

**MEMORANDUM**

**To:** Wynee Hawk, Director, Facilities Planning & Development, MHCC  
Ewurama Shaw Taylor, Chief, CON, MHCC  
Moira Lawson, Program Manager, CON, MHCC

**From:** Jon Kromm, Executive Director, HSCRC  
Jerry Schmith, Director, Revenue & Regulation Compliance, HSCRC  
Bob Gallion, Associate Director III, Revenue & Regulation Compliance, HSCRC

**Date:** January 31, 2026

**Re:** University of Maryland Shore Regional Health, Inc. (SRH)  
University of Maryland Shore Health System, Inc. (SHS)  
University of Maryland Shore Medical Center at Easton (SMCE)  
Request for Project Change after Certificate of Need (CON) Approval  
Relocation & Construction of Replacement Hospital, MHCC Docket No. 23-20-2463

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This memo is in response to your communication dated December 12, 2025, requesting us to review the financial projections provided in the filing of a Request for Project Change After CON Approval dated December 2, 2025, and to opine on the initial financial feasibility and ongoing viability of the proposed project. The MHCC stated that the utilization projections included in the Change filing are reasonable, and that the HSCRC may assume that the new replacement hospital will achieve its projected utilization volumes.

**Background:**

SRH is a subsidiary entity of University of Maryland Medical System (UMMS). SRH is the parent entity of SHS, Chester River Hospital Center, and other non-hospital entities. SHS operates SMCE, Shore Emergency Center at Cambridge, Shore Emergency Center at Queenstown, and several unregulated facilities in Easton, Denton, Cambridge, and Centreville.

The CON application dated January 6, 2023, as approved by the MHCC on January 18, 2024, was to relocate hospital operations from its current location situated in a residential neighborhood of Easton proper in Talbot County, and to construct a replacement hospital to be located just outside the northern boundary of Easton proper along Interstate Route 50. The total project budget as approved by the MHCC was approximately \$540 million, and financed with approximately \$38.6 million in cash, \$50 million in philanthropic gifts, \$333 million in authorized MHHEFA bonds, \$17.7 million in interest earned on bond proceeds, and \$100 million in state grants. That budget was to afford \$471 million for hospital construction, and \$69 million for a prefabricated central utility plant. The hospital component consisted of \$2.5 million for the purchase of approximately 200 acres of tillable land, \$261.5 million for construction, \$85.4 million for movable equipment, \$17 million for contingency allowance, \$44.2 million for gross interest cost during construction, \$24.6 million for other capital costs, \$25.4 million for inflation allowance, and \$10.7 million for financing costs. The completed hospital was to include 407,872 square feet over 6 floors, and to provide 110 MSGA acute care beds, 12 special hospital rehabilitation beds, and 25 observation beds.

This project was last reviewed by the HSCRC in 2023, following a request from the MHCC dated May 9, 2023, and with our response memo dated July 14, 2023. In brief, our response at that time was that this project as then proposed **“may be financially feasible...dependent on a number of factors...,”** which were described in that report.

### **The Project:**

This request is the third such post approval change request submitted to the MHCC. The first was to amend the Central Utility Plant (CUP), and the second was to amend the cardiac cath. lab and operating rooms. This third request includes increasing the size of the structures to 428,218 sq. ft., an increase of 20,346 sq. ft. or 5%. This request also includes increasing the total project budget to approximately \$664 million, an increase of \$124.7 million or 23%. The component sources of funds increased for Philanthropic Gifts by \$50 million (100%), Bonds by \$68.7 million (21%), and Interest Income from bonds proceeds by \$6 million (35%). The component uses of funds increased for New Construction by \$154.7 million (55%), including an 86% increase in Architectural/Engineering fees, offset in part by a decrease in Other Capital Costs of \$30 million (mostly due to reductions in Movable Equipment by \$34.3 million). Certain costs related to the CUP were previously classified as Movable Equipment under Other Capital Costs (when the CUP was to be purchased as a prefabricated item and placed on site) and are now classified as Building & Fixed Equipment under New Construction (now that the CUP is to be stick-built on site).

