

IN THE MATTER OF	*	BEFORE THE
	*	
CONVERSION OF	*	MARYLAND HEALTH
	*	
UNIVERSITY OF MARYLAND	*	CARE COMMISSION
	*	
LAUREL REGIONAL HOSPITAL	*	
	*	
TO A FREESTANDING	*	
	*	
MEDICAL FACILITY	*	
	*	
Docket No. 18-16-EX002	*	

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

I. INTRODUCTION

Background

Dimensions Health Corporation (Dimensions) is a not-for-profit health system owned by the University of Maryland Medical System (UMMS). UMMS acquired Dimensions on September 1, 2017. On September 20, 2018, the Maryland Health Care Commission (MHCC) approved an exemption from Certificate of Need (CON) review to convert the University of Maryland Laurel Regional Hospital, a general hospital acquired by UMMS in the Dimensions transaction, to a freestanding medical facility (FMF). That FMF initiated operations in January 2019 as University of Maryland Laurel Medical Center (LMC) with UM Prince George’s Hospital Center (PGHC) in Cheverly as the parent hospital. PGHC was replaced in 2021 by UM Capital Region Medical Center (CRMC) in Largo, which now serves as the FMF’s parent hospital.

The approved project is being implemented in two phases. The first phase initiated the FMF operations using the existing facilities of the former general hospital. The second phase will involve construction of a new building which will operate as the FMF on the southwestern side of the former hospital campus. When the new construction is complete, the existing hospital building will be repurposed or demolished.

LMC was approved to provide, on a rate-regulated basis, a host of outpatient services beyond the standard FMF services of full-time emergency care and observation services. Those additional services are: (1) ambulatory surgery services; (2) diagnostic imaging and other clinical ancillary services required to support the emergency, observation, and ambulatory surgery services of the FMF; (3) partial hospitalization/intensive outpatient behavioral health services; and (4) wound care, including hyperbaric oxygen therapy. Maryland law provides the Health Services Cost Review Commission (HSCRC) with discretion in determining whether outpatient services beyond emergency and observation services in an FMF setting should be subject to rate regulation. HSCRC exercised its discretion in approving rate-regulation of these additional outpatient services at LMC when this project was approved in 2018.

Phase Two construction is underway. The approved plan for Phase Two was a newly constructed building with two floors totaling 75,855 square feet (SF). The authorized capital expenditure for the project is \$53,225,855. Project funding was to be sourced from debt (\$38.1 million in tax exempt bonds issued in FY 2018 through UMMS), \$500,000 in interest earnings on the bonds, and \$14.5 million in grant funding from the State of Maryland.

Requested Project Change Summary

Dimensions requests that the Commission approve additional spending of \$18,354,366 for this project (+34.5%), bringing the total approved expenditure from \$53,225,855 to \$71,580,221. (See Appendix 1 for Table E from the change request, comparing the currently authorized project budget, including uses and sources of funds, with the new project budget.) Dimensions is also requesting approval of changes in its physical plant design. The FMF building has been redesigned to include 7,888 additional SF of space (+10.4%). (See Floor Plan at Appendix 2.) This expansion of the building is designed to accommodate a community room, more space for the Wound Care Center, more physician specialty clinic space, and additional shell space for future expansion.

II. APPLICABLE REGULATIONS

Exemptions from CON review to convert a general hospital to a FMF are governed by COMAR 10.24.19.04C. These regulations provide that the Commission can grant an exemption from CON if it finds that the action:

- (a) Is consistent with the State Health Plan;
- (b) Will result in more efficient and effective delivery of health care services;
- (c) Will maintain adequate and appropriate delivery of emergency care within the statewide emergency medical services system as determined by the State Emergency Medical Services Board; and
- (d) Is in the public interest.

COMAR 10.24.19.04C(9). The Commission made these findings when it approved this exemption from CON review in 2018, allowing for the conversion of University of Maryland Laurel Regional Hospital to an FMF.

