STATE OF MARYLAND

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August 22, 2018

Ms. Anne Langley
Sr. Director, Health Planning & Community Engagement
Johns Hopkins Medicine
3910 Keswick Road, Suite N-2200
Baltimore, Maryland 21211

Re: Johns Hopkins Bayview Medical Center New Inpatient Building – Matter # 18-24-2414

Dear Ms. Langley:

Staff of the Maryland Health Care Commission ("MHCC") has reviewed the Johns Hopkins Bayview Medical Center's response to our request for completeness information. Several follow-up questions remain.

CONSISTENCY WITH GENERAL REVIEW CRITERIA (COMAR 10.24.01.08G(3))

THE STATE HEALTH PLAN

COMAR 10.24.10 - ACUTE HOSPITAL SERVICES standards

Adverse Impact

1. Following up on your response to question 17:
   a) Was your calculation of the average rate comparison weighted by the volumes of each of the hospitals? (Note: Bon Secours and Midtown, two of the smaller hospitals, have some of the highest rates in the State.)

   b) In Exhibits CQ 17.1, 17.2, and 17.3, there was no overhead rate listed for supplies at Union Memorial Hospital. How does excluding Union Memorial's overhead rate for supplies affect the rate comparisons in Exhibits CQ 17.1, 17.2, and 17.3?

c) In the response to question 58 JHBMC stated that its rehab patients were comingled with chronic patients. In the rate comparisons shown as Exhibits CQ 17.1, 17.2, and 17.3 JHBMC did not have an approved HSCRC rate for rehab patients. How does the comingling of chronic and rehab patients under an HSCRC-approved chronic rate at JHBMC affect the rate comparisons to other hospitals?

2. Following up on your response to question 19:

   a) The total Baltimore City population shown for 2017 in Exhibit CQ 19.1 is significantly more than the Maryland Department of Planning's projected 2020 population of 616,000. Where was the data shown in Exhibit CQ 19.1 and CQ 19.2 sourced?

   b) How did the opening of JHBMC's new outpatient facilities three years ago impact emergency room volumes, ambulance arrivals, and trauma cases?

   c) Exhibit CQ19.2 shows that emergency room admissions from the Baltimore North region for the six-month period ending 6/30/17 was 45% higher than it was in the six-month period ending 76/30/16. Bayview attributed the volume increase to patients coming from outside Bayview's normal service area that used to be seen at other hospitals. Please profile where these incremental patients are coming from, and what diagnoses are most prevalent.

3. Following up on your response to question 23: Please provide an estimate of the impact on emergency room rates at JHBMC if volumes were to decrease by three percent annually due to population declines and improvements in managing patient care such as directing patients to lower cost alternatives as recommended by the HSCRC to reduce the total cost of care.

Construction Cost of Hospital and Non-Hospital Space

4. The response to question 26 indicates that the two transport elevators and the two material handling elevators will serve all floors from basement to penthouse, but the calculations that followed used eight floors for the freight elevators and seven floors for the material handling elevators. Please explain or correct this apparent discrepancy.

5. The response to question 29 detailing the calculation of the demolition costs associated with both the site work and the connection of the new building to the existing structure includes a line item for permits, contingency, etc. Referencing that:

   a) How much of the adjustment for site demolition and how much of the adjustment for demolition of adjacent structure is for "etc."? What is included in the "etc." component of this line item and why is it part of the adjustment for each category of demolition?

b) How much of the adjustment for site demolition and how much of the adjustment for demolition of adjacent structure is for estimated contingency? Explain the inclusion of an estimated contingency in each calculation given that the project contingency budget line item is not included in the MVS comparison.

6. Regarding the response to question 31 and the issue of whether it is appropriate to make adjustments for extraordinary basement cost, explain why the Commission should accept such a fundamental change in the calculation of comparison of project costs to an MVS benchmark. In responding to this question, please address the following:

   a) What differentiates this project from other hospital projects acted on by the Commission that included basement construction, and in which there were no similar adjustments for extraordinary costs in the MVS comparison?

   b) What specific cost items or categories will be incurred in constructing the basement that are not included in the MVS benchmark as adjusted for the departmental differential cost factor that was calculated by JHBMC?

   c) Cite any past Commission decision that included acceptance of such an adjustment.

