

IN THE MATTER OF	*	BEFORE THE
	*	
ADVENTIST REHABILITATION	*	MARYLAND
	*	
HOSPITAL OF MARYLAND, INC.	*	HEALTH CARE
	*	
Docket No. 18-15-2428	*	COMMISSION
	*	

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

I. INTRODUCTION

Background

Adventist Rehabilitation Hospital of Maryland, Inc. d/b/a Adventist HealthCare Rehabilitation (AHR) is a provider of special rehabilitation hospital services with operations in Rockville and Takoma Park (Montgomery County). AHR provides inpatient and outpatient rehabilitation services, including comprehensive rehabilitation programs for traumatic brain injury, spinal cord injury, stroke, amputation, orthopedic injury, and post-surgical rehabilitation.

Adventist HealthCare Inc. d/b/a Adventist HealthCare White Oak Medical Center (WOMC) is a general hospital in Silver Spring, Maryland. Both entities (AHR and WOMC) are subsidiaries of Adventist HealthCare, Inc. (AHC). WOMC opened in 2019 and replaced Washington Adventist Hospital, which shared a campus in Takoma Park with the Takoma Park operations of AHR until the general hospital relocation.

On March 21, 2019, the Maryland Health Care Commission (Commission) approved a Certificate of Need (CON) to relocate AHR’s 42-bed Takoma Park rehabilitation hospital operations to the WOMC campus in Silver Spring. The project involved new construction of two floors atop a wing of WOMC at an approved cost of \$19,547,323. The single source of funding for the project was cash. AHC reports that substantial progress has been made and the relocated rehabilitation hospital is now near completion.

The project was authorized with the following condition:

Prior to first use approval, Adventist Health Care will obtain two separate special hospital licenses for the ARH rehabilitation hospital facilities in Rockville and the ARH rehabilitation hospital facilities in Takoma Park.

Implementing this condition will bring licensure of the rehabilitation hospital facilities into conformance with Maryland hospital licensure regulations that require separate licenses for separate premises. It will also conform data reporting and regulatory oversight of this hospital to the actual nature of its operation as two distinct hospitals operating on separate campuses located miles apart.

Requested Change in Approved Project Cost

The applicant has determined that the final cost of this project will exceed the approved cost by \$2,997,052, an increase of 15.3% over the approved cost. The applicant attributes the overage to unanticipated increases in the cost of building materials, labor and other expenses and that some of the cost increases are COVID pandemic related. The applicant requests approval of this increase in project costs. The additional cost will be funded with cash.

This project change request was accompanied by a request for first use, and a quarterly progress report¹.

II. APPLICABLE REGULATIONS

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” This project change request 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 *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 it in part or with conditions, not approve the change with explanation, or require a complete CON review because of the scope of the requested change.

III. COST INCREASE AND FINANCIAL IMPACT OF THE REQUEST

The following table compares the approved costs of this project with the applicant’s current cost estimate.

¹ Quarterly progress reports had been suspended in October 2019 because of the COVID-19 pandemic but have been resumed as of September 2021. At the time the suspension was implemented, WOMC had only filed their initial quarterly progress report.

**Table III-1: Original Estimate and Final Project Budget
Adventist Rehabilitation Hospital Takoma Park Operations**

A. Uses of Funds				
	2019 CON	Current Estimate	Variance	% Change
New Construction				
Building	\$ 13,448,000	\$ 18,200,949	\$4,752,949	35.3%
Architect/Engineering Fees	\$1,626,480	\$1,578,648	(\$47,832)	(2.9%)
Permits	\$289,152	\$295,717	\$6,565	2.3%
Subtotal – New Construction	\$15,363,632	\$20,075,314	\$4,711,682	30.7%
Contingency Allowance	\$984,641	-	-	-
*Other	\$2,447,050	\$2,469,061	\$22,011	0.9%
Total Current Capital Costs	\$18,795,323	\$22,544,375	\$3,749,052	19.9%
Inflation Allowance	\$752,000	-	-	-
Total Capital Costs	\$19,547,323	\$22,544,375	\$2,997,052	15.3%
Financing Cost and Other Cash Requirements				
None				
Total Uses of Funds	\$19,547,323	\$22,544,375	\$2,997,052	15.3%
B. Sources of Funds				
Cash	\$19,547,323	\$22,544,375	\$2,997,052	15.3%
Total Sources of Funds	\$19,547,323	\$22,544,375	\$2,997,052	15.3%

Source: Table 1, Project Budget, from 2019 CON

* Other charges include technology costs, inspections, certifications, security, and signage.