While MHCC's regulations do not explicitly address project changes of approved CON exemptions, COMAR 10.24.01.17, which addresses project changes after CON issuance, provides a framework and relevant considerations for reviewing this request. MHCC has previously applied this regulation to requests for project changes after approval of an exemption from CON review.¹

COMAR 10.24.01.17B provides that certain "changes that would place the project at variance with its Certificate of Need ... shall receive approval from the Commission" While certain types of project changes would require a new CON, or a new exemption, Dimensions seeks to make a permissible modification.²

¹ *In the Matter of the Consolidation of Adult Acute Psychiatric Beds: Three Lifebridge Health General Hospitals*, Dkt. No. 19-24-EX01 (Sep. 23, 2021).

² Impermissible modifications are those that change the fundamental nature of the facility or services of the approved project, increase the total licensed bed capacity or medical services, or a change that requires an extension of time to meet CON performance obligations. COMAR 10.24.01.17C.

This project requires Commission action because it would incur “capital cost increases that exceed the approved capital cost inflated by an amount determined by applying the Building Cost Index published in the *Health Care Cost Review* from the application submission date to the date of the filing of a request for approval of a project change” as provided 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 with conditions, not approve the change with explanation, or require a complete CON review due to the scope of the requested change.

III. COST INCREASE AND FINANCIAL IMPACT OF THE REQUEST

Current Request Compared with the Original Exemption Approved Budget

Dimensions compared the originally approved costs of this project with its current cost estimate, reflecting both the cost of the additional proposed space and the increases in cost due to inflation. The COVID-19 pandemic is identified as a factor in this cost inflation. Dimensions states that the cost of constructing the new FMF building will increase by \$7,550,000. The applicant included an exhibit showing that the projected building costs do not exceed the updated Marshall Valuation Service (MVS) benchmark. MHCC staff also conducted an analysis of the MVS benchmark and verified the calculation, concurring that the costs do not exceed the benchmark as seen in the table below.

Table II-1: Laurel Regional FMF Project Change Request Revised MVS

Building Square Feet	83,743 SF
MVS Building Costs	\$42,807,272
MVS Cost Benchmark (Cost per SF)	\$511.17
Estimated Project Cost per SF	\$498.52
Difference	(\$12.65)
Percent Difference	(2.4%)

Source: MHCC Staff Calculation

Other budget items with increased estimated costs include site and infrastructure expenses related to the new project design; engineering fees for the re-design; moveable equipment; and gross interest expense increases resulting from the delayed construction period.

Table II-2: Original Budget, September 2018 and Current Project Cost Estimate, April 2022

Uses of Funds				
	Original	Current Estimate	Variance	% Change
New Construction				
Building	\$24,700,000	\$32,250,000	\$7,550,000	30.5%
Fixed Equipment	480,000	500,000	20,000	4.2%
Site and Infrastructure	2,900,000	4,250,000	1,350,000	46.6%
Architect/Engineering Fees	2,060,000	4,400,000	2,340,000	113.6%
Permits	100,000	100,000	0	0%
Subtotal New Construction	\$30,240,000	\$41,500,000	\$11,260,000	37.2%
Renovation (Phase One)				

