



MARYLAND
Health Care
Commission

DATE: February 19, 2026

TO: Commissioners

FROM: Jeanne – Marie Gawel
Chief, Facilities Planning

SUBJECT: In the Matter Shore Health System, Inc.
Request for Project Change after Project Approval
Docket No. 23-20-2463

Enclosed is the staff report and recommendation for a Request for a Project Change after project approval submitted by Shore Health System, Inc (SHS). On January 18, 2024, the Maryland Health Care Commission (MHCC or Commission) approved a Certificate of Need (CON) to replace and relocate the University of Maryland Shore Medical Center at Easton (UM SMC). The approved replacement hospital will include 110 acute care beds, 12 special hospital rehabilitations beds, and 25 observation beds. The project was approved at a cost of \$539,558,871 million, which SHS would fund with a state grant of \$39 million in cash, \$50 million in philanthropy, \$333 million in proceeds from debt financing, \$100 million in state funding, and approximately \$18 million in interest income.

On March 19, 2025, SHS requested changes to the physical plant design of the project. SHS requested two post-approval changes to the CON: (1) to incorporate a zero-carbon emission geothermal plant and (2) to utilize a site-built Central Utility Plant (CUP). Neither change required an increase in the project budget, and it was determined that this change did not require full Commission approval. The MHCC issued a determination of non-coverage on April 10, 2025.

On August 8, 2025, SHS submitted another request to make changes to the physical plant design. SHS requested to decrease the number of operating rooms and cardiac catheterization labs that were approved for the facility. The request to reduce the number of operating rooms, from seven to six, and the number of cardiac catheterization labs, from two to one, was approved on September 18, 2025. The project change decreased the budget for moveable equipment by \$2.8 million and defrayed a projected increase in construction costs.

SHS now requests a project change to increase the budget to \$664,461,871, an increase of \$124,903,000 (23%). The applicant states that \$104 million (83%) of the increase is due to increased construction costs for both material and labor. Additional increases are attributed to architect fees (\$9.5 million), moveable equipment costs (\$5.7 million), interest charges (\$4.8 million) and loan placement fees (\$700,000). SHS plans to fund the budget increases with \$50 million in increased philanthropy (for a total of \$100 million), \$68.7 million in additional authorized bonds, and \$6.2 million in interest income on bond proceeds. To date, SHS has raised approximately \$65 million through its philanthropy efforts and, if the full goal is not met, SHS

will cover the outstanding amount with cash from the University of Maryland Medical System.

Staff recommends that the Commission **APPROVE** this second Request for a Project Change after issuance of a CON. Staff recommends that the prior three conditions be continued and a new condition be imposed:

1. The University of Maryland Shore Medical Center at Easton shall provide to the patient, upon inquiry or as required by applicable regulations or law, information concerning an estimate of out-of-pocket charges prior to arrival for surgery.
2. Shore Health System shall provide, in its quarterly project reports, detailed updates on its progress towards obtaining the anticipated State funding, including how much has been obtained and efforts made to secure the remaining funds.
3. If Shore Health System fails to secure the projected State source of funds by July 2027, SHS shall request a project change to amend the project source of funds.
4. Any future changes to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude \$57,075,689. This figure includes the estimated new construction costs that exceeds the Marshall Valuation Service guideline cost and portions of the contingency allowance and inflation allowance that are based on the excess construction cost.

IN THE MATTER OF

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BEFORE THE

UNIVERSITY OF MARYLAND

MARYLAND HEALTH

SHORE HEALTH SYSTEM, INC.

CARE COMMISSION

DOCKET NO. 23-20-2463

**STAFF REPORT
REQUEST FOR PROJECT CHANGE
AFTER CERTIFICATE OF NEED APPROVAL**

I. INTRODUCTION

Background

The University of Maryland Shore Medical Center at Easton (UM SMC) is a general acute care hospital located in Easton, Talbot County. UM SMC is part of the University of Maryland Medical System and is owned by Shore Health System, Inc. (SHS). In fiscal year (FY) 2026, the hospital is licensed to operate 98 acute care beds, which include 72 medical/surgical beds, 13 obstetric beds, 3 pediatric beds, and 10 psychiatric beds.

