ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS
C = Conforming
CA = Conditional Approval
NC = Nonconforming
NA = Not Applicable

DECISION DATE: August 29, 2012

PROJECT ANALYST: F. Gene DePorter
CON CHIEF: Craig Smith

PROJECT I.D. NUMBER: G-8825-12 / The Moses H., Cone Memorial Hospital d/b/a Annie Penn Hospital AND The Moses H. Cone Memorial Hospital Operating Corporation./ Renovate the Intensive Care/Step-down Unit, and General Medical/Surgical Unit 300 /Rockingham County.

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

G.S. 131E-183(a) The Department shall review all applications utilizing the criteria outlined in this subsection and shall determine that an application is either consistent with or not in conflict with these criteria before a certificate of need for the proposed project shall be issued.

(1) The proposed project shall be consistent with applicable policies and need determinations in the State Medical Facilities Plan, the need determination of which constitutes a determinative limitation on the provision of any health service, health service facility, health service facility beds, dialysis stations, operating rooms, or home health offices that may be approved.

C

The Moses H. Cone Hospital and The Moses H. Cone Memorial Hospital Operating Corporation [collectively referred to as Cone Health] d/b/a Annie Penn Hospital [hereinafter referred to as CH-APH] proposes to renovate the Intensive Care Step[-down Unit and General Medical/Surgical Unit 300 at Annie Penn Hospital, 618 South Main Street, Reidsville/Rockingham County, North Carolina. The estimated total capital cost of the project is $7,699,857. The proposed project does not include the construction of a new facility. The applicant does not propose to increase the number of licensed beds in any category, add services, or acquire equipment for which there is a need determination in the 2012 State Medical Facilities Plan (2012 SMFP). There are no need determinations in the 2012 SMFP that are applicable to the proposed project.

The Moses H. Cone Memorial Hospital and the Moses H. Cone Memorial Hospital Operating Corporation d/b/a Annie Penn Hospital, 618 South Main Street, Reidsville, North Carolina shall materially comply with all representations made in the Certificate of need application and supplemental responses. In those instances where representations conflict, the applicants shall materially comply with the last-made representation.

POLICY GEN-3 in the 2012 SMFP is not applicable because this applicant is not applying to develop or offer a new institutional health services for which there is a need determination in the North Carolina State Medical Facilities Plan.

POLICY GEN: 4-ENERGY EFFICIENCY AND SUSTAINABILITY FOR HEALTH SERVICE FACILITIES [due to project capital costs exceeding $5 million dollars ($7,699,857)] is applicable.

POLICY GEN-4: Energy Efficiency and Sustainability for Health Service Facilities in the 2012 SMFP states:

> *"In approving a certificate of need proposing an expenditure greater than $5 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178, the Certificate of Need Section shall impose a condition requiring the applicant to develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest additions of the North Carolina State Building Codes. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4."*

The capital cost associated with this project is $7,699,857; which exceeds the $5 million dollar capital expenditure trigger resulting in the need to develop a written statement in the application describing the projects plan to assure improved energy efficiency and water conservation.

In Section III, (2) page 47, the applicant states the following in reference to energy efficiency and sustainability related to this proposal;

> *"As described earlier in this Application, the proposed project will assure improved energy efficiency through the installation of a more efficient air handling unit and mechanical system. The new air handling unit will be constructed with double wall construction with sprayed foam insulation. Fan motors will be more energy efficient and variable frequency drives will modulate up and down to only provide the amount of air need for conditioning at any given time. The new ductwork will be leak tested and fully insulated with continuous insulation on the outside of the ductwork. New direct digital controls (DDC) will*

provide precise temperature control, as well as sequences that optimize energy performance.

All patient rooms, bathrooms, and support spaces will be renovated with new plumbing fixtures that meet requirements of the current North Carolina Plumbing Code. The new requirements, post Energy Policy Act of 1992, require fixtures to utilize considerably less water than the fixtures currently installed. Therefore, the proposed project will assure improved water conservation."

Therefore, the applicant has adequately addressed Policy GEN-4 for Energy Efficiency and Sustainability for Health Service Facilities.

(2) Repealed Effective July 1, 1987.

(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.

In Section I, (12) (e), pages 10-11 the applicant states that:

"Annie Penn Hospital (APH) in Reidsville was established in 1930 and became part of the Cone Health system in July 2001. Annie Penn Hospital has served the people of Reidsville and surrounding communities in Rockingham County for more than 70 years."

The applicant further states:

"APH offers a broad range of medical and surgical services that are unique for a community of its size. Through the medical staff of more than 50 active physicians APH provides a number of specialty services, including orthopedic surgery, gastroenterology, gynecology, urology, ophthalmology, general surgery, podiatry, nephrology, otolaryngology, and general medicine…Specialty care is also provided through the hospital's Surgery Center, Cancer Center, Sleep Center, a rheumatology clinic, and cardiology programs. In FY 2011, nearly 14,000 inpatients days of care were provided at APH."

The Intensive Care Step-Down unit on the second floor of the hospital and the general medical/surgical Unit 300 on the third floor were constructed in 1981 and opened in 1982 and are now the focus of the inpatient renovations requested in this proposal. As of 2012, only minor cosmetic renovations of paint and paper have occurred. The proposed project will renovate and upgrade patient rooms on the north and west wings of Unit 300 [3rd floor], renovate and upgrade the Intensive Care/Step-down

Unit and upgrade corridor mechanical systems to achieve energy operating efficiencies [2nd flr].

