



**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**

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**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.<sup>1</sup>

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<sup>1</sup> 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*.<sup>2</sup> 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**

<b>Use of Funds</b>	<b>Amount</b>
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)
<b>Total Capital Costs</b>	<b>\$124,154,000</b>
Loan Placement Fees	\$712,000
Non-CON Consulting Fees	\$37,000

<sup>2</sup>Maryland 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](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](https://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**

	<b>MHCC</b>	<b>SHS</b>
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
<b>Construction Costs over MVS Benchmark (Total Dollar Amount)</b>	<b>\$ 41,314,473</b>	<b>\$ 84,513,104</b>
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
<b>Total to be excluded from any rate increase proposed by the hospital</b>	<b>\$ 57,075,689</b>	<b>\$ 84,513,104</b>

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 19<sup>th</sup> 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**

	<b>Approved Budget August 2025</b>	<b>Requested Budget December 2025</b>	<b>Difference</b>
<b>Land Purchase</b>	\$2,464,658	\$2,464,658	\$0
<b>New Construction</b>			
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)
<b>Subtotal</b>	<b>\$281,183,562</b>	<b>\$435,700,501</b>	<b>\$154,716,939</b>
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	<b>\$219,090,594</b>	<b>\$185,727,655</b>	<b>\$(30,562,939)</b>
<b>TOTAL CURRENT CAPITAL COSTS</b>	<b>\$499,738,814</b>	<b>\$623,892,814</b>	<b>\$124,154,000</b>
<b>Inflation Allowance</b>	\$28,740,058	\$28,740,058	\$0
<b>TOTAL CAPITAL COSTS</b>	<b>\$528,478,871</b>	<b>\$652,632,871</b>	<b>\$124,154,000</b>
<b>Financing Cost and Other Cash Requirements</b>			
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
<b>SUBTOTAL</b>	<b>\$11,080,000</b>	<b>\$11,829,000</b>	<b>\$749,000</b>
<b>TOTAL USES OF FUNDS</b>	<b>\$539,558,871</b>	<b>\$664,461,871</b>	<b>\$124,903,000</b>

**Appendix 1, Table 2: Sources of Funds**

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

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.<sup>3</sup>

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).

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<sup>3</sup> 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
<b>Final MVS Cost Per SF</b>			<b>\$646.81</b>			<b>\$646.63</b>

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**

<b>Patient Tower - New Construction</b>	<b>Applicant</b>	<b>MHCC Staff</b>
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
<b>Adjustments-Exclude from MVS</b>		
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
<b>Total to be excluded from any rate increase proposed by the hospital related to the capital cost of the project</b>	<b>\$57,075,689</b>

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**

**MEMORANDUM**

**To:** Wynnee 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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Director  
Revenue & Regulation Compliance

**Claudine Williams**  
Director  
Healthcare Data Management & Integrity

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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.

