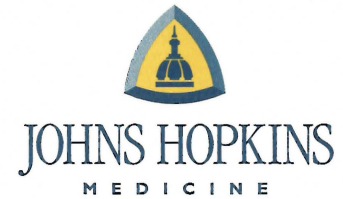


Health Care Transformation
and Strategic Planning
3910 Keswick Road, Suite N-2200
Baltimore MD 21211
443-997-0731 Fax



Kevin McDonald
Chief, Certificate of Need
4160 Patterson Avenue
Baltimore, Maryland 21215

11/30/2018

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

Dear Mr. McDonald:

Enclosed are responses to your request for completeness information, received Thursday, November 8, 2018.

I certify that this document will be sent to the Baltimore City Health Department, which is the local planning agency.

Thank you for your consideration of this application. I look forward to working with you and your staff during its review. I am available if you have any questions or would like additional information.

Sincerely,

A handwritten signature in blue ink, appearing to read "Spencer Wildonger".

Spencer Wildonger
Director of Health Planning
swildon1@jhmi.edu
443-997-0742

cc: Leana S. Wen, M.D., Health Commissioner, Baltimore City

1. Bayview's response to Question 17 of the initial set of completeness questions stated that the correct markup to increase cost to approved charges was 9.92%. On Page 178 of the CON application Bayview used a markup of 15.94% to increase projected new capital costs of \$30.3 million to arrive at the projected rate increase of \$35.1 million. When Bayview submits its partial rate application for the CON project to the HSCRC will Bayview request a rate increase of \$35.1 million or a lower amount to reflect the correct markup of 9.92% as stated in the response to completeness questions? If Bayview requests a lower rate increase what will be the impact on the projected financial included in the CON?

Applicant Response:

As JHBMC submits its partial rate application for the CON project to the HSCRC, the request for a rate increase will reflect the correct markup of 9.92%. Applying a 9.92% markup to the \$30.3 million of new capital costs will result a request for a \$33.3 million rate increase. Combined with an update of the financial projections to reflect FY2018 actual and FY2019 budgeted financial performance, JHBMC projects a similar operating income as that included in the CON application. Achievement of this operating income will include additional performance improvements to offset the reduction in revenue related to the reduced rate increase. Updated financial projections, with and without inflation and with supporting financial projection assumptions, are presented in Tables G and H in Exhibit CQ3.1.

2. Bayview's response to question 5 did not include a response to the second part of this question. Please respond to both parts of this question. If the response to the second part of the question is different for the demolition cost adjustment than for the urban construction premium adjustment, please respond to each.

Applicant Response:

The applicant has copied the original Question 5 below and provides a response to part a) and part b).

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?

The costs included in the line item titled "Permit, Estimating Contingency, Etc." are related to permit fees and a design development / estimating contingency. There is no assigned cost or scope or work for etc. Of the \$50,222 listed in the answer to question 29, \$28,699 is related to permits.

- 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.

The design development/estimating contingency is added to the estimated construction costs given the early stage of design. This is typically related to small scope changes that may occur over the remaining portion of design. The design development/estimating contingency is also used to address potential estimating changes that occur over the remaining design. The amount related to permit fees is calculated consistently with all permit fees for the project as explained in prior completeness question responses. The estimating / design development contingency is approximately 1.5% of the estimated construction costs for the extraordinary cost item. Of the \$50,222 listed in the answer to question 29, \$21,524 is related to the design development contingency.

The design development contingency is properly included in the MVS calculations because it is not an owner's contingency that is used to address issues like unforeseen conditions experienced during construction or project scope changes during the project. Instead, the DD contingency is used to bridge the gap between the partially

complete nature of the conceptual documents on which the budget has been prepared and the completion of these documents. It is also intended to address inevitable estimating shortfalls that are encountered as a result of preparing the construction estimate on partially complete documents. Thus the DD contingency will manifest itself not as scope that may or may not be to be added to the project at the discretion of the owner but as real construction cost that stems for the incomplete nature of the documents when the budget and estimate were prepared.

