase of \$2,016,461. This represents 54.1% of the overall increase. Several other factors accounted for the remaining expenses. Encompass uses RS Means data to project construction costs. In this location, the costs exceeded the mean values used to make the initial projections, with most of the increase confined to Mechanical and Plumbing trade costs, resulting in a cost increase of approximately \$450,000.

¹ Not including the Bed Purchase cost of \$2,321,000. As noted in Encompass's February 26, 2021 filing, 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 out of New Construction to a line item below Land Purchase.

² Exhibits 1 through 3 were attached to the February 4, 2021 Request for Project change; Exhibit 4 was attached to the February 26, 2021 Response to Additional Information Questions, Questions 5-6. Exhibit 5 is attached to this response.

Encompass now uses prefabricated patient bathrooms and exterior walls for new facilities. These two items improve construction quality and avoid scheduling delays. Adoption of these practices came after the CON filing and approval, in mid-2020. Together, these two changes added approximately \$680,000 to construction costs. Another cost increase is due to changing the originally planned Exterior Insulation and Finish System (EIFS) façade to one that is primarily brick, a component of obtaining regulatory approval.

Revised Table E shows an original estimate of \$2,093,600 in Sitework and Infrastructure costs. The latest estimate projects \$3,120,000 in costs for this category. Inflation using the method employed above increases the initial projection to \$2,330,229. During the structural design process, Encompass also discovered that dense aggregate piers were needed to provide a stable foundation. These piers increased costs by approximately \$300,000. The City and County required Encompass to add an entrance to provide ingress/egress to the facility in order to obtain regulatory approval, which also required the addition of a retaining wall. There was also an additional paving expense for using permeable paving that aids stormwater management, reduces runoff, and decreases flooding risks.

Revised Table E projects an initial cost of \$2,220,303 for the combined expense for Architectural/Engineering and Permitting. The current projected expense is \$2,417,097. The inflation method provided previously accounts for all of this increase. Increases in this expense were primarily from changes required by regulatory authorities.

2. Are the current projected construction costs based on estimates or are there actual bids?

[Applicant Response](#)

Encompass has received actual bids for this project.

3. Describe the design changes required to gain regulatory approval?

[Applicant Response](#)

The original site layout changed when the City/County requested the addition of another entrance and made it a condition of approval. This also necessitated construction of a retaining wall. There was also an additional paving expense for using permeable paving that aids stormwater management, reduces runoff, and decreases flooding risks. The original Exterior Insulation and Finish System (EIFS) façade is now primarily brick. Each of these items led to increased costs.

- 4. Please include a detailed description of the site and infrastructure cost increases, and the conditions that made them necessary.**

Applicant Response

Please see Response to Question #1, above.

- 5. The increase in the moveable equipment costs was almost 20%? Please explain what drove that increase.**

Applicant Response

Encompass strives to make improvements in the quality of care provided to patients. One portion of this effort is to review and upgrade the equipment used to provide this care. This includes both technology and equipment need to provide a safe, pleasing environment for patients during their hospital stay. Since the CON application filing, Encompass has committed considerable resources to this effort. These are reflected in additional expenses for items related to therapy, nursing, or the physical plant. Overall, these expenses added approximately \$795,100 to project costs. Other expenses in this category include: 1) Tax (6.5%) = \$218,400; 2) Freight (6%) = \$201,600; 3) Labor = \$33,000; and 4) 2022 Build Contingency (3%) = \$115,900. Overall, these items total to an increase of approximately \$1,364,000.

* * *

In addition to the above responses to the February 10, 2021 Requests for Additional Information, Encompass supplies Exhibit 5, affirmations to the February 4, 2021 Request for Project Change. These affirmations also affirm the information provided with Encompass's Responses to Additional Information Questions.

Table of Exhibits

Exhibit	Description
5	Affirmations in support of Request for Project Change (Josh Beam, Amber Hancock, and John Tschudin)

EXHIBIT 5

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