This project is in progress. Site work has been underway since the summer months of 2024; moving earth for the construction, and preparing infrastructure for water, utilities and vehicular access. And the building foundation work has been underway since the spring months of 2025.

### **HSCRC Staff Review, Discussion, and Opinion:**

The HSCRC staff (Staff) reviewed the following materials: the response memo from the HSCRC to the MHCC dated July 14, 2023; the slide presentation materials dated June 14, 2024 as record of the Staff recommendation presented in the HSCRC Commission Public Meeting of the same date regarding gross capital funding in the amount of \$18.6 million; the minutes of the July 10, 2024 public session of the HSCRC Commission Meeting documenting the Commission approval of the Staff recommendation regarding the \$18.6 million capital funding; the Request for Post-Approval Project Change dated December 2, 2025, inclusive of Exhibits I thru IV and Tables 1 thru 3; the Responses (dated January 6, 2026) to Additional Information Questions dated December 23, 2025; the prospective estimated inflation rate to be applied to Global Budget Revenue (GBR) as prepared by the HSCRC rate analyst for SMCE dated January 16, 2026; the Marshall Valuation Service (MVS) exclusion as prepared by the MHCC staff dated January 20, 2026; the published independent auditors reports on UMMS's financial statements for fiscal 2021 through fiscal 2025; and Staff's notes from the conference call between the HSCRC and SMCE dated January 16, 2026 in regards to Additional Information Questions and Observations regarding the afore mentioned materials.

Given that the financial projections provided to Staff remain unchanged from those included in the review of the January 6, 2023 submission (save for the values of annual depreciation expense following the planned opening of the new replacement project hospital and the annual interest expense of the MHHEFA bond financing indebtedness), Staff revisited the response memo from the HSCRC to the MHCC dated July 14, 2023 to review the logic and method employed in formatting the financial projections. On page 3 of that memo is a reference to the CON application dated January 6, 2023 in which on page 99 of the application is a defined format of the CON tables F, G, and H as being representative of SHS (inclusive of Easton, Cambridge and Queenstown, based upon the premise that Cambridge and Queenstown are outpatient extensions of the Easton facility). Also on page 3 of the response memo is a reference to the SHS Responses to Completeness Questions dated February 22, 2023 in which it was stated that the tables G and H were revised to reflect consistency with the audit presentation for fiscal 2021 and 2022 and which on page 26 of those responses makes note of the composition of SHS as being Easton plus Cambridge plus Queenstown.

Staff also noted that the response memo from the HSCRC to the MHCC dated July 14, 2023, included a reference to the CON application dated January 6, 2023, in which SRH had plans to convene a special study group focused on the disposition of the existing hospital site in downtown Easton. Staff continue to understand that the proceeds of any liquidation, should it follow the new construction, may well be material in value and would effectively lower the net cost of this project. The Table E Project Budget, as presented, does not provide a credit provision against the cost of the project. Any liquidation value realized will serve to decrease the cash drain of this project.

The gist of the July 10, 2024, approved Staff recommendation was that SMCE had requested gross capital funding in the amount of \$18.6 million, and their request was granted as follows:

- I. A permanent positive adjustment to their GBR of \$11,890,372 as per the capital methodology, to be provided to SMCE when the capital project is completed, and the new replacement facility is available for use. The opening date of this project was anticipated to be July 1, 2029.
- II. And a permanent positive adjustment to their GBR of \$6,700,000, which serves to restore funding related to the facility conversion of SHS's Shore Medical Center at Cambridge (SMCC) to a Free Standing Medical Facility, the Shore Emergency Center at Cambridge (SECC), to be provided to SMCE when the capital project is completed, and the new replacement facility is available for use. The funding will be contingent upon SRH executing a contract with the HSCRC that links the funding to Total Cost of Care, Investments in Care Transformation, and Key Performance Indicators. The final contract will be subject to the HSCRC Commission approval.

At this moment, Staff believes the contract referred to above has yet to be drafted. The opening day for operations is to begin in the new replacement facility as projected remains July 1, 2029.