Building	\$18,560	\$0	(\$18,560)	0%
Fixed Equipment	102,295	0	(102,295)	0%
Subtotal Renovation	\$120,855	\$0	(\$120,855)	0%
Other Capital Costs				
Moveable Equipment	\$11,789,000	\$17,000,000	\$5,215,000	44.2%
Contingency Allowance	3,000,000	3,000,000	0	0%
Gross Interest	4,902,000	7,486,483	2,584,483	52.7%
Other	300,000	1,000,000	700,000	233.3%
Inflation Allowance	2,000,000	514,186	(1,485,814)	74.3%
Total Capital Costs	\$52,222,000	\$70,500,669	\$18,152,814	35.0%
Financing Costs				
Loan Placement	\$298,000	\$554,554	\$256,554	86.1%
Legal Fees	150,000	150,000	0	0%
CON Assistance Fees	100,000	100,000	0	0%
Non-CON Fees	330,000	274,998	(55,002)	16.7%
Total Uses of Funds	\$53,225,855	\$71,580,221	\$18,354,366	34.5%
Sources of Funds				
	Original	Current Estimate	Variance	% Change
Cash	\$125,855	\$0	(\$125,855)	NA
Authorized Bonds	38,100,000	55,455,428	17,355,428	45.6%
Interest Income from Bonds	500,000	1,624,793	1,124,783	224.9%
State Grant	14,500,000	14,500,000	0	0%
Total Sources of Funds	\$53,225,855	\$71,580,221	\$18,354,366	34.5%

Source: Project Budget, from original CON exemption request and project change request letter dated April 7, 2022

The Change in Project Cost Exceeds the Inflation Allowance

Dimensions is projecting that the project, as now planned, would require an additional capital expenditure of \$18,152,814. CON regulations provide for an inflation allowance, calculated using the building cost indices published on a quarterly basis by IHS Global Insight in the *Healthcare Cost Review*. However, project cost increases that exceed that inflation allowance are required to obtain Commission approval.

(https://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/con_cap_cost_index_20200127.pdf).

Using the building cost inflation index noted above, staff calculated the project cost estimate resulting from the inflation index to be \$55,538,572 (6.4%), well below the estimated capital cost increase projected by Dimensions for completion of the project as now configured. Thus, COMAR 10.24.01.17B(2) requires Commission authorization of the proposed cost increase.

Impact on Financial Performance

This project change request includes a capital budget increase of \$18,152,814 which will be funded through increased debt and income from investment of money raised through the sale

of bonds during the period of construction. The Global Budget Revenue (GBR) established for the FMF as a basis for its charges will need to be larger than formerly anticipated. Dimensions states that the new FMF is expected to bolster emergency department utilization. However, as an emergency department with ancillary services, the new FMF is projected to operate at a loss. Dimensions states that these losses are expected and will be absorbed through the excess revenue over expenses generated by CRMC, the FMF's parent hospital. Dimensions included a projection of revenues and expenses (Table H shown in Appendix 3) that anticipates positive cash flow from operations (adjusting for depreciation, a non-cash expenses). Based on these projections, Commission staff does not anticipate that this project change will have a negative impact on the applicant's financial performance, although the operating losses at LMC will require a higher level of subsidization from the excess revenue generated from CRMC operations.

HSCRC staff has been reviewing this change request and has obtained additional information from CRMC. An opinion letter from HSCRC staff was not available at the time of preparation of this staff report and recommendation. It is anticipated that this input will be available prior to the Commission's June 21, 2022, meeting.

IV. ANALYSIS

Staff concludes that there are no material changes to the nature of the project, its location, or the core FMF service capacities. The requested change would not alter the findings that the Commission made in 2018 concerning the need for and the positive long-term impact of converting the former general hospital to an FMF.

Normally, this MHCC staff report would include a review and analysis of the change request by HSCRC staff, an important input to the project review, given the implied impact on charges that can arise from a capital cost increase of this size. Because this project is currently being implemented and the Commission's meeting schedule would not allow for final action on the request until September 2022 if action does not occur in July, staff felt it was important to place this change request on the July meeting agenda. MHCC anticipates receiving an analysis from HSCRC staff prior to the July 21, 2022, meeting.

For these reasons, this staff report does not yet include a recommendation on the requested project change. Staff intends to supplement this report with a recommendation after it receives further guidance from HSCRC.

