Comments on Competing Application for Additional Operating Rooms in Orange County

submitted by

University of North Carolina Hospitals at Chapel Hill and North Chapel Hill Surgery Center, LLC

In accordance with N.C. GEN. STAT. § 131E-185(a1)(1), University of North Carolina Hospitals at Chapel Hill and North Chapel Hill Surgery Center, LLC (collectively, "UNC Health Care System" or "UNC HCS") submit the following comments related to competing applications to develop additional operating rooms in Orange County. UNC HCS's comments on these competing applications include "*discussion and argument regarding whether, in light of the material contained in the application and other relevant factual material, the application complies with the relevant review criteria, plans and standards*[1]." *See* N.C. GEN. STAT. § 131E-185(a1)(1)(c). To facilitate the Agency's review of these comments, UNC HCS has organized its discussion by issue, noting some of the general CON statutory review criteria and specific regulatory criteria and standards creating the non-conformity on the following application:

- **Duke University Health System, Inc. ("DUHS"), Project ID # J-11632-18**

General Comments

Among the four applications, two UNC HCS applications propose hospital-based operating rooms, one UNC HCS application and the DUHS application proposes operating rooms in a freestanding ASC. While UNC HCS obviously believes, as stated in its application, that a freestanding ASC should be approved in this review, it also believes approval of its hospital-based applications are important to ensure access to the specialty services provided by UNC Hospitals, as well as the geographic access at the Hillsborough Campus in northern Orange County. Further, as detailed in these comments, the DUHS application does not represent the best application for an ASC in Orange County. Specifically, as detailed in the UNC HCS applications, Orange County currently experiences considerable outmigration for ambulatory surgery, due in part to the lack of a freestanding ASC in the county. UNC HCS believes its application can help reduce the outmigration of patients to other counties by establishing an ASC within Orange County. In remarkable contrast, the DUHS application assumes that none of the patients from Orange County that are currently being served at its facilities in Durham and Wake counties will instead be served at its proposed ASC, but that they would continue outmigrating to these other counties. DUHS projects to capture new market share in Orange County, while also continuing to serve a growing number of patients from Orange County in its facilities in Durham and Wake counties. Moreover, DUHS projects to serve more patients from Alamance County than any other county in its proposed ASC.

It is also notable that in its applications in Wake County, DUHS stated that since the *SMFP* methodology for operating rooms is facility-driven, and since DUHS had generated the need, that it was the best applicant to meet that need. In this review, UNC HCS' utilization generated the need for all six operating rooms, yet DUHS' application fails to mention this fact.

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[1] UNC HCS is providing comments consistent this statute; as such, none of the comments should be interpreted as an amendment to its applications as filed November 15, 2018.

Based on these issues and those discussed in the following sections, UNC HCS believes that the most effective way to increase surgical capacity and expand access to patients in Orange County is through the approval of its three concurrent and complementary applications.

COMMENTS ON DUKE UNIVERSITY HEALTH SYSTEM

Issue-Specific Comments

1. DUHS fails to reasonably identify its patient population.

   In Section C.3, the application states that it will serve patients from Orange, Alamance and Chatham counties. The same section refers to the utilization assumptions in Section Q for the methodology, which is the basis for that assumption. However, the methodology in Section Q, while also defining the three-county service area, does not explain why it will serve these specific counties and only these three counties. Moreover, while the application cites DUHS' existing market share of Alamance County patients, its existing share is completely irrelevant for this project, as it repeatedly states that the projected market shares are incremental to DUHS. In fact, one could argue that given its comparatively larger share of Alamance than Orange or Durham, as stated on page 111, it is more reasonable to assume that it will attract fewer patients from Alamance County to the proposed ASC, since it already serves a larger share of these patients in Durham County, not a single one of which it projects to serve instead at the proposed ASC. Please see the discussion below regarding the unreasonableness of DUHS' market share projections.