The Maryland Health Care Commission (MHCC or Commission) awarded a Certificate of Need (CON) on January 18, 2024, authorizing SHS to relocate and replace the hospital. UM SMC would relocate to an undeveloped 200-acre site located at 10000 Longwoods Road in Easton (Talbot County), approximately 3 miles from the existing campus. UM SMC would be replaced by a hospital with 110 acute care beds, including 74 medical/surgical beds, 11 obstetric beds, 1 pediatric bed, and 12 psychiatric beds. The approved hospital would also contain 7 operating rooms and 2 cardiac catheterization rooms, as well as an emergency department (ED) with 27 treatment spaces, and three behavioral health holding rooms, 25 observation beds, regulated outpatient clinics, a full-service laboratory, and space for administrative and education functions. The estimated project cost was \$539,558,871. SHS proposed to finance the project with approximately \$39 million in cash, \$50 million in philanthropy, \$333 million in proceeds from debt financing, \$100 million in state funding, and approximately \$18 million in interest income.

Since receiving the original CON approval, SHS has requested two project changes. The first change, approved April 10, 2025, allowed SHS to change the Central Utility Plant (CUP) from a prefabricated structure to a structure constructed on-site. The change to a site-built CUP from the prefabricated CUP allowed SHS to avoid a \$30 million post-CON approval rise in the cost of the pre-manufactured CUP without changing the project timeline. The change request also included a change in the facility’s power source from natural gas and fossil fuel to a mixture of electric and geothermal power. The second change, approved on September 18, 2025, permitted reductions in the number of operating rooms, from seven to six, and the number of cardiac catheterization labs, from two to one. SHS stated that the proposed reductions would decrease the budget for moveable equipment by \$2.8 million and defer this spending until such time as these rooms are needed. This decrease would defray the projected increase in construction costs. SHS

informed the Commission that an additional change request would be forthcoming to deal with expected budget increases.

Summary of Requested Project Changes

On December 5, 2025, SHS submitted a request to increase the project budget to \$664,461,871, an increase of \$124,903,000 or 23 percent. The applicant states that \$104 million of the increase is due to increased construction costs for both materials and labor. Additional increases are attributed to architect fees (\$9.5 million), moveable equipment costs (\$5.7 million), interest charges (\$4.8 million) and loan placement fees (0.7 million).

SHS plans to fund the budget increases with \$50 million in increased philanthropy (for a total of \$100 million), \$68.7 million in additional authorized bonds, and \$6.2 million in interest income on bond proceeds. University of Maryland Shore Regional Health has received pledges of approximately \$65 million to date, and if the full goal is not met, will cover the outstanding amount with cash from the University of Maryland Medical System (UMMS) to fund the remaining balance. UMMS will issue the additional debt for the project in the fourth quarter of 2026.

The project change request also includes an increase in the gross square footage of the building by 20,346 square feet (SF). SHS modified the structural grid of the hospital to 30 by 30 feet (from 28 by 28 feet), consistent with industry standards and with the design grid in the existing west side of the building. The change adds 16,619 SF across the six levels of the hospital. SHS states that among other benefits, this change will allow an additional one foot in each patient room. The change from a prefabricated to a site-built CUP resulted in the addition of 3,727 SF to the CUP. The design changes do not constitute significant changes to the physical plant; the physical bed count and general layout of the facility remain the same.

II. APPLICABLE REGULATIONS

If an applicant desires to make a permissible change from a project that has received a CON approval, it must seek approval from the Commission under COMAR 10.24.01.17. Any of the following changes would place a project at variance with its CON, and require advance Commission approval:

- (1) A significant change in physical plant design;
- (2) A capital cost increase that exceeds the approved capital cost inflated by an amount determined by applying the Hospital Capital Market Baskets published by IHS Markit in Health Care Cost Review or other guidance approved by the Commission and posted on the Commission website from the application submission date to the date of the filing of a request for a project change;
- (3) A change in the financing mechanisms of the project; or
- (4) A change in the location or address of the project.¹

¹ COMAR 10.24.01.17B

This project change requires Commission action because the project changes result in a significant capital cost increase above the amount allowed in COMAR 10.24.01.17B(2). Under COMAR 10.24.01.17D(3), the Commission may approve the requested change, approve the change in part or approve with conditions, not approve the change with explanation, or require a complete CON review due to the scope of the requested change.