The infrastructure and cosmetics of the 30 year old patient care units under review need renovation to meet today's standards of care. The inclusion of constantly evolving bed side technologies, the active participation of families in bedside patient care, patient privacy and dignity, an improved work environment for all staff and improved energy efficiency and cost savings are the norms for patient care going forward. Patient room infrastructure has to be designed to accommodate inpatient clinical technologies that integrate the patient's home care and clinical environments. The ICU/SD renovations will improve patient care and privacy by creating a private bathroom per bed. Note, that Annie Penn Hospital does not provide newborn services.

Population to be Served

In Section III, Table III-1 and 2, page 28, the applicant provides demographic data from *Thomson Reuters Market Expert* for the historic Rockingham County population from 2000 through 2011 and projected population growth for 2011 through 2016. The patient origin data by county of residence for FY 2011 shows 85.4% of Annie Penn Hospital wide patients originate from Rockingham County with Caswell County contributing an additional 6.5%. Patient origin for inpatient only shows 84.0% of inpatients are from Rockingham County with an additional 8.2% from Caswell County [Exhibit 13 shows facility wide patient origin and Exhibit 14 illustrates hospital inpatient patient origin].

The key demographic points illustrated in this data are the following:

- 2000-2011 Average annual population growth was 0.1% per year,
- 2000-2011 Population age group 0-44 decreased -1.6% per year,
- 2000-2011 Population age group 45-65 increased 2.8% per year,
- 2011-2016 Average annual population growth is projected to be flat,
- 2011-2016 Population age group 0-44 projected to decrease by -1.2% per year while the,
- 2011-2016 Population age group 45-65 is projected to increase by 2.1% per year.

In Section III.4, pages 45-50, the applicant refers to Exhibit 13 for FY 2011 facility wide patient origin by county of residence and Exhibit 14 for FY 2011 patient origin by county of residence for inpatients at Annie Penn Hospital. The following table illustrates current facility wide service area population by county of origin.

Table 1
Annie Penn Hospital
Acute Care Patient Origin by Percent of total for Highest Percent to Lowest Percent *

County	Admissions and Percent Patient Origin Current & Projected				
	FY 2011	FY 2015		FY 2016	
	% Origin	Admissions	% Origin	Admission	% Origin
Rockingham, NC	83.99%	2,912	83.99%	2,934	83.99%
Caswell, NC	8.20%	284	8.20%	287	8.20%
Guilford, NC	3.44%	119	3.44%	120	3.44%
Danville City, VA	1.75%	61	1.75%	61	1.75%
Alamance, NC	0.60%	21	0.60%	21	0.60%
Henry, VA	0.56%	19	0.56%	20	0.56%
Pittsylvania, VA	0.40%	14	0.40%	14	0.40%
Stokes, NC	0.30%	10	0.30%	10	0.30%
Forsyth, NC	0.20%	7	0.20%	7	0.20%
New Hanover, NC	0.13%	5	0.13%	5	0.13%
Cumberland, NC	0.10%	3	0.10%	3	0.10%
All Other**	0.003%	10	0.003%	10	0.003%
Grand Total	**100.00%**	3,467	**100.00%**	3,493	**100.00%**

* Source: Cone Health
** All Others include: Orange; Randolph; Volusia, FL; Bronx, NY; Lawrence, Pa; Abbeville, SC and Lehigh, Pa.

Patient origin, as illustrated in Table 1, shows that Rockingham County is the primary service area, contributing approximately 84.0% of all inpatients for FY 2011, FY 2015 and FY 2016. The secondary service area is made up of Caswell and Guilford Counties which contributed 8.2% and 3.4% inpatients, respectively in FY 2011 and are projected to maintain the same patient origin percentage through FY 2016. All other counties from inside and outside of North Carolina are projected to account for approximately 4.37% of inpatient admissions through FY 2016.

In summary, overall population growth in Rockingham County is flat while internal population growth, among age groups is shifting to the 65+ population segment with a projected aging-in-place growth rate of 2.4% annually. Between 2000 and 2011 the 45-64 age group grew 19.1%. Between 2011 and 2016 growth in the 45-64 age group is projected to be a negative -1.3%. The service area demographic changes will see a growing number of patients who are chronically ill with co-morbidities. The site of care will continue to grow on an inpatient and outpatient basis.

In Section III, 1 (b), pages 29-30 the applicant states the following;

> *"The implications of service area population demographics are particularly significant for inpatient hospital care as less acutely ill patients are increasingly treated in outpatient settings, leaving more acutely ill patients in the inpatient setting. …Rockingham County acute care use rates for those aged 65 and over are several times higher than those of younger age groups.*

Additionally, much of the acute care utilization in the 0-17 and 18-44 age groups is for neonate and obstetric services. In FY 2011, 36.1% of Rockingham County acute care discharges for patients 0-44 were for obstetric or neonatal services. Therefore, APH, more than most hospitals, is heavily utilized by older age groups….In FY 2011, more than half of APH patients were aged 65 or older and 85% of patients were age 45 or older."