As per review of the Request for Post-Approval Project Change dated December 2, 2025, SHS intends to raise \$100 million through its efforts in pursuing philanthropic pledges. As of January, \$68 million has been pledged. In the event that the target goal is missed, SHS will likely borrow more via MHHEFA or from UMMS's liquidity. Additionally, SHS maintains that they have realized half of their \$100 million state grant, and they anticipate receiving the remaining half in parcels through 2029. Staff remain concerned given the much-publicized current state financial position.

As per review of the Responses (dated January 6, 2026) to Additional Information Questions dated December 23, 2025, there is a documented inquiry and reply regarding whether or not SHS will be seeking an increase to its GBR related to the increase in project budget documented in this Request for Project Change After CON Approval. SHS responded as follows: **"UMMS leadership is planning to request additional GBR funding to support the increased cost of the capital project."**

As per review of the Marshall Valuation Service (MVS) exclusion, as prepared by the MHCC staff dated January 20, 2026, the cost of this project, inclusive of those cost increases documented in this post approval change request, has exceeded the MVS benchmark for similar projects. The MHCC staff concluded that **"Any future change to the financing of this project involving adjustments in rates set by HSCRC must exclude \$57,075,689.** This figure includes the estimated new construction cost that exceeds the MVS guideline costs and portions of the contingency allowance and inflation allowance that are based on the excess construction cost.

As per review of the estimated prospective inflation rate to be applied to SMCE's GBR as prepared by the HSCRC rate analyst for SMCE dated January 16, 2026, the rate to be applied is 3.09%.

As per review of the Staff's notes from the conference call between the HSCRC and SMCE held on January 16, 2026 regarding Additional Information Questions and Observations: the most recent MHHEFA bond borrowing by UMMS that included this project was in January 2025; the next likely date of the next MHHEFA bond borrowing by UMMS to include this project will be in January 2027. As per review of the published independent audit report on financial statements for fiscal 2025, the interest rate associated with the 2025 MHHEFA bonds ranged from 5.0% to 5.25%.

As per review of the published independent audit reports for UMMS, the supplemental consolidating statements reflect SHS in fiscal periods 2021, 2022, and 2023. However, those reports reflect SRH in fiscal periods 2024 and 2025. As previously noted, SRH includes the Chestertown facility, while SHS does not. Accordingly, the values for Chestertown were excluded by Staff in the work-file and resulting pro forma projections so as to preserve consistency between the years presented.

Staff reviewed the Table E (Project Budget) as provided by SHS. Upon comparing the "cushion" as provided by the contingency and inflation allowances included in the January 2023 CON Application versus the December 2025 CON Application, it was noted that the cushion as a percentage of the respective total budgets has fallen. What was 8.93% in 2023 is now 7.66% in 2025. This implies erosion of the cushion of approximately \$8.5 million, which may

represent risk of underestimating the ultimate funding. SHS is confident that the timing of converting past estimates into new contracts will mitigate any such risk. Staff also performed high level testing of the distribution of the cost of bond financing, which yielded the conclusion that capitalized interest (during construction) may have been understated by approximately \$5.8 million, while interest expended (following the opening of operations through 2032) may have been overstated by approximately \$4.2 million. Staff performed a high-level test of interest income on bond proceeds and came within 1.9% of that budgeted; Staff considered the budget value to be reasonable. In addition, Staff performed a high-level test of annual depreciation and amortization expense given the assets acquired via procurement or construction. The test yielded the following: the assumptions table indicates \$664.4 million in depreciable assets (including non-depreciable land) and an average useful life (AUL) of 20.9 years, which implies approximately \$31.8 million expense per year; and the high-level test excluding land but capturing the understatement of capitalized interest yielded \$35.5 million annual expense.

