

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: August 24, 2012

PROJECT ANALYST: Les Brown
ASSISTANT CHIEF: Martha J. Frisone

PROJECT I.D. NUMBER: J-8816-12 / Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. / Add 37 adult inpatient psychiatric beds to the existing hospital / Wake 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.

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The applicants, Holly Hill Hospital, LLC (HHH), Holly Hill Real Estate (HHRE), LLC and Universal Health Services (UHS), Inc. propose to add 37 adult inpatient psychiatric beds at the existing hospital in Raleigh. UHS is the parent company of HHH and HHRE. Holly Hill Hospital (HHH) currently operates 64 adult inpatient psychiatric beds, 60 child and adolescent inpatient psychiatric beds and 28 chemical dependency treatment beds in Raleigh. HHH was approved to add 16 adult psychiatric beds on May 4, 2010 (Project I.D. #J-8442-09).

The 2012 State Medical Facilities Plan (SMFP) contains a need methodology for determining the number of new adult inpatient psychiatric beds needed by service area. Application of the need methodology in the 2012 SMFP identified a need for 37 additional adult inpatient psychiatric beds in Wake County. The applicants do not propose to add more than 37 beds; therefore, the application is conforming with the need determination in the 2012 SMFP.

There are two policies in the 2012 SMFP which are applicable to this review: Policy MH-1: LINKAGES BETWEEN TREATMENT SETTINGS which states: *“An applicant for a certificate of need for psychiatric, substance abuse, or Intermediate Care Facilities for the*

Mentally Retarded beds shall document that the affected Local Management Entity has been contacted and invited to comment on the proposed services.” Exhibit 4 contains a letter of support for the project from The Durham Center and the Wake County Manager. The Durham Center will merge with the Wake County LME effective July 1, 2012 to form a new LME, Alliance Behavioral Healthcare. A Local Management Entity (LME) is the authority for mental health services for a particular geographic region of the state. The application is conforming with Policy MH-1.

Policy GEN-3: BASIC PRINCIPLES states the following:

“A certificate of need applicant applying to develop or offer a new institutional health service for which there is a need determination in the North Carolina State Medical Facilities Plan shall demonstrate how the project will promote safety and quality in the delivery of health care services while promoting equitable access and maximizing healthcare value for resources expended. A certificate of need applicant shall document its plans for providing access to services for patients with limited financial resources and demonstrate the availability of capacity to provide these services. A certificate of need applicant shall also document how its projected volumes incorporate these concepts in meeting the need identified in the State Medical Facilities Plan as well as addressing the needs of all residents in the proposed service area.”

Promote Safety and Quality

In Section III.2, page 53, the applicants discuss how the project will promote safety and quality. The applicants state: *“HHH has existing Performance Improvement, Risk Management and Utilization Review Plans that it will continue to utilize upon completion of the proposed project to ensure safety and quality .”* Exhibit 10 contains copies of these policies. The applicants adequately demonstrate how the proposal will promote safety and quality in the delivery of inpatient psychiatric services.

Promote Equitable Access

In Section III.2, page 52, the applicants discuss how the project will promote equitable access to psychiatric services. The applicants state that they have a Medicaid waiver pilot program which will make HHH *“eligible to be reimbursed for treating Medicaid patients ages 21-64 for a period of at least three years. This is an enormous benefit for Medicaid patients in Wake County and surrounding communities. Currently, the only provider of inpatient psychiatric beds in Wake County is HHH and to date, HHH has not been eligible to be reimbursed for treating Medicaid patients ages 21-64. ...The development of 37 additional adult psychiatric inpatient beds will provide additional access for Medicaid patients at HHH.”* The applicants adequately demonstrate that the proposal will promote equitable access for medically underserved populations.

Maximizing Healthcare Value

In Section III.2, page 53, the applicants state:

“The proposed project is cost effective. HHH will alleviate capacity constraints and reduce the need to transfer psychiatric patients to another facility. As described previously in Section III, transferring psychiatric patients is costly and consumes valuable resources for public safety officials. Additional access to psychiatric inpatient beds will also reduce the strain on local emergency departments.

...

“The proposed 37 adult beds will be located in the space vacated by the child/adolescent beds; thus, the proposed project will not involve any up fit costs.”

The applicants adequately demonstrate the proposal will maximize healthcare value. See Criterion (3) for discussion regarding the need for the project which is incorporated hereby as if set forth fully herein. See Criterion (5) for discussion regarding revenues and costs which is incorporated hereby as if set forth fully herein.

In summary, the application is conforming with Policy MH-1, Policy GEN-3 and the need determination in the 2012 SMFP for new inpatient psychiatric beds. Therefore, the application is conforming with this criterion.

- (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.