Need for the Proposed Renovations

In Section III.1 (a), pages 26-30, the applicant discusses the need for the proposed renovations. The services located on the involved inpatient floors prior to renovation will be the same as post renovation [Intensive Care Unit and the Intensive Care Step-down Unit, and Unit 300-the general medical/surgical units]. According to the applicant, the following factors form the basis of need for this project:

"*Annie Penn Hospital does not provide obstetric or neonatal services. Therefore, APH, more than most hospitals, is heavily utilized by older age groups. …in FY 2011, more than half of APH patients were age 65 or older and 85% of patients were age 45 or older;"*

- Age cohort shift within the total projected service area population resulting in a higher number of inpatient days for the elderly presenting with a greater frequency of chronic conditions,
- Outdated infrastructure that does not meet current code. Mechanical systems and ductwork, including the existing air handling unit are at the end of their useful life and do not meet energy efficiency standards. In Section III, 6, pages 36-37, the applicants state the following:

  "The existing mechanical and ductwork system is outdated and deficient, which causes significant inefficiencies in the system and the potential for unfavorable air quality. The existing ductwork contains a combination of lined ductwork and duct board, which contain fibers that therefore have major effects on air quality and infection rates."

- The 2nd. and 3rd floors of the West wing will hold the new renovated ICU
- Cosmetic changes and improvement of flow patterns for staff, patients and families will be temporarily located on the 3rd floor north wing. The 3rd floor-West Wing will have 5,697 S.F of renovated space for general adult and some pediatric M/S overflow.
- Improved aesthetics with new paint, carpet and finishes to current design standards for inpatient spaces and improved staff work areas;
- Improved energy efficiency with new windows, lighting, HVAC, gas and electrical outlets;
- Improved patient care with new inpatient room dimensions, monitoring equipment, furnishings, accessible showers, improved

ingress/egress to patient bathrooms,

- nurse station relocation and renovation for better patient observation and
- facility improvements to include the addition of family and staff conference rooms and waiting areas, additional storage, and improved corridors.

The renovation work will be staged in the following phases:

Phase A- Temporary ICU:

The ICU/SD unit will relocate to a temporary 6 bed space on Unit 300 (third floor)

Phase B- Intensive Care/Step-Down Unit (2nd. Floor) and Unit 300 West Wing (3rd. Floor):

Phase B –Patient room infrastructure must be designed to accommodate technology as diverse as portable clinical devices, bar coding equipment used to check patient medication, built-in patient lifts and handling equipment. The ICU/SD patient rooms will be squared off and all ICU/SD rooms will be up-fitted with new headwall systems. The new headwalls will improve workflow efficiency and ergonomics for nursing staff.

In Section II, 1 (a), page 14, the applicant references the inclusion of new headwall systems in the ICU/Step-down unit, noting;

> *"The headwall units will be located at the head of each patient bed to provide easy access to essential patient clinical needs, such as medical gases, power, data and communications for operating medical devices and data and information systems at the bedside. …The new headwalls will improve workflow efficiency and ergonomics for nursing staff by organizing utilities and devices into an easy to reach zone that minimizes bending and reaching."*

Each ICU/SD patient room will be renovated to have sliding glass breakaway doors which allow for a more direct line of vision between staff at the nurses station and patients. The door can also be moved to allow for larger pieces of equipment to enter rooms.

The main nurse's station will be renovated and a second station created adjacent to four of the ICU/SD existing rooms. The medication room, clean and soiled linens and physician dictation station will be renovated. An existing conference room will be converted to a clean linen room.

The proposed ICU renovations will also add patient lifts into each room. Lifts add to the quality of care for patients. They help to control pressure ulcers, skin irritations and reduce pneumonia and blood clotting. The lifts are also proven to reduce nursing work injuries.

The ICU waiting room will be renovated to provide a more comfortable and comforting space for family and friends and a bathroom will be added. Patient rooms and support space in the Unit 300-West Wing located above the ICU/SD unit will be renovated.

Phase C- Corridor Mechanical Upgrades

The 30 year old air handling unit will be replaced and the mechanical and ductwork system, that currently serves both the ICU/SD unit and Unit 300, will be upgraded to a single duct system, which reduces fan horsepower. The electrical and HVAC system upgrades will improve the overall energy efficiency. All the controls of the HVAC system will be replaced with new direct digital controls (DDC), which are more energy efficient.

Phase D Unit 300 North Wing (3rd. Floor)

The final phase will dismantle the temporary ICU and renovate the fourteen (14) rooms on the north wing of Unit 300. No new patient rooms will be created nor new beds added as the result of completing this project.

The applicant adequately identified the population to be served by the proposed project, demonstrated 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. The Payor mix of inpatients at APH when measuring for percent of current patient days representing low income [76%], current days as a percent of total utilization representing low income [88%] and projected [FY 2016] low income inpatients utilizing patient days as a percent of total utilization [76%] shows a consistently high rate of utilization by underserved groups.
Therefore, the application is conforming to this criterion.

(3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA

(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.