APPENDIX 1

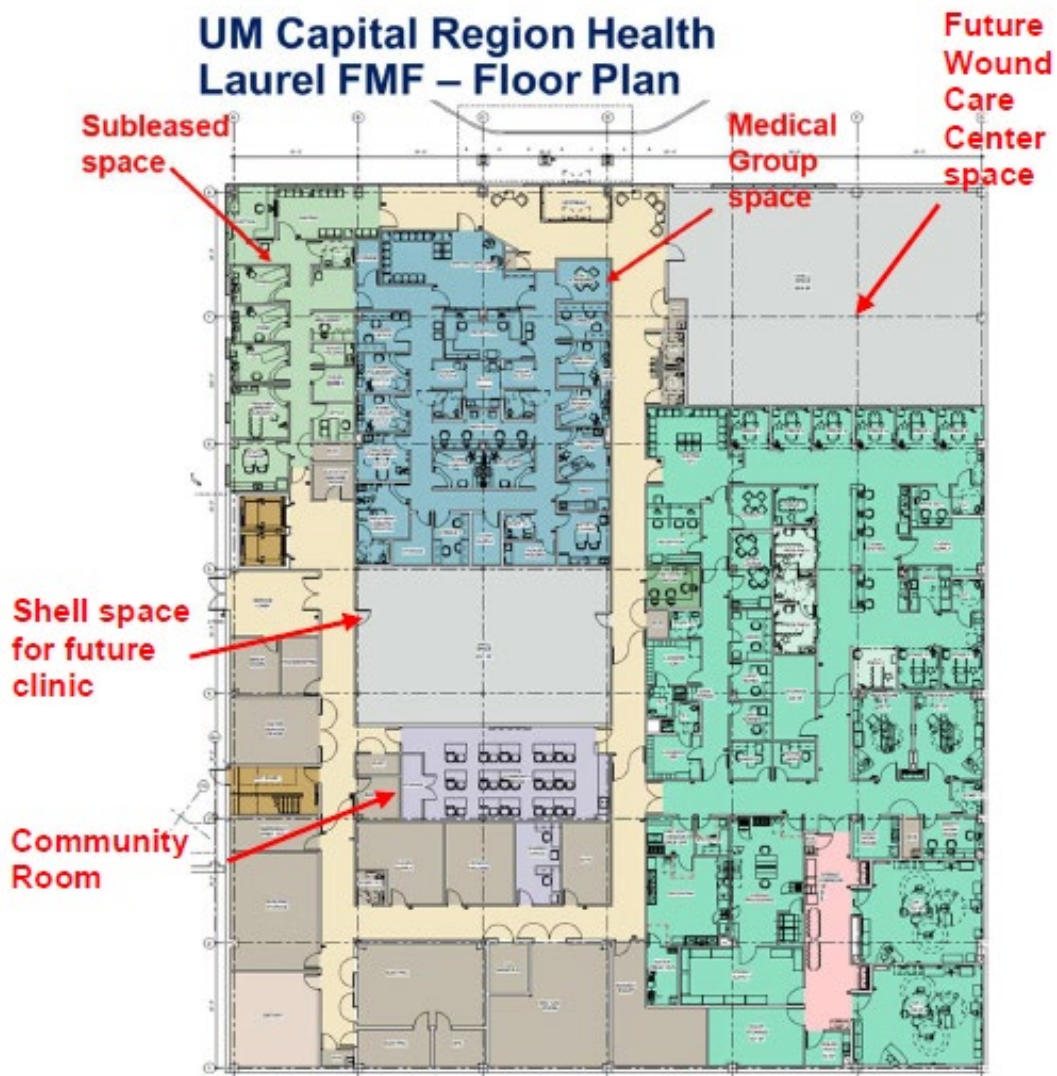
TABLE E. PROJECT BUDGET

			As Approved			As Modified		Difference
			Hospital Building	Interim Location	Total	Hospital Building	Total	
A. USE OF FUNDS								
1. CAPITAL COSTS								
a.		New Construction						
(1)	Building	\$24,700,000		\$24,700,000	\$32,250,000	\$32,250,000	\$7,550,000	
(2)	Fixed Equipment	\$480,000		\$480,000	\$500,000	\$500,000	\$20,000	
(3)	Site and Infrastructure	\$2,900,000		\$2,900,000	\$4,250,000	\$4,250,000	\$1,350,000	
(4)	Architect/Engineering Fees	\$2,060,000		\$2,060,000	\$4,400,000	\$4,400,000	\$2,340,000	
(5)	Permits (Building, Utilities, Etc.)	\$100,000		\$100,000	\$100,000	\$100,000	\$0	
		SUBTOTAL	\$30,240,000	\$0	\$30,240,000	\$41,500,000	\$41,500,000	\$11,260,000
b.		Renovations						
(1)	Building		\$18,560	\$18,560		\$0	-\$18,560	
(2)	Fixed Equipment (not included in construction)		\$102,295	\$102,295		\$0	-\$102,295	
(3)	Architect/Engineering Fees			\$0		\$0	\$0	
(4)	Permits (Building, Utilities, Etc.)			\$0		\$0	\$0	
		SUBTOTAL	\$0	\$120,855	\$120,855	\$0	\$0	-\$120,855
c.		Other Capital Costs						
(1)	Movable Equipment	\$11,780,000	\$5,000	\$11,785,000	\$17,000,000	\$17,000,000	\$5,215,000	
(2)	Contingency Allowance	\$3,000,000		\$3,000,000	\$3,000,000	\$3,000,000	\$0	
