

**Comments in Opposition from
Cape Fear Valley Health System, Inc.
Regarding FirstHealth of the Carolinas, Inc.
FirstHealth Moore Hospital Renovation
Certificate of Need Application
Project I.D. # H-8839-12
Submitted June 15, 2012
for July 1, 2012 Review Cycle**



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I. Introduction

In accordance with N.C.G.S. Section 131E-185(a1)(1), Cape Fear Valley Health System, Inc., submits the following comments regarding the June 15, 2012 Certificate of Need Application Project I.D. # H-8839-12 submitted for the July 1, 2012 review cycle by FirstHealth of the Carolinas, Inc. (FirstHealth).

II. Chronology of Important Events

A. April 2012 Settlement Agreement

As part of an April 2012 Settlement Agreement, FirstHealth was issued a certificate of need to construct an 8-bed inpatient unit adjacent to an emergency room at FirstHealth-Hoke with one shared operating room (Project I.D. #N-8497-10).

There will be a change in the licensed bed complement at FirstHealth-Moore as a result of a relocation of 8 medical/surgical acute care beds to FirstHealth-Hoke under Project I.D. #N-8497-10. Licensed beds will decrease from 320 and 312 at FirstHealth-Moore.

B. June 15, 2012 Proposed FirstHealth-Hoke Hospital Expansion

On June 15, 2012, FirstHealth submitted CON Application N-8838-12 in which FirstHealth seeks to expand FirstHealth-Hoke by 28 acute care beds for a total of 36 acute care beds in Hoke County. In its June 15, 2012 CON application for additional beds at FirstHealth Hoke, FirstHealth stated that the need for these beds is justified by shifting inpatient volume from FirstHealth Moore Regional. In the event that CON Application N-8838-12 is approved, FirstHealth-Hoke will have 32 medical/surgical beds and a 4-bed ICU.

C. June 15, 2012 Proposed FirstHealth-Moore Hospital Renovation

In CON Application H-8839-12, FirstHealth proposes to renovate nursing units on the second and third floors, including general medical/surgical and ICU beds at FirstHealth-Moore.

The following table shows the current and proposed use of four nursing units on the second and third floors of FirstHealth-Moore.

FirstHealth-Moore
Current and Proposed Capacity of Nursing Units on Second and Third Floors

Unit	Current		Proposed		Net Change in Bed Capacity
	Service	Acute Care Beds	Service	Acute Care Beds	
2C	Orthopedic	29	Vascular	24	-5
3A	Vascular	32	Orthopedic	44	-15
3B	ICU - Neuro	10			
3B	ICU - Medical	10			
3B	Cardiac Cath	7			
3C	Vacant Non-Licensed	22	Neuro ICU	20	-2
Total Licensed		88	Total	88	0
Total Non-Licensed		22	Total	88	-22

Source: CON Application H-8839-12, pages 18, 21, 24, 27

FirstHealth does not state that the vacant beds on Unit 3C are non-licensed. However, it must be assumed they are; otherwise the proposed application would result in an increase in bed capacity. There will be no change in the licensed bed complement at FirstHealth-Moore as a result of the proposed renovations.

As will be discussed in the context of CON Review Criterion (3), the methodology and assumptions used by FirstHealth to project general acute and ICU days of care at FirstHealth-Moore:

- Do **not** acknowledge an impact on FirstHealth-Moore from the development of FirstHealth-Hoke.
- Do **not** include a shift of volume approved in Project I.D. #N-8497-10.
- Do **not** include a proposed shift of volume to FirstHealth-Hoke in CON Application N-8838-12.

FirstHealth states on page 15 there are 320 acute care beds with 8 acute care beds to be relocated to FHCH in Section XI.6, on page 119 FirstHealth confirms a total of 312 acute care beds at the end of the project. Therefore, FirstHealth should have included the projections associated with moving volume to Hoke County but failed to do so.

Additional deficiencies in the methodology and assumptions used by FirstHealth will be discussed in the context of CON Review Criterion (3).

III. CON Review Criteria

The following comments are submitted based upon the CON Review Criteria found at G.S.131E-183. While some issues impact multiple Criteria, they are discussed under the most relevant review Criteria and referenced in others to which they apply.

G.S. 131E-183 (3)

The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.

A. FirstHealth Failed to Justify the Need to Renovate 88 Acute Care Beds at FirstHealth Moore

1. Projected Total Acute Care Inpatient Days at FirstHealth Moore Are Inflated

To justify the need to spend \$18,442,966 to renovate the proposed four existing hospital units, one of which currently is vacant and does not have licensed acute care beds, FirstHealth must first justify the need for its total acute care bed capacity. If existing beds are underutilized in other areas of the existing facility, it is not reasonable to spend \$18+ million to renovate unneeded acute care beds.

