

SCA Surgical Care Affiliates

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Angie Matthes, Project Analyst
Certificate of Need Section
Division of Health Service Regulation
North Carolina Department of Health and Human Services
701 Barbour Drive
Raleigh, North Carolina 27626-0530

RE: Comments on Triad Service Area Single-Specialty Ambulatory Surgery
Center (ASC) Demonstration Project CON Applications

Dear Ms. Matthes:

Enclosed please find comments prepared by Surgical Center of Greensboro and Greensboro Specialty Surgical Center regarding the competing CON applications for the single-specialty ASC demonstration project in the Triad service area, to meet the need identified in the *2010 State Medical Facilities Plan*. We trust that you will take these comments into consideration during your review of the applications.

Sincerely,



Rich Sharff
EVP & General Counsel
Surgical Care Affiliates

**COMMENTS ABOUT COMPETING CERTIFICATE OF NEED
APPLICATIONS**

**Triad Service Area Single-Specialty ASC Demonstration Project
Submitted by Surgical Center of Greensboro &
Greensboro Specialty Surgical Center
April 30, 2010**

Surgical Center of Greensboro, LLC (SCG) and Greensboro Specialty Surgical Center (GSSC) each represent a partnership of local surgical providers and Surgical Care Affiliates (SCA), an experienced provider of ambulatory surgical services. With its affiliated physicians and partners, SCA is one of the largest national providers of specialty surgical services, operating 124 ambulatory surgery centers and surgical hospitals across the country, with more than 2,000 physician partners.

SCG and GSSC have provided high-quality ambulatory surgical services to residents of Guilford County and surrounding communities for several years. SCG operates 13 operating rooms at its existing facility on Virginia Street in Greensboro, and GSSC operates three (3) operating rooms at its facility on North Elm Street. Currently, a total of 161 physicians perform surgery at the two facilities, representing a variety of specialties, including gynecology, neurology, ophthalmology, oral surgery, orthopedics, otolaryngology, plastic surgery, podiatry, psychiatry and urology. During FY2009, SCG performed 10,186 surgical cases and GSSC performed 2,489 surgical cases. Thus, SCG and GSSC are knowledgeable regarding the local need for surgical services in the Triad-area, and are well positioned to evaluate the CON proposals for a new single-specialty ambulatory surgery center demonstration project.

Three applicants submitted Certificate of Need (CON) applications in response to the demonstration project in the *2010 State Medical Facilities Plan (SMFP)* for a single-specialty ASC in the Triad service area; Kernersville Orthopaedic Associates (KOSC), Piedmont Outpatient Surgery Center (POSC), and Orthopaedic Surgical Center of the Triad Holdings (OSCH). In accordance with N.C.G.S. §131E-185(a.1)(1), this document includes comments relating to the proposal submitted by these applicants, and how the Kernersville Orthopaedic Surgery Center proposal represents the most effective alternative, in this batch review, for development of the demonstration project in the Triad service area.

Specifically, the CON Section, in making the decision, should consider several key issues. These include, but are not limited to:

- (1) The extent to which the proposed project will increase accessibility to surgical services for residents of the Triad Area;
- (2) The extent to which each applicant demonstrates the need for its proposed project;
- (3) The extent to which the proposed project presents a cost-effective alternative to developing a freestanding ambulatory surgery center in the Triad; and
- (4) The extent to which each applicant is consistent with the Basic Principles of the State Medical Facilities Plan (Policy Gen-3).

The following provides specific rationale and data that demonstrate Kernersville Orthopaedic Surgery Center's proposal is the most effective alternative of the competing proposals for the single specialty ASC demonstration project in the Triad service area.

Access

KOSC's proposal is the most effective alternative with regard to geographic access.

-County Demographics

Forsyth County has a greater need for a new ambulatory surgery center compared to Guilford County. Currently, there is only one ambulatory surgical center in Forsyth County. Conversely, Guilford County residents have access to seven (7) ambulatory surgery centers, in addition to several hospital providers. This is important considering Forsyth County is experiencing a higher rate of population growth than Guilford County. Please refer the following table.

**Projected Population Growth
2010-2015 Forsyth & Guilford Counties**

	2010	2011	2012	2013	2014	2015	CAGR
Guilford	481,488	487,327	493,167	499,007	504,846	510,731	1.19%
Forsyth	353,998	358,754	363,510	368,266	373,022	377,809	1.31%

Source: North Carolina Office of State Budget & Management

Additionally, Forsyth County is also aging at a faster rate compared to Guilford County. Older patients (i.e., age 65 and older) typically utilize medical services, especially orthopedic services, at a higher rate compared to individuals under the age 65, and thus are more likely to need access to affordable, convenient healthcare services. The population of individuals age 65 and older in Forsyth County is projected to increase at a compound annual growth rate of 3.21% during the next five years. This growth rate is nearly two and a half times faster than the overall population growth rate in Forsyth County.