(3)	Gross interest during construction period	\$4,902,000		\$4,902,000	\$7,486,483	\$7,486,483	\$2,584,483	
(4)	Other (Specify/add rows if needed)	\$300,000		\$300,000	\$1,000,000	\$1,000,000	\$700,000	
		SUBTOTAL	\$19,982,000	\$5,000	\$19,987,000	\$28,486,483	\$28,486,483	\$8,499,483
		TOTAL CURRENT CAPITAL COSTS	\$50,222,000	\$125,855	\$50,347,855	\$69,986,483	\$69,986,483	\$19,638,628
d.	Land Purchase							
e.	Inflation Allowance	\$2,000,000		\$2,000,000	\$514,186	\$514,186	-\$1,485,814	
		TOTAL CAPITAL COSTS	\$52,222,000	\$125,855	\$52,347,855	\$70,500,669	\$70,500,669	\$18,152,814
2. Financing Cost and Other Cash Requirements								
a.	Loan Placement Fees	\$298,000		\$298,000	\$554,554	\$554,554	\$256,554	
b.	Bond Discount			\$0		\$0	\$0	
c.	CON Application Assistance						\$0	
	<i>c1. Legal Fees</i>	\$150,000		\$150,000	\$150,000	\$150,000	\$0	
	<i>c2. Other (Specify/add rows if needed)</i>	\$100,000		\$100,000	\$100,000	#REF!	#REF!	
d.	Non-CON Consulting Fees						\$0	
	<i>d1. Legal Fees</i>			\$0		\$0	\$0	
	<i>d2. Other (Specify/add rows if needed)</i>	\$330,000		\$330,000	\$274,998	\$274,998	-\$55,002	
e.	Debt Service Reserve Fund			\$0		\$0	\$0	
f.	Other (Specify/add rows if needed)			\$0		\$0	\$0	
		SUBTOTAL	\$878,000	\$0	\$878,000	\$1,079,552	\$1,079,552	\$201,552
3. Working Capital Startup Costs				\$0		\$0	\$0	