   It is also unreasonable to believe that the proposed facility, located in Chapel Hill in Orange County, will serve more patients from Alamance County than any other county. Incredibly, as shown on page 17, DUHS projects to serve 1,759 patients from Alamance County in the third project year, while serving only 1,327 from Orange County. Given the fact that none of DUHS' existing share of Alamance County patients is projected to shift to the proposed ASC in Orange County, as stated on page 111, the application provides no credible basis for the assumption that the proposed facility will attract more patients from Alamance County than from Orange County.

   Finally, it is unreasonable that the proposed ASC would serve more patients from Alamance County than from Orange County yet attract no patients from any other counties other than Orange, Alamance and Chatham. Other ASCs in the area, including those in Wake County and the ASC operated by DUHS in Durham County, serve patients from dozens, in fact, scores of other counties. As shown on page 410 of the *2018 SMFP*, Orange County is also contiguous to Durham, Caswell and Person counties, the latter two of which also do not have freestanding ASCs. Thus, the DUHS application fails to demonstrate that it is reasonable to attract patients from Alamance and Chatham counties, but no other counties, particularly those contiguous to Orange County, which was one of the bases provided in the assumptions for the projected inmigration from Alamance and Chatham.

   Based on these issues, the application should be found non-conforming with Criteria 1, 3, 5, 6 and 18a.

2. The application fails to provide reasonable and supported utilization projections.

The methodology used in the application to project utilization includes assumptions for use rates for the service area counties, applied to projected population growth, to calculate projected ambulatory surgical cases. While the use of a use rate methodology is sometimes appropriate, the application makes irrational assumptions which result in a flawed methodology and thereby unreasonable and unsupported utilization projections.

Use Rate Errors

On page 109 of the application, Step 2 of the methodology applies the calculated statewide use rate for ambulatory surgery to the three service area counties. The application asserts this is reasonable, based on several factors. However, these factors do not support the extraordinary and unreasonable growth resulting from the application of this methodology to county-level data. The table below shows actual county-level data from 2017 compared with DUHS' projected 2018 volume by county, as projected in the application on page 110.

County	***2017 Actual Ambulatory Surgical Cases***	***2018 Projected Ambulatory Surgical Cases***	***Projected Growth in Cases 2017-2018***	***Projected Growth Percentage 2017-2018***
Orange	6,158	9,296	3,138	51.0%
Alamance	11,071	10,535	-536	-4.8%
Chatham	3,061	4,935	1,874	61.2%

Source: 2017 cases from DHSR Healthcare Planning and Certificate of Need Section database; 2018 cases from application, page 110

The utilization projections are clearly unbelievable when compared with the most recent and available data from the DHSR database. The application's failure to compare its projected utilization by county to recent actual data results in a flawed approach and unreasonable projections. It is clear that these data were available, as the table on page 24 of the application includes the actual 2017 cases from Orange County; yet, there is no explanation given as to why it is reasonable to expect such a tremendous rate of growth. Moreover, there is no basis for the assumption that the use rate and associated volume will increase so dramatically in the year in which the application is filed, ***more than three years before the project would be developed***.

The tables below show the statewide use rate from 2014 to 2017, as presented in the application, compared with the use rates for the same time period for Orange, Alamance and Chatham counties.

	2014	***2015***	***2016***	***2017***
NC Population	9,945,642	10,046,467	10,155,942	10,272,692
Statewide Ambulatory Surgery Cases	637,641	652,632	657,664	663,767
Statewide Ambulatory Surgery Use Rate	**64.1**	**65.0**	**64.8**	**64.6**

Source: Duke Health Orange ASC Application, Page 109

	2014	2015	2016	2017
Orange County Population	139,613	139,915	140,853	142,365
Orange County Ambulatory Surgery Cases	6,668	6,464	6,274	6,158
Orange County Ambulatory Surgery Use Rate	**47.8**	**46.2**	**44.5**	**43.3**

