



**MARYLAND**  
**Health Care**  
**Commission**

**DATE:** May 18, 2023

**TO:** Commissioners

**FROM:** Wynee Hawk, Director  
Center for Health Care Facilities Planning and Development

**SUBJECT:** In the Matter of Adventist Health Care Shady Grove Medical Center  
Request for Project Change after Project Approval  
Docket No. 20-15-2443

Enclosed is the staff report and recommendation for a Request for a Project Change after Project Approval submitted by Adventist Health Care Shady Grove Medical Center (SGMC or Shady Grove), part of Adventist Health Care, Inc. (AHC), a faith-based, not for profit health system that is based in Montgomery County. On April 15, 2021, the Maryland Health Care Commission approved a certificate of need (CON) for a major expansion and renovation of AHC Shady Grove Medical Center located at 9901 Medical Center Drive, in Rockville. The project adds a six-floor patient care tower with 150,352 square-feet (SF) of inpatient service space, and renovation of 25,696 SF in existing hospital building space. The project was approved at a cost of \$180,011,359, which SGMC would fund with a \$154 million tax-exempt municipal bond issue, \$10 million in cash, and \$16 million in philanthropic donations.

The applicant states that the design of the Project has not changed, but that the total project cost has increased significantly to \$247,657,497, an increase of \$67,646,138 or approximately 37.6%. SGMC states that most of the project cost increase is primarily due to inflationary pressures and the volatile market conditions that are a result of the COVID-19 pandemic and the rise in labor costs and global supply chain issues. SGMC indicates that another contributing factor to the increase in costs is the need for unanticipated upgrades to the central utility plant (CUP). The upgrades to the 40-year-old CUP will bring it up to current code and best practice standards that have evolved since the CUP was originally built.

To finance the increase in project costs, SGMC states that it remains committed to raising \$16 million in philanthropic donations. The \$154.0 million tax-exempt bonds were issued through the Maryland Health and Higher Educational Facilities Authority, consistent with the plan described in the approved CON. The requested project change increases the capital budget by \$67,646,138, which applicant states will be funded by cash from AHC operations. SGMC filed a partial rate application request with the Health Services Cost Review Commission (HSCRC) to offset some of the cost increase relate to the proposed project changes. On May 10, 2023, HSCRC awarded approximately \$9.2 million to SGMC's Global Budget Revenue (GBR) agreement for incremental capital associated with the patient tower project.



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 Adventist Health Care Shady Grove Medical Center for changes to its April 15, 2021 Certificate of Need for the construction of a six-story patient tower:

1. Prior to its request for first use approval, Adventist HealthCare Shady Grove Medical Center shall identify bed capacity it will retain in operational status, the physical bed capacity it will repurpose but retain as physical bed capacity, and the physical bed capacity it will eliminate. This plan shall specifically address the hospital's assessment of the need for surge bed capacity and its plan to maintain and deploy adequate surge capacity when needed.
2. Any future change to the financing of this project involving adjustments in rates set by the Health Services Cost Review Commission must exclude \$49,968,605, 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.