**Projected 65+ Population Growth
2010-2015 Forsyth & Guilford Counties**

	2010	2011	2012	2013	2014	2015	CAGR
Guilford	56,360	57,740	59,787	61,753	63,594	65,563	3.07%
Forsyth	45,239	46,313	48,044	49,751	51,371	52,991	3.21%

Source: North Carolina Office of State Budget & Management

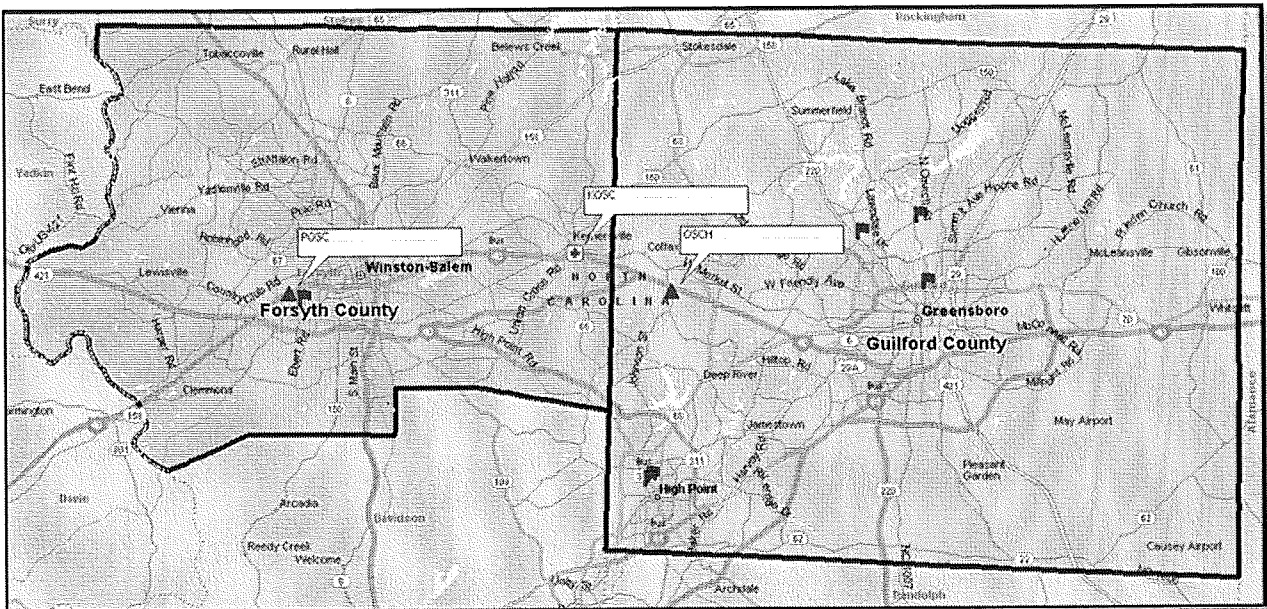
Additionally, KOSC's proposed location in Kernersville is well-suited for the proposed demonstration project. Kernersville is rapidly developing into a highly urbanized area. The city population is projected to increase at a compound annual growth rate of 2.01%¹. This rate of growth is 53% higher than the population growth rate for Forsyth County as a whole. Kernersville is also located in the center of the Guilford-Forsyth County services area, which makes it the most effective location in terms of increasing geographic access to surgical services.

¹ Claritas

-Geographic Access

KOSC's proposed surgery center will provide the greatest geographic access for residents of Forsyth and Guilford counties. KOSC proposes to develop an ambulatory surgery center that is located in Kernersville (Forsyth County) at 445 Pineview Drive. This location is centrally located and highly accessible to residents of both Guilford and Forsyth counties, and is in close proximity to Interstate-40 Business. Please refer to the map on the following page.