The Change in Project Cost Exceeds the Inflation Allowance

CON regulations provide for an inflation allowance, calculated using the Building Cost Indices published on a quarterly basis by IHS Markit in the *Healthcare Cost Review*.² However, project cost increases that exceed this inflation allowance are required to obtain Commission approval.

SHS indicates that the project, as changed, would require an additional capital expenditure of \$124,154,000. Using the building cost inflation index noted above, the inflationary allowance is \$30,008,616. Therefore, SHS’s additional capital expenditure to complete the project exceeds the inflationary allowance. Additionally, while not considered capital costs or a part of the equation, the financing and planning costs have increased by \$749,000.

III. IMPACT OF THE REQUEST

Current Request Compared with the Budget Approved in the First Project Change

SHS states that the increase in capital costs for the project is attributed to recent market conditions that affect construction materials and labor. The breakdown of the budget changes can be found in Table 1.

Table 1. Budget Charges for Easton Replacement Hospital

Use of Funds	Amount
New Construction of Building	\$145,828,396
Architect/Engineering	\$9,475,877
Permits	\$(587,334)
Moveable Equipment	\$(34,299,999)
Contingency Allowance	\$2,676,231
Gross Interest During Construction	\$4,771,000
Impact Fee Town/County	\$45,968
Hospital Move	\$(1,450,000)
Previous Expenditures/Design/Planning	\$(2,306,139)
Total Capital Costs	\$124,154,000
Loan Placement Fees	\$712,000
Non-CON Consulting Fees	\$37,000

²Maryland Health Care Commission. Instructions for Calculating Inflation Factors for Project Changes and Estimating Capital Costs for CON Applications. October 10, 2024. Accessed [February 2, 2026]. https://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/con_cap_cost_index_mod_2nd_qtr_102024.pdf. You can read the full report at mhcc.maryland.gov.

TOTAL**\$124,904,000**

Source: SHS December 5, 2025 Change Request, Exhibit 2

SHS notes that CUP is now classified as part of the building construction as it will be built onsite rather than prefabricated. Therefore, the majority of moveable equipment costs attributed to the CUP are now included in the building construction costs.

Marshall Valuation Service Analysis

The purpose of the Marshall Valuation Service (MVS) analysis is to provide a basis for excluding any excess construction costs from any future rate increase by the applicant to cover the cost of the project. In an MVS analysis, the project's estimated construction cost, adjusted for specific construction characteristics of the proposed project, are compared with a benchmark that is derived using the cost-estimating methodology provided by MVS. See Appendix 2 for more details on the MVS analysis.

Commission staff and SHS each calculated the MVS benchmark that compared the project's estimated allowable new construction costs for the replacement hospital, CUP, and mechanical penthouse, derived using the MVS guide. Table 2, below, provides the comparison of both MVS allowable construction costs with the MVS benchmark value.

**Table 2: MHCC and SHS Comparison Table
Calculation of Excess Construction Cost Over MVS Benchmark Value**

	MHCC	SHS
Project Cost for MVS Comparison (SF)	\$ 743.11	\$ 844.17
Less MVS Benchmark Cost (SF)	\$ 646.43	\$ 646.81
Over (= Project Cost - MVS Benchmark)	\$ 96.48	\$ 197.36
Square Footage of Replacement Hospital	428,218	428,218
Construction Costs over MVS Benchmark (Total Dollar Amount)	\$ 41,314,473	\$ 84,513,104
Percentage Construction Cost over MVS Benchmark	14.92%	30.48%
Portion of interest to be excluded	\$ 8,171,684	\$ 0
Portion of contingency costs to be excluded	\$ 3,301,642	\$ 0
Portion of inflation allowance to be excluded	\$ 4,288,016	\$ 0
Total to be excluded from any rate increase proposed by the hospital	\$ 57,075,689	\$ 84,513,104

Commission staff and SHS calculated different values for the new construction overage. SHS reported that the total cost of new construction exceeded the MVS benchmark value by \$197.36 per SF. Commission staff found that the total cost of new construction exceeded the MVS benchmark value by \$96.48 per SF. The difference in the calculations is due to the applicant including gross interest in the construction costs, which is not allowed in this part of the calculation. The \$96.48 exceeding the MVS benchmark represents a 14.92% overage and the total to be excluded from any rate increases is \$57,075,689.