Source: DHSR Health Planning and Certificate of Need Section 2014-2017 Ambulatory Surgery Data

	2014	2015	2016	2017
Alamance County Population	155,613	157,235	159,054	161,076
Alamance County Ambulatory Surgery Cases	9,818	10,661	10,823	11,071
Alamance County Ambulatory Surgery Use Rate	**63.1**	**67.8**	**68.0**	**68.7**

Source: DHSR Health Planning and Certificate of Need Section 2014-2017 Ambulatory Surgery Data

	2014	2015	2016	2017
Chatham County Population	69,185	71,701	73,286	74,835
Chatham County Ambulatory Surgery Cases	2,850	2,887	2,755	3,061
Chatham County Ambulatory Surgery Use Rate	**41.2**	**40.3**	**37.6**	**40.9**

Source: DHSR Health Planning and Certificate of Need Section 2014-2017 Ambulatory Surgery Data

As shown, the statewide use rate is significantly higher than the use rates in both Orange and Chatham counties. Since the use rate in Alamance County is higher than the statewide rate, even though Alamance County has no freestanding ASC, it is simply unreasonable to suggest that the lack of a freestanding ASC in Orange County is driving its lower use rates, and that the use rate will increase from 43.3 to 64.6 in a single year, as the DUHS application projects (pages 109-110), several years before the proposed project would be developed.

For Orange County in particular, it is likely that the lower use rates are driven, at least in part, by its younger than average population. While the county is home to a considerable number of older residents, the younger population associated with UNC Chapel Hill drives the median age lower than the state, as shown in the following table.

	2017 Median Age
Orange County	35.41
North Carolina	38.61

Source: NC OSBM

Further, the rationale provided in the application simply does not support the incredible projections, as follows:

- The MedPAC report cited in the application never suggests that the impact will be as much as 51 or 61 percent in a single year, as projected by the application;

- While the population age 65 and older may be growing, it is not growing at a rate that would result in the growth in surgical cases projected in the application. In particular, the application's assumption that the use rate in these counties would equal the statewide growth rate is unreasonable when the projected percentage of population 65 and older for each county is compared to the statewide percentage, as shown in the following table.

	Orange	*Alamance*	*Chatham*	*North Carolina*
2018 Population Age 65+	14.1%	19.3%	13.6%	16.1%
2024 Population Age 65+	17.4%	22.0%	16.6%	18.3%

Source: North Carolina data from NC OSBM; County data from application pages 31 and 32.

While all areas are projected to have an aging population, both Orange and Chatham counties will remain below the statewide average; as such, it is unreasonable to assume that they will have the same use rate as the statewide rate, given their younger populations.

- Information provided in Section C of the application, while generally supportive of the increase in ambulatory surgical cases, does not support the projected increases in use rates. There is simply no statistical foundation for the extraordinary growth in surgical utilization projected in the application.
- While the development of an ASC will have a positive qualitative impact on local residents, particularly when coordinated with the existing healthcare system as UNC HCS proposes, this impact does not support the projected increase in utilization projected by the application. This is particularly true for Alamance and Chatham counties, which already have access to ASCs in contiguous counties. The proposed project would simply add another option in another contiguous county, which does not support the growth rates projected in the application.

In Step 3, the application presents the projected utilization as reasonable, since the statewide use rate is held constant and the growth is only based on population growth. However, similar to the issues discussed above, a comparison of 2017 actual utilization for each county with the 2024 projected utilization demonstrates the unreasonableness of the application's approach:

County	*2017 Actual Ambulatory Surgical Cases*	*2024 Projected Ambulatory Surgical Cases*	*Projected Growth in Cases 2017-2018*	*CAGR 2017-2024*
Orange	6,158	9,879	3,721	7.0%
Alamance	11,071	11,421	350	0.4%
Chatham	3,061	5,536	2,475	8.8%