7. The response to question 32 stated that the urban construction premium was calculated at 3% of the estimated new building construction cost plus $191,353 for permits, contingency, etc. Please respond to the following:

   a) What is the basis of the 3% figure used to calculate the urban construction premium and how was it calculated?

   b) How much of the $191,353 is for the "etc." component? What is included in this component and why is it part of the restricted site/urban premium adjustment?

   c) How much of the $191,353 is for estimated contingency? Explain the inclusion of an estimated contingency in this calculation given that the project contingency budget line item is not included in the MVS comparison.

8. Regarding the responses to question 35, please respond to the following:

   a) Given that the multistory multiplier only applies at the rate of 0.5% for each floor over three above the ground, explain why a multistory multiplier of 1.015 was applied in calculating the MVS benchmark for the renovation of the upper floors when Table C indicates that renovations will only be performed on the first and third floor. Correct any error in this calculation.

   b) The supporting calculation of the departmental differential cost factors used in calculating the MVS benchmarks for the renovation of the basement and the upper hospital floors shows a total of 27,791 SF for the basement and 21,563 SF for the two

main hospital floors to be renovated. These totals are not consistent with the totals reported on the revised Table C, 34,739 SF for the basement and a total of 26,954 SF for the renovation of the two hospital floors. Please explain or correct this apparent discrepancy.

VIABILITY OF THE PROPOSAL

9. Following up on your response to question 41: Does JHBMC anticipate needing any additional HSCRC approved revenue increases within the next five years other than normal inflation and other adjustments in the annual update factor in order to fund additional staffing increases?

10. Following up on your response to question 41: Please define in more detail the expense reductions or revenue enhancements (including additional rate increases, if any) that exceed the assumed capital rate increase that comprises the $36,075,000 in performance improvements.

11. Following up on your response to question 51: Please confirm that JHBMC is offering no assurance that the assumed capital rate increase will be the only revenue increase needed within the next five years other than normal inflation and other adjustments in the annual update factor?

12. Following up on your response to question 53: Will additional HSCRC approved revenue increases be required to fund the "Service Line Incremental Investment Expenses"?

13. Following up on your response to question 54: Please provide a further explanation of how investments on pension assets will improve from a loss of $12.6 million in 2019 to a profit of $9.8 million in 2025? Will additional contributions to the pension fund be required to cause the increase in profitability?

14. Regarding question 56: Our completeness question on funding the pension liability amounts erred, citing the FY 2016 and FY 2017 audited financial statements when it should have referred to the FY 2015 and FY 2016 audited financial statements. We will rephrase the question: Between FY 2015 and FY 2017 JHBMC's pension liability increased by $32 million or an average of $16 million per year. Will JHBMC need additional approved rate increases from HSCRC in the future to fund additional pension liabilities due to the fact that the Hospital still has a defined benefit pension plan?

Please submit four copies of the responses to completeness questions and the additional information requested in this letter within ten working days of receipt (as always, extensions granted as needed). Also submit the response electronically, in both Word and PDF format, to Ruby Potter (ruby.potter@maryland.gov). Given the number of questions posed, as well as the time required for staff to compile these questions, we will certainly grant an extension to the ten day target specified in regulation as soon as you would request it.

All information supplementing the applicant must be signed by person(s) available for cross-examination on the facts set forth in the supplementary information, who shall sign a statement as follows: "I hereby declare and affirm under the penalties of perjury that the facts stated in this application and its attachments are true and correct to the best of my knowledge, information, and belief."

Should you have any questions regarding this matter, feel free to contact me at (410) 764-5982.

Sincerely,

Kevin McDonald
Chief, Certificate of Need

cc: Paul Parker
Leana Wen, MD, Health Officer, Baltimore City