Staff prepared a pro forma Table G (P&L, Uninflated) using the audited P&L's 2021 through 2025, the results of high-level tests performed, the volumes from Table F provided (as approved by MHCC), the agreed upon \$18.7 million GBR award for when operations commence, and certain of the Table G assumptions provided. The results for the 7 years projected 2026 through 2032 are summarized as follows: Gross Patient Service Revenues grew over the 7 years projected at an average annual rate of 1.16%, save for 2029 which grew at 6.76%; Net Operating Revenues grew at an average annual rate of 1.30%, save for 2029 which grew at 6.61%; Operating Expenses grew at an average annual rate of 0.57%, save for 2029 which grew at the rate of 19.36%; **Annual Operating Margin averaged 9.34% (\$30million) from 2026 to 2028, and 0.53% (\$1.9 million) from 2029 to 2032; Annual Cash flow from operations averaged \$45.1 million from 2026 to 2028, and \$53.4 million from 2029 through 2032.**

Staff prepared a pro forma Table H (P&L, Inflated) extrapolated from pro forma Table G using the following assumptions: GBR should grow with an annual inflation rate of 3.09%; GAAP prepared annual Gross Patient Service Revenues (Regulated & Unregulated) should exceed annual Projected GBR by approximately 0.10% to 0.11% to account for Unregulated Revenues included in their financials (note the audited Gross Patient Service Revenues for 2025 exceeded the GBR in their 2025 rate files by approximately 0.1071% or \$24.7 million). The results for the 7 years projected 2026 through 2032 are summarized as follows: Gross Patient Service Revenues grew over the 7 years projected at an average annual rate of 2.91%, save for 2029 which grew at 8.52%; Net Operating Revenues grew at an average annual rate of 3.04%, save for 2029 which grew at 8.36%; Operating Expenses grew at an average annual rate of 2.53%, save for 2029 which grew at the rate of 20.15%; **Annual Operating Margin averaged 9.06% (\$30.4 million) from 2026 to 2028, and 0.54% (\$2.2 million) from 2029 to 2032; Annual Cash flow from operations averaged \$49.5 million from 2026 to 2028, and \$53.6 million from 2029 through 2032.**

Upon review of the documented intent to seek additional GBR funding, and the MSV exclusion, Staff revisited the Project Budget for purposes of estimating the impact upon annual interest and depreciation expense assuming the sources of funds are consistent with the Project Budget as provided (borrowing \$402.0 million less \$57.1 million), and also assuming the sources were limited to MHHEFA financing (borrowing \$664.5 million less \$57.1 million). Interest Expense in the first year of operation (2029) assuming planned borrowing of \$344.9 million yields \$16.1 million expense, and the average expense over the 26 years following 2029 calculates to \$10.0 million. Interest expense in the first year of operation (2029) assuming planned borrowing of \$607.4 million yields \$28.4 million expense, and the average expense over the 26 years following 2029 calculates to \$17.2 million. Depreciation & Amortization Expense on capitalized asset expenditures and amortizable finance expenditures net of the MSV exclusion spread over an average useful of 18.8 years yields \$32.5 million expense per year.

Based upon the materials submitted, and the materials reviewed, the opinion of Staff regarding the initial feasibility and ongoing viability of this project for the relocation and construction of the replacement hospital known as Shore Medical Center at Easton remains unchanged from the Staff opinion provided on this project as documented July 14, 2023. The launching of this project consistent with the Project Budget **may be** financially feasible, and this project **may be** financially viable on an ongoing basis. The degree to which this project may ultimately be judged is a function of a number of factors as described in this report and the earlier report regarding this issue dated July 14, 2023. Should the SHS management raise the efficiency of hospital operations to that of similar operations in its peer group, it may well be awarded an increment to its GBR when the new hospital begins operations, as well as aid in protecting its credit score for bond financing. Should management's efforts be fruitful in realizing the full potential of

philanthropic gifts and state grants, the financial risk associated with the cash burn of this project will lessen. Additionally, should SHS management reach the full potential market value of the current campus in downtown Easton upon liquidation, this would contribute towards replenishment of the cash burn. And to the extent management can curb construction and procurement cost overruns associated with potential change orders and the timing of purchase contracts, this will help mitigate cash burn.

