

IN THE MATTER OF THE
LUMINIS HEALTH DOCTORS
COMMUNITY MEDICAL CENTER
DOCKET NO. 23-16-2466

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BEFORE THE
MARYLAND HEALTH
CARE COMMISSION

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

I. INTRODUCTION

Background

Luminis Health Doctors Community Medical Center, Inc. (Doctors or the applicant) is an acute care hospital located at 8118 Good Luck Road, in Lanham, Maryland (Prince George’s County). As of April 2025, Doctors has 218 licensed acute care beds, including 202 medical/surgical/gynecological/addiction beds and 16 psychiatric beds. Doctors was established in 2019, when Anne Arundel Medical Center and Doctors Community Health System joined together to form Luminis Health, an integrated health system to serve the residents of Anne Arundel, Prince George’s, and Calvert Counties and Maryland’s Eastern Shore. Luminis Health also includes Luminis Health Anne Arundel Medical Center, J. Kent McNew Family Medical Center, Luminis Health Pathways, Doctors Community Rehabilitation and Patient Care Center and several multi-specialty ambulatory sites.

The Maryland Health Care Commission (MHCC or Commission) approved a Certificate of Need (CON) on December 14, 2023, authorizing Doctors to construct a four-story patient tower on the west side of the existing hospital and a new loading dock and to renovate parts of the existing hospital. A key component of the approved project was the establishment of a 21-bed obstetrics unit in the patient tower. The project also involved moving surgical services from the main hospital to the new patient tower. The Commission approved a total project budget of \$299,012,841 for a multi-phase project. The project would be paid for with State grants (\$95 million), authorized bonds (\$153 million), philanthropy (\$5 million), and cash (\$46 million).

Project Change Request

On March 28, 2025, Doctors requested a project change to reduce the scale of the construction and renovations to the existing hospital. Doctors will (1) change the location of the new tower from the west side to the east side of the hospital; (2) reduce the number of obstetric beds; (3) expand the loading dock construction to include a pharmacy; and (4) renovate the surgical platform (and other supportive services) in the existing hospital rather than constructing new ones. The applicant states that since the original CON approval there were significant increases in construction and operating costs and that capital costs were outpacing an acceptable rate of

inflation. The project change request is to address these changes. The applicant states that the proposed changes will allow the hospital to deliver the full scope of obstetrical services, while lowering the project budget by one third, to a new estimated total cost of \$210,828,366 (Appendix 1). The project would now be paid for with State grants (\$95 million), authorized bonds (\$76.3 million), philanthropy (\$5 million), and cash (\$34.6 million).

In the revised plan, Doctors will construct a three-story ‘Obstetrics Pavilion’ on the east side of the existing hospital instead of the west side, as was approved in the original CON application. The obstetrics unit will occupy Levels 1 and 2, with respiratory therapy and clinical support spaces on Level 2. Doctors will construct two new special purpose C-section operating rooms on Level 1. The building mechanics and graduate medical education (GME) space will occupy Level 3. Doctors has designated the rooftop as Level 4, which will include the helipad and elevators. Doctors will retain the obstetrics and respiratory therapy units in the new building but will eliminate pharmacy, imaging, radiology, and other support services that were originally planned. The total square footage of the pavilion will be 69,496 square feet (SF). The applicant states that the location of the new construction at the east side of the hospital will reduce roadway construction and eliminate the need for a new parking structure to be built on site.

The Obstetrics Pavilion project change proposes different room and bed configurations than in the approved project. The proposed obstetrics unit will have 16 post-partum beds, two less than in the approved CON project, and no dedicated ante-partum beds. Doctors will use the post-partum beds as ante-partum beds as needed. The nursery will be located on the second floor of the Obstetrics Pavillion. Table I-1 shows a comparison of the obstetrics unit in the approved CON project and the proposed Project Change request.

The applicant states that while the original CON projected 2,300 deliveries per year with a capacity for more, the unit will now have a maximum capacity of 2,300 deliveries, a more conservative target occupancy rate. Doctors projects that the daily occupancy rate of the obstetrics unit will increase from 70.2 percent, as indicated in the approved project, to 96 percent, as a result of the reduction in the number of obstetrical beds. The average length of stay (ALOS) will be reduced from 2.5 days to 2.35 days, which the applicant believes is a more accurate projection. The applicant projects that the number of patients served by Year 5 will remain the same, 2,387 patients.

Table I-1: Beds/Special Operating Rooms in Approved CON and Project Change

	Approved CON December 2023	Project Change March 2025
Labor/Delivery/Recovery*	6	6
Birth Center	2	2
Post-Partum	18	16
Level II Nursery bassinets	4	5
Ante-Partum	3	0 (use of post-partum beds)
C-Section Operating Rooms	2	2

Source: Doctors March 28, 2025, Project Change Request p. 22

*Labor/Delivery/Recovery are not included in the licensed bed count

In the project change, Doctors will construct a two-story structure on the northeast corner

instead of a one-story loading dock, as originally approved in the CON. The first level will be comprised of a 28,761SF loading dock and will include new space for medical waste management. A new pharmacy will be constructed on the second level of the structure (Appendix 2).

Lastly, as part of the project change, Doctors will renovate smaller areas of the existing hospital to achieve the same goal of improved flow, accommodating modern equipment, and facilitating efficient care. On the first floor, Doctors will expand the laboratory space, linen and laundry, food and nutrition, and imaging services.

Doctors will modernize surgical services. Currently, Doctors is licensed for 12 general purpose operating rooms, but is unable to use four of the existing operating rooms. As with the original CON, Doctors intends to retain ten general purpose operating rooms plus two special purpose operating rooms for c-sections. Rather than relocating all operating rooms to the new tower, the ten general purpose operating rooms will remain in the main hospital. Doctors currently operates nine of its licensed operating rooms on the second floor of the hospital. It will eliminate the three smallest rooms, reconfigure the layout to accommodate four new operating rooms that are 700 SF each, with minimal renovations to the largest six operating rooms (540 SF). Each of the new and renovated operating rooms will comply with applicable Facility Guidelines Institute (FGI) and American National Standards Institute (ANSI) standards. Lastly, Doctors will relocate and modernize two interventional radiology rooms and reconfigure the cardiac catheterization labs.

The applicant will renovate 24,775 SF of the existing hospital rather than 105,541 SF as approved in the original CON; Doctors states that the full surgical capacity approved in the original CON will be available in the project change. The applicant states that it intends to renovate the remainder of the operating room suites in the future but these renovations are outside of the scope of this project change request. Table I-2 outlines the renovations and relocations included in the project change.

Table I-2: Renovations and Relocations

Department	Proposed Plans
Surgical Services	Renovate and resize four ORs, construct 2 Obstetrics ORs, relocate and modernize two interventional radiology rooms, reconfigure the cath labs, relocate patient registration and family waiting rooms, relocate GME suite to new pavilion.
Supply Chain Management	Relocate to the first floor of the existing hospital
Laboratory Space	Reduced from original approved CON as the morgue will no longer be relocated
Linen and Laundry	Move to the first floor of the loading dock structure and expanded
Food and Nutrition	Will expand in place
Imaging	Will expand in place
Pharmacy	Relocate to 2 nd floor of loading dock structure

Source: Doctors March 28, 2025, Project Change Request pp. 10-12.

Doctors requests that as part of the project change, the Commission approve a revised project implementation schedule that converts the multi-phased plan for implementation originally approved by the Commission to a single-phase plan of construction. COMAR 10.24.01.12. The applicant proposes a single phase over 36 months to construct the Obstetrics Pavilion, the loading dock expansion, and renovate parts of the existing hospital. The applicant proposes to change the Project Implementation Schedule as shown in Table I-3.