However, FirstHealth did not provide any discussion, assumptions or projections regarding total acute care patient days at FirstHealth Moore Regional in the body of the application. The only place total acute care days are projected are in the financial projections on page 139, and NO assumptions were included. The following table shows the projected acute care inpatient volume utilized in the FirstHealth financial projections.

**FirstHealth Moore Regional
Projected Total Acute Inpatient Days - Application Methodology**

FirstHealth-Moore	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
CON Application H-8839-12, page 139 (Form B Assumptions)	84,610	85,510	86,419	87,301	88,158	88,990	89,797	90,611
FH Growth Rate		1.1%	1.1%	1.0%	1.0%	0.9%	0.9%	0.9%

Source: FirstHealth application page 139

However, FY 2011 acute care patient days utilized above by FirstHealth do not match Thomson patient days in the *Proposed 2013 SMFP* and are overstated. Total FY 2011 patient days at FirstHealth totaled only 82,234 patient days as shown in the following table.

**FirstHealth Moore Regional
REVISED Projected Total Acute Inpatient Days - Revised Methodology**

FirstHealth-Moore	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
CON Application H-8839-12, page 139 (Form B Assumptions) Utilizing FY 2011 Thomson Days in Proposed 2013 SMFP	82,234	83,109	83,992	84,849	85,682	86,491	87,275	88,066
FH Growth Rate		1.1%	1.1%	1.0%	1.0%	0.9%	0.9%	0.9%

Source: FY 2011 from Proposed 2013 SMFP and growth rate from FirstHealth projections on page 139

Projected utilization for FirstHealth Moore Regional included in the *Proposed 2013 SMFP* utilizes a constant growth rate based upon historical utilization as shown in the following table.

FirstHealth Moore Regional
***Proposed 2013 SMFP* Projected Total Acute Inpatient Days - SMFP Methodology**

FirstHealth-Moore	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
SMFP Methodology	82,234	83,229	84,236	85,255	86,287	87,331	88,388	89,457
SMFP Growth Factor	1.21%	1.21%	1.21%	1.21%	1.21%	1.21%	1.21%	1.21%

Source: *Proposed 2013 SMFP*

As shown above both the adjusted FirstHealth methodology and the SMFP methodology reflect 1% to 3% fewer patient days than that utilized in the FirstHealth ProForma financial statements. As a result the projected financial statements overstate inpatient revenue. **Furthermore, none of the above projections reflect the impact of the opening of FirstHealth Hoke on the proposed project.**

2. Projected Inpatient Days of Care at FirstHealth-Moore Do Not Include a Volume Shift to FirstHealth-Hoke

According to CON Application N-8838-12, the additional 28 acute care beds at FirstHealth-Hoke are projected to open in FY 2015. The need methodology in CON Application H-8839-12 projects general acute care and ICU days of care at FirstHealth-Moore through FY 2018, the fourth Project Year of FirstHealth-Hoke, without acknowledgement of the proposed shift in patient days of care to FirstHealth-Hoke.

A central tenet of FirstHealth’s acute care bed methodology in FirstHealth’s CON Application to add 28 additional acute care beds to FirstHealth Hoke, CON Application N-8838-12, submitted concurrently with CON Application H-8839-12, is a shift of medical/surgical cases and days of care from FirstHealth-Moore to FirstHealth-Hoke. FirstHealth assumes that patients who would have traveled to FirstHealth-Moore for care will instead receive care at FirstHealth-Hoke. The percentage of patients will “ramp-up over a three-year period.”¹

The following table reflects the projected patient day impact on FirstHealth Moore Regional reflected in Project I.D. # N-8838-12.

¹ CON Application N-8838-12, page 100.

**FirstHealth Hoke Inpatient Utilization
Patient Days Shifted from FirstHealth Moore Regional**

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Patient Days at FirstHealth Hoke	Minimal	5,873	7,763	,9703	9,703
Incremental Volume at FirstHealth Hoke	Minimal	1,739	1,757	1,774	1,774
FirstHealth Moore Regional Pt Days Shifted to FH Hoke	Minimal	4,134	6,006	7,929	7,929

Source: Incremental volume from Project I.D. # N-8838-12 Pages 101, 103 and 104

Notes:

- 1. FirstHealth Hoke opens in FY 2014, however the initial impact on FirstHealth Moore Regional with only eight acute care beds will be minimal and was not calculated above.*
- 2. FirstHealth Hoke projections are only through FY 2017, therefore the impact in FY 2018 is held constant above.*

As shown in the previous table, FirstHealth has projected that nearly eight thousand patient days will shift from FirstHealth Moore Regional to FirstHealth Hoke by FY 2017. FirstHealth failed to adjust its projections in this application to address this shift in volume. As a result of this volume shift FirstHealth Moore Regional has not justified all of the 312 acute care beds that will remain after FirstHealth Hoke opens in FY 2014 as shown in the following table. The following table shows that the 312 beds at FirstHealth will be operated at less than the state planning target of 75.2% for facilities with average daily census between 200 and 400 patients per day.