COMAR 10.24.10.04A(7) requires that should SHS propose any rate increase related to the capital cost of the new patient tower, it “shall not include the amount of the projected construction cost that exceeds the MVS benchmark and those portions of the contingency allowance, inflation allowance and capitalized construction interest expenditure that are based on the excess construction cost.” SHS did not include the contingency allowance or inflation allowance in its calculations in determining the total construction costs to be excluded from any rate increase proposed by the hospital.

Based on the analysis, staff recommends that approval of the project be accompanied by the following condition:

Any future changes to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude \$57,075,689. This figure includes the estimated new construction costs that exceeds the Marshall Valuation Service guideline cost and portions of the contingency allowance and inflation allowance that are based on the excess construction cost.

Impact on Standards

This project change is a change in project costs. None of the other standards or criteria were affected by the change.

Impact on Financial Performance

As previously discussed, the requested project change includes a budget increase of \$124,903,000, which will increase the authorized bonds by \$68,686,000. The remaining increase will be paid for with philanthropic contributions and interest. SHS revenue and expense projections show that the hospital will remain profitable during the construction period even with the additional authorized bonds required to complete construction and renovation.

SHS projected the hospital’s net income from the start of the project until 2032, as required. The net income of the hospital will be positive throughout the project period. Once the replacement hospital opens, in 2028, the net income is projected to fall/drop to FY2022 levels. Thereafter, net income is projected to increase through FY2032.

MHCC requested that the HSCRC provide an opinion on the financial feasibility of the proposed project, taking into consideration the proposed cost escalations. HSCRC staff responded on February 2, 2026, stating that they had reviewed this SHS project change request and all submitted supplemental submissions, including the revised expenditures, sources of funds, and profit and loss projections. HSCRC staff prepared a pro forma Profit and Loss (P & L) projection to evaluate the impact of this project change on SHS’s future financial operating performance.

In Appendix 4, the HSCRC memo to Commission staff concluded:

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 factors that HSCRC considers important to the feasibility of the project include SHS's ability to:

1. Raise the efficiency of hospital operations to that of similar operations in its peer group, so as to be awarded an increment to its GBR;
2. Realize the full potential of philanthropic gifts and state grants;
3. Obtain the full potential market value of the current campus in downtown Easton upon liquidation; and
4. Curb construction and procurement cost overruns associated with potential change orders and the timing of purchase contracts.

IV. ANALYSIS

Staff notes that SHS has strived to keep costs down for the replacement hospital. It has worked with stakeholders to evaluate design components to keep this project in budget without adversely affecting the services to be offered to the community. Through these processes, SHS claims to have avoided more than \$76 million in potential project costs, which include the \$33 million saved through the two change requests to the Commission, as well as savings that will be obtained from changing from fossil fuels to power the hospital to geothermal energy. Staff agrees that a budget increase is necessary to provide essential services to the residents of the Eastern Shore.

Staff concludes that the project change request is a permissible change under COMAR 10.24.01.17B. There are no material changes to the nature of the project in its physical plant design, location, or core service capacities. The project change, in capital costs, aims to ensure that the new hospital construction remains within an approved budget, during a time of high inflation. The project still meets all relevant standards in the SHP. The requested change would not alter the findings that the Commission made in January 2024 concerning the need for and the positive long-term impact of the project.

Staff agrees with and adopts the HSCRC analysis in the Memo dated February 2, 2026, stating that the HSCRC finds that the proposed changes to the costs for the replacement hospital may be financially feasible. Based on these findings, MHCC staff concludes that the replacement hospital project is financially feasible.