The Cost Increase Exceeds the Inflation Allowance

As shown in the chart above, the applicants project that the original approved budget for the CON from 2019 will require an additional expenditure of \$2,997,052. CON regulations provide for inflation in approved project costs that reflect published estimates of inflation in health care facility construction costs. The applicant has exceeded the inflation allowance. Increases that exceed this index require Commission approval. The inflation allowance is calculated using the building cost indices published on a quarterly basis by IHS Global Insight in *Healthcare Cost Review*.

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

Using the building cost inflation index noted above, the inflation allowance for this project was calculated by the applicant to be \$781,067, and Commission staff validated the calculation obtaining a similar result. The inflation allowance is significantly less than the cost increase being proposed. Thus, the regulations at COMAR 10.24.01.17B require Commission approval of the proposed cost increase.

Impact on Financial Performance

The following table summarizes and compares the projected operating results for the project as originally approved and as currently projected. The applicant projects a \$119,822

increase in depreciation expense. The hospital’s projected net income in its first full year of operation is projected to be \$239,115, a reduction from the originally approved amount of \$358,997.

**Table III-2: Projected Utilization and Financial Statistics – First Year of Operation
2019 Application and 2021 Project Change Request Projections
Adventist Rehabilitation Hospital**

	Project as Originally Approved 2019	Project with Requested Change 2021
Utilization Statistics		
Discharges	849	849
Patient Days	11,498	11,498
Average Length of Stay (Days)	13.5	13.5
Financial Statistics		
Net Operating Revenue	\$17,310,481	\$17,310,481
Total Operating Expenses	\$16,951,484	\$17,071,866
Net Income	\$358,997	\$239,115

IV. ANALYSIS AND RECOMMENDATION

The applicant’s request for a proposed project change solely involves a budget increase and the additional project cost will be funded with cash. There are no material changes to the nature of the project, its location, or its capacity. Nor does it change the findings that the Commission made when the CON was issued in 2019 concerning the need for and the positive impact of relocating the rehabilitation hospital to the White Oak hospital campus in Silver Spring. For these reasons, staff recommends that the Commission approve the applicant’s request for this change in the approved project.

The condition placed on approval of this hospital relocation in 2019, requiring separate licensure for the hospital operations in Rockville and Silver Spring, remains in place.

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FINAL ORDER

Based on Commission staff’s analysis of the request by Adventist Rehabilitation Hospital of Maryland, Inc. d/b/a Adventist HealthCare Rehabilitation and Adventist HealthCare Inc. d/b/a Adventist HealthCare White Oak Medical Center for a project change after Certificate of Need approval, it is on this 18th day of November 2021, **ORDERED** that:

The request by Adventist Rehabilitation Hospital of Maryland, Inc. d/b/a Adventist HealthCare Rehabilitation and Adventist HealthCare Inc. d/b/a Adventist HealthCare White Oak Medical Center for changes to its March 21, 2019, Certificate of Need to relocate the existing 42-bed ARH rehabilitation hospital operated in Takoma Park to the White Oak Medical Center campus in Silver Spring, Maryland at a total project cost of \$22,544,375 is hereby **APPROVED**. This CON approval has the following condition:

Prior to first use approval, Adventist Health Care will obtain two separate special hospital licenses for the ARH rehabilitation hospital facilities in Rockville and the ARH rehabilitation hospital facilities in Takoma Park.

MARYLAND HEALTH CARE COMMISSION