FirstHealth Moore Regional Projected Utilization INCLUDING FirstHealth Hoke Impact
Projected Total Acute Inpatient Days in CON Application H-8839-12
REVISED Projected Total Acute Inpatient Days
Proposed 2013 SMFP Projected Total Acute Inpatient Days

Application Methodology	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
CON Application H-8839-12, page 139 (Form B Assumptions)	84,610	85,510	86,419	87,301	88,158	88,990	89,797	90,611
Pt Days Shifted to FH Hoke					4,134	6,006	7,929	7,929
FH Moore Patient Days - FH Moore Methodology Page 139 Less Days Shifted to FH Hoke							81,868	82,682
ADC							224.3	226.5
Bed Capacity							312	312
Projected Utilization							71.9%	72.6%
Revised Methodology	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
CON Application H-8839-12, page 139 (Form B Assumptions) Utilizing Thomson Days in 2013 SMFP	82,234	83,109	83,992	84,849	85,682	86,491	87,275	88,066
Pt Days Shifted to FH Hoke					4,134	6,006	7,929	7,929
FH Moore Patient Days - FH Moore Methodology Page 139 Less Days Shifted to FH Hoke							79,346	80,137
ADC							217.4	219.6
Bed Capacity							312	312
Projected Utilization							69.7%	70.4%
SMFP Methodology	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
SMFP Methodology	82,234	83,229	84,236	85,255	86,287	87,331	88,388	89,457
Pt Days Shifted to FH Hoke					4,134	6,006	7,929	7,929
FH Moore Patient Days - SMFP Methodology Less Days Shifted to FH Hoke							80,459	81,528
ADC							220.4	223.4
Bed Capacity							312	312
Projected Utilization							70.7%	71.6%

As reflected in the previous table, when FirstHealth's projected acute care patient days are adjusted to reflect the impact of shifting nearly eight thousand patient days to FirstHealth Hoke, future utilization at FirstHealth Moore fails to reach the planning target for facilities its size. Projected utilization ranges from 70.4% to 72.6%. This indicates that there are underutilized beds at FirstHealth. Furthermore, projected financials are substantially overstated as a result of FirstHealth's failure to adjust for acute care patient days shifted to FirstHealth Hoke. Projected surplus beds are calculated in the following table.

FirstHealth Moore Regional Projected SURPLUS Acute Care Beds
Projected Total Acute Inpatient Days in CON Application H-8839-12
REVISED Projected Total Acute Inpatient Days
Proposed 2013 SMFP Projected Total Acute Inpatient Days

Application Methodology	FY 2018
CON Application H-8839-12, page 139 (Form B Assumptions)	90,611
Pt Days Shifted to FH Hoke	7,929
FH Moore Patient Days - FH Moore Methodology Page 139 Less Days Shifted to FH Hoke	82,682
ADC	226.5
Beds Needed	301
Bed Capacity	312
Surplus Beds	11
Revised Methodology	FY 2018
CON Application H-8839-12, page 139 (Form B Assumptions) Utilizing Thomson Days in 2013 SMFP	88,066
Pt Days Shifted to FH Hoke	7,929
FH Moore Patient Days - FH Moore Methodology Page 139 Less Days Shifted to FH Hoke	80,137
ADC	219.6
Beds Needed	292
Bed Capacity	312
Surplus Beds	20
SMFP Methodology	FY 2018
SMFP Methodology	89,457
Pt Days Shifted to FH Hoke	7,929
FH Moore Patient Days - SMFP Methodology Less Days Shifted to FH Hoke	81,528
ADC	223.4
Beds Needed	297
Bed Capacity	312
Surplus Beds	15

As reflected in the previous table, when FirstHealth's projected acute care patient days are adjusted to reflect the impact of shifting nearly eight thousand patient days to FirstHealth Hoke, future bed need shows a surplus of beds ranging from 11 to 20 surplus acute care beds. Therefore, the proposed project is based upon unreasonable projections and is non-conforming to Criterion (3) and should be denied.