CA

In Section III.3, page 48, the applicant describes the alternatives that it considered prior to submission of the application [Status Quo, Renovate only one nursing unit, and the proposed project] and the basis for selection of the proposed project. Further, the application is conforming to all other applicable statutory review criteria. See Criteria (3), (5), (6), (7), (8), (13), (14), (18a) and (20). Therefore, the applicant adequately demonstrated that the proposal is its least costly or most effective alternative and the application is conforming to this criterion and approved subject to the following conditions;

1. **Cone Health d/b/a Annie Penn Hospital shall materially comply with all representations made in its certificate of need application and supplemental responses. In those incidences were representations conflict, Cone Health d/b/a Annie Penn Hospital shall materially comply with the last made representation.**

2. **Cone Health d/b/a Annie Penn Hospital shall not acquire, as part of this project, any equipment that is not included in the project's proposed capital expenditure in Section VIII of the application and which would otherwise require a certificate of need.**

3. **Cone Health d/b/a Annie Penn Hospital shall develop and implement an Emergency Efficiency and Sustainability Plan that conforms to or exceeds energy efficiency and water conservation standards in the latest edition of the North Carolina Building Code. The plan must be consistent with the applicant's representation written in the statement as described in paragraph one of Policy GEN-4.**

4. **Prior to issuance of the certificate of need, Cone Health d/b/a Annie Penn Hospital shall acknowledge acceptance of and agree to comply with all conditions stated herein in writing to the Certificate of Need Section.**

(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.

C

In Section VIII.1, page 89-91; the applicant states that the total capital cost of the project will be $7,699,857 which includes the following:

- $4,760,892 for Construction Contact;
- $1,121,166 for fixed/movable equipment/furniture and IT;
- $ 793,669 for consultant fees;
- $1,024,130 for miscellaneous.

$ 7,699,857 Total Project Capital Cost

The CON analyst requested that the applicant review the Project Capital Cost. The applicant identified and corrected a dollar value transcription error [Section C. Line (13) Fixed and Moveable Equipment/Furniture of the Project Capital Cost Schedule, page 91]. The adjustment did not change the total capital cost [Section D. Line (22), page 91- $7,699,857].

In Section VIII.2 (a), page 89, the applicant indicates, "*there is no medical equipment valued at more than $10,000 per unit included in the proposed project.*" However, according to the equipment schedule in Exhibit 21, the first line item calls for 12 Hill-Rom Headwalls for the second floor ICU Step-down unit at a per unit cost of $20,000 for a total of $240,000. The applicant was contact and asked to provide clarification. The applicant submitted a response by e-mail on July 25, 2012 stating that the Hill-Rom headwall units are considered "attached fixtures" not medical equipment.

In Section IX, page 96, the applicant states; "*the project proposes to renovate existing operational inpatient nursing units. These services will continue to be provided during the construction period and therefore, there are no start-up or initial operating expenses.*"

Significant planning work for the project was undertaken by Annie Penn Hospital management, architectural and engineering staff of McCulloch England Associates Architects and staff with the Sterling Building Group General Contractor. Construction and renovation costs were projected by McCulloch England and the Sterling Group based on their experience. Exhibit 20 contains a Certified Cost Estimate, proved by W. Ben Osborne, an architect with McCulloch England.

In Section VIII.3, page 92, the applicant states that it will fund 100% of the capital cost from the accumulated reserves of Cone Health. Exhibit 22 contains a letter from Mr. Kenneth K. Boggs, Chief Financial Officer of Cone Health dated May 15, 2012 which states:

> *"This letter confirms that Cone Health plans to use its unrestricted net assets to fund the proposed project to renovate two (2) inpatient nursing units at Annie Penn Hospital. Total capital costs are budgeted at $7,699,857. Cone Health's audited financial statements for September 30, 2011 are indicative of our current financial position and demonstrate our more than adequate unrestricted net assets*

[see Consolidated Balance Sheets Exhibit 23, page 2] available to fund this commitment."

Exhibit 23 contains the audited consolidated financial statements for Cone Health. As of September 30, 2011, Cone Health had $978,938,000 in total unrestricted current assets, including $78,299,000 in cash and cash equivalents. The applicant adequately demonstrated the availability of funds for the capital needs of the proposed project.

In the projected revenue and expense statement [following the Proforma Tab], the applicant projects that revenues will exceed operating costs in each of the first three years of operation. In the assumptions following Form B [Forecasted Consolidated Income Statement] the applicant states the following;

- *"Pricing includes a gross increase of 6.0% annually from FY 2013 to FY 2017.*
- *Average salary expense is forecasted to increase 3% per year for the time period FY 2013-FY 2017.*
- *The Health Systems level of charity care of net patient charges increased to 13.50% in FY 2012 and is projected to be 13.50% for FY 2013-FY 2017.*
- *Gross charges are projected to increase at 5.0% annually due to inflation.*
- *Average salary expenses are projected to increase 3% per year for FY 2013 through FY 2017.*
- *Management forecasts fringe benefits to continue at approximately 35.88% throughout the forecast period.*
- *Supplies are forecasted to increase 2% annually."*

The assumptions used by the applicant in preparation of the Proformas are reasonable, including projected utilization, costs and charges. The applicant demonstrated that the immediate and long-term financial feasibility of the proposal is based upon reasonable projections of the costs of and charges for providing the changes proposed. Therefore, the application is conforming to this criterion.

(6) The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

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Rockingham County has two (2) hospitals that serve the two (2) population centers in the county, Annie Penn Hospital, in Reidsville, and Morehead Memorial Hospital in Eden. Neither facility by itself has sufficient resources to be the sole provider in the county. The following table provides information for both of these facilities.