Table I-3: Proposed Project Implementation Schedule in CON application and Project Change Request

Approved CON (Multi-Phase Project)	Project Change (Single-Phase Project)
Up to 12 months after Certificate of Need approval to obligate 51 percent of the capital expenditure for the first phase of construction	Binding construction contract obligating not less than 51% of the Commission-approved capital expenditure, as documented by a binding construction contract, within 24 months of the date of the original Certificate of Need
Up to 24 months after the effective date of a binding construction contract for the first phase to complete the first approved phase of construction	Initiation of construction no later than six months after the effective date of the binding construction contract
Up to 12 months after completion of the immediately preceding phase of construction to obligate 51 percent of the capital expenditure for any subsequent approved phase of construction	Documentation that the approved project has been completed, has been licensed, has met all legal requirements no later than 36 months after the effective date of the binding construction contract.
Up to 24 months after the effective date of a binding construction contract for a subsequent approved phase, to complete that phase	Documentation that the approved project is providing the approved services no later than 36 months after the effective date of the binding construction contract

Source: COMAR 10.24.01.12

II. APPLICABLE REGULATIONS

If an applicant desires to make a permissible change from a project that has received a Certificate of Need approval, it must seek approval from the Commission under COMAR 10.24.01.17. Any of the following changes would place a project at variance with its CON, and require advance Commission approval:

- (1) A significant change in physical plant design;
- (2) A capital cost increase that exceeds the approved capital cost inflated by an amount determined by applying the Hospital Capital Market Baskets published by IHS Markit in Health Care Cost Review or other guidance approved by the Commission and posted on the Commission website from the application submission date to the date of the filing of a request for a project change;
- (3) A change in the financing mechanisms of the project; or
- (4) A change to the location or address of the project.¹

The applicant seeks to make changes that result in significant changes to the physical plant design under COMAR 10.24.01.17B(1) and puts the project at variance with its approved CON and thus requires Commission approval.

Under COMAR 10.24.01.17D(3), the Commission may approve the requested change, approve the change in part or approve with conditions, not approve the change with explanation, or require a complete CON review due to the scope of the requested change.

¹ COMAR 10.24.01.17B

III. FINANCIAL IMPACT OF THE REQUEST

Current Request Compared with the Original CON Approved Budget

Doctors has calculated a reduction of \$88,184,475 (or 29%) in project costs, with a new projected total cost of \$210,828,366. The changes in the budget are shown in Table III-1.

Table III-1: Budget Comparison of Original CON to Project Change

Item	Original CON	Project Change	Difference
USE OF FUNDS			
New Construction	\$139,623,366	\$117,008,412	(\$22,614,954)
Renovation	\$57,501,629	\$34,429,435	(\$23,072,194)
Other Capital Costs	\$34,722,223	16,223,297	(\$18,498,926)
Contingency Allowance	\$22,575,000	\$24,050,172	\$1,475,172
Inflation Allowance	\$29,100,650	\$8,839,626	(\$20,261,024)
Bond Issue Fees/Capitalized Interest	\$15,489,983	\$10,277,424	\$(5,212,559)
Total	\$299,012,841	\$210,828,366	\$88,184,475
SOURCE OF FUNDS			
Cash	\$46,118,612	\$34,578,366	(\$11,540,246)
Philanthropy	\$5,000,000	\$5,000,000	\$0
Authorized Bonds	\$152,894,229	\$76,250,000	(\$76,644,229)
State Grants	\$95,000,000	\$95,000,000	\$0
Total	\$299,012,841	\$210,828,366	\$88,184,475

Source: MHCC Report Docket No. 23-16-2466 Appendix 5; Doctors March 28, 2025, Change Request Table E.

Marshall Valuation Service Analysis

The purpose of the Marshall Valuation Service (MVS) analysis is to provide a basis for excluding any excess construction costs from any future rate increase by the applicant to cover the cost of the project.² In an MVS analysis, MHCC staff compares the project's estimated construction cost, adjusted for specific construction characteristics of the proposed project, with a benchmark derived using the cost-estimating methodology provided by MVS. Appendix 3 provides more details on the MVS analysis.

Commission staff and Doctors each calculated the MVS benchmark analysis that compared the estimated allowable construction costs of the project change derived using the MVS guide. Table III-2 provides the comparison of both MVS allowable construction costs with the MVS benchmark value.

² COMAR 10.24.10.04B(7), Construction Cost of Hospital Space states that: If the projected cost per square foot exceeds the Marshall Valuation Service benchmark cost, any rate increase proposed by the hospital related to the capital cost of the project shall not include the amount of the projected construction cost that exceeds the Marshall Valuation Service benchmark and those portions of the contingency allowance, inflation allowance, and capitalized construction interest expenditure that are based on the excess construction cost.

**Table III-2: MHCC and Doctors Comparison Table –
Calculation of Project Change Construction Cost v. MVS Benchmark Value**

	MHCC	Doctors
Project Change Cost for MVS Comparison (SF)	\$721.50	\$536.20
Less MVS Benchmark Cost (SF)	\$810.81	\$801.39
Over/Under (=Project Cost - MVS Benchmark - Abnormal Shortage Multiplier)	(\$89.31)	(\$265.19)
Construction Costs over MVS Benchmark (Total Dollar Amount)	\$0	\$0
Percentage Construction Cost over MVS Benchmark	0%	0%
Total to be excluded from any rate increase proposed by the hospital	\$0	\$0

MHCC staff calculated an estimated project change construction cost of \$721.50 per SF and an MVS benchmark of \$810.81 per SF. The applicant calculated an estimated project change construction cost of \$536.20 per SF and an MVS benchmark value of \$801.39 per SF. The difference in the new construction cost calculated by MHCC and the applicant is due to the calculation of extraordinary costs. Doctors calculated a reduced building cost of \$84,153,559 and a reduction for extraordinary costs of \$32,854,853, leading to an adjusted cost of \$51,371,210. MHCC staff calculated a building cost of \$117,008,212 and a reduction for extraordinary costs of \$47,982,047, leading to an adjusted cost of \$69,026,365. The difference in the MVS benchmark cost is due to a difference in the calculation of several of the multipliers used in determining the benchmark and a difference in the allowed cost of sprinklers in the building. (Appendix 3).

MHCC and the applicant’s calculations both result in the project change cost of construction of the proposed project falling below the MVS benchmark. Therefore, there will be no exclusion in future requests for rate increases due to the capital project costs.

Impact on Financial Performance

MHCC requested that the Health Services Cost Review Commission (HSCRC) provide an opinion on the financial viability of the proposed project, taking into consideration the budget changes proposed by Doctors. HSCRC staff responded on May 1, 2025, stating that they had reviewed the project change request, including the revised expenditures, sources of funds, and profit and loss projections. HSCRC found that while the reduced project costs of \$88,184,475 (29%) enhance the feasibility of the project, the same concerns that were identified for the original project remain. Specifically, HSCRC provides the following analysis:

Assuming the volumes projected for the proposed obstetrics program are realized and based upon Staff’s review of the applicant’s likely liquidity and projected operating margin, and subject to the realizability of philanthropic gifts and governmental grants, and based upon review of all the information provided, Staff believe that all of these issues combined call into question the financial feasibility of this project. The project could possibly be feasible if all these issues are resolved in a positive manner. However, the macro financial investment markets may be unpredictable and the applicant’s reliance upon non-operating performance to service its debt may prove to be risky, and, therefore, the project’s longer term financial viability may be questionable. Staff have estimated that the applicant may

be eligible to receive an incremental capital adjustment of approximately \$4.4 million to its Global Budget Revenue (GBR) upon project completion and commencement of the proposed [obstetrics] operation's facility and service. This revenue adjustment may help to improve the feasibility of the project.

IV. ANALYSIS

Staff concludes that the project change request is a permissible change under COMAR 10.24.01.17B. There are no material changes to the nature of the project, its location, or the core service capacities.