The applicants, Holly Hill Hospital, LLC (HHH), Holly Hill Real Estate (HHRE), LLC and Universal Health Services (UHS), Inc. propose to add 37 inpatient psychiatric beds at the existing hospital in Raleigh. UHS is the parent company of HHH and HHRE. Holly Hill Hospital (HHH) currently operates 64 adult inpatient psychiatric beds, 60 child and adolescent inpatient psychiatric beds and 28 inpatient chemical dependency beds in Raleigh. HHH was approved to add 16 adult psychiatric beds on May 4, 2010 (Project I.D. #J-8442-09). The proposed beds will be located in the space vacated by the proposed relocation of 60 child / adolescent inpatient psychiatric beds to a facility to be constructed four tenths of a mile away from the main hospital. That project (Project ID #J-8820-12) was conditionally approved on August 24, 2012.

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Population to be Served

In Section III, pages 56-57, the applicants provide the current patient origin for adult inpatient psychiatric services for FFY 2011 and the first two years of operation following project completion, as illustrated in the following table.

**Patient Origin:
FFY 2011 and Years 1& 2**

County	% of Total Patients
Wake	64.0%
Harnett	2.8%
Franklin	2.7%
Johnston	2.2%
Other*	28.3%
Total	100.0%

*Includes other counties each representing less than 2% of the total.

The proposed patient origin is based upon and is consistent with historical FFY 2011 patient origin. The applicants adequately identify the population proposed to be served.

Demonstration of Need

On pages 35-46 the applicants state the need for the additional 37 inpatient psychiatric beds is based on the following factors:

1) *“State psychiatric hospital admission delays in North Carolina”*

In 2009 over 3,700 patients were placed on waiting lists for state hospitals because of lack of available beds, according to the Department of Health and Human Services. During the first 6 months of 2010 the average waiting time for admission to state psychiatric hospitals was 2.6 days.

2) *“Psychiatric patients in emergency departments”*

The shortage of psychiatric beds in North Carolina has caused increased demand on hospital emergency departments, which are not equipped or staffed to provide psychiatric services. Many patients wait in emergency departments for extended lengths of time without appropriate treatment. Directors in emergency departments have reported to DHHS that it is impossible to admit psychiatric patients to state psychiatric hospitals on weekends.

3) *“Transporting psychiatric patients strains law enforcement”*

On page 42 the applicants state:

“In a survey of North Carolina’s 100 sheriff’s offices, departments statewide reported more than 32,000 trips last year to transport psychiatric patients for

involuntary commitments. They reported devoting a combined total of more than 228,000 work hours to the task, according to the survey conducted by Wake County's chapter of the National Alliance for Mental Illness."

4) *"Development of psychiatric beds in communities"*

On page 43 the applicants state:

"In response to the State's mental health crisis, there have been initiatives to increase the supply of inpatient psychiatric beds to local hospitals in communities throughout North Carolina. At Secretary Cansler's request, \$120.0 million was allocated to pay for adding approximately 100 psychiatric beds at community hospitals, an average of one bed per county."

5) *"Wake County's large and growing population"*

On pages 43-45 the applicants state that the Wake County population, estimated at 958,015 in 2012, is projected by the North Carolina Office of State Budget and Management to increase by 101,407 residents by 2016, a compound annual growth rate of 2.5%. This rapid population growth will continue to increase the demand for psychiatric beds.

6) *"High level of psychiatric utilization in Wake County"*

On page 46 the applicants state:

"The most recent three-year compound annual growth rate (CY08-CY11) for HHH's adult inpatient psychiatric admissions is 13.7 percent. Utilization has continued to increase, in part due to a decrease in the availability of community resources resulting from the recent economic crisis, as well as the reduced capacity at State-operated psychiatric hospitals."

7) *"Increased access for Medicaid patients"*

On page 46 the applicants state that The Centers for Medicare and Medicaid Services (CMS) is conducting a demonstration project to determine *"whether Medicaid can support higher quality care at a lower total cost by reimbursing private psychiatric hospitals for certain psychiatric services for which Medicaid reimbursement has historically been unavailable."* On page 48 the applicants state that HHH is the only hospital in North Carolina selected to participate in this demonstration project, which will enable HHH to serve Medicaid patients age 21-64. Current Medicaid policy requires patients in this age group to be served in an inpatient psychiatric unit in an acute care hospital in another county.

In Section III, pages 48-52, the applicants provide the assumptions and methodology used to project utilization of the adult inpatient psychiatric beds for the first three years of operation following project completion, as follows.

“Step 1: Review Historical Utilization at HHH”

On page 49 the applicants provide the following historical utilization.

	CY 2008	CY 2009	CY 2010	CY 2011
Beds	64	64	64	64
Discharges	2,098	2,891	3,114	3,032
ALOS	8.5	8.6	8.6	8.7
Patient Days of Care	17,783	24,766	26,639	26,253
% Occupancy	76.1%	106.0%	114.0%	112.4%

Totals may not foot due to rounding.

The applicants state