ORDER

Based on the Commission staff's analysis of this second request for a project change after issuance of a Certificate of Need, it is ordered on this 19th day of February 2026, that:

The Project Change Request by the Shore Health System, Inc., to its September 18, 2025 Revised Certificate of Need for the construction of a general acute care hospital to increase the project budget is **APPROVED**, with the following conditions:

1. The University of Maryland Shore Medical Center at Easton shall provide to the patient, upon inquiry or as required by applicable regulations or law, information concerning an estimate of out-of-pocket charges prior to arrival for surgery.
2. Shore Health System shall provide, in its quarterly project reports, detailed updates on its progress towards obtaining the anticipated State funding, including how much has been obtained and efforts made to secure the remaining funds.
3. If Shore Health System fails to secure the projected State source of funds by July 2027, SHS shall request a project change to amend the project source of funds.
4. Any future changes to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude \$57,075,689. This figure includes the estimated new construction costs that exceeds the Marshall Valuation Service guideline cost and portions of the contingency allowance and inflation allowance that are based on the excess construction cost.

APPENDIX 1

REVISED PROJECT BUDGET

Appendix 1. Table 1: Uses of Funds

	Approved Budget August 2025	Requested Budget December 2025	Difference
Land Purchase	\$2,464,658	\$2,464,658	\$0
New Construction			
Building	\$219,638,602	\$365,266,998	\$145,828,396
Fixed Equipment	In Building	In Building	In Building
Site and Infrastructure	\$44,409,960	\$44,409,960	\$0
Architect/Engineering Fees	\$11,000,000	\$20,475,877	\$9,475,877
Permits (Building, Utilities, Etc.)	\$6,135,000	\$5,547,665	\$(587,335)
Subtotal	\$281,183,562	\$435,700,501	\$154,716,939
Movable Equipment	\$122,060,730	\$87,960,731	(\$34,299,999)
Contingency Allowance	\$19,452,735	\$22,128,966	\$2,676,231
Gross interest during construction period	\$49,999,000	\$54,770,000	\$4,771,000
Easton Utility Fees	\$9,000,000	\$9,000,000	\$0
Impact Fee (Town) / County	\$1,500,000	\$1,545,968	\$45,968
Builder's Risk Insurance	\$500,000	\$500,000	\$0
HOSPITAL MOVE	\$2,000,000	\$550,000	\$1,450,000
UMMS/OVHO	\$1,500,000	\$1,500,000	\$0
Previous Expenditures (Design/Planning/etc.)	\$10,078,129	\$7,771,990	\$2,306,139
Subtotal	\$219,090,594	\$185,727,655	\$(30,562,939)
TOTAL CURRENT CAPITAL COSTS	\$499,738,814	\$623,892,814	\$124,154,000
Inflation Allowance	\$28,740,058	\$28,740,058	\$0
TOTAL CAPITAL COSTS	\$528,478,871	\$652,632,871	\$124,154,000
Financing Cost and Other Cash Requirements			
Loan Placement Fees	\$2,980,000	\$3,692,000	\$712,000
CON Application legal fees	\$150,000	\$150,000	\$0
Accounting, Architectural, Planning	\$850,000	\$850,000	\$0
IT Design	\$75,000	\$75,000	\$0
SHA Study	\$300,000	\$300,000	\$0
Geo-tech consult (if needed)	\$75,000	\$75,000	\$0
Project Development Consultant	\$4,500,000	\$4,500,000	\$0
CM Preconstruction Fees	\$200,000	\$200,000	\$0
Exterior Wall Mock-Up & Testing	\$500,000	\$500,000	\$0
Scheduling	\$200,000	\$200,000	\$0
Third Party Inspections	\$750,000	\$750,000	\$0
Third Party Building Permit Review	\$400,000	\$400,000	\$0
Curtainwall Testing	\$100,000	\$137,000	\$37,000
SUBTOTAL	\$11,080,000	\$11,829,000	\$749,000
TOTAL USES OF FUNDS	\$539,558,871	\$664,461,871	\$124,903,000

Appendix 1, Table 2: Sources of Funds

	Approved Budget August 2025	Requested Budget December 2025	Difference
Cash	\$38,588,871	\$38,588,871	\$0
Philanthropy (to date and expected)	\$50,000,000	\$100,000,000	\$50,000,000
Authorized Bonds	\$333,324,000	\$402,010,000	\$68,686,000
Interest Income from bond proceeds	\$17,646,000	\$23,863,000	\$6,217,000
State Grant	\$100,000,000	\$100,000,000	\$0
<i>TOTAL SOURCE OF FUNDS</i>	\$539,558,871	\$664,461,871	\$124,903,000