Table 2
2012 Rockingham County Acute Care Hospital Data for Annie Penn Hospital & Morehead Memorial Hospital Inpatient-Outpatient Nursing Services

Services	Annie Penn Hospital	Morehead Memorial Hospital	Inpatient Patient Origin by County	Inpatient Admissions As of 9/30/2011	Inpatient Admissions As of 9/30/2011
	APH-Reidsville	MMH-Eden		APH-Reidsville	MMH-Eden
Beds	110	108	Rockingham	2,572	4,406
Staffed Beds	78	95	Virginia	87	1,793
Inpatient Days	13,704	20,078	Caswell	247	105
ADC	38.0	60.3	Guilford	99	51
Obstetric Days	0	1,237	Stokes	9	56
Births	0	561	**Payer Source**	**APH**	**MMH**
Nurs. Fac. Beds	0	121	Self-Pay/ Indigent	5.2%	4.6%
Nurs. Fac. Days	0	42,159	Medicare/ Medicaid	70.2%	69.0%
ED Exam Rooms	23	16	Medicaid	11.5%	12.2%
ED Visits	30,558	33,584	Comm. Ins.	0.7%	0.0%
Surgery	**APH**	**MMH**	Managed Care	12.0%	13.4%
IP ORs	4 Shared	5 Shared 1 C-Section	Total	100%	100%
IP Surgical Cases	457	891	**Medical Equip.**	**APH**	**MMH**
Amb. Su. Cases	1,658	2,020	MRI Fixed	2,608	2,619
Gen Surgery	631	1,086	CT Scans	8,202	10,222
GI Endoscopy	2,020	1,704	Ultrasound	4,885	6,469
OB/GYN	166	277	Mammography	4,375	4,673
Orthopedics	292	1,014	Bone Density	541	372
Otolaryngology	43	279	Fixed X-Ray	24,419	24,358
Urology	155	443	Fluoroscopy	627	446
Total Surgery	2,115	4,423	LinAcc	0	6,662

Source: 2012 Hospital License Renewal Applications [data year-10/1/10 through 9/30/11].

The need for renovation is age-driven. The two inpatient units [Intensive Care Step-Down Unit and General Med/Surg Units 300] were built in 1981 and opened in 1982. Now, thirty years later and significant changes in technology, aspects of care delivery, as well as changes in nursing standards of care call for patient units and rooms to be reconfigured to improve workflow, quality and patient and staff safety.

The applicant adequately demonstrated the need for the proposed project. Therefore, the applicants' proposal will not result in the unnecessary duplication of existing hospital or health service capabilities. Consequently, the application is conforming to this criterion.

(7) The applicant shall show evidence of the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided.

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The applicant states the following in Section VII.3, page 83;

> *"There are no new positions to be established for the proposed project. Registered Nurse (RN) FTEs will increase by 1.8 and Licensed Practical Nurses (LPN) FTEs will increase by 1.8, based on expected nursing care needs. However, total staffing is expected to remain flat due to increased efficiencies to be gained from the evidence- based design principles incorporated into the proposed project."*

Cone Health has an active medical staff of more than 1,000 physicians. Of those, more than 50 practice primarily at Annie Penn Hospital. Section VII, 8, (b), page 88, Table VII-2 provides of listing of the number of Cone Health Medical Staff by specialty plus number of Board Certified Medical Staff. The applicant identifies the current Chief of Staff/Medical Director as Dr. Edward L. Hawkins, MD, Pulmonary Medicine and Dr. Vanessa P. Haygood, MD, OB/GYN physician as President, Cone Health Medical Staff. The numbers of physicians and dentists on the active staff by specialty is 1,013.

The applicant adequately demonstrated the availability of resources, including health manpower and management personnel for the proposed services. Therefore, the application is conforming to this criterion.

(8) The applicant shall demonstrate that the provider of the proposed services will make available, or otherwise make arrangements for, the provision of the necessary ancillary and support services. The applicant shall also demonstrate that the proposed service will be coordinated with the existing health care system.

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In Section II. 2,(a), page 21; the applicant identifies the ancillary and support services required for the proposed project and states that these services are available on campus and will continue to support the patient needs for the units being renovated. Annie Penn maintains all required ancillary and support services needed by each component of this project. The applicant indicates that no incremental expansion of support services will be necessary because of the scope of this project. The ancillary and support services are listed in the following table.

Table 3
Cone Health d/b/a Annie Penn Hospital
Existing Ancillary and Support Services

Admitting/Registration	Medical Records
Medical Supplies	Central Sterile Supplies
Administration	Environmental Services
Radiology	Social Work
Laboratory	Pastoral Care
Pharmacy	Respiratory, Occupational Therapies
Biomedical Engineering	Speech Therapy
Laundry	Physician Services
Dietary	Security

Reference Exhibit 5 for a letter from Mickey Foster, President of Annie Penn Hospital for documentation of the availability of ancillary and support services. As part of the Cone Health Network, Annie Penn Hospital follows Cone Health policies and procedures. Exhibit 6 contains the policies and procedures regarding transfer and transport of patients from Cone Health to another acute care facility, administration of blood and blood products and the emergency "O" negative/massive transfusion policy.