**Triad Demonstration Project Service Area
Proposed Applicant Locations**



KOSC's proposed Kernersville location is the most effective alternative because it is the only proposal that will actually improve geographic access to ambulatory surgical services in the Triad. Currently, there are seven approved or operational ambulatory surgery centers (24 total operating rooms) that are located in Guilford County. Forsyth County has only one ambulatory surgery center with three operating rooms. OSCH proposes to establish a new ASC in Guilford County in relatively close proximity to existing surgery centers. POSC proposes to establish a new ASC in Forsyth County in close proximity to existing operating rooms. KOSC is the only applicant that will provide much-needed geographic access in a new

location. The map shows KOSC's proposed facility location relative to the existing Triad-area ASC providers.

As the map indicates, Forsyth County residents have far less geographic access to freestanding ambulatory surgery centers. KOSC's proposal will provide the greatest access to convenient, cost effective ambulatory surgery services for Triad residents, and is thus the most effective proposal for the 2010 SMFP demonstration project.

Physician & Community Support

Another important factor to consider when evaluating competing proposals is the extent to which the community supports each proposed project; particularly the extent to which referring physicians will sustain the project. KOSC received 129 physician letters of support, which is more than the other competing applicants combined. Please refer to the following table.

Physician Letters of Support

	KOSC	POSC	OSCH
Letters of Support	129	22	102

Source: CON Applications

In addition to physician support, KOSC's proposal has also received strong community support, including letters of support from Kernersville legislators and the Kernersville Chamber of Commerce. KOSC's proposal received 19 additional community letters of support from a broad range of organizations and residents in Guilford and Forsyth counties and also 17 letters from former patients of OSC.

Availability of Services

It is important to compare the service availability dates of competing applicants. Applicants who propose to offer services sooner are better suited to address the established need; especially for a demonstration project. Collection of patient

outcome data thus can be collected sooner and its respective benefits to patients, providers, and payors can be realized sooner. KOSC proposes to begin offering services 1/1/2012 while OSCH does not proposes to make their services available until 1/1/2013. KOSC's application is the most effective alternative by both providing care to patients sooner, and also providing vital patient outcome data to the State Health Coordinating Council in a more timely manner.

Open Access

The criteria for the single-specialty ASC demonstration project in the 2010 SMFP specifically encourage applicants to provide an open access policy to physicians. KOSC's application is consistent with this policy and includes an estimate of 28-29 physicians who will provide initial services at KOSC. Conversely, POSC's application proposes only nine physicians will utilize the proposed facility. The following table shows the competing applicant's proposed number of physicians to provide services.

Number of Physicians to Utilize Proposed Facility

	KOSC	POSC	OSCH
Physicians	28-29	9	29

Source: CON Applications

As the table above shows, KOSC's proposal is in alignment with the open access criteria described in The 2010 State Medical Facilities Plan. KOSC's proposal is an effective alternative to address the need established for the single-specialty ASC demonstration project.

Need Justification

KOSC developed an application that is conforming to Review Criteria 3 and 4. KOSC adequately demonstrated that its projected utilization of proposed operating rooms is based on reasonable and supported assumptions.

KOSC's projected orthopedic surgery cases are based on conservative growth rates and actual experience. Based on recent surgical volume by Orthopaedic Specialists of the Carolinas (OSC) physicians, there is high demand in the Triad area for outpatient surgical procedures. In 2009, OSC physicians performed nearly 4,000 surgical procedures at Forsyth Medical Center and Medical Park Hospital. Approximately 65% of these were procedures involved patients from Forsyth and Guilford counties (within the defined Triad service area).

To project outpatient surgical utilization for the proposed project, KOSC analyzed the historical orthopedic surgery experience for OSC physicians. OSC utilization in FY2009 was 16.8% of the total orthopedic outpatient surgery volume performed in the Triad. KOSC applied this percentage to the total number of projected orthopedic surgery procedures in the Triad during the next five years. KOSC then assumes, based on physician advice and patient origin data, that approximately 40% of their projected orthopedic surgery cases will be transferred to the proposed ambulatory surgery center. Overall, this methodology is conservative because recessionary pressures have caused many patients to seek care outside of the hospital setting. Thus, it is reasonable and likely conservative that 40% of OSC's projected surgery volume will be performed in the proposed facility. Therefore, KOSC adequately demonstrated the need for the proposed ambulatory surgery center demonstration project and is conforming to Review Criterion 3.

KOSC's methodology is further supported by the overall growth of orthopedic surgical volume in the Triad service area. From FY2007 to FY2009, total orthopedic surgical cases increased at a compound annual growth rate (CAGR) of 3.8%. This is indicative of a growing demand for orthopedic surgical services. Please refer to the table on the following page.