Source: UM SRH December 5, 2025 Change Request Appendix 2 and Correspondence dated

APPENDIX 2

MARSHALL VALUATION SERVICE REVIEW

Marshall Valuation Service Review

The Marshall Valuation System – what it is, how it works

In order to compare the cost of a proposed construction project to that of similar projects as part of a cost-effectiveness analysis, a benchmark cost is typically developed using the Marshall Valuation Service (“MVS”). MVS cost data includes the base cost per square foot for new construction by type and quality of construction for a wide variety of building uses.

The base cost reported in the MVS guide are based on the actual final costs to the owner and include all material and labor costs, contractor overhead and profit, average architect and engineering fees, nominal building permit costs, processing fees or service charges, and normal interest on building funds during construction. It also includes: normal site preparation costs including grading and excavation for foundations and backfill for the structure; and utilities from the lot line to the structure figured for typical setbacks.

The MVS costs *do not include* costs of buying or assembling land, piling or hillside foundations (these can be priced separately), furnishings and fixtures not found in a general contract, general contingency set aside for some unknown future event such as anticipated labor and material cost increases. Also not included in the base MVS costs are site improvements such as signs, landscaping, paving, walls, and site lighting. Offsite costs such as roads, utilities, and jurisdictional hook-up fees are also excluded from the base costs.³

MVS allows staff to develop a benchmark cost using the relevant construction characteristics of the proposed project and the calculator section of the MVS guide. In developing the MVS benchmark costs, the base costs are adjusted for a variety of factors (e.g., an add-on for sprinkler systems, the presence or absence of elevators, number of building stories, the height per story, and the shape of the building. The base cost is also adjusted to the latest month and the locality of the construction project.)

Developing the MVS Benchmark for the Proposed Project

Both SHS and MHCC staff performed independent analyses to arrive at the MVS benchmark value calculated for the proposed project. In this project, SHS proposes the new construction 398,302 SF replacement hospital. SHS calculated an MVS value of \$646.81 per SF, while Commission staff arrived at an MVS value of \$646.63 per SF. Both SHS and Commission staff used the base cost for a good quality, Class A construction for a general hospital. The differences were mainly due to differences in the base cost of the Mechanical Penthouse, with SHS giving a base cost of \$141 per SF (the cost of an excellent quality Class A construction), and the Commission using \$127 per SF (the cost of a good quality Class A construction).

³ Marshall Valuation Service Guidelines, Section 1, p. 3 (January 2024).

Appendix 2, Table 1: Calculation of Marshall Valuation Service Benchmark: Shore Medical Center

New Construction	Applicant Calculation			MHCC Calculation		
Class	A			A		
Quality	Good			Good		
Type Structure	New Patient Tower	Mechanical Penthouse	CUP	New Patient Tower	Mechanical Penthouse	CUP
Floors	6	1	1	6	1	1
Total Square Footage	398,302	3,804	26,112	398,302	3,804	26,112
Average Perimeter	1,414	250	688	1,414	250	688
Weighted Average Wall Height	16.4	21.8	25.0	16.4	21.8	25.0
Average Area Per Floor	66,384	3,804	26,112	66,384	3,804	26,112
Base Cost	\$595.00	\$141.00	\$595.00	\$595.00	\$141.00	\$595.00
Department Differential Cost	1.11	1.00	0.70	1.11	1.00	0.70
Gross Base Cost	\$660.60	\$141.00	\$416.50	\$660.60	\$127.00	\$416.50
Perimeter Multiplier	0.902	1.000	0.914	0.902	1.063	0.914
Story Height Multiplier	1.100	1.226	1.299	1.101	1.226	1.299
Multi-story Multiplier	1.015	1.000	1.000	1.015	1.000	1.000
Multiplier Total	1.0070	1.2266	1.1873	1.007	1.303	1.187
Refined SF Cost	\$665.23	\$172.96	\$494.49	\$665.26	\$165.51	\$494.39
Elevator Add-on	\$0.00	\$7.26	-\$8.70	\$0.00	\$7.26	-\$8.70
Sprinkler Add-on	\$3.59	\$7.92	\$5.69	\$3.59	\$7.92	\$5.69
Local Multiplier	1.020	1.020	1.020	1.020	1.020	1.020
CC & Local Multipliers	0.970	0.970	0.970	0.970	0.970	0.970
MVS Building Cost Per SF	\$661.73	\$186.14	\$486.28	\$661.73	\$173.17	\$484.66
Building SF	398,302	3,804	26,112	398,302	3,804	26,112
MVS Building Costs	\$263,569,556	\$708,067	\$12,697,658	\$263,583,400	\$658,753	\$12,655,525
Final MVS Cost Per SF			\$646.81			\$646.63