Source: 2017 cases from DHSR Healthcare Planning and Certificate of Need Section database; 2018 cases from application, page 110

When the projected population growth is applied to the actual number of ambulatory surgical cases performed in 2017, the following number of cases are projected:

County	2017 Actual Ambulatory Surgical Cases	2024 Projected Ambulatory Surgical Cases	CAGR 2017-2024
Orange	6,158	6,614	1.0%
Alamance	11,071	12,149	1.4%
Chatham	3,061	3,504	1.3%

Unreasonable Market Share and Specialty Assumptions

The application projects its market share by county in Step 4. These market share projections are problematic for several reasons. First, DUHS assumes that it will have a higher market share for Alamance County than the other service area counties. While it states that this is based on the number of "lives touched" in Alamance County, it is reasonable to assume that this would already be driving a higher market share of Alamance County patients coming to existing DUHS facilities, including those in Durham County. In addition, the application makes it clear that these are incremental market share projections; thus, the historical number of "lives touched" by DUHS in Alamance County is irrelevant, since the patients already receiving surgery at a DUHS facility will not be served at the proposed ASC. The application simply, and unreasonably, assumes that a new Orange County ASC would increase DUHS' market share in Alamance County more than in Orange County, which is without basis. What is more likely is that because Alamance County has a larger population, and therefore has a higher projected surgical case volume, DUHS chose to project a larger share of that population to make it easier to achieve the necessary utilization for the project. That does not mean the assumption is reasonable, however.

The market share assumptions are also not supported by the "number and type of surgeons who will have privileges" at the proposed ASC. While many of the support letters from surgeons indicate an intent to perform cases at the ASC, ***neither the application nor the letters provide the source of these patients***. Specifically, it is important to note that all of the cases projected in the DUHS application are stated to be incremental to the system. In other words, the application ***projects no shift of historical patients or market share from its existing surgeons or facilities to the proposed ASC***. As a result, the number of patients or representative market share served by these surgeons is irrelevant for the projected ASC volume. Rather than expecting patients from Alamance, Orange or Chatham counties who have historically sought care from these physicians to instead go to the proposed ASC for care, DUHS' assumptions indicate that these patients will instead bypass the proposed facility and continue going to Durham or Wake counties for care. This assumption is not only unreasonable, it also indicates that in order for DUHS to achieve its projected utilization, these surgeons must increase their surgical case volumes with a sufficient number of patients from these three counties. It is incredible to believe that all of the supporting surgeons have sufficient capacity to add the significant volume of cases projected in the application at the new ASC, while also continuing to perform cases at facilities in Durham and Wake counties, as noted in many of the letters. It is more likely that DUHS will need to recruit additional surgeons to perform these cases. While the application speaks vaguely to the expectation that DUHS will continue to recruit, it

does not indicate which specialties and how many of which are expected to practice at the proposed facility. This is particularly important since the application is specific as to the types of cases by specialty it projects to perform. The application fails to demonstrate that existing surgeons can reasonably be expected to increase their market share to meet these projections or that a sufficient number of surgeons from the specialties projected for the ASC will be recruited for that location.

In addition, while projecting that neurosurgery will be one of the specialties offered, the application includes no letters from neurosurgeons, nor does it indicate that neurosurgeons will be recruited to provide surgery at the proposed ASC. This is particularly important as DUHS and its surgeons do not currently perform surgery in Orange County; therefore, one or more neurosurgeons will have to establish a new site of practice within the county. Without the support of existing neurosurgeons or a plan to recruit them for the proposed facility, the application's assumption regarding neurosurgery cases is unsupported.