3. Bayview's response to question 7 did not include a response to part (c), which asked:

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.

Applicant Response:

The design development/estimating contingency is added to the estimated construction costs given the early stage of design. This is typically related to small scope changes that may occur over the remaining portion of design. The design development/estimating contingency is also used to address potential estimating changes that occur over the remaining design. The amount related to permit fees is calculated consistently with all permit fees for the project as explained in prior completeness question responses. The estimating / design development contingency is approximately 1.5% of the estimated construction costs for the extraordinary cost item. Of the \$191,353 listed in the answer to question 32, \$109,345 is related to permits and the remaining \$82,008 is related to the design development contingency.

The design development contingency is properly included in the MVS calculations because it is not an owner's contingency that is used to address issues like unforeseen conditions experienced during construction or project scope changes during the project. Instead, the DD contingency is used to bridge the gap between the partially complete nature of the conceptual documents on which the budget has been prepared and the completion of these documents. It is also intended to address inevitable estimating shortfalls that are encountered as a result of preparing the construction estimate on partially complete documents. Thus the DD contingency will manifest itself not as scope that may or may not be to be added to the project at the discretion of the owner but as real construction cost that stems for the incomplete nature of the documents when the budget and estimate were prepared.

TABLE G. REVENUES & EXPENSES, UNINFLATED - ENTIRE FACILITY

INSTRUCTION: Complete this table for the entire facility, including the proposed project. Table H should reflect inflation. Projected revenues and expenses should be consistent with the projections in Table F. 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. See additional instruction in the column to the right of the table.