		TOTAL USES OF FUNDS	\$53,100,000	\$125,855	\$53,225,855	\$71,580,221	\$71,580,221	\$18,354,366
B. Sources of Funds								
1.	Cash			\$125,855	\$125,855		\$0	-\$125,855
2.	Philanthropy (to date and expected)				\$0		\$0	\$0
3.	Authorized Bonds		\$38,100,000		\$38,100,000	\$55,455,428	\$55,455,428	\$17,355,428
4.	Interest Income from bond proceeds listed in #3		\$500,000		\$500,000	\$1,624,793	\$1,624,793	\$1,124,793
5.	Mortgage				\$0		\$0	\$0
6.	Working Capital Loans				\$0		\$0	\$0
7.	Grants or Appropriations							\$0
	a.	Federal			\$0		\$0	\$0
	b.	State	\$14,500,000		\$14,500,000	\$14,500,000	\$14,500,000	\$0
	c.	Local			\$0		\$0	\$0
8.	Other (Specify/add rows if needed)				\$0		\$0	\$0
		TOTAL SOURCES OF FUNDS	\$53,100,000	\$125,855	\$53,225,855	\$71,580,221	\$71,580,221	\$18,354,366

APPENDIX 2
UM Capital Region Health
Laurel Freestanding Medical Facility
Floor Plan

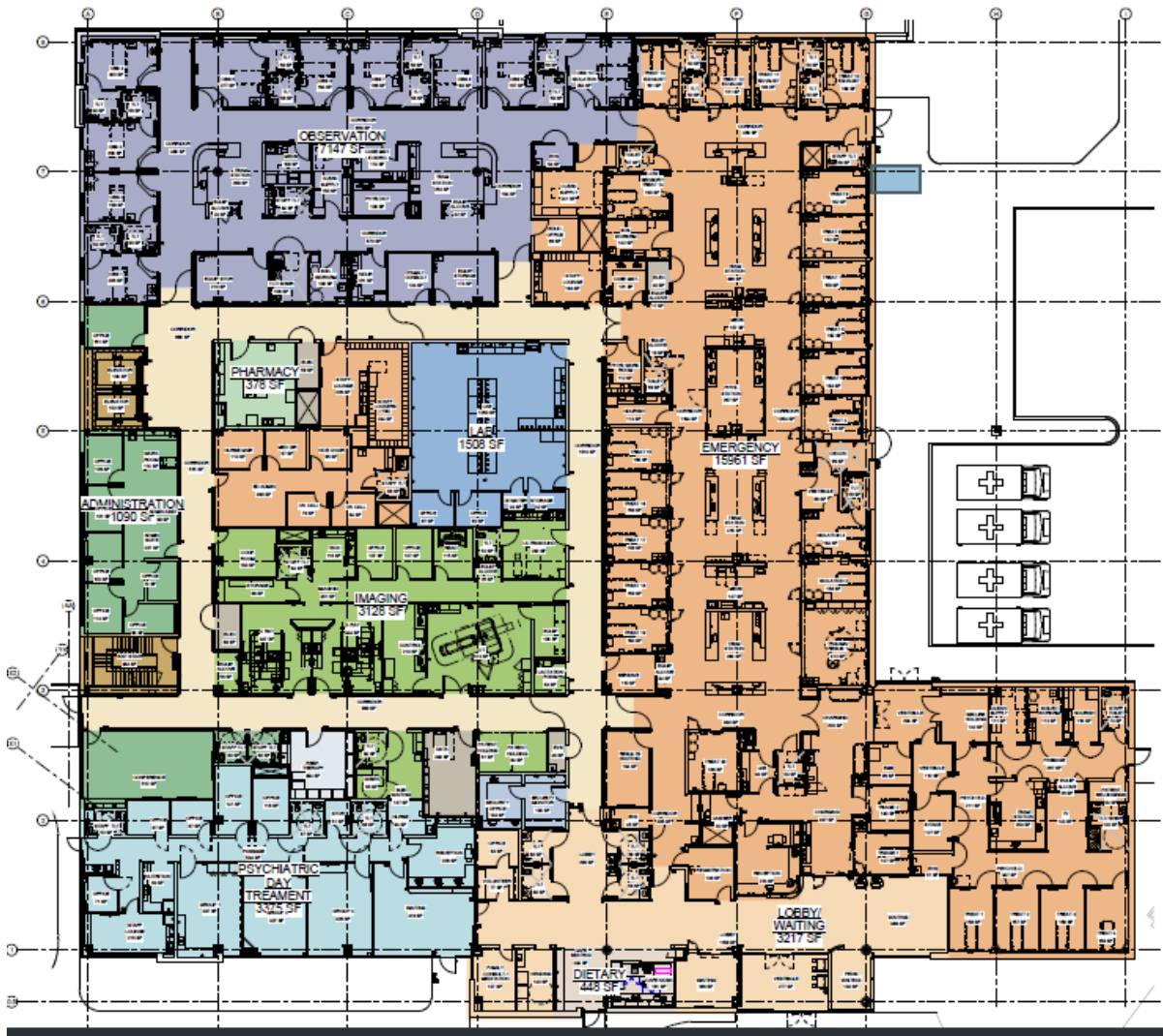
UM Capital Region Health Laurel FMF – Floor Plan