Staff has reviewed the State Health Plan (SHP) Standards for Acute Care, Obstetrical Care, and General Surgical Services and has found that the revised project still meets all relevant standards. The impacted SHP standards are discussed below:

COMAR 10.24.10.04(B) Acute Hospital Services

(5) Adverse impact

Staff finds that the reduced cost of the project and any reduction in GBR from HSCRC will have a positive impact on the health care costs in the State. As the program will be able to serve the same number of patients, there will be no change in the impact on hospital services and access. Staff concludes that the applicant continues to meet this standard.

(6) Cost-Effectiveness

Staff agrees with the applicant that the proposed change in the project increases its cost effectiveness, as the project will provide the same services for a total cost of \$88 million less than the originally approved budget. Staff concludes that the applicant continues to meet this standard.

(7) Construction Cost of Hospital Space

See the MVS analysis above. The construction costs remain below the MVS benchmark cost and therefore, Staff concludes that the applicant continues to meet this standard.

(10) Efficiency

The project continues to have many of the efficiencies that were built into the original CON. New efficiencies include: a secure patient corridor linking the new pavilion and the C-section suite and designated elevators for patient transport in the new pavilion to and from the heliport; the relocation of the pharmacy to the second floor of the loading dock expansion to better meet the needs of the hospital; and renovation and relocations in the existing hospital to improve workflows (Table 1.2). While Doctors will not be renovating all general purpose ORs at this time, four ORs will be enlarged and renovated. Doctors will relocate and modernize two interventional radiology rooms and reconfigure the Cath labs into spaces made available from other relocations. The remaining six ORs are the newest and largest of the ORs and are in use at the current time. Doctors plans to renovate these areas in the future, but the renovation will not be part of this project. These ORs currently meet all required guidelines.

Staff concludes that the applicant continues to meet this standard.

(11) Patient Safety

Staff's assessment is that key features of the project design such as the larger sized patient rooms and improved support services workflow will promote patient safety and aid in the prevention of errors and adverse events.

Staff concludes that the applicant continues to meet the requirements of the standard.

(12) Financial Feasibility

See analysis from HSCRC (Appendix IV). Staff notes that HSCRC has estimated that the applicant may be eligible to receive an incremental capital adjustment of approximately \$4.4 million to its Global Budget Revenue (GBR) upon project completion. This is \$2.2 million less than what was anticipated by Doctors. According to the applicant revenue and expense tables (uninflated), even with the reduction in expected GBR, the proposed project should break even by FY 2030 and show positive net income by FY2031. Although HSCRC opined that the project's longer term financial viability may be questionable, Staff concludes that the reduction in total cost will insure the financial feasibility of the project. Staff concludes that the applicant continues to meet this standard.

COMAR 10.24.12.04 Acute Hospital Inpatient Obstetric Services

(6) Physical Plant Design and New Technology

There are no changes to the design of the patient rooms, nor the technology planned for the new pavilion. While the C-section rooms will be on a different floor from the labor and delivery rooms, the designated patient elevators and access through a secure corridor will be available to transport patients to the C-section suite. The new pavilion will not have designated ante-partum rooms as originally planned in the CON and will have two fewer post-partum beds. Post-partum beds will be equipped to handle both ante-partum and post-partum patients. Staff concludes that the applicant continues to meet this standard.

(11) Designated Bed Capacity.

The proposed project plan includes a total of five fewer beds than in the original CON. The applicant will still be designating beds from the existing licensed capacity. Staff concludes that the applicant continues to meet this standard.

(12) Minimum volume.

Doctors states that it will be able to meet the minimum number of 1,000 deliveries per year within 36 months of initiation of its program as required by this standard, even after decreasing the number of post-partum beds and removing the designated ante-partem beds. The applicant

estimates that the average daily census for ante-partum beds will be less than one, so Doctors does not expect that the use of the beds for ante-partum patients will significantly reduce the number of beds available for post-partum patients. In the original CON, Doctors projected that the new obstetrics program would reach a volume of 1,754 obstetric discharges by year three, and 2,387 by year 5. Doctors does not believe that there will be a change in the expected number of births, as they had originally planned for a 70% occupancy of postpartum beds and now project a 96% occupancy with the reduction in beds. Doctors does project a reduction in the ALOS from 2.5 to 2.35 days, which corresponds to a decrease in ALOS of 3.6 hours. Doctors has determined that the slightly shorter ALOS is a more exact projection for the population that will be served at the facility.

Staff calculates that even with an average daily census of one ante-partum patient in a post-partum bed, the hospital has the capacity to perform more than 2,230 deliveries per year by year 5 (3% less than calculated by Doctors). Despite declining birth rates, staff believes that the applicant should remain above the mandated 1,000 births per year. Staff concludes that the applicant continues to meet this standard.

(13) Impact on the Health Care System.

Staff calculated a 70-patient (3%) decrease in patient numbers due to this project change. The project will therefore have a slightly smaller impact on existing hospitals. Staff concludes that the applicant continues to meet this standard.

(14) Financial Feasibility

See analysis from HSCRC (Appendix IV) and discussion above. Staff concludes that the applicant continues to meet this standard.

COMAR 10.24.11.05B General Surgical Services

(2) Need- Minimum Utilization for Establishment of a New or Replacement Facility.

As with the original CON, Doctors is not increasing the number of licensed operating rooms and despite the changes to the project, Doctors still intends for ten of the operating rooms to be general purpose and two to be special purpose (C-section). Therefore, while the project involves more renovation than new construction for surgical services, the number of general surgery and special purpose operating rooms will remain unchanged from the original CON. Doctors does not anticipate any decreased utilization of the operating rooms due to the changes in the project. Staff concludes that the applicant continues to demonstrate need for the operating rooms.

(4) Design Requirements

Doctors states that all rooms will meet FGI guidelines. Staff concludes that the applicant continues to meet this standard.

(6) Patient Safety

The new ORs will contain all the safety features described in the original CON application. The six operating rooms that will not be enlarged, will have modernized mechanical, electrical and plumbing systems and will be modernized with new finishes, as needed. Staff concludes that the applicant continues to meet this standard.

(7) Construction cost.

See the MVS analysis above. The construction costs remain below the MVS benchmark cost and therefore, Staff concludes that the applicant continues to meet this standard.

(8) Financial Feasibility

See analysis from HSCRC (Appendix IV) and discussion above. Staff concludes that the applicant continues to meet this standard.

CON Review Criteria

COMAR 10.24.01.08(G)(3)(c) Availability of More Cost-Effective Alternatives

In its original application, Doctors provided a number of alternatives to provide needed obstetric services to Prince George's County and determined that building a new facility was the most cost-effective alternative. This project change improves upon the cost-effectiveness of the original project, by lowering costs by \$88 million dollars without decreasing the services to be offered. By locating the new facility on the east side of the campus, Doctors states that fewer enabling moves are required, less campus development is needed, and a new parking garage is no longer necessary. Therefore, Doctors states that this project change is the most cost-effective option.

Staff concludes that Doctors has satisfied the availability of more cost-effective alternative criterion.

COMAR 10.24.01.08G(3)(d) Viability of the Proposal

Doctors provided revised revenue and expense tables showing that revenues cover expenses two years beyond completion of the project as required. The original project funding plan included \$153 million in debt financing, while the current project requires less than half of that at \$76.3 million. Doctors does not anticipate any difficulty in obtaining this financing due to its current favorable credit rating of A3 by Moody's.

The cash needed to finance the project (\$34.5 million) is available from consecutive years of cash flows from operations. Doctors states that it is on track to meet its \$5 million philanthropic goal as well as its needed State support. To date, Doctors has received \$26 million in support, with an additional \$10 million slated for the FY2026 budget. Doctors expects future funding to continue as the project has widespread support.

Staff concludes that Doctors has satisfied the viability criterion.