**Guilford and Forsyth Counties
 Total Orthopedic Surgery Cases
 FY2007-FY2009**

	FY2007	FY2008	FY2009	07-09 CAGR
Total Triad Service Area Orthopedic Surgery Cases	21,480	22,445	23,133	3.8%

Source: KOSC CON Application, Exhibit 2

Notably, orthopedic surgical volume in the Triad area is increasing at a faster rate than overall surgical volume. Please refer to the following table.

**Total Guilford and Forsyth Counties
 Total Surgical Cases
 FY2007-FY2009**

	FY2007	FY2008	FY2009	07-09 CAGR
Total Triad Service Area Surgical Cases	85,696	91,978	88,614	1.7%

Source: KOSC CON Application, Exhibit 2

Overall total surgical utilization, especially orthopedic surgical volume has increased substantially in the Triad service area. This growth suggests KOSC's proposal for the single-specialty ASC demonstration project will be highly utilized by patients within the service area. These historical trends also support the need for a dedicated orthopedic ASC in the Triad Area, especially in Forsyth County where there is limited access to freestanding ambulatory surgery centers.

Orthopedic Surgical Need

-Musculoskeletal Health

A healthy and adequately functioning musculoskeletal system is vital to maintaining patients' functional capacity, independence, and high quality of life. Impaired functional capacity and degenerative conditions of the musculoskeletal system are two of the most prevalent and increasing sources of morbidity and suffering. Accordingly, total knee and hip replacement (arthroplasty) procedures have increased 47% and 21% respectively in the United States since 2005². Additionally, total hip and knee arthroplasties are projected to increase by 174% and 673% respectively by 2030³. This is representative of the current and growing demand for orthopedic surgical services in the United States. As the population continues to age, convenient access to orthopedic surgical services will continue to be highly demanded.

² Kurtz, Projections of Primary & Revision Hip and Knee Arthroplasty in the US from 2005-2030 (2007)

³ Ibid.

-Sports Related Injuries

In the United States, about 30 million children and teens participate in some form of organized sports, and each experience more than 3.5 million injuries each year.⁴ Almost one-third of all injuries incurred in childhood are sports-related injuries.

High school is a common place for many young teenagers to participate in athletics. According to a survey of high school students conducted in 2005, it was estimated that 1.4 million injuries occurred at a rate of 2.4 injuries per 1,000 athlete exposures, i.e. practices or competitions.⁵ To put this into perspective, the average high school athlete has four practices and two games a week during any given sports season. The average season lasts three months, or 12 weeks. This totals to 72 athlete exposures per season ($6 \times 12 = 72$). When this total is applied to a girl's soccer team (with an average 25 team members) the sum of exposures for all members on the team is 1,800 exposures ($25 \times 72 = 1,800$), or more than 4 injuries. However, this only represents one team. There are 24 high schools in Guilford and Forsyth counties, each with at least 11 sports teams at both junior varsity and varsity levels⁶. There are also 33 middle schools in Guilford and Forsyth counties, which support at least 10 athletic teams with the same size rosters. This means that there are over 18,150 high school and middle school athletes [$(24 \text{ High Schools} \times 11 \text{ sports teams} \times 1.5 \text{ average varsity and junior varsity teams}) + (33 \text{ Middle Schools} \times 10 \text{ sports teams}) \times 25 \text{ team members} = 18,150$] in Guilford and Forsyth counties who are at risk for sport-related injuries. This is not including the many children and young adults who participate in sports-related activities outside of school. This also excludes active adults who may become injured due to activities of daily living or exercise.

These statistics are important to note, because many of these sport-related injuries demand orthopedic surgical procedures. For example, the anterior cruciate ligament (ACL) is the most commonly injured ligament in the body⁷. Injured ACL's often require surgical reconstruction for physically-active patients. Additionally, tendon problems account for almost 30% of all running injuries and 40% of all tennis injuries⁸. These injuries also often require surgical repair.

⁴ http://www.healthsystem.virginia.edu/uvahealth/peds_orthopaedics/stats.cfm

⁵ http://www.healthline.com/blogs/teen_health/2006/10/sports-related-injuries-among-high.html

⁶ Guilford and Forsyth County Schools Online

⁷ Spindler, Kurt, Rick Wright. "Anterior Cruciate Ligament Tear." *The New England Journal of Medicine*. November 13, 2008. pp 2135 – 2142.