While the application states that it will focus on eye cases, it fails to establish a reasonable basis for this assumption, or that it can attain the projected utilization based on this assumption. The application contains information regarding the number of these cases currently performed at DUHS facilities, including those that reside in Orange County. However, the application specifically states that the projected market share and **case volume at the ASC will be incremental to the DUHS system**. In other words, as stated elsewhere, DUHS projects that none of the patients currently leaving Orange County to come to DUHS for surgery will instead go to the proposed ASC. Therefore, in order to achieve its projected market share and utilization, patients must come to the proposed ASC from another, non-DUHS facility. According to patient origin data for ambulatory surgery, patients from Orange County received surgery in the following counties:

Service Location	*2017 Patients*	*Percent of Total*
Durham	3,100	50.3%
Orange	2,450	39.8%
Wake	357	5.8%
Alamance	144	2.3%
Other	107	1.7%
Total	**6,158**	**100.0%**

Source: DHSR Health Planning and Certificate of Need Section Ambulatory Surgery Data

As shown, the majority of patients traveled to Durham County for care, followed by those that remained in Orange County. The same database shows where within Durham County patients received their care:

Service Location	*2017 Patients*	*Percent of Total*
Duke University Hospital	1,426	46.0%
Duke Regional Hospital	249	8.0%
Davis Ambulatory Surgery Center	1,010	32.6%
NC Specialty Hospital	415	13.4%
Total	**3,100**	**100.0%**

Source: DHSR Health Planning and Certificate of Need Section Ambulatory Surgery Data

Note that the first three service locations are DUHS facilities; thus, only 415 went to non-DUHS facilities in Durham County. Since the application states that the proposed patients represent incremental cases to DUHS, the patients that historically had their care at a DUHS facility are not the source of the projected patient volume for the proposed ASC. Although data are not available for cases by specialty and by county of origin, the 2018 Hospital License Renewal Application (HLRA) for NC Specialty Hospital, Table 9.d on page 12, shows that 344 of its 3,724 ambulatory surgical cases, or nine percent, were eye cases. It is reasonable to assume that approximately nine percent of the Orange County patients, or 37 patients, would also be eye surgery patients.

As shown in the previous table, 2,450 Orange County patients had ambulatory surgery in Orange County. As the only existing surgical provider in the county, those patients received care at UNC Hospitals. As shown in table 9.d on page 12 of its HLRA, the combined total number of eye ambulatory cases provided in Orange County was only 83 cases. Thus, the two largest sources of non-DUHS providers for eye surgery performed approximately 120 ambulatory cases on Orange County patients in 2017. Simply put, there is an insufficient base of non-DUHS patients from which to draw that would support the application's assumption that all of the projected volume for the ASC is new, incremental volume to DUHS.

In summary, the information presented in the application regarding need for the proposed project does not support the utilization projections nor does it demonstrate that it will increase access. Rather than projecting that it would improve access by serving its existing patients closer to home, DUHS projects to instead shift market share from other existing providers, certainly including UNC HCS. It is also apparent from the lack of discussion in Section E of shifting existing patient volume to the proposed facility in order to improve access that DUHS did not even consider this alternative to the proposed project.

Based on these issues, the application should be found non-conforming with Criteria 1, 3, 4, 5, 6, and 18a, as well as the performance standards at 10A NCAC 14C .2103.

COMPARATIVE ANALYSIS

In order to determine the most effective alternative to meet the identified need for six additional operating rooms in Orange County, UNC HCS reviewed and compared the following factors in UNC HCS' and DUHS' applications:

- Conformity with Review Criteria
- Geographic Accessibility
- Physician Support
- Patient Access to New Provider
- Patient Access to Lower Cost Surgical Services
- Patient Access to Multiple Surgical Services
- Projected Charity Care
- Projected Access by Medicare Patients
- Projected Access by Medicaid Patients
- Average Net Revenue
- Average Operating Expense

UNC HCS believes that the factors presented above and discussed in turn below should be used by the Project Analyst in reviewing the competing applications. The factors are appropriate and/or have been used in previous competitive operating room review findings including the 2018 Forsyth County Operating Room Review, which is the most recent review of operating rooms that included both hospital and ASC applicants.

