



DATE: October 19, 2023

TO: Commissioners

FROM: Jeanne-Marie Gawel
Acting Chief, Certificate of Need

SUBJECT: In the Matter of University of Maryland Medical Center Request for
Project Change after Project Approval
Docket No. 19-24-2438

Enclosed is the staff report and recommendation for a Request for a Project Change after Project Approval submitted by University of Maryland Medical Center (UMMC), an academic medical center serving as the teaching hospital for the University of Maryland School of Medicine and is the largest hospital within the 12-hospital University of Maryland Medical System, Inc. On August 20, 2020, the Maryland Health Care Commission approved a certificate of need (CON) to construct a nine-story addition on the east side of the North Hospital building at the corner of Greene and Baltimore streets in Baltimore City. The approved project includes the addition of 62 beds to the hospital's existing physical bed capacity, approximately 155,000 square feet (SF) of new construction, and approximately 73,000 SF in renovations to contiguous existing space within the North Hospital. The project was approved at a cost of \$194,368,000, which UMMC would fund with a state grant of 95.8 million a \$78.5 million in authorized bonds, \$10 million in cash, \$20 million in philanthropic donations and \$100,000 in cash.

UMMC is requesting a project change to increase the capital costs associated with the project, and to make changes in the physical plant design. The total project cost has increased significantly to \$269,190,180, an increase of \$74,822,180 or approximately 37.3%. UMMC states that the project cost increase is due to delays that occurred due to the COVID-19 pandemic. Since the filing, there has been a significant escalation in project costs and several necessary renovation costs were not included in the original budget. Additionally, a number of design changes have been made, to improve the efficiency of the new facility.

UMMC will pay for the additional capital costs using authorized bonds (\$50,965,495), related interest income (\$3,956,685), and increasing its philanthropy goal (\$20,000,000). According to the applicant, it has raised \$35 million in charitable contributions to date and fully expects to reach its target. UMMC plans the issuance of the bonds in CY 2024 and assumes a 5% borrowing rate in its projections. The applicant stated that \$100,000 in cash that was originally slated will not be used for the project. UMMC stated that it has no plans to file a partial rate adjustment application to the HSCRC to offset the cost increases.



Staff recommends that the Commission **APPROVE** the request for a project change after issuance of a Certificate of Need. Staff recommends the following conditions be incorporated in the request by University of Maryland Medical Center for changes to its August 20, 2020 Certificate of Need for the construction of a Cancer Center Tower:

1. Prior to its request for first use approval, UMMC will submit an assessment of the need for surge bed capacity at UMMC and its plan to maintain and deploy adequate surge bed capacity when needed.
2. Any future change to the financing of this project involving adjustments in revenue must exclude \$10,470,000 in shell space-related costs, which includes the estimated new construction costs of the proposed shell space and portions of the contingency allowance, inflation allowance, and capitalized construction interest expenditure related to the estimated cost of the shell space.
3. UMMC will not finish the shell space on either the second or third floor without giving notice to the Commission and obtaining all required Commission approvals. UMMC will not request any adjustment in budgeted revenue by the Health Services Cost Review Commission (HSCRC) that includes depreciation or interest costs associated with construction of the proposed shell space unless UMMC has obtained either CON approval for finishing the shell space or a determination of coverage from the Maryland Health Care Commission that CON approval is not required.
4. In calculating any future adjustment to budgeted revenues related to the costs of this project, HSCRC shall exclude the capital costs associated with the shell space until the space is finished and put to use in a regulated activity. In calculating any revenue adjustment that includes an accounting for capital costs associated with the shell space, the rate shall only account for depreciation and interest expenses going forward through the remaining useful life of the space.
5. Any future change to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude \$9,120,808, which includes the estimated new construction costs that exceed the Marshall Valuation Service guideline cost and portions of the contingency allowance and inflation allowance that are based on the excess construction cost.