⁸ <http://www.orthopaedicsurgerynyc.com/nycorthopaedicsurgeon/tendonitis.htm>

In summary, an orthopedic surgery center is best suited for the 2010 SMFP demonstration project. Specifically, orthopedic surgery volume is growing at rates faster compared to total surgery volume in the Triad, and Guilford and Forsyth counties have growing, active populations who are at greater risk of injuries from sports and demand access to orthopedic surgical services. Thus, KOSC's proposal is the most effective alternative to meet the need a single-specialty ASC identified by the 2010 SMFP demonstration project.

Additionally, KOSC's proposal is the most effective alternative with regard to medically underserved access and value.

Medically Underserved

A key factor in measuring the accessibility of alternative proposals is the extent to which the applicants propose to serve the medically needy, particularly the uninsured. KOSC projects to serve the highest percentage of self-pay indigent care in the second project year, 3.88% of its overall payor mix. Please refer to the following table.

**Second Project Year Payor Mix
Self-Pay/Indigent Care**

	KOSC	OSCH	POSC
Self-Pay/Indigent Care	3.88%	3.50%	1.43%

Source: CON Applications

In terms of expanding access for the medically underserved, KOSC's proposal represents the most effective alternative by serving the highest percentage of uninsured patients.

When evaluating the competing applicant's proposed payor mixes, it is important to consider both the methodology used in their formulation and the scope of medical services being performed. OSCH's proposed payor mix is based on the following:

"The payor mix for the project is based on the combined payor data for the ambulatory surgery cases performed at Moses Con Health System, High Point Hospital, Wake Forest

University Baptist Medical Center, Forsyth Medical Center, and Medical Park Hospital as reported in 2009 Hospital License Renewal applications."

OSCH claims that "the proposed project is expected to have a similar payor mix." However, historical hospital payor mix data is not comparable to that of an ambulatory surgical center owned by a small collection of physicians. Additionally, OSCH's payor mix data is representative of all service lines within the hospitals and not specific to orthopedics. The payor mix associated with a wide variety of surgical specialties and physicians is not an accurate indication of the payor mix for an orthopedic-specialty ASC.

In contrast, KOSC provided historical payor mix data specific to OSC physicians providing outpatient orthopedic procedures. This results in a more accurate representation of the proposed demonstration project's payor mix.

It is also necessary to consider the surgical specialty and the demographic of patients it serves when comparing payor mixes. POSC projects to serve a very limited and highly specialized patient demographic, mainly children. POSC's top 20 projected procedures in Exhibit 12 of its application indicates a heavy focus on pediatric procedures. This does not allow for an accurate "apples to apples" comparison of payor mixes among the competing applications.

Another important issue to consider when evaluating the degree to which competing proposals expand access to the medically underserved is their proposed amount of charity care. KOSC's proposal projects to provide \$259,990 of charity care in the first year of the project. This is the highest amount of charity care among the competing applicants. Please refer to the following table.

**Projected Charity Care
Project Year One**

	KOSC	OSCH*	POSC
Project Year 1	\$259,990	\$259,604	\$74,778

*OSCH charity care projections include cases performed in proposed operating rooms and procedure room, thus are overstated with regard to surgical services only.
Source: CON Applications

Additionally, KOSC projects to provide the highest percentage of its net revenue to charity care among all applicants. Please refer to the table below.

**Percentage of Net Revenue Committed to Charity Care
First Two Project Years**

	KOSC	OSCH	POSC
% of Net Revenue	8.4%	8.2%	2.0%

Source: CON Applications

In conclusion, KOSC Center projects to serve the highest indigent and uninsured access of any of the competing applicants. The KOSC project will provide much needed charity care, and demonstrates a level of commitment to serving the medically needy that is not expressed in the other competing applications. This is conforming with Review Criterion 13, and consistent with Policy GEN-3, in the 2010 State Medical Facilities Plan, to provide access for patients with limited financial resources.

Value

- Average Charge

Another important issue to consider when evaluating the competing applications is the extent to which the proposed projects represent a cost-effective alternative for developing the demonstration project.

In the current healthcare marketplace, where cost of care is a major concern with payors and the public, the projected average procedure charge and cost per procedure are important measures of consumer value. KOSC proposes very reasonable charges and costs. In fact, KOSC proposes the lowest average charge and average cost among the competing orthopedic-specialty applicants. While, average charges and cost are important measures of value, it is important to note that comparatives among different specialties are not a fair “apples to apples” comparison. Thus, the cost and charges of providing ear, nose, and throat (ENT) surgery are not directly comparable to orthopedic surgical services. The

following tables show the proposed average charge and cost per procedure for the first two project years among all competing applicants.