Departments

ADMINISTRATION	142 SF
AMBULATORY SURGERY CENTER	12887 SF
BUILDING SERVICES	5732 SF
CIRCULATION	4820 SF
CLINIC 1	4708 SF
CLINIC 2	2188 SF
COMMUNITY SPACE	1379 SF
DIETARY	649 SF
SHELL SPACE	6319 SF
VERTICAL CIRCULATION	551 SF
TOTAL	39375 SF

UM Capital Region Health Laurel FMF --Floor Plan – 2nd Level



Departments

ADMINISTRATION	1821 SF
BUILDING SERVICES	512 SF
CIRCULATION	3872 SF
DIETARY	448 SF
EMERGENCY	17425 SF
IMAGING	3542 SF
LAB	1508 SF
LOBBY/ WAITING	3217 SF
OBSERVATION	7147 SF
PHARMACY	378 SF
PSYCHIATRIC DAY TREATMENT	3375 SF
RESPIRATORY THERAPY	262 SF
SECURITY	268 SF
VERTICAL CIRCULATION	592 SF
TOTAL	44368 SF

APPENDIX 3

TABLE H. REVENUES & EXPENSES, INFLATED - UM Capital Region Health

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.

	Two Most Recent Years		Current Year	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.				
Indicate CY or FY	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
1. REVENUE								
a. Inpatient Services	\$260,237	\$269,370	\$285,848	\$286,931	\$293,652	\$300,536	\$307,586	\$314,806
b. Outpatient Services	\$ 158,363	\$ 159,657	\$ 193,208	\$ 203,686	\$ 211,029	\$ 218,509	\$ 224,131	\$ 229,896
Gross Patient Service Revenues	\$ 418,600	\$ 429,026	\$ 479,056	\$ 490,617	\$ 504,681	\$ 519,045	\$ 531,716	\$ 544,702
c. Deductions	\$ 84,868	\$ 109,784	\$ 117,829	\$ 117,290	\$ 120,642	\$ 124,069	\$ 127,187	\$ 130,385
Net Patient Services Revenue	\$ 333,732	\$ 319,242	\$ 361,226	\$ 373,327	\$ 384,039	\$ 394,976	\$ 404,529	\$ 414,317
d. Grants	\$ 16,326	\$ 15,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
e. Other Operating Revenue	\$ 28,694	\$ 52,658	\$ 10,396	\$ 10,658	\$ 10,871	\$ 11,089	\$ 11,311	\$ 11,537
NET OPERATING REVENUE	\$ 378,752	\$ 386,900	\$ 381,622	\$ 393,985	\$ 404,911	\$ 416,065	\$ 425,839	\$ 435,854
2. EXPENSES								
a. Salaries & Wages (including benefits)	\$ 206,801	\$ 212,444	\$ 195,540	\$ 197,254	\$ 202,345	\$ 207,596	\$ 213,013	\$ 218,602
b. Contractual Services	\$ 81,678	\$ 96,489	\$ 78,221	\$ 78,864	\$ 60,450	\$ 52,654	\$ 52,519	\$ 52,305
c. Interest on Current Debt	\$ 519	\$ 1,288	\$ 6,569	\$ 6,424	\$ 10,469	\$ 9,176	\$ 9,013	\$ 8,835
d. Interest on Project Debt	\$ -	\$ -	\$ -	\$ 1,248	\$ 2,446	\$ 2,395	\$ 2,341	\$ 2,285
e. Current Depreciation and Amortization	\$ 15,826	\$ 16,546	\$ 33,185	\$ 36,418	\$ 39,023	\$ 41,228	\$ 38,254	\$ 34,661