Please note that in the comparative factors below, dedicated C-Section operating rooms are excluded from the analysis as the financial results provided by the applicants do not relate to those rooms.

Conformity with Applicable Statutory and Regulatory Review Criteria

As discussed in the application-specific comments above, DUHS is non-conforming with multiple statutory and regulatory review criteria. In contrast, the UNC HCS applications are conforming with all applicable statutory and regulatory review criteria. Therefore, with regard to statutory and regulatory review criteria, the three UNC HCS applications are the most effective applications.

Geographic Accessibility

While the two UNC HCS projects on the Main Campus and Hillsborough Campus will provide much-needed additional capacity to both locations, only the proposed North Chapel Hill Surgery Center and DUHS project will develop a new location to serve patients. However, as discussed previously with regard to DUHS' proposal, it does not propose to improve access for patients who are currently leaving Orange County to have their surgeries in Durham County. In contrast, UNC HCS projects that its proposed North Chapel Hill Surgery Center will result in more Orange County patients receiving care within their home county, thereby improving geographic access for those patients. Therefore, with regard to geographic accessibility, North Chapel Hill Surgery Center is the most effective application.

Documentation of Physician Support

The UNC HCS applications and the DUHS application contain support letters from area physicians, including surgeons. However, as noted previously, the DUHS application fails to demonstrate that the surgeons will continue to perform surgeries on Orange County patients in facilities in Durham County, while dramatically increasing their market share of Orange and other counties. Further, the UNC HCS applications are the only ones that are conforming with all applicable statutory and regulatory review criteria. Therefore, the UNC HCS applications are the most effective with regard to physician support.

Patient Access to a New Provider

Among the four applications, the North Chapel Hill Surgery Center and DUHS applications propose to develop new, freestanding facilities in Orange County. However, the Duke Health Orange Ambulatory Surgical Center would be wholly owned by DUHS, with no opportunity for a joint venture with other entities. In contrast, the applicant for North Chapel Hill Surgery Center is a limited liability company, proposed as a joint venture between UNC Hospitals and UNC REX Hospital from the outset, and as such, truly represents a new provider in Orange County. Therefore, it represents the most effective application with regard to patient access to a new provider.

Patient Access to Low Cost Outpatient Surgical Services

Both North Chapel Hill Surgery Center and Duke Health Orange Ambulatory Surgical Center propose freestanding facilities with a lower cost structure for outpatient services. However, the DUHS proposal is not conforming with statutory and regulatory review criteria. Therefore, it cannot be an effective application with regard to patient access to low cost outpatient surgical services.

Patient Access to Surgical Specialties

Among the four applications, the two hospital-based applications clearly propose access to the greatest number of surgical specialties. Both ASC applications state that they will provide surgery in six specialties, as shown in the table below.

Proposed Services to be Offered

	UNC Main Campus	*UNC Hillsborough Campus*	*North Chapel Hill Surgery Center*	*DUHS*
Cardiothoracic, excl. open heart	x	x		
Open Heart	x			
General Surgery	x	x	x	x
Neurosurgery (incl. spine)	x	x		?
OB GYN (excl. C-Section)	x	x		

Ophthalmology	x	x		x
Oral Surgery/Dental	x			
Orthopedic (incl. spine)	x	x	x	x
ENT	x		x	x
Plastic Surgery	x		x	x
Podiatry	x	x		
Urology	x		x	
Vascular	x			
Other:	Anesthesia, Dermatology, GI, Nephrology, Pulmonary, Neurology	Anesthesia, Dermatology, GI, Nephrology, Pulmonary, Neurology	x	

Source: 2018 License Renewal Applications of UNC Hospitals, North Chapel Hill Surgery Center application, and Duke Health Orange ASC application.