	Two Most Recent Years (Actual)		Current Year Projected	Projected Years (ending at least two years after project completion and full occupancy) Add columns if needed in order to document that the hospital will generate excess revenues over total expenses consistent with the Financial Feasibility standard.						
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Indicate CY or FY										
1. REVENUE										
a. Inpatient Services	\$ 366,355	\$ 363,195	\$ 372,468	\$ 389,049	\$ 387,921	\$ 387,025	\$ 386,185	\$ 404,356	\$ 404,799	\$ 404,562
b. Outpatient Services	288,473	299,630	312,327	299,640	299,231	298,604	297,981	309,905	310,180	310,510
Gross Patient Service Revenues	654,828	662,825	684,795	\$ 688,689	\$ 687,152	\$ 685,629	\$ 684,167	\$ 714,260	\$ 714,979	\$ 715,072
c. Allowance For Bad Debt	20,382	9,710	15,665	\$ 16,608	\$ 16,588	\$ 16,568	\$ 16,549	\$ 17,304	\$ 17,340	\$ 17,361
d. Contractual Allowance	77,770	79,613	80,206	81,515	81,335	81,157	80,986	84,715	84,813	84,835
e. Charity Care	12,679	18,861	18,957	15,852	15,813	15,774	15,737	16,365	16,374	16,369
Net Patient Services Revenue	543,997	554,642	569,967	\$ 574,713	\$ 573,416	\$ 572,130	\$ 570,894	\$ 595,876	\$ 596,452	\$ 596,508
f. Other Operating Revenue	61,680	55,642	58,510	53,175	53,164	53,341	53,706	53,356	52,972	53,225
NET OPERATING REVENUE	\$ 605,677	\$ 610,284	\$ 628,477	\$ 627,888	\$ 626,580	\$ 625,471	\$ 624,600	\$ 649,232	\$ 649,424	\$ 649,733
2. EXPENSES										
a. Salaries & Wages (including benefits)	248,932	258,387	261,421	\$ 266,539	\$ 265,929	\$ 265,196	\$ 264,476	\$ 265,325	\$ 265,662	\$ 265,516
b. Contractual Services	194,103	198,722	217,328	200,647	200,742	200,871	200,953	193,144	191,077	191,317
c. Interest on Current/Other Debt	2,783	3,138	3,379	3,719	3,620	3,482	3,332	4,429	4,149	3,957
d. Interest on Project Debt	-	-	-	-	-	-	-	13,000	12,728	12,442
e. Current Depreciation and Amortization	28,994	28,568	31,095	32,202	32,712	33,231	33,728	34,520	36,416	37,885
f. Project Depreciation and Amortization	-	-	-	-	-	-	-	17,309	17,621	17,621
g. Supplies	105,311	105,421	98,657	100,614	100,278	99,925	99,549	95,835	96,125	96,270
h. Malpractice and Other Operating Expense	5,325	5,452	5,697	4,392	4,542	4,695	4,852	5,015	5,183	5,357
i. Project Related Facility Operating Expenses	-	-	-	-	-	-	-	11,716	11,748	11,779
j. Service Line Incremental Investments	-	-	-	-	1,300	3,000	5,100	-	3,100	5,200
TOTAL OPERATING EXPENSES	\$ 585,448	\$ 599,688	\$ 617,577	\$ 608,114	\$ 609,122	\$ 610,400	\$ 611,989	\$ 640,292	\$ 643,808	\$ 647,343
3. INCOME										
a. Income From Operation	\$ 20,229	\$ 10,596	\$ 10,900	\$ 19,774	\$ 17,458	\$ 15,071	\$ 12,611	\$ 8,940	\$ 5,616	\$ 2,390
b. Non-Operating Income	(14,011)	(7,320)	(10,089)	(15,977)	(5,344)	(1,235)	2,800	5,646	7,694	9,417
SUBTOTAL	\$ 6,218	\$ 3,276	\$ 811	\$ 3,797	\$ 12,114	\$ 13,836	\$ 15,410	\$ 14,586	\$ 13,311	\$ 11,807
c. Income Taxes										
NET INCOME (LOSS)	\$ 6,218	\$ 3,276	\$ 811	\$ 3,797	\$ 12,114	\$ 13,836	\$ 15,410	\$ 14,586	\$ 13,311	\$ 11,807
4. PATIENT MIX										
a. Percent of Total Revenue										
1) Medicare	37.1%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%
2) Medicaid	25.6%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%
3) Blue Cross	10.6%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
4) Commercial Insurance	7.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
5) Self-pay	2.9%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
6) Other	16.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
b. Percent of Equivalent Inpatient Days										
Total MSGA										
1) Medicare	43.4%	47.1%	47.1%	47.1%	47.1%	47.1%	47.1%	47.1%	47.1%	47.1%
2) Medicaid	31.4%	30.4%	30.4%	30.4%	30.4%	30.4%	30.4%	30.4%	30.4%	30.4%
3) Blue Cross	6.3%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
4) Commercial Insurance	5.1%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
5) Self-pay	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
6) Other	12.3%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE H. REVENUES & EXPENSES, INFLATED - ENTIRE FACILITY

INSTRUCTION: Complete this table for the entire facility, including the proposed project. Table H should reflect inflation. Projected revenues and expenses should be consistent with the projections in Table F. 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. See additional instruction in the column to the right of the table.