In Section V.2 (a), page 53, the applicant states,

> "*As part of Cone Health, Annie Penn Hospital typically transfers patients within the Cone Health network of facilities. Due to Cone Health's provision of comprehensive health care services, it is rare for patients to be transferred from Cone Health. In the rare event that patient transfers are made, however, they generally occur between Cone Health and academic medical centers, including Duke University Medical Center, The University of North Carolina Memorial Hospital at Chapel Hill and Wake Forest Baptist Health. Cone Health maintains more formal written transfer agreements with most area nursing homes.*"

(9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

(10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates:

(a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and

NA

(b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers:

(i) would be available under a contract of at least 5 years duration;
(ii) would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
(iii) would cost no more than if the services were provided by the HMO; and
(iv) would be available in a manner which is administratively feasible
(v) to the HMO.

NA

(11) Repealed effective July 1, 1987.

(12) Applications involving construction shall demonstrate that the cost, design, and means of construction proposed represent the most reasonable alternative, and that the construction project will not unduly increase the costs of providing health services by the person proposing the construction project or the costs and charges to the public of providing health services by other persons, and that applicable energy saving features have been incorporated into the construction plans.

NA

This proposal is not for new construction. The application is for renovation of existing space.

(13) The applicant shall demonstrate the contribution of the proposed service in meeting the health-related needs of the elderly and of members of medically underserved groups, such as medically indigent or low income persons, Medicaid and Medicare recipients, racial and ethnic minorities, women, and handicapped persons, which have traditionally experienced difficulties in obtaining equal access to the proposed services, particularly those needs identified in the State Health Plan as deserving of priority. For the purpose of determining the extent to which the proposed service will be accessible, the applicant shall show:

(a) The extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved;

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In Section VI. 2, 4 (a), (b) and (c), pages 69-72, CH/APH notes the following;

> "*Cone Health is a private not for profit organization established to serve the community by providing high quality, affordable and comprehensive health care services to all patients, regardless of their economic status. As part of Cone Health, Annie Penn Hospital abides by and adheres to all Cone Health standard policies and procedures related to accessibility.*
>
> *Cone Health does not discriminate against low-income persons, racial or ethnic minorities, women, handicapped persons, the elderly, or other underserved persons, including the medically indigent, the uninsured and underinsured. In general, the health services of Cone Health are available to any patient in need without restriction of any kind. Access to hospital services for disadvantaged groups is provided in an organized setting through Cone Health's hospital-based outpatient clinics. Cone Health's well established community education and screening program are available to the general public and ensure adequate access to Cone Health services for medically underserved persons. The proposed project will not alter the current level of accessibility to patients of Cone Health."* [Reference Exhibit 17 for-Cone Health's *"Non-Discrimination in Providing Services Policy"* and Exhibit 18 for "*Cone Health's Report to the Community*."]

The Division of Medical Assistance (DMA) maintains a website which offers information regarding the number of persons eligible for Medicaid assistance and estimates of the percentage of uninsured for each county in North Carolina. The following table illustrates those percentages as of June 2010 and CY 2008-2009, respectively. The data in the table was obtained on July 24, 2012. More current data, particularly with regard to the estimated uninsured percentages, was not available.

Table 4
Medicaid Eligible's
For Rockingham County and North Carolina

Counties & Statewide Comparison	Total # of Medicaid Eligible as % of Total Population	Total # of Medicaid Eligible Age 21 and older as % of Total Population	% Uninsured CY & (Estimate by Cecil G. Sheps Center)
Rockingham County	17.00%	9.30%	19.00%
Statewide	17.00%	6.93%	18.92%

The majority of Medicaid eligible is children under the age of 21. This age group does not utilize the same health services at the same rate as older segments of the population, particularly the services offered by Cone Health/Annie Penn Hospital.

Moreover, the number of persons eligible for Medicaid assistance may be greater than the number of Medicaid eligible who actually utilizes health services. The DMA website includes information regarding dental services which illustrates this point. For dental services only, DMA provides a comparison of the number of persons eligible for dental services with the number actually receiving services. The statewide percentage of persons eligible to receive dental services who actually received dental services was 31.30% for those age 20 and younger and 25.23% for those age 21 and older. Similar information is not provided on the website for other types of services covered by Medicaid. However, it is reasonable to assume that the percentage of those actually receiving other types of health services covered by Medicaid is less than the percentage that is eligible for those services.

The Office of State Budget & Management (OSBM) maintains a website which provides historical and projected population data for each county in North Carolina. In addition, data is available by age, race or gender. However, a direct comparison to the applicants' current payer mix would be of little value. The population data by age, race or gender does not include information on the number of elderly, minorities or women utilizing health services. Furthermore, OSBM's website does not include information on the number of handicapped persons.

In Section VI. 12, page 78, the applicant provides the current patient days and procedures payer mix in Table 5 [10/1/2010 through 9/30/2011]. FY 2011 illustrates that approximately 65.0% have soon or all of their medical expenses covered by some form of government payment.

Table 5
Annie Penn Hospital [Entire Facility]
Last Full Fiscal Year [10/1/10-9/30/11]
Current Patient Days as Percent of Total Utilization

Payor Source	Percent of Total
Self Pay/ Indigent/Charity	10.8%
Medicare/Medicare Managed Care	48.4%
Medicaid	14.9%
Commercial Insurance	1.0%
Managed Care	23.5%
Other: [Champus, Workers Comp]	1.4%
Total	**100.0%**

In Section VI., 13, page 78, the applicant provides the current payer mix in Table 6 [10/1/2010 through 9/30/2011]. FY 2011 demonstrates that approximately 83.0% of covered patient days have some all of their medical expenses covered by some form of government payment.