V. CONCLUSION

Staff concludes that notwithstanding concerns raised by the HSCRC, the applicant has provided credible responses to the financial viability issues and therefore, is not a basis for denying the requested project change. The project is needed, is a cost-effective alternative, is viable, and will not have a negative impact on service accessibility, costs, charges, or on the health care delivery system. Staff recommends that Doctors be permitted to change its project implementation schedule from a multi-phase project to a single-phase project, thereby changing the performance requirement timeline for the project. Accordingly, staff recommends that the Commission **APPROVE** the proposed Doctors project change, maintain the following three conditions on the original CON:

1. Luminis Health Doctors Community Medical Center shall close its obstetric program, and its authority to operate will be revoked, if: (i) it fails to meet the minimum annual volume of 1,000 obstetric discharges annually for any 24 consecutive month period and (ii) it fails to provide good cause for its failure to attain the minimum volume, and a feasible corrective action plan for how it will achieve the minimum volume within a two-year period.
2. Luminis Health Doctors Community Medical Center shall continue to provide a patient with an estimate of out-of-pocket charges prior to arrival for surgery.
3. If the proposed source of funds for the project should vary from what is approved in the CON, the applicant must submit a project change.

**IN THE MATTER OF THE
LUMINIS HEALTH DOCTORS
COMMUNITY MEDICAL CENTER
DOCKET NO. 23-16-2466**

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**BEFORE THE
MARYLAND HEALTH
CARE COMMISSION**

ORDER

Having reviewed and considered the information and analysis contained in the Staff Report of this request for a project change after issuance of a Certificate of Need, it is this 15th day of May, 2025:

ORDERED that the findings of fact and conclusions of law included in the Staff Report are adopted by the Maryland Health Care Commission and incorporated into this order; and it is further;

ORDERED that the request by Luminis Health Doctors Community Medical Center to approve a significant change in physical plant design of its project that received a Certificate of Need on December 14, 2023 through the construction of a four-story patient tower and renovations to the existing hospital at a cost of \$210,828,366 is **APPROVED**, with the following conditions as laid out in the original CON:

1. Luminis Health Doctors Community Medical Center shall close its obstetric program, and its authority to operate will be revoked, if: (i) it fails to meet the minimum annual volume of 1,000 obstetric discharges annually for any 24 consecutive month period and (ii) it fails to provide good cause for its failure to attain the minimum volume, and a feasible corrective action plan for how it will achieve the minimum volume within a two-year period.
2. Luminis Health Doctors Community Medical Center shall continue to provide a patient with an estimate of out-of-pocket charges prior to arrival for surgery.
3. If the proposed source of funds for the project should vary from what is approved in the CON, the applicant must submit a project change.

APPENDIX 1

REVISED PROJECT BUDGET

		Approved Budget 2023	Revised Budget 2025	Difference
A.	USE OF FUNDS			
	1. CAPITAL COSTS			
	a. New Construction			
(1)	Building	\$ 125,033,933	\$ 103,352,889	\$ (21,681,044)
(2)	Fixed Equipment	in above	in above	
(3)	Site and Infrastructure	\$ 1,949,561	\$ 3,794,118	\$ 1,844,557
(4)	Architect/Engineering Fees	\$ 8,888,845	\$ 6,717,938	\$ (2,170,907)
(5)	Permits (Building, Utilities, Etc.)	\$ 3,751,018	\$ 3,143,467	\$ (607,551)
	SUBTOTAL	\$ 139,623,357	\$ 117,008,412	\$ (22,614,945)
	b. Renovations			
(1)	Building	\$ 49,613,831	\$ 31,129,688	\$ (18,484,143)
(2)	Fixed Equipment (not included in construction)	\$ 1,438,000	in above	\$ (1,438,000)
(3)	Architect/Engineering Fees	\$ 4,961,383	\$ 2,023,430	\$ (2,937,953)
(4)	Permits (Building, Utilities, Etc.)	\$ 1,488,415	\$ 1,276,317	\$ (212,098)
	SUBTOTAL	\$ 57,501,629	\$ 34,429,435	\$ (23,072,194)
	c. Other Capital Costs			
	Wayfinding/Signage	\$ 50,000	\$ 527,450	\$ 477,450
	Arch / Eng. Fees for Non-MVS Cap Costs	\$ 100,500	\$ 990,154	\$ 889,654
	Clinical Equipment	\$ 2,730,000	\$ 5,601,903	\$ 2,871,903
	Technology	\$ 6,825,000	\$ 8,086,233	\$ 1,261,233
	Misc. Capital Costs	\$ 25,016,723	\$ 1,017,557	\$ (23,999,166)
	Contingency Allowance	\$ 22,575,000	\$ 24,050,172	\$ 1,475,172
	SUBTOTAL	\$ 57,297,223	\$ 40,273,469	\$ (17,023,754)
	TOTAL CURRENT CAPITAL COSTS	\$ 254,422,209	\$ 191,711,316	\$ (62,710,893)
	d. Land Purchase	\$ -	\$ -	
	e. Inflation Allowance	\$ 29,100,850	\$ 8,839,626	\$ (20,261,024)
	TOTAL CAPITAL COSTS	\$ 283,522,859	\$ 200,550,942	\$ (82,971,917)
	2. Financing Cost and Other Cash Requirements			
a.	Loan Placement Fees			\$ -
b.	Bond Discount			\$ -
c.	CON Application Assistance			\$ -
	c1. Legal Fees			\$ -
	c2. Other (Specify/add rows if needed)			\$ -
d.	Non-CON Consulting Fees			\$ -
	d1. Legal Fees			\$ -
	d2. Other (Specify/add rows if needed)			\$ -
e.	Debt Service Reserve Fund			\$ -
f.	Bond Issue Fees	\$3,060,000	\$2,500,000	\$ (560,000)
g.	Capitalized Interest	\$12,429,983	\$7,777,424	\$ (4,652,559)
	SUBTOTAL	\$ 15,489,983	\$ 10,277,424	\$ (5,212,559)
	3. Working Capital Startup Costs			
	TOTAL USES OF FUNDS	\$ 299,012,842	\$ 210,828,366	\$ (88,184,476)
B.				
1.	Cash	\$46,118,612	\$34,578,366	\$ (11,540,246)
2.	Philanthropy (to date and expected)	\$5,000,000	\$5,000,000	\$ -
3.	Authorized Bonds	\$152,894,229	\$76,250,000	\$ (76,644,229)
4.	Interest Income from bond proceeds listed in #3	\$0		
5.	Mortgage	\$0		
6.	Working Capital Loans	\$0		
7.				
	a. Federal	\$0		
	b. State	\$95,000,000	\$95,000,000	\$ -
	c. Local	\$0		
8.	Other (Specify/add rows if needed)	\$0		
	TOTAL SOURCES OF FUNDS	\$ 299,012,841	\$ 210,828,366	\$ (88,184,476)

APPENDIX 2

FLOOR PLANS

FIGURE 2: FIRST FLOOR CONSTRUCTION FOOTPRINT OBSTETRICS PAVILION

- Department Legend
- Mech-Elec
 - LABOR-DELIVERY
 - LDR UNIT SUPPORT
 - C-SECTION
 - UNIT SUPPORT C-SECTION
 - TRIAGE
 - ELV/STAIRS
 - HORIZONTAL CIRCULATION
 - EXISTING