However, it is not clear that DUHS will actually provide neurosurgery at the proposed facility. As noted previously, the DUHS application includes no letter from a neurosurgeon, and the application provides no qualitative or quantitative support for the inclusion of that specialty, apart from listing it in the application. Thus, it would appear that DUHS' application supports only five surgical specialties and is therefore the least effective application. Moreover, as explained above, the UNC HCS applications are the only ones that are conforming with all applicable statutory and regulatory review criteria. Therefore, the UNC HCS applications are the most effective alternatives with regard to providing Orange County patients with access to multiple surgical specialties.

Access by Underserved Groups

The following tables show each applicant's projected operating room cases to be provided to Charity Care, Medicare, and Medicaid recipients in the third project year following completion of the project, based on the information provided in the applicants' pro forma financial statements. Consistent with previous Agency findings, the percentages below are based on operating room cases only.

Projected Access to Charity Care

The following table shows the projected charity care to be provided in the third operating year for each applicant.

	Charity Care	*Charity Care per OR^*	*Charity Care per Surgical Case/Procedure*	*Charity Care as % of Total Net Revenue*
UNC Main Campus	$49,887,906	$1,279,177	$1,731	18.8%
UNC Hillsborough Campus	$22,263,035	$2,782,879	$3,411	27.2%
North Chapel Hill Surgery Center	$890,618	$445,309	$411	17.7%
Duke Health Orange ASC	$83,815	$41,290	$24	0.7%

Source: Forms F.3, F.4, and F.5 for operating rooms only.
^Excludes dedicated C-Section rooms. Includes existing, approved, and proposed operating rooms including trauma rooms as charity care will be provided to patients utilizing those rooms.

As shown above, North Chapel Hill Surgery Center projects significantly higher charity care amounts, higher charity care per operating room and per surgical case, and higher charity care as a percentage of net revenue in an ASC setting. Thus, North Chapel Hill Surgery Center is the most effective ASC alternative with regard to projected charity care. While both hospital-based applications project higher amounts of charity care than the ASC applications, all three UNC HCS applications project considerably more charity care than the DUHS application and are therefore more effective applications.

Projected Access by Medicare Patients

The following table illustrates the projected percentage of operating room cases to be provided to Medicare recipients in the third operating year for each applicant.

	Projected Total OR Cases	*Projected Medicare OR Cases*	*% of Medicare*
UNC Main Campus	28,815	7,429	25.8%
UNC Hillsborough Campus	6,527	1,942	29.8%
North Chapel Hill Surgery Center	2,166	244	11.3%
Duke Health Orange ASC	3,552	1,474	41.5%

Source: Forms F.3, F.4, and F.5 for operating rooms only.

DUHS projects the highest number of Medicare cases and Medicare cases as a percentage of total operating room cases; however, DUHS also proposes a more limited number of specialties, including ophthalmology cases, which are more likely to be performed on patients 65 and older.

Projected Access by Medicaid Patients

The following table illustrates the projected percentage of operating room cases to be provided to Medicaid recipients in the third operating year for each applicant.

	Projected Total OR Cases	*Projected Medicaid OR Cases*	*% of Medicaid*
UNC Main Campus	28,815	6,631	23.0%
UNC Hillsborough Campus	6,527	648	9.9%
North Chapel Hill Surgery Center	2,166	558	25.8%
Duke Health Orange ASC	3,552	149	4.2%

Source: Forms F.3, F.4, and F.5 for operating rooms only.

As shown in the table above, North Chapel Hill Surgery Center projects the highest percentage of Medicaid patients as a percent of the total operating room cases. Therefore, the North Chapel Hill Surgery Center application is the most effective alternative with regard to projected access by Medicaid patients. All three UNC HCS applications, including the hospital-based applications, project significantly more Medicaid than the DUHS application and are therefore more effective applications.

Projected Average Revenue per Case

The following table shows the projected gross revenue per operating room case in the third year of operation based on the information provided in each applicant's pro forma financial statements. Consistent with previous Agency findings, the per case statistics below are based on operating room cases only.