Table 6
Annie Penn Hospital
Service Component-Inpatient Nursing Units
Last Full Fiscal Year [10/1/10-9/30/11]
Current Patient Days/As Percent of Total Utilization

Payor Source	Percent of Total
Self Pay/ Indigent/Charity	4.6%
Medicare/Medicare Managed Care	70.4%
Medicaid	12.3%
Commercial Insurance	0.3%
Managed Care	11.8%
Other [Champus, Workers Comp]	0.5%
Total	**100.0%**

In Section VI, 14 (a) and (b), page 79, Table 7, the applicant states the following:

> *"Actual FY 2011 year to date payor mix levels are used as the basis for projecting future percentages of patient volumes and revenues by payer under the assumption that these current ratios will remain essentially unchanged."*

In Section VI, 8, (a) through (e), pages73-75; the applicant states the Following;

CH/APH defines Charity Care as the following:

> "*Charity Care" is provided to patients who meet financial criteria based on the Federal Poverty Guidelines. Patients who qualify for this designation do not have any third party coverage or have a balance remaining after application of all third party payments."*

Cone Health's FY 2011 charity care amount, stated at cost, is

$59,751,371 **Charity Care**
6.3% **of Net Revenue**

CH/APH defines Bad Debt as the following;

"*Bad Debt and uncollectable accounts are interpreted in the same manner. The designation is made when an individual has the resources to pay, but does not,*

and there is no response to collection efforts (i.e., no contact, no payment activity and/or an unacceptable payment amount is made).”

Bad Debt is not included in the above amount. Cone Health’s FY 2011 Bad Debt, stated Debt, stated at cost, is the following:

$32,202,150	Bad Debt
3.4%	Percent of Net Revenue

(b) Its past performance in meeting its obligation, if any, under any applicable regulations requiring provision of uncompensated care, community service, or access by minorities and handicapped persons to programs receiving federal assistance, including the existence of any civil rights access complaints against the applicant;

C

The applicant states in Section VI.10 (a) and (b), page 77, that there has been one civil rights access complaint filed against Moses Cone in the last five years. In November 2007, an employee filed a charge with EEOC alleging that Women’s Hospital did not have enough handicapped parking spaces (EEOC Charge No.435-2008-00030) the charge was dismissed in February of 2008. There have been no civil rights equal access complaints filed against Cone Health since that time.

In Section VI, (3), page 70, the applicant addresses the provisions that are made for handicapped persons, as follows:

“Cone Health adheres to the Americans with Disabilities Act of 1990. All Cone Health facilities are and will continue to be physically designed for use by handicapped persons, in accordance with the North Carolina Accessibility Code published and enforced by the North Carolina Department of Insurance. The North Carolina Accessibility Code applies to the construction, alternation, repair, replacement equipment, appliances, fixtures and fittings in all buildings and facilities.”

Therefore, the application is conforming to this criterion.

(c) That the elderly and the medically underserved groups identified in this subdivision will be served by the applicant's proposed services and the extent to which each of these groups is expected to utilize the proposed services; and

C

In Section VI, 15 (a) and (b), pages 79-80, the applicant provides projected patient days and procedures as a percent of total utilization. Table 7, for FY 2016

[10/1/2015 through 9/30/2016] demonstrates that approximately 86.0% have some all of their medical expenses covered by some form of government insurance payment. The applicant states the following assumption in support of Table 6 and 7.

> *"Actual FY 2012, year to date, payer mix levels are used as the basis for projecting future percentages of patient volumes and revenues by payer under the assumption that these current ratios will remain unchanged."*

Table 7
Annie Penn Hospital [Entire Facility]
Second Full Fiscal Year FY 2016 [10/1/15-9/30/2016]
Projected Patient Days & Procedures as Percent of Total Utilization

Payor Source	Percent of Total
Self Pay/ Indigent/Charity	12.1%
Medicare/Medicare Managed Care	50.1%
Medicaid	13.4%
Commercial Insurance	1.1%
Managed Care	22.4%
Other [Champus, Workers Comp]	0.9%
Total	**100.0%**

In Section VI, 15 (a) and (b), page 80, the applicant provides projected patient days and procedures as a percent of total utilization. Table 7 for FY 2016 [10/1/2015 through 9/30/2016] illustrates that approximately 94.0% of projected patient days represent expenses covered by some form of government insurance payment.

Cone Health does not discriminate against low-income persons, racial or ethnic minorities, women handicapped persons, including the medically indigent, the uninsured and underinsured. The health services provided through Cone Health and Annie Penn Hospital are available to any patient in need without restriction of any kind. The projected payer mixes are consistent with the current mix for the entire hospital.