B. FirstHealth Failed to Acknowledge Patient Shift in Orthopedics, ICU, and Vascular Services to FirstHealth Hoke

1. Orthopedic, Vascular, and ICU Physician Support and Services at FirstHealth Hoke

A table on pages 53-55 of CON Application N-8838-12 identifies physicians who have expressed a willingness to refer or admit patients to FirstHealth-Hoke. That table includes 3 neurosurgeons, 4 orthopedic physicians, and 4 vascular physicians; all from Pinehurst. Another table on pages 68-69 of CON Application N-8838-12 identifies physician “admission commitments” to FirstHealth-Hoke, which include orthopedic and vascular physicians from Pinehurst.

Also important is that FirstHealth projects that 55% of FirstHealth-Hoke’s inpatient days of care on page 51 of Project I.D. #N-8838-12 will be in the following 3 major diagnostic categories (MDC):

1. 25.6%: MDC 8 (Musculoskeletal System and Connective Tissue) = Orthopedics
2. 14.7%: MDC 1 (Nervous System) = Neurology
3. 13.8%: MDC 5 (Circulatory System) = Vascular.²

FirstHealth based the MDC category percentage projections on “current FHCH service area patients treated at FMRH, excluding the identified medical categories in Section IV.1.”³ In Step 7 of the need methodology in CON Application N-8838-12, FirstHealth

“identified the number of patients and days of care provided to the residents of the 4-county service area: Cumberland, Hoke, Robeson, and Scotland counties, by only FirstHealth Moore Regional Hospital that excluded patients and days of care related to admissions for chemical dependency (CD), normal newborns, psychiatric, rehabilitation, OB deliveries, neonatology, trauma, open heart, surgical cardiology, neurosurgery, and thoracic surgery.

By excluded services that are not planned to be provided at FHCH because of the capacity of the hospital, the availability of a medical or surgical specialists, and/or the need for the patient to receive care at a tertiary care facility; FirstHealth is decreasing the **number of inpatient and inpatient days of care that are available to ‘shift’ to FHCH. [Emphasis added.]**⁴”

² CON Application N-8838-12, page 51.

³ Id.

⁴ CON Application N-8838-12, page 96.

2. Orthopedic, Vascular, and ICU Services for Neurology Patients of FirstHealth-Moore – Incomplete Data and Unverified Assumptions

The need methodology in CON Application H-8839-12 projects 9,703 general acute care and ICU days of care at FirstHealth-Moore through FY 2018, the third project year of FirstHealth-Hoke, without an acknowledgement of a shift of days of care to FirstHealth-Hoke.

On page 56 of CON Application H-8839-12, FirstHealth provides historical patient days of care for medical/surgical beds (general acute and ICU) for the last six fiscal years. In FY 2011, patient days of care are reported for 203 medical/surgical acute care beds at FirstHealth-Moore and 28 medical/surgical ICU beds. Based on that data, FirstHealth calculated a five year average growth rate for its 203 general medical/surgical acute care beds (2.43%) and its 28 medical/surgical ICU beds (2.11%), respectively, and divided those rates in half.

FirstHealth assumes that general days of care for its 203 general medical/surgical acute care beds will increase by 1.21%, and medical ICU days of care for its 28 medical/surgical ICU beds will increase by 1.06% through FY 2018.

FirstHealth projects days of care for all of its general medical/surgical acute care beds and all of its medical/surgical ICU beds, respectively, through FY 2018.

FirstHealth then multiplies its general medical/surgical acute care days of care by percentages for each of the nursing units (2C vascular and 3A/3B orthopedics) involved in the project, and its medical/surgical ICU beds by a third percentage for nursing unit 3C Neuro ICU. The percentages are referred to as “% of Affected Nursing Unit,” and are shown in the following table.

**FirstHealth-Moore
% of Affected Nursing Unit**

Medical/Surgical	2012	2013	2014	2015	2016	2017	2018
General Days of Care							
% of Affected Nursing Unit - 2C Vascular	13.0%	13.0%	13.0%	10.0%	10.0%	10.0%	10.0%
% of Affected Nursing Unit – 3A/3B Orthopedics	16.5%	16.5%	16.5%	11.0%	22.0%	22.0%	22.0%
ICU Days of Care							
% of Affected Nursing Unit – 3C Neuro ICU	73.0%	73.0%	73.0%	73.0%	73.0%	73.0%	73.0%

FirstHealth states the following with respect to the “% of Affected Nursing Unit” for 2C and 3A/3B:

[a]lthough the nursing units involved in this project include orthopedics and vascular specialties, the nursing units have never been solely dedicated to those

specialties. Any medical/surgical inpatient that can be served on the nursing unit can receive care in them.⁵

FirstHealth does not discuss why it chose each percentage, on what basis it chose each percentage, why there is a decrease in the percentage for 2C and an increase in the percentage for 3A/3B, and why two specialty units will provide less than a quarter of its days of care to those specialty patients.