FIGURE 4: THIRD FLOOR CONSTRUCTION FOOTPRINT OBSTETRICS PAVILION



FIGURE 5: FIRST FLOOR CONSTRUCTION FOOTPRINT OBSTETRICS PAVILION

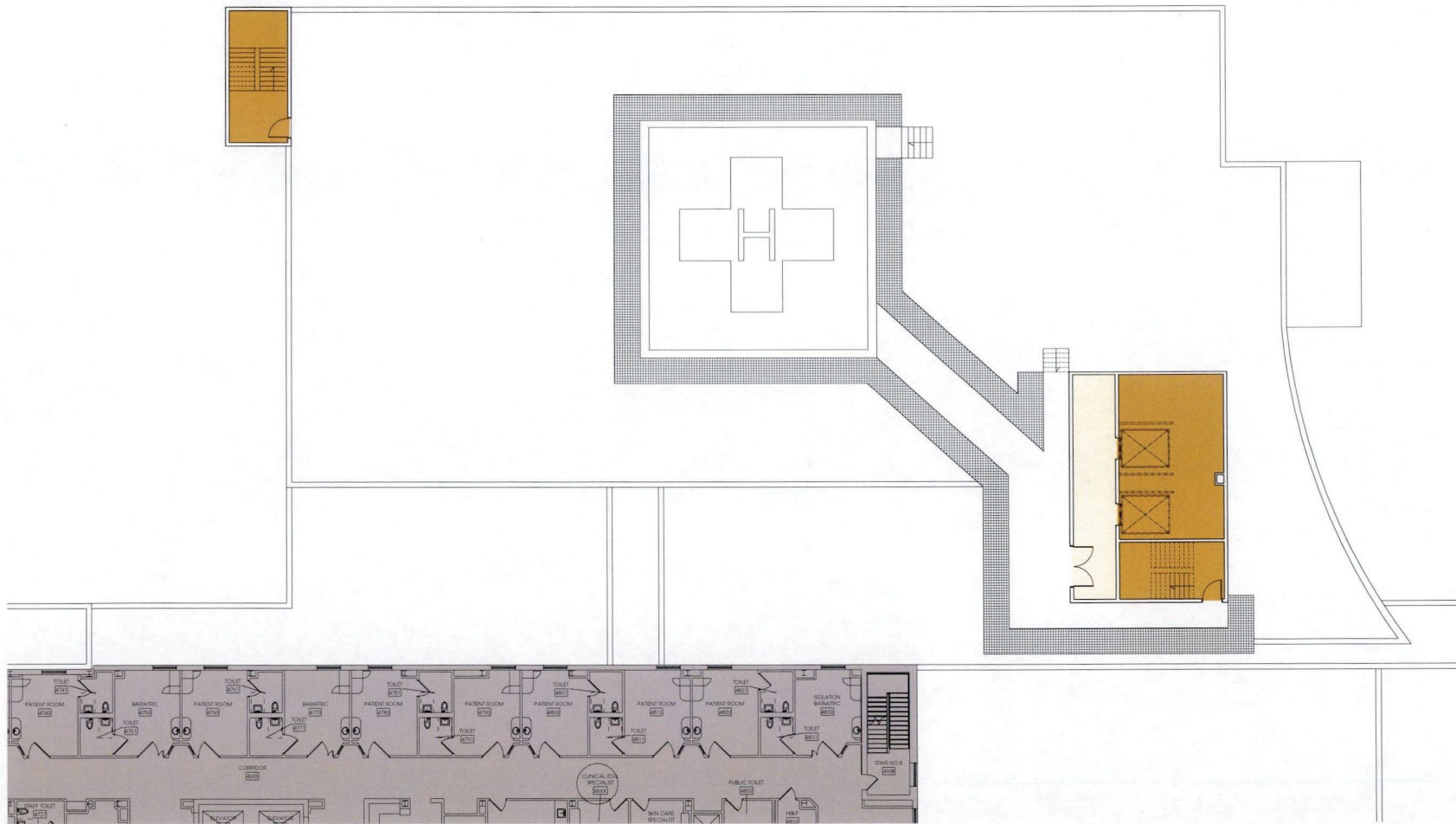


FIGURE 6: FIRST FLOOR LOADING DOCK EXPANSION