Average Charge per Procedure

First Two Project Years

	KOSC	OSCH	POSC
Project Year 1	\$2,852	\$2,993	\$2,637
Project Year 2	\$2,938	\$2,993	\$2,638

Source: CON Applications

Average Cost per Procedure

First Two Project Years

	KOSC	OSCH	POSC
Project Year 1	\$1,102	\$1,265	\$802
Project Year 2	\$1,106	\$1,223	\$813

Source: CON Applications

As stated in the CON Review Criteria, applicants are expected to demonstrate a positive effect on competition in the Service Area. If approved, KOSC will be the first orthopedic specialty freestanding ambulatory surgical center in the Triad. KOSC's proposal positively encourages competition by proposing competitive charges and reasonable costs. The proposed demonstration project by KOSC represents the most cost-effective alternative for Triad residents.

- Capital Costs

In its application, KOSC demonstrates that the cost, design, and means of construction represent the most reasonable alternative, and that the construction project will not unduly increase the costs of providing health services, or the costs and charges to the public of providing health services. KOSC demonstrates that

applicable energy saving features have been incorporated into the construction plans. Please refer to the following table for project site and construction costs.

Project Construction Costs*

	KOSC	OSCH	POSC
Total Site/Construction Costs	\$1,777,236	\$3,122,500	\$2,102,360

Source: CON Applications

*Costs related to site development and construction, excludes equipment.

In the current economic climate, effective initiatives to contain unnecessary costs and expenditures are especially important to promote value in healthcare. Declining reimbursement rates and increased government regulations are increasingly placing downward pressure on healthcare providers, particularly hospitals, to effectively do more with less. Thus, efficient management of project capital costs is crucial to providing value. KOSC projects the lowest site/construction costs among the competing applicants.

Additionally, a comparison of the applicants total capital costs' and construction cost per square foot demonstrates the cost-effectiveness of KOSC's proposal. KOSC proposes the lowest total capital costs for the establishment of an orthopedic-specialty ambulatory surgical center. Please refer to the following table.

Projected Total Capital Costs & Cost per Square Foot

	KOSC	OSCH	POSC
Total Capital Costs	\$4,631,881	\$5,430,750	\$4,089,295
Construction Cost/Sq. Ft.	\$495	\$753	\$454

Source: CON Applications

KOSC's proposal promotes the cost-effective healthcare delivery of healthcare services. Instead of constructing a new facility, KOSC proposes to renovate an existing building in order to provide maximum value per dollar expended. As surgery volume increases at the facility, average costs per case will decrease. This will result in an even more cost-effective provider capable of providing increasingly competitive charges to third-party payors and patients. KOSC's proposal is ultimately the most effective alternative to expanding value in the

North Carolina healthcare market. This is consistent with Policy GEN-3 of the 2010 SMFP to provide to maximize healthcare value for resources expended.

Training Programs

The KOSC application describes how KOSC proposes to support many health professional training programs located in the Triad area, and throughout North Carolina. Therefore, KOSC demonstrates that the proposed health services accommodate the clinical needs of health professional training programs in the area, and thus is conforming to Review Criterion 14.

Staffing

For the prospective demonstration project, KOSC proposes to lease staffing through its management agreement with Novant Health. This ensures that administrative and support personnel will be available to support the proposed operating rooms. KOSC describes Novant's standard recruitment processes, which will be used to recruit the nurses, surgical techs, and other staff necessary. KOSC identifies the medical director and includes a letter expressing his intention to serve as medical director for the proposed project. The application contains a copy of the curriculum vitae documenting that the physician has the required education, training and experience. Therefore, KOSC demonstrates the availability of adequate health manpower and management personnel for the provision of the proposed services, and thus is conforming to Review Criterion 7.

CONCLUSION

In summary, the approved applicant should demonstrate a plan and ability to meet the following key objectives:

- (1) The extent to which the proposed project will increase accessibility to surgical services for residents of the Triad Area;

- (2) The extent to which each applicant demonstrates the need for its proposed project;
- (3) The extent to which the proposed project presents a cost-effective alternative to developing a freestanding ambulatory surgery center in the Triad; and
- (4) The extent to which each applicant is consistent with the Basic Principles of the State Medical Facilities Plan (Policy Gen-3).

SCG and GSSC believe that KOSC's proposal meets all of the above objectives. KOSC adequately demonstrates that the proposed services will have a positive impact on the cost effectiveness, quality, and access to the proposed services. SCG and GSSC consider their application as satisfying all the CON Review criteria, and that it represents the most effective alternative for development of additional operating rooms as part of the single specialty ASC demonstration project in the Triad area.