f. Project Depreciation and Amortization	\$ -	\$ -	\$ -	\$ 1,432	\$ 2,863	\$ 2,863	\$ 2,863	\$ 2,863
g. Supplies - Drugs & Pharmaceuticals	\$ 10,231	\$ 7,342	\$ 8,931	\$ 9,355	\$ 9,820	\$ 10,310	\$ 10,827	\$ 11,372
h. Supplies - Medical & Non-Medical	\$ 34,195	\$ 34,452	\$ 26,168	\$ 27,173	\$ 28,259	\$ 29,394	\$ 30,579	\$ 31,819
i. Professional Fees	\$ 36,292	\$ 41,038	\$ 42,742	\$ 44,379	\$ 46,214	\$ 48,134	\$ 50,145	\$ 52,250
j. Insurance and Other	\$ 11,310	\$ 7,568	\$ 10,996	\$ 10,944	\$ 10,884	\$ 11,102	\$ 11,325	\$ 11,551

TOTAL OPERATING EXPENSES	\$396,852	\$417,167	\$402,352	\$413,490	\$412,773	\$414,853	\$420,878	\$426,543
3. INCOME								
a. Income From Operation	\$ (18,100)	\$ (30,267)	\$ (20,730)	\$ (19,505)	\$ (7,862)	\$ 1,212	\$ 4,962	\$ 9,310
b. Non-Operating Income	\$ 4,262	\$ 1,360	\$ 3,387	\$ 2,998	\$ 3,133	\$ 3,261	\$ 3,424	\$ 3,623
SUBTOTAL	\$ (13,838)	\$ (28,907)	\$ (17,343)	\$ (16,507)	\$ (4,729)	\$ 4,473	\$ 8,386	\$ 12,933
c. Income Taxes								
NET INCOME (LOSS)	\$ (13,838)	\$ (28,907)	\$ (17,343)	\$ (16,507)	\$ (4,729)	\$ 4,473	\$ 8,386	\$ 12,933
a. Add Back Depreciation	\$ 15,826	\$ 16,546	\$ 33,185	\$ 36,418	\$ 39,023	\$ 41,228	\$ 38,254	\$ 34,661
CASH FLOW FROM OPERATIONS	\$ 1,988	\$ (12,361)	\$ 15,842	\$ 19,911	\$ 34,294	\$ 45,701	\$ 46,640	\$ 47,594
4. PATIENT MIX								
a. Percent of Total Revenue								
1) Medicare	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
2) Medicaid	26.3%	27.4%	27.4%	27.4%	27.4%	27.4%	27.4%	27.4%
3) Blue Cross	9.1%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%
4) Commercial Insurance	2.3%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
5) Self-pay	9.1%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
6) Other	19.1%	19.6%	19.6%	19.6%	19.6%	19.6%	19.6%	19.6%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
b. Percent of Equivalent Inpatient Days								
1) Medicare	41.4%	38.9%	38.9%	38.9%	38.9%	38.9%	38.9%	38.9%
2) Medicaid	28.5%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%
3) Blue Cross	7.0%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
4) Commercial Insurance	1.4%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
5) Self-pay	6.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
6) Other	15.3%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%