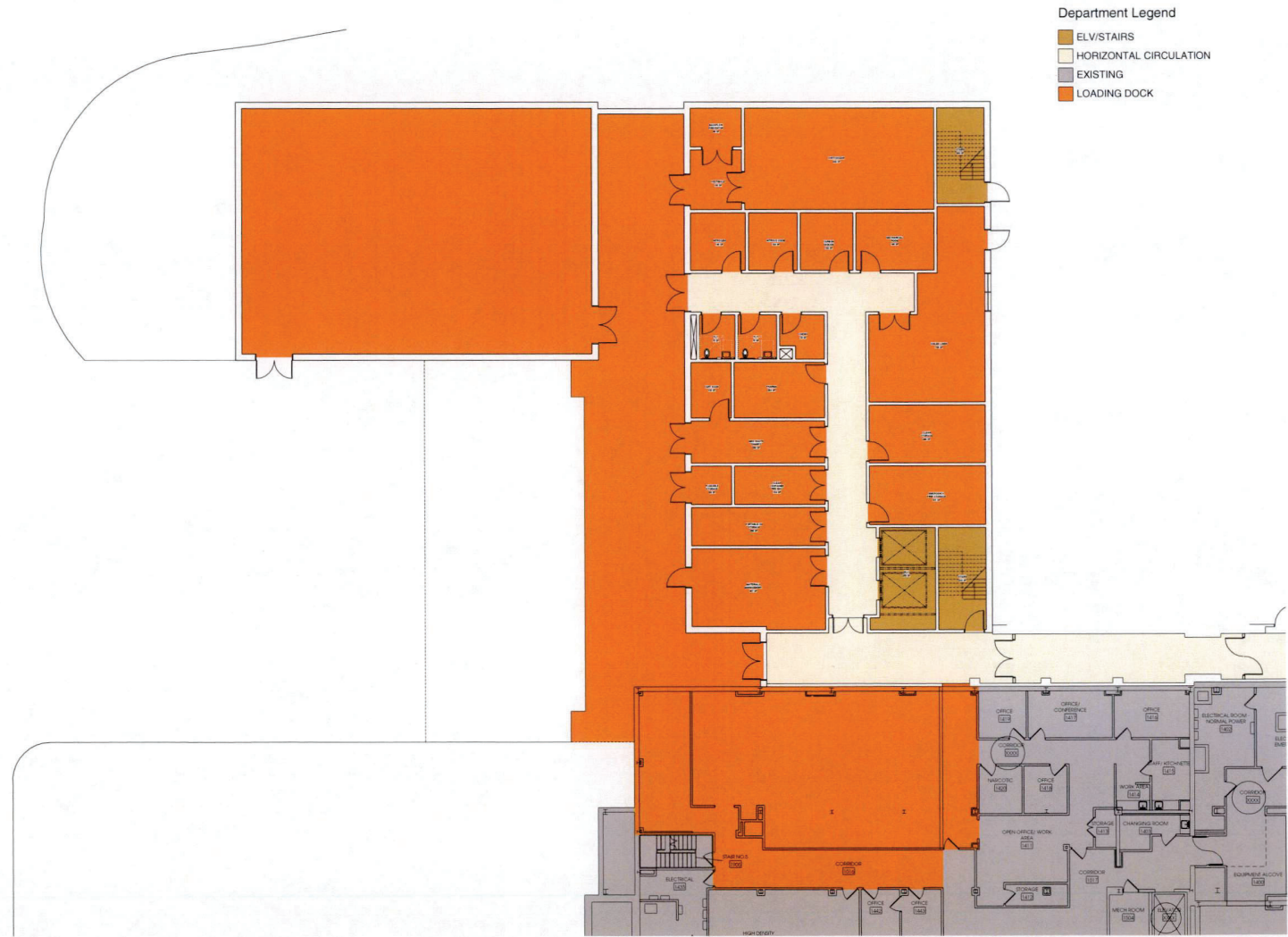


FIGURE 7: SECOND FLOOR LOADING DOCK EXPANSION



FIGURE 8: AREAS ON THE FIRST FLOOR THAT WILL BE RENOVATED UNDER THIS CON

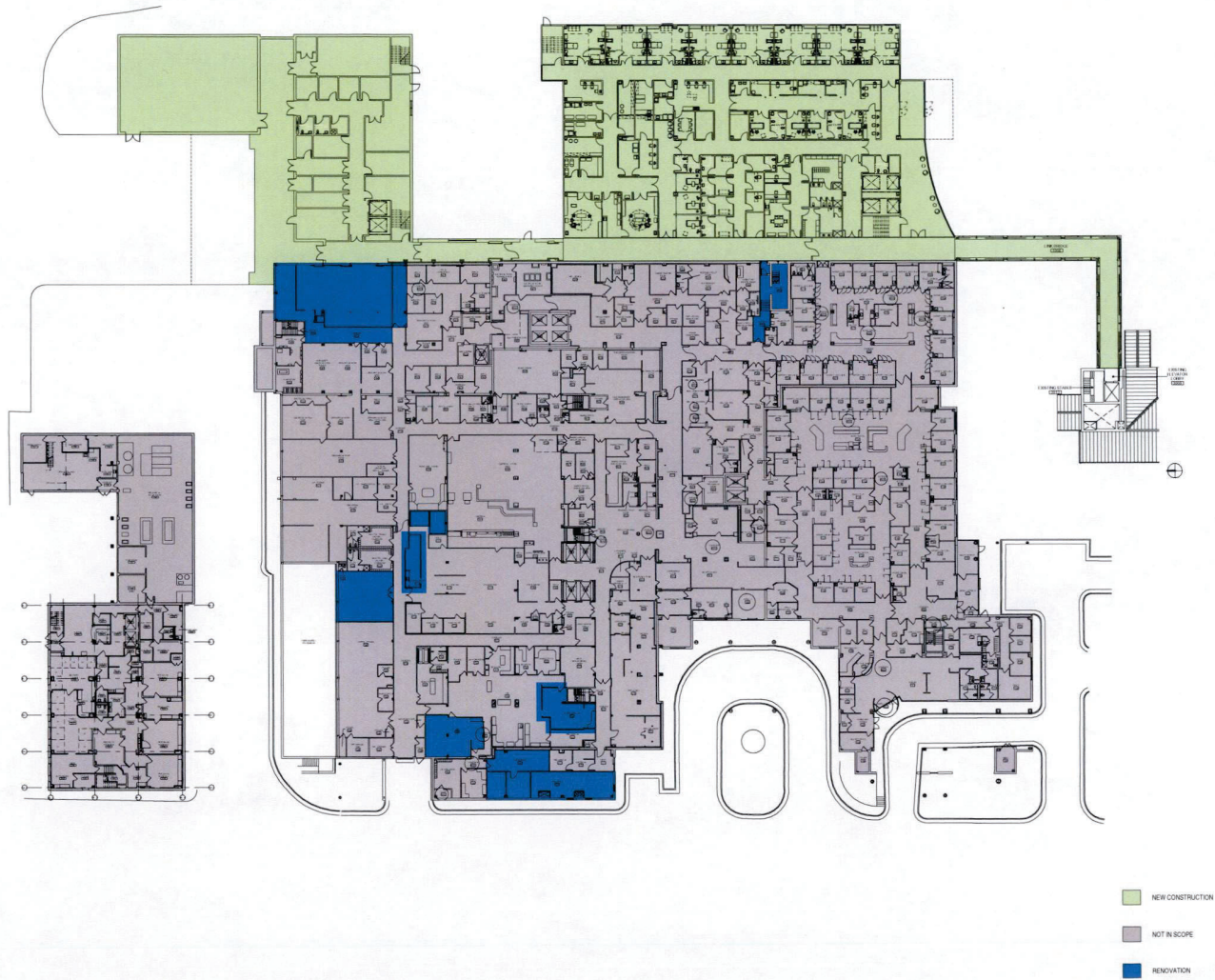
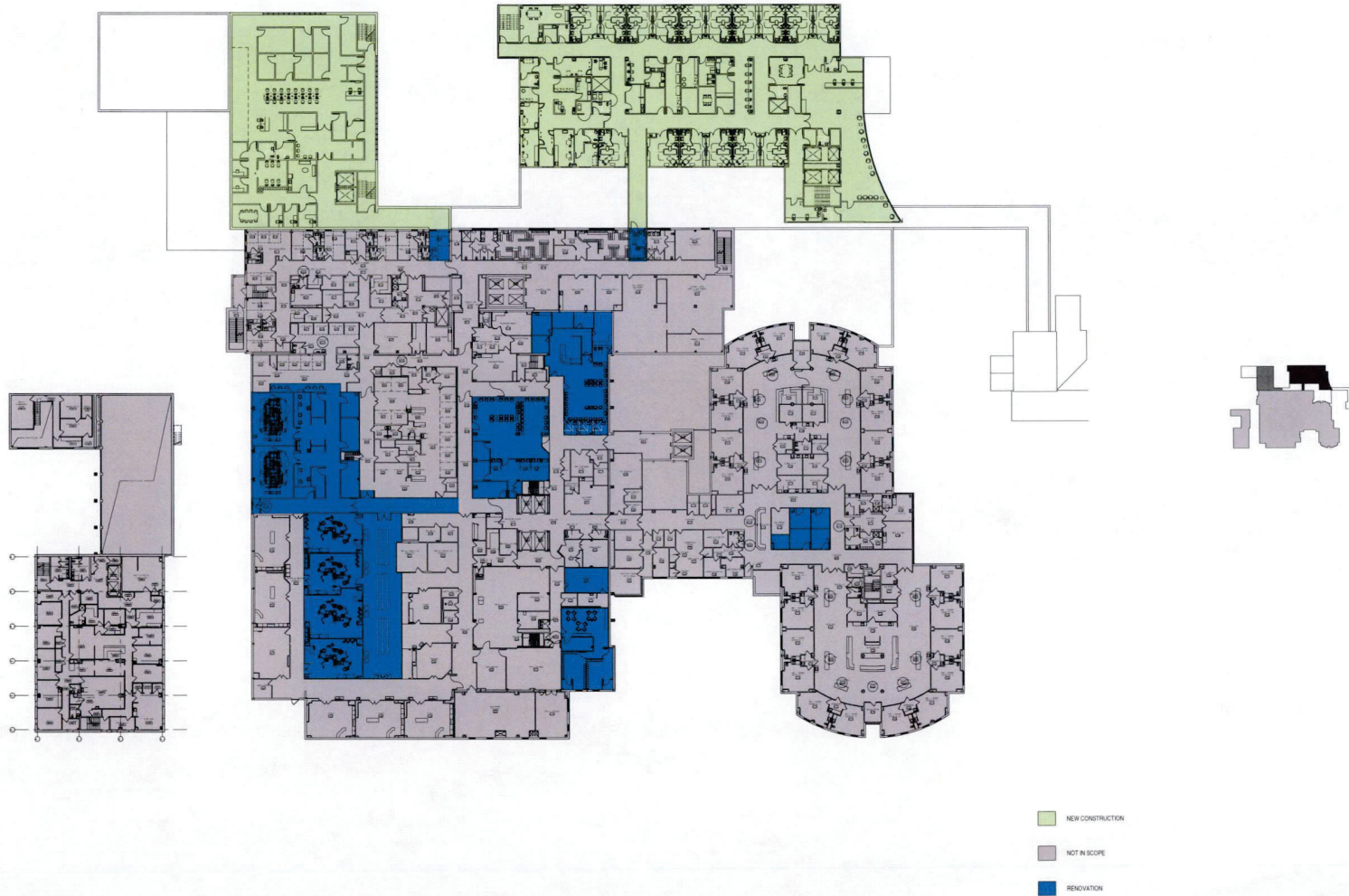