Easton

Comparing Estimated Project to the MVS Benchmark

SHS calculated an estimated cost of 844.17 for the replacement hospital while MHCC calculated the cost to be \$743.11. The difference was due to SHS’s inclusion of construction interest in the base SF cost while MHCC included these costs in the final calculation of excess cost. SHS calculated a MVS benchmark value of \$686.81 while MHCC Staff calculated a MVS benchmark value of \$646.63.

Appendix 2, Table 2: SHS and Commission Comparison of New Construction Budget To Marshall Valuation Service Benchmark

Patient Tower - New Construction	Applicant	MHCC Staff
Building	\$365,266,998	\$365,266,998
Fixed Equipment	In Building	In Building
Normal Site Prep.	\$44,409,960	\$44,409,960
Arch./Eng. Fees	\$20,475,877	\$20,475,877
Permits	\$5,547,665	\$5,547,665
Total	\$435,700,501	\$435,700,501
Adjustments-Exclude from MVS		
Total On-Site & Off-Site Costs excluded from MVS (subtract)	\$120,404,594	\$120,404,594
Net Project Costs	\$315,295,907	\$315,295,907
Allocated Financing Expenses (add)	\$46,194,939	\$2,917,309
Project Cost for MVS Comparison	\$361,490,845	\$318,213,216
Square Footage	428,218	428,218
Cost Per Square Ft.	\$844.17	\$743.11
Adj. MVS Cost/Square Foot	\$646.81	\$646.63
Over	\$197.36	\$96.48
Over Total Costs	\$84,513,104	\$41,314,473

Source: Applicant change request.

SHS found that the total cost of new construction exceeded the MVS benchmark value by 197.36 per SF. Commission staff found that the total cost of new construction exceeded the MVS benchmark value by \$96.48 per SF, a difference from the SHS calculation due to the applicant including gross interest in construction costs, which is not allowed in this part of the calculation. The \$96.48 exceeding the MVS benchmark represents a 14.92% overage.

The standard requires that should SHS propose any rate increase related to the capital cost of the new patient tower “shall not include the amount of the projected construction cost that exceeds the MVS benchmark and those portions of the contingency allowance, inflation allowance and capitalized construction interest expenditure that are based on the excess construction cost.”

The excess construction cost must also be adjusted for the contingency and interest allowances. Staff apportioned these costs by the percentage that SHS ‘s estimates exceed the MVS benchmark (14.92%) calculated by staff. The resulting exclusion is shown in the following table:

Appendix 2. Table 3: MHCC Staff Calculation of Excess Cost

Construction cost exceeding benchmark (\$12.60 x 88,850 SF)	\$41,314,347
The portion of interest that should be excluded (\$54,770,000 x 14.92 %)	\$8,171,684
The portion of the contingencies that should be excluded (\$22,128,966 x 14.92 %)	\$3,301,642
The portion of the Inflation allowance that should be excluded (\$28,740,058 x 14.92 %)	\$4,288,016
Total to be excluded from any rate increase proposed by the hospital related to the capital cost of the project	\$57,075,689

Based on this analysis, staff recommends that approval of the project should be accompanied by the following condition:

Any future changes to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude \$57,075,689. This figure includes the estimated new construction costs that exceeds the Marshall Valuation Service guideline cost and portions of the contingency allowance and inflation allowance that are based on the excess construction cost.

APPENDIX 3

HEALTH SERVICES COST REVIEW COMMISSION MEMO

REQUEST FOR OPINION ON FINANCIAL VIABILITY – POST APPROVAL PROJECT CHANGE