IN RE: THE PARTIAL RATE	*	BEFORE THE HEALTH SERVICES
APPLICATION OF	*	COST REVIEW COMMISSION
GREATER BALTIMORE	*	DOCKET: 2021
MEDICAL CENTER	*	FOLIO: 2379
TOWSON, MARYLAND.	*	PROCEEDING: 2569N

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STAFF RECOMMENDATION

January 12, 2021

Introduction

On August 20, 2020 Greater Baltimore Medical Center (GBMC or the Hospital) received an approved Certificate of Need (CON) to construct a three-story, 106,083 square foot expansion in front of the main lobby. The addition will include two thirty-bed nursing units. The project will also renovate about 11,600 square feet."[1] This project is part of GBMC's Master Facility Plan which aims to update the Hospital's acute care facilities in line with standards while also remaining consistent with modern Facility Guidelines Institute standards. In concert with the approval of the CON and to ensure GBMC can update and modernize their facilities with today's standards, the Hospital is requesting gross capital funding in the amount of $2,231,584 as part of the Commission's capital funding policy.

Hospital Capital Request

GBMC did not pursue a revenue adjustment under full rate review standards, but the HSCRC staff did review the hospital's capital request under partial rate application standards. In October 2003, the Commission adopted the staff's recommendation permitting rate increases for major projects approved through a CON under an alternative partial rate application process. The partial rate application process builds on the Inter-Hospital Cost Comparison (ICC) standard methodology, but with adjustments. HSCRC staff recently updated its approach to capital requests to include evaluations of total cost of care efficiency, current levels of potentially avoidable utilization, and excess capacity, in addition to the historical analyses of capital cost efficiency and cost per case efficiency. This updated methodology was approved at the December 11, 2019 Commission meeting.

The focus of the partial rate application is to allow a hospital that has a large capital cost increase associated with a major project to obtain some level of rate support for the capital cost increase to the extent that the Hospital's rates are determined to be reasonable under a Commission-defined methodology.

The Hospital's partial rate application requests that the HSCRC grant a revenue increase equal to the total projected incremental capital costs associated with the regulated portion of the project. The CON includes projected average annual interest cost of $1,987,716 and first year depreciation cost of $4,435,576 for a total of $6,423,892 in annual capital cost. The rate increase of $6,381,370 requested by GBMC for capital is comprised of 100 percent of the portion of the

[1] https://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/2020_decisions/con_gbmc_2439_decision_20200820.pdf

project that relates to regulated services and is deemed eligible for financing per the Maryland Health Care Commission (MHCC) approved CON.[2]

The Hospital is requesting that approximately one third of the $6,381,370 (plus mark up for uncompensated care and payer differential) in additional capital costs be added to rates at the time of the opening of the new facility. The reduced request reflects GBMC's acknowledgement of the scaling in the capital financing methodology.

The Hospital has assumed an interest rate of approximately 4 percent for the project in its partial rate application for capital. The Hospital proposed to finance the project using Maryland Health and Higher Educational Facilities Authority (MHHEFA) bonds under GBMC Healthcare, Inc.. According to the audited financial statements for GBMC Healthcare, Inc. for the year ended June 30, 2021, GBMC Healthcare, Inc. issued $73.7 million of bonds in Fiscal Year 2017 at an interest rate of 3.14 percent . The interest rate on such bonds was modified to 2.56 percent on September 16, 2021. Additionally, GBMC Healthcare, Inc. obtained a $25.7 million taxable term note in Fiscal Year 2017 at an interest rate of 3.83 percent. The interest rate on this note was modified to 3.26 percent on September 16, 2021. For purposes of the partial rate application model, staff used an interest rate of 3.17 percent.

Under the HSCRC's historical capital methodology, GBMC's request would have been capped at the 50/50 blend of a hospital's capital cost share (inclusive of the new request's first year estimated depreciation and interest costs) and the peer group average capital cost share, and that value would be scaled for cost per case efficiency. Using the recently updated HSCRC capital methodology, the capital request from GBMC will continue to be capped at the 50/50 blend of the hospital's capital cost share (inclusive of the new request's annualized estimate for depreciation and interest) and the peer group average, and that value will be scaled for cost per case efficiency, total cost of care efficiency, current levels of potentially avoidable utilization, and excess capacity.

Specifically, the allowed, regulated portion of GBMC's capital project of $99,776,721 has an annualized depreciation figure for a 24.4-year useful facility of $4,089,210 and an annualized interest figure of $1,832,499 on a 30-year loan with a 3.17 percent interest rate. Combined, the depreciation and interest bring GBMC's current capital cost share of 8.38 percent to 9.82

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[2] The MHCC noted in its CON review that "Any future changes relating to this project that result in adjustments in rates set by the HSCRC shall exclude $8,451,328, which is the estimated new construction cost that exceeds the MVS guideline and portions of the contingency allowance and inflation allowance that are based on the excess construction cost."
https://mhcc.maryland.gov/mhcc/pages/hcfs/hcfs_con/documents/2020_decisions/con_gbmc_2439_decision_20200820.pdf

percent, an increase of 1.43 percentage points (or $31,258,200 to $37,179,909). Averaging the requested capital share of 9.82 percent to the peer group average of 8.48 percent yields an allowed capital cost share of 9.15 percent, which equates to a 0.76 percentage point increase in capital costs, or $3,083,602

After this figure is derived, the new capital methodology then scales the result by the integrated efficiency of hospital cost per case and total cost of care, which is a relative ranking of hospitals that provides approximately 2 percent for each additional increase in ranking. In the case of GBMC, which is the best hospital in the third quintile of performance, the hospital is entitled to 60 percent of the allowed capital cost share, or $1,850,161 (60 percent of $3,083,602).

Staff has also provided a credit to hospitals that have lower levels of PAU, as defined by 30-day readmissions and avoidable admissions for PQIs. GBMC's performance is in the middle of the second quintile of performance and higher than the state average performance (17.7 percent compared to the statewide average of 17.17 percent), thus it earns no credit.

The final two steps of the methodology are to remove costs associated with excess capacity, as defined by reductions in bed days from 2010 to 2018, and to markup these cost-based figures for uncompensated care and the governmental payer differential. GBMC experienced a reduction of 2,772 bed days since 2010; however, the reduction occurred exclusively during the 2010 to 2014 time period when the Commission had a 85 percent volume variable system, i.e. 85 percent of the revenue associated with volume reductions was removed from the hospitals permanent revenue base, so there is no adjustment for excess capacity. The Hospital's markup in Fiscal Year 2022 was 1.1013; therefore, the capital allotment GBMC is eligible for is $2,037,583.

Lastly, since the Commission has not been able to update its efficiency methodologies beyond annual filing statistics from RY 2019 due to the confounding effects of the COVID-19 public health emergency, staff has a methodology that is one year in arrears from the typical implementation of its capital policy. As such, staff is recommending applying an additional year of inflation to the eligible capital funding to bring it closer in alignment with current year dollars. The $2,037,583 will be inflated by 2.96% that was provided in the RY2020 Update Factor, which yields a final permanent revenue adjustment of $2,097,895.

Staff Recommendation

Based on the analysis described in the prior section of this document, staff recommends a permanent adjustment of $2,097,895 be provided to GBMC when the project is completed and the new site is available for use. This opening date of this project is anticipated to become effective on July 1, 2023.