There is no information provided at all about why FirstHealth chose 73% as its “% of Affected Nursing Unit” for FirstHealth-Moore’s 3C Neuro ICU. Why not choose 90% for a dedicated Neuro ICU? FirstHealth provided no explanation.

Equally perplexing, FirstHealth provides neither its vascular and orthopedic acute care days nor its ICU days of care for neurology patients. Surely, FirstHealth has internal data from its vascular and orthopedic inpatient services, and patients who received neurology ICU services. Perhaps internal data shows that vascular, orthopedic, and neurology ICU patient days and/or admissions are declining, and FirstHealth could not risk that disclosure?

In the absence of vascular and orthopedic volume in licensed acute care beds, FirstHealth uses growth rates attributable to all licensed general medical/surgical acute care beds (in FY 2011, 203 beds). In the absence of volume for neurology patients who received care in licensed ICU beds, FirstHealth uses a growth rate attributable to all licensed medical/surgical ICU beds (in FY 2011, 28 beds).

Are growth rate assumptions for all general medical/surgical acute care beds and all medical/surgical ICU beds, respectively, accurate for the specific nursing units to be renovated? That cannot be independently verified, and growth rate assumptions may in fact be unreasonable. Again FirstHealth provided no explanations.

The absence of vascular and orthopedic volume in licensed acute care beds also does not permit an independent verification of the “% of Affected Nursing Unit” applied to nursing unit 2C and 3A/3B, and the “% of Affected Nursing Unit” applied to nursing unit 3C. “% of Affected Nursing Unit” may in fact be unreasonable.

FirstHealth proposes to spend in excess of \$18.4 million to renovate specific nursing units at FirstHealth-Moore, a full set of assumptions and a more specific methodology certainly would have been appropriate.

For all of those reasons, CON Application H-8839-12 does not conform to CON Review Criterion (3), and should be denied.

⁵ CON Application H-8839-12, page 39.

C. FirstHealth Incorrectly Identified the Population to Be Served

As discussed above, FirstHealth failed to adjust for the volume shifted to FirstHealth Hoke. FirstHealth also failed to adjust its patient origin to reflect the shift in volume to FirstHealth Hoke. Based upon the assumptions on pages 101 and 103 in Project I.D. # N-8838-12, FirstHealth proposes to shift 1,123 patients from Hoke County from FirstHealth Moore to FirstHealth Hoke. This represents 69.3 percent of total Hoke County patients served by FirstHealth Moore in FY 2011 and 5.6% of total patients served at FirstHealth Moore. This does not take into consideration the volumes shifted from Cumberland, Scotland and Robeson County proposed in Project I.D. # N-8838-12. Therefore, the patient origin proposed by FirstHealth is incorrect and as a result, the population to be served has been incorrectly identified.

For all of those reasons, CON Application H-8839-12 does not conform to CON Review Criterion (3), and should be denied.

G.S. 131E-183 (4)

Where alternative methods of meeting the needs for the proposed project exist, the applicant shall demonstrate that the least costly or most effective alternative has been proposed.

As discussed in the context of CON Review Criterion (3) above, FirstHealth does not adequately demonstrate a need to renovate FirstHealth-Moore. When an applicant does not demonstrate need for its project(s), it has not demonstrated that it proposed the least costly or most effective alternative in CON Application H-8839-12, as required by CON Review Criterion (4).

G.S. 131E-183 (5)

Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

ProForma financials are based upon erroneous projections as stated above and therefore are incorrect.

In addition, per day expense for medical supplies and medications in the Proformas reflects inflation that trends up for each unit. This is the result of the change in type of service on the units for year 1-3 after completion of project. The methodology used causes a volume mix issue with the total expense since the expense being used does not agree with the service change on the unit.

For example: On page 141, the amount shown on 2C is inflated each year but the expense shown in Interim year 4 is for orthopedics and in Year 1 the service type changes to vascular but the expense amount is still for orthopedics. As a result, the projected expenses are incorrect.

As a result, the proposed project is non-conforming to CON Review Criterion (5).

IV. Conclusion

FirstHealth utilized incorrect base data to project future patient days and failed to account for volumes projected to be shifted to FirstHealth Hoke. FirstHealth has a surplus acute care beds, the projections and Proforma financials associated with the project are erroneous and based upon incorrect assumptions, or no assumptions were provided as discussed above. As a result, the application must be denied.