FIGURE 9: AREAS ON THE SECOND FLOOR THAT WILL BE RENOVATED UNDER THIS CON



APPENDIX 3

MARSHALL VALUATION SERVICE REVIEW

Table 1. MHCC and Doctors Comparison of MVS analysis

	New Construction	
Class	A	
Quality	Good	
	MHCC	Doctors
Type Structure	Hospital	Hospital
Floors ²	4	4
Square Footage ²	95,671	95,671
Average Perimeter	1,324	3,878
Weighted Average Wall Height	17.0	17.0
Average Area Per Floor	23,918	23,918
As Outlined in Section 1, Page 11		
Base Cost	\$ 560.00	\$ 560.00
Heating, Cooling, Ventilation adjustment	0	0
Adjusted Base Cost	\$ 560.00	\$ 560.00
Adjustment for Differential Cost By Department	1.200	1.200
Gross Base Cost	\$ 671.89	\$ 671.89
Perimeter Multiplier	0.990	0.969
Story Height Multiplier	1.115	1.115
Multi-story Multiplier	1.005	\$2.80
Refined Square Foot Cost	\$ 745.37	\$ 728.86
Sprinkler Add-on	\$ 4.34	\$ 4.74
Adjusted Refined Square Foot cost	\$ 749.71	\$ 728.86
Current Cost Modifier	1.05	1.0504
Local Multiplier	1.03	1.04
CC & Local Multipliers	1.082	1.092
MVS Building Cost Per Square Foot	\$ 810.81	\$ 801.39
Building Square Footage	95,671	95,671
Total MVS Building Costs	\$ 77,571,329	\$ 76,669,783
Final MVS Cost Per Square Foot	\$ 810.81	\$ 801.39

Yellow shading shows disagreements between MHCC and Doctors MVS analysis

Table 3: MHCC and Doctors Comparison Table - Calculation of Construction Cost v. MVS Benchmark Value

	MHCC	Doctors
Project Cost for MVS Comparison (SF)	\$ 721.50	\$ 536.20
Less MVS Benchmark Cost (SF)	\$ 810.81	\$ 801.39
Over/Under (=Project Cost - MVS Benchmark -Abnormal Shortage Multiplier)	\$ (89.31)	\$ (265.19)
Construction Costs over MVS Benchmark (Total Dollar Amount) ¹	\$ 0	\$ 0
Percentage Construction Cost over MVS Benchmark	0%	0%
Total to be excluded from any rate increase proposed by the hospital	\$ 0	\$ 0

MHCC staff calculated an estimated new construction cost of \$721.50 per SF and an MVS benchmark of \$810.81 per SF. Comparably, the applicant arrived at an estimated new construction cost of \$536.20 per SF and an MVS benchmark value of \$801.39 per SF. The difference in the MVS benchmark cost was due to a difference in in the calculation of a number of the multipliers used in determining the benchmark and a difference in the allowed cost of sprinklers in the building. The differences in the new construction cost calculated by MHCC and the applicant were due to differences in the calculation of extraordinary costs to be excluded from MVS calculations.

COMAR 10.24.10.04B(7), Construction Cost of Hospital Space states that:

If the projected cost per square foot exceeds the Marshall Valuation Service benchmark cost, any rate increase proposed by the hospital related to the capital cost of the project shall not include the amount of the projected construction cost that exceeds the Marshall Valuation Service benchmark and those portions of the contingency allowance, inflation allowance, and capitalized construction interest expenditure that are based on the excess construction cost.

Both the calculations made by MHCC and the applicant show that the cost of construction of the proposed project falls below the MVS benchmark value. Therefore, there will be no exclusion in future requests for rate increases due to the capital project costs .

APPENDIX 4

**HEALTH SERVICES COST REVIEW COMMISSION
MEMO**

**REQUEST FOR OPINION ON FINANCIAL
VIABILITY – POST APPROVAL PROJECT CHANGE**

MEMORANDUM

TO: Wynee Hawk, Director, Facilities Planning & Development, MHCC
 Ewurama Shaw-Taylor, Chief, CON, MHCC
 Moira Lawson, Program Manager, CON, MHCC
 Vishal Mundlye, Methodologist, Facilities Planning & Development, MHCC

FROM: Jonathan Kromm, Executive Director, HSCRC
 Jerry Schmith, Director, Revenue & Regulation Compliance, HSCRC
 Bob Gallion, Associate Director III, Revenue & Regulation Compliance, HSCRC

DATE: April 30, 2025

RE: Luminis Health Doctors Community Medical Center (LHDCMC)
 Obstetric Service & Facility Expansion & Renovation
 Post Approval CON Modification Request
 Docket No. 23-16-2466

Joshua Sharfstein, MD
Chairman

James N. Elliott, MD
Vice-Chairman

Ricardo R. Johnson

Maulik Joshi, DrPH

Adam Kane, Esq

Nicki McCann, JD

Farzaneh Sabi, MD

.....

Jonathan Kromm, PhD
Executive Director

William Henderson
Director
Medical Economics & Data Analytics

Allan Pack
Director
Population-Based Methodologies

Gerard J. Schmith
Director
Revenue & Regulation Compliance

Claudine Williams
Director
Healthcare Data Management & Integrity

.....

This memo is in response to your request dated April 17, 2025, regarding our review of the financial projections provided in the Certificate of Need (CON) Modification Request dated March 27, 2025, and our opinion on the initial feasibility and ongoing viability of the proposed project as amended. In addition, you have requested that we comment on the implications to the changes in financing of the proposed project, and LHDCMC’s estimate of any increase in their Global Budget Revenue (GBR) for a capital award to cover the incremental depreciation and interest to be expensed following the construction and commencement of operations of the proposed project.

BACKGROUND:

LHDCMC is a non-profit hospital located on a 40-acre campus in Lanham, Prince George’s County, Maryland, with 200 licensed acute care Medical Surgical Gynecological Addictions (MSGAs) beds. The hospital was founded in 1975. In 2019, LHDCMC became an affiliate of Luminis Health, Inc., which also manages Luminis Health Anne Arundel Medical Center (LHAAMC), and J. Kent McNew Family Medical Center. The MHCC issued a CON to LHDCMC on December 14, 2023, to establish a new obstetrics (OB) service and construct a new four-story facility on the grounds of the existing campus to accommodate such service. The approved CON called for 21 labor/delivery/recovery (OB) beds, and the construction/renovation impacting 301,952 square feet (sq.ft.) over three phases at a total cost of \$299,012,841 (or \$990.27 per sq.ft.).

THE PROJECT:

LHDCMC now proposes to reduce the number of OB beds to 16, relocate the planned construction to the opposite side of the hospital to save the construction of additional parking spaces, and to renovate existing surgical units in lieu of constructing new surgical units. The construction is to be in a single phase,

impacting 151,112 sq.ft. The revised cost of the amended plan is now \$210,828,366 (or \$1,395.18 per sq.ft.). This represents a reduction in cost of \$88,184,475 or 29.5%. The sources of funding the amended cost of the project are: \$34,578,366 from cash; \$5,000,000 from philanthropy; \$76,250,000 from authorized bonds; and \$95,000,000 from Maryland State grants or appropriations. The philanthropic target and state funding are unchanged from the previously approved CON.

MHCC has stated that the utilization projections included in the CON are reasonable, and that HSCRC staff may assume that the hospital will achieve its projected utilization volumes.

HSCRC STAFF REVIEW, DISCUSSION AND OPINION:

HSCRC staff (Staff) reviewed the following materials: the final as re-submitted Table E dated June 23, 2023 related to the \$299,012,841 project budget for the subsequently approved CON; the response memo from HSCRC to MHCC dated November 1, 2023; the recommendation memo and staff report from MHCC staff to MHCC commissioners dated December 14, 2023; the rate request letter from HSCRC Executive Director to Luminis Executive Management dated September 4, 2024; the request letter, application and related tables dated March 28, 2025 for project changes post approval of the referenced CON; and the Independent Auditors' Reports for fiscal years ended June 30, 2020 through June 30, 2024 for Luminis Health, Inc. and Subsidiaries.