	Net Revenue for OR Cases	*# of ORs^*	*# of OR Cases*	*Net Revenue per OR*	*Net Revenue per OR Case*
UNC Main Campus	$264,714,319	39	28,815	$6,787,547	$9,187
UNC Hillsborough Campus	$81,994,195	8	6,527	$10,249,274	$12,562
North Chapel Hill Surgery Center	$5,023,265	2	2,166	$2,511,633	$2,319
Duke Health Orange ASC	$11,688,980	2	3,552	$5,758,428	$3,291

Source: Forms F.3, F.4, and F.5 for operating rooms only.
^Excludes dedicated C-Section rooms. Includes existing, approved, and proposed operating rooms including trauma rooms as net revenue attributable to patients utilizing those rooms.

As shown in the table above, North Chapel Hill Surgery Center projects the lowest net revenue per operating room and the lowest net revenue per operating room case. Therefore, North Chapel Hill Surgery Center is the most effective application with regard to net revenue overall as well as compared to the other ASC application.

Projected Average Operating Expense per Case

The following table shows the projected average operating expense per case/procedure in the third year of operation for each of the applicants, based on the information provided in applicants' pro forma financial statements. Consistent with previous Agency findings, the per case expenses below include both operating room cases and procedure room procedures.

	Operating Expense	*# of ORs/Procedure Rooms^*	*# of OR Cases/Procedures*	*Operating Expense per OR/Procedure Room*	*Operating Expense per OR Case/Procedure*
UNC Main Campus	$195,229,317	39	28,815	$5,005,880	$6,775
UNC Hillsborough Campus	$62,876,842	8	6,527	$7,859,605	$9,633
North Chapel Hill Surgery Center	$6,055,336	2	2,166	$3,027,668	$2,796
Duke Health Orange ASC	$12,033,106	2	3,552	$5,927,958	$3,387

Source: Forms F.3, F.4, and F.5 for operating rooms only.
^Excludes dedicated C-Section rooms. Includes procedure rooms and existing, approved, and proposed operating rooms including trauma rooms as operating costs are attributable to patients utilizing those rooms.

As shown in the table above, North Chapel Hill Surgery Center projects the lowest operating expense per operating room and the lowest expense per operating room case. Thus, North Chapel Hill Surgery Center is the most effective application with regard to operating expense both overall and compared to the other ASC application.

SUMMARY

In summary, among the four applications, none applied for all six operating rooms. As such, more than one applicant can be approved. UNC HCS believes that some of the operating rooms should be approved for a hospital setting, where they can provide care to both inpatients and outpatients, as well as emergency patients, and provide access to more specialties and patients of all acuities. It is also important to expand access to lower cost surgical services in an ASC, which is currently unavailable in Orange County. To assess the most effective alternatives for these operating rooms, the following table summarizes the comparative analysis shown above.

Factors	*UNC Hospitals Main Campus*	*UNC Hospitals Hillsborough Campus*	*North Chapel Hill Surgery Center*	*DUHS*
Conformity with Review Criteria	X	X	X	
Expands Geographic Access			X	X
Physician Support	X	X	X	
Access to New Provider			X	
Access to Low Cost Surgical Svcs			X	X
Access to Surgical Specialties	X	X	X	
Access to Charity Care	X	X	X	
Access by Medicare	X	X		X
Access by Medicaid	X	X	X	
Projected Revenue/Case	X	X	X	
Projected Operating Exp/Case	X	X	X	

UNC HCS believes that its three complementary applications are clearly the most effective alternatives for six additional operating rooms needed in Orange County. While the two hospital-

based applications cannot be fully compared with the ASC applications, between the two ASC applications, North Chapel Hill Surgery Center is clearly the more effective application. As such, UNC HCS believes that its three applications, which are the only ones that are also fully conforming to all applicable statutory and regulatory review criteria, should be approved.