

## MEMORANDUM

**TO:** Commissioners

**FROM:** Wynee Hawk  
Chief, Certificate of Need

**DATE:** July 21, 2022

**SUBJECT:** Dimensions Health Corporation d/b/a University of Maryland Capital Region Health and Laurel Regional Hospital  
Conversion of Laurel Regional Hospital to a Freestanding Medical Facility (Docket No.18-16-EX002)  
Request for Post-Approval Project Change

**RE:** HSCRC Comments on the Change and Staff Recommendation

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This memorandum is provided as a supplement to the staff report previously sent out for the July 21, 2022 Maryland Health Care Commission (MHCC) meeting.

On May 10, 2022, MHCC staff requested HSCRC staff to comment on the following statement made in the project change request: "The presentations of projected revenue in tables H and K reflect the approved GBR for University of Maryland Capital Region Health (UM CRH) in total and University of Maryland Laurel Medical Center (UM LMC) specifically. The GBR is projected to increase with the HSCRC annual update factors, shared savings, demographic adjustments and other adjustments consistent with the HSCRC payment policies."

The applicant projects that the new FMF building will increase emergency visit volume. It also projects operating losses from FMF operations but profitable operation, overall, for UM-CRH, of which Laurel Medical Center is a component. Over time, the profitability of UM-CRH operations are projected to be sufficient to offset the LMC losses and, before positive income generation, the combined operations are projected to have positive cash flow, when expenses are adjusted to exclude the non-cash expense of asset depreciation.

Since the May 10 request, HSCRC staff has been engaged in ongoing dialog with the applicant. The HSCRC made several requests to the applicant before it was able to complete its assessment. The Commission received the attached HSCRC memoranda on Tuesday July 19, 2022. Please note that Tables H and K have been updated.

## HSCRC Comments and Analysis

After reviewing the original and amended request, as well as requesting certain revised tables from the applicant (received on July 15), HSCRC staff projects that the University of Maryland Laurel Medical Center will have operating losses in each year as presented in revised **Table K**. The operating losses will be subsidized through the projected profitable operations of UM CRH. As shown in revised **Table H**, UM-CRH is projected to generate positive operating income (\$9.7M in 2027 from combined operations). In fiscal year 2022 the Laurel FMF is projected to generate both HSCRC regulated (\$426M) and non-regulated (\$479M) revenue. \$426M is less than the approved HSCRC Global Budget Revenue (GBR) of \$449M due to lower-than-expected volumes at UM-LMC and the UM Bowie Health Center, another UM CRH FMF. The visit volume of these centers is believed to have been negatively affected by the COVID-19 pandemic but are anticipated to recover to levels closer to those previously forecast.

## Recommendation

HSCRC staff concluded, and MHCC staff concurs, that projected revenues for UM CRH and UM LMC are fairly stated as presented in revised Tables H and K, respectively. Notwithstanding the caution noted over the potential aggressive assumptions in the performance improvement plan, in general, HSCRC staff opined that other assumptions and projections are reasonable. Additionally, HSCRC staff is satisfied that revised Table H is consistent with HSCRC payment model policies.

For these reasons, MHCC staff recommends that the change in the project expenditure for construction of new physical facilities for the Laurel FMF, replacing the former general hospital facilities currently in use, be approved.



**HSCRC Analysis Summary**

**UM-CRH Tables**

<b>Table</b>	<b>Analysis</b>	<b>HSCRC Comment</b>
F. Statistical Projections	<b>Inpatient Days</b> increase from 55K in 2021 to 64K in 2027. HSCRC judges this assumption to be reasonable. <b>Outpatient Visits</b> grow from 77K in 2021 to 98K by 2027 which is a compounded annual growth rate (CAGR) of 3.5%.	"...optimistic but a reasonable return to pre-pandemic volumes."
G. Revenues & Expenses Uninflated	-\$8.5M operating margin per year over 5 years projected, performance improvements of \$40.2M are planned for four years ending in 2027 which include reduction in denials and use of agency staffing, market share revenue adjustments, medical group performance improvements, productivity improvements, school of medicine contract improvements, and a reduction in force.	"...concerned that performance improvements of this magnitude may be an aggressive assumption."
H. Revenues & Expenses Inflated	-\$2.4 M over 5 years projected. The revised Table H projects that in 2027 UM-CRH will earn \$9.7M in its combined operations (of which Laurel is a part) and will have positive cash flow by 2022 creating \$48M in cash by 2027 and a positive net income by 2025.	Revised Table H is "consistent with HSCRC policies."

**UM-LMC Tables**

<b>Table</b>	<b>Analysis</b>	<b>HSCRC Comment</b>
I. Statistical Projections	Outpatient visits growing from 18K to 23K by 2027, which is a CAGR of 2.4%.	"...staff judges a reasonable assumption."
J. Revenues & Expenses Uninflated	Profit & Loss (P&L) statements project negative operating margins (-\$4.5M).	
K. Revenues & Expenses Inflated	P&L statements project negative operating margins (-\$4.3M), applicant submitted revised Table K changing patient service revenue from \$41.6M to \$41.8 M over 5 years with projected improvements which will equal \$1M per year in 2024 through 2027.	"...the revised Table K is consistent with HSCRC policies."
L. Staffing	2023 169.6 FTEs growing to 172.7 FTEs in 2027.	"...reasonable relative to recent reporting."