	Two Most Recent Years (Actual)		Current Year Projected	Projected Years (ending at least two years after project completion and full occupancy) Add columns if needed in order to document that the hospital will generate excess revenues over total expenses consistent with the Financial Feasibility standard.						
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Indicate CY or FY										
1. REVENUE										
a. Inpatient Services	\$ 366,355	\$ 363,195	\$ 372,468	\$ 399,320	\$ 408,673	\$ 418,494	\$ 428,610	\$ 460,624	\$ 473,303	\$ 485,514
b. Outpatient Services	288,473	299,630	312,327	307,550	315,239	322,883	330,716	353,030	362,672	372,643
Gross Patient Service Revenues	654,828	662,825	684,795	706,870	723,913	741,377	759,326	813,654	835,975	858,156
c. Allowance For Bad Debt	20,382	9,710	15,665	17,047	17,475	17,915	18,367	19,712	20,274	20,834
d. Contractual Allowance	77,770	79,613	80,206	83,667	85,687	87,756	89,883	96,503	99,166	101,810
e. Charity Care	12,679	18,861	18,957	16,270	16,659	17,057	17,466	18,643	19,145	19,645
Net Patient Services Revenue	543,997	554,642	569,967	589,885	604,092	618,649	633,610	678,796	697,390	715,867
f. Other Operating Revenue	61,680	55,642	58,510	53,944	54,714	55,684	56,857	57,329	57,781	58,886
NET OPERATING REVENUE	\$ 605,677	\$ 610,284	\$ 628,477	\$ 643,829	\$ 658,806	\$ 674,333	\$ 690,467	\$ 736,125	\$ 755,171	\$ 774,753
2. EXPENSES										
a. Salaries & Wages (including benefits)	\$ 248,932	\$ 258,387	\$ 261,421	\$ 273,203	\$ 279,392	\$ 285,587	\$ 291,932	\$ 300,190	\$ 308,086	\$ 315,615
b. Contractual Services	194,103	198,722	217,328	204,929	209,395	213,991	218,636	215,493	217,931	223,008
c. Interest on Current/Other Debt	2,783	3,138	3,379	3,719	3,620	3,482	3,332	4,429	4,149	3,957
d. Interest on Project Debt	-	-	-	-	-	-	-	13,000	12,728	12,442
e. Current Depreciation and Amortization	28,994	28,568	31,095	32,202	32,712	33,231	33,728	34,520	36,416	37,885
f. Project Depreciation and Amortization	-	-	-	-	-	-	-	17,309	17,621	17,621
g. Supplies	105,311	105,421	98,657	102,762	104,604	106,458	108,320	106,946	109,643	112,226
h. Malpractice and Other Operating Expense	5,325	5,452	5,697	4,480	4,725	4,982	5,252	5,537	5,837	6,153
i. Project Related Facility Operating Expenses	-	-	-	-	-	-	-	12,936	13,230	13,530
j. Service Line Incremental Investments	-	-	-	-	1,300	3,000	5,100	-	3,100	5,200
TOTAL OPERATING EXPENSES	\$ 585,448	\$ 599,688	\$ 617,577	\$ 621,295	\$ 635,747	\$ 650,731	\$ 666,301	\$ 710,360	\$ 728,740	\$ 747,637
3. INCOME										
a. Income From Operation	\$ 20,229	\$ 10,596	\$ 10,900	\$ 22,534	\$ 23,058	\$ 23,602	\$ 24,166	\$ 25,764	\$ 26,431	\$ 27,116
b. Non-Operating Income	(14,011)	(7,320)	(10,089)	(16,296)	(5,560)	(1,310)	3,030	6,234	8,665	10,817
SUBTOTAL	\$ 6,218	\$ 3,276	\$ 811	\$ 6,238	\$ 17,498	\$ 22,291	\$ 27,197	\$ 31,998	\$ 35,096	\$ 37,933
c. Income Taxes										
NET INCOME (LOSS)	\$ 6,218	\$ 3,276	\$ 811	\$ 6,238	\$ 17,498	\$ 22,291	\$ 27,197	\$ 31,998	\$ 35,096	\$ 37,933
4. PATIENT MIX										
a. Percent of Total Revenue										
1) Medicare	37.1%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%
2) Medicaid	25.6%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%
3) Blue Cross	10.6%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
4) Commercial Insurance	7.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
5) Self-pay	2.9%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
6) Other	16.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
b. Percent of Equivalent Inpatient Days										
Total MSGA										
1) Medicare	43.4%	47.1%	47.1%	47.1%	47.1%	47.1%	47.1%	47.1%	47.1%	47.1%
2) Medicaid	31.4%	30.4%	30.4%	30.4%	30.4%	30.4%	30.4%	30.4%	30.4%	30.4%
3) Blue Cross	6.3%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
4) Commercial Insurance	5.1%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
5) Self-pay	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
6) Other	12.3%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%