Table 8
Annie Penn Hospital [Entire Facility]
Service Component-Inpatient Nursing Units
Second Full Fiscal Year FY 2016 [10/1/15-9/30/2016]
Projected Patient Days & Procedures as Percent of Total Utilization

Payor Source	Percent of Total
Self Pay/ Indigent/Charity	6.00%
Medicare/Medicare Managed Care	74.30%
Medicaid	8.00%
Commercial Insurance	0.00%
Managed Care	11.00%
Other [Champus, Workers Comp]	0.70%
Total	**100.00%**

The projected estimate of Charity Care, stated at cost, for FY 2015 and 2016 for Cone Health/Annie Penn Hospital is the following:

Cone Health		
Yr.1. FY 2015	$72,322,040	Charity Care
	6.3%	of Net Revenue
Yr.2 FY 2016	$76,791,542	Charity Care
	6.3%	of Net Revenue

Annie Penn Hospital Inpatient Nursing Units		
Yr 1. FY 2015	$ 336,272	Charity Care
	6.3%	of Net Revenue
Yr. 2 FY 2016	$ 359,118	Charity Care
	6.3%	of Net Revenue

Bad Debt is not included in the previous numbers. The projected bad debt figures for Cone Health/Annie Penn Hospital for FY 2015 and 2016 are the following;

Cone Health Bad Debt		
FY 2015	$ 36,587,137	[3.2% of Net Revenue]
FY 2016	$ 38,848,222	[3.2% of Net Revenue]

Annie Penn Hospital Bad Debt		
FY 2015	$ 170,117	[3.2% of Net Revenue]
FY 2016	$ 181,675	[3.2% of Net Revenue]

The applicant has adequately described how this proposal will enhance access for medically underserved groups regardless of their ability to pay.

(d) That the applicant offers a range of means by which a person will have access to its services. Examples of a range of means are outpatient services, admission by house staff, and admission by personal physicians.

C

In Section VI.9 (a), page 76, the applicant states:

> *"Patients are typically referred to inpatient services from area hospitals and other physicians. Patients may self refer to the emergency department and depending on their clinical diagnosis, may then be admitted to an inpatient unit, if clinically appropriate. Cone Health accepts referrals from a variety of organizations and will not turn patients away."*

The applicant adequately demonstrated that the hospital offers a range of means by which persons have access to the hospital's services. Therefore, the application is conforming to this criterion.

(14) The applicant shall demonstrate that the proposed health services accommodate the clinical needs of health professional training programs in the area, as applicable.

C

In Section V.1, (a), page 59, the applicant provides a list of 16 institutions for which CH/APH provides support for medical education and training. The applicant states;

> *"As a result of its multidisciplinary service philosophy and operation, Cone Health has and will continue to accommodate a variety of health professional training programs, including medical, pharmacy, nursing, social work, psychology, physical, occupational, and speech therapies, etc. Cone Health will continue to work collaboratively with the clinical training programs of a number of area schools to ensure that the supervisory staff and schedules will meet the specific training needs for each program."*

The applicant adequately demonstrated that CH/APH will continue to accommodate the clinical needs of health professional training programs, and therefore is conforming to this criterion.

(15) Repealed effective July 1, 1987.
(16) Repealed effective July 1, 1987.
(17) Repealed effective July 1, 1987.
(18) Repealed effective July 1, 1987.

(18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

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See Sections II, III, V, VI and VII. In particular, see Section II, pages 12-25, in which CH/APH discusses the impact of the proposed project on competition in the service area as it relates to promoting cost-effectiveness, quality and access. The information provided by the applicant in those sections is reasonable and credible and adequately

demonstrates that the expected effects of the proposal on competition include a positive impact on cost- effectiveness, quality and access to inpatient services at CH/APH in Rockingham County. This determination is based on information in the application, and the following:

- The inpatient units referenced in this application have not been upgraded since their opening in 1982. The CH/APH renovation and modernization of the ICU/Step-down Unit, 300 West and North Wings and corridor mechanical up grades for the inpatient units will achieve the following:

  - Improve in-room patient access, improve the workflow efficiency of the nursing staff, change the room layout to improve patient privacy and safety in support of the patient centered care approach,

  - Mechanical systems, duct work and the air handling unit have reached the end of their useful life [approximately 25-30 years] for the floors under renovation. The new air handling unit will be located in the mechanical equipment room on the third floor. Replacing the system will meet current energy efficiency standards, thereby, decreasing costs to operate the floors of the facility to be renovated,

  - The patient rooms on the inpatient floors with renovations will have built in patient lifts to physically raise patients during linen changes, to help lift and position the patient for transport to other areas of the hospital and to help get the patient in and out of bed as their condition improves.

  - The impact of new technology has changed significantly. The renovation of the units involved in this project will, in the near term, meet standards of care for inpatients and promote efficient work flow for staff. Smaller nurse work alcoves will be created closer to patient rooms allowing physicians and nurses to complete their working notes without having to go to the central nurse's station. Visitor waiting room will be expanded.

- The applicant has and will continue to provide quality services; and

- The applicant has and will continue to provide adequate access to medically underserved populations.

(19) Repealed effective July 1, 1987.

(20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

ConeHealth d/b/a Annie Penn Hospital is a non-profit hospital accredited by The Joint Commission [Reference Exhibit 7 for a copy of the current accreditation letter.] and certified for Medicare and Medicaid participation. The North Carolina Division of Health Service Regulation provides licensure and certification standards for all ConeHealth facilities [See Exhibit 8 for the 2012 Annie Penn Hospital License]. According to the files in the Acute and Home Care Licensure and Certification Section, Division of Health Service Regulation, no incidents occurred, within the eighteen months immediately preceding the date of this decision, for which any sanctions or penalties related to quality of care were imposed by the State.

Therefore, the application is conforming to this criterion.

(21) Repealed effective July 1, 1987.

(b) The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

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