The Table E (Project Budget) reflects the as-amended values for the capital costs and financing costs making up the planned uses of funds of \$210,828,366 and the related sources of funds totaling the same. The detailed classifications for uses of funds in the change request are different from those in the previously approved CON; however, Staff were able to compare the subtotals for purposes of delineating the useful lives among the planned acquired assets. Staff maintain the position that this project as described includes the labor and procurement to construct and fit out a new facility. Such may likely include construction items such as bricks, mortar, glass, and steel, as well as fixtures for mechanical, electrical, and plumbing, and moveable items such as clinical and IT equipment, furniture and décor. Accordingly, Staff believe there is merit to using the 25.5 average useful life of assets as provided in the notes to the audited financial statements and as indicated in the CON applications of other hospitals. Staff did notice that Luminis' more recent audit reports have changed the disclosure to include items with an 80-year life. Staff believe that nearly all acquired assets reach economic, functional and/or physical obsolescence due to use or changes in technology or changes in business practice long before reaching the age of 80.

The text of the Change Request as clarified by the applicant's counsel leads Staff to estimate the certain critical dates as follows: Date of Borrowing May 31, 2025, and date of concluding construction and beginning operations May 31, 2028. Table E also includes Capitalized Interest of \$7,777,424, which together with the Expensed Interest on Project Debt included on Table K of \$21,205,366 from FY2028 through FY2034, totals \$28,982,789 of interest incurred as reported for the 3 years of construction plus the 7 initial years of operations. Staff computed an interest rate of 4.48% on the planned borrowing of \$76,250,000 to yield the interest incurred as reported in the Tables. Alternatively, if the interest rate was 5% as stipulated in the hospital's response to questions, the interest incurred from initial borrowing up to fiscal 2034 would tally \$32,516,628 of which \$11,262,480 would be capitalized and \$21,254,148 would

be expensed. The Table E project Budget includes as sources of funds \$5M from Philanthropy, and \$95M from State Grants. Staff caution that the national and state economics may have become more challenging since the November 1, 2023, response. And the total of gifts and grants may be more difficult to fully realize.

Table K (P&L Inflated for New Facility and/or Services) as reported by applicant reflects a positive operating margin of \$15,465,665 (29.9% of operating revenue) in FY2034 and averages a positive operating margin of \$7,941,188 for the 7 years ended FY2034. This includes an estimate of \$6.6M for a capital policy award and a 2.8% assumption for annual price inflation. Staff prepared a pro forma Table K reflective of the as reported annual values, save for: Gross Patient Service Revenues which is reflective of a May 31, 2028 commencement of OB operations and volumes as reported on Table I, plus 3% annual price inflation; a Capital Policy Award of \$4.4M annually, beginning upon commencement of initial OB operations, plus 3% annual price inflation; Interest Expense on project debt based upon a 5% bond rate with a May 31, 2028 commencement of operations; and Depreciation Expense on acquired project assets using a 25.5 average useful life. The pro forma measured operating margin averages \$4.5M (12.5% of average net operating revenues of \$36.1M) for the 7 years ended FY2034, with negative operating margins for the 3 years ended FY2020, and with a single year best positive operating margin of \$12,388,838 (or 24.1% of operating revenues) in FY2034 (the 2nd full operating year following project completion and full volumes).

Table H (P&L Inflated for Entire Facility and/or Services) as reported by applicant reflects a positive operating margin of \$37,766,511 (9.3% of operating revenue) in FY2034 and averages a positive operating margin of \$24,855,536 for the 7 years ended FY2034. Again, Staff prepared a pro forma Table H reflective of the as reported annual values, save for Gross Patient Service Revenues which is reflective of 3% annual price growth on top of the audited revenue for FY2024, and the May 31, 2028 commencement of OB operations and volumes as reported on Table I, plus 3% annual price inflation; a Capital Policy Award of \$4.4M annually, beginning upon commencement of initial OB operations, plus 3% annual price inflation; Interest Expense on project debt based upon a 5% bond rate with a May 31, 2028 commencement of operations; and Depreciation Expense on acquired project assets using a 25.5 average useful life. The pro forma measured operating margin averages \$8.1M (2.3% of average operating revenues) for the 7 years ended FY2034, and with a single year best positive operating margin of \$15,598,577 (4.0% of net operating revenues) in FY2034 (the 2nd full operating year following project completion and full volumes).

Staff reviewed the published reports by independent auditors for the fiscal years ended 2020 through 2024, focusing on the financials for LHDCMC, Luminis Health, Inc. and the Luminis Obligated Group (LOG). The LOG includes Luminis Health, Inc., Luminis Health Imaging, LHAAMC, and LHDCMC. Recognizing that as of the date of this memorandum, the most recent audit report available was from FY2024, and that MHHEFA bonds are serviced by the LOG, Staff reviewed the financial ratios for the LOG as derived from the FY 2024 audit report. The liquidity ratio **Days Cash on Hand** (cash and investments, net of advances / daily cash operating expenses) **was 187.4 days**; and the leverage ratio **Debt Service Coverage** (Operating EBITDA / Debt Service, where debt service is scheduled interest and principal payments for the coming year for all contracted debt) **was 1.18**.

Staff believe that a strong measure for Days Cash is above 160 days, while adequate measures fall above 110 days, and vulnerable measures are below 110 days, while highly vulnerable measures are below 80 days. Days Cash on Hand indicates how many days an entity can cover its operating expenses without needing additional revenue or borrowings. And Staff believe that strong Debt Service Coverage (DSC) measures are above 2.0, while measures above 1.4 may be relatively adequate, and measures below 1.0 may indicate vulnerability to risk of not being able to service debts in a timely and full manner due to unfavorable macro-economic environments, or more local market conditions.

Staff prepared a proforma Balance Sheet and Income Statement for the LOG assuming the sources of project funding were to have taken place immediately following the fiscal year end date of the June 30, 2024. The DSC measure for such proforma financials was approximately 1.08, while Days Cash on Hand was approximately 203.7 days.

As noted in the response from HSCRC to MHCC dated November 1, 2023, “Staff spoke with MHHEFA, the Luminis finance management team, and executive management with another large healthcare system in Maryland, regarding the computation of DSC used in evaluating debt covenants. Staff were able to confirm that the DSC covenant for hospitals is computed inclusive of realized investment income (interest, dividends and net realized gains) and certain other realized non-operating income items, and that such computation is consistent with MHHEFA bond covenant requirements”. The estimated DSC ratio inclusive of realized “below the line” income for the LOG is approximately 1.55 for FY2024.

Again as noted in the response from HSCRC to MHCC dated November 1, 2023, “Staff notes that for any hospital, their investment portfolio is subject to market risks that lay beyond the control of the hospital, and the degree of reliance upon non-operating “below the line” income items to service its debt is reflective of additional risk that such income may or may not be both consistently present and of material positive value in future fiscal periods. The reliance and associated risk may grow as the Operating EBITDA may fall. Such a risk may lead to increases in the cost of debt financing which in turn may further erode the DSCR.”

The reduction in the project budget of \$88,184,475 (or 29.5%) does enhance the feasibility of this project. However, Staff’s conclusion remains consistent with that of the November 1, 2023, response. Assuming the volumes projected for the proposed obstetrics program are realized and based upon Staff’s review of the applicant’s likely liquidity and projected operating margin, and subject to the realizability of philanthropic gifts and governmental grants, and based upon review of all the information provided, Staff believe that all of these issues combined call into question the financial feasibility of this project. The project could possibly be feasible if all these issues are resolved in a positive manner. However, the macro financial investment markets may be unpredictable and the applicant’s reliance upon non-operating performance to service its debt may prove to be risky, and, therefore, the project’s longer term financial viability may be questionable. Staff have estimated that the applicant may be eligible to receive an incremental capital adjustment of approximately \$4.4 million to its GBR upon project completion and commencement of the proposed OB operation’s facility and service. This revenue adjustment may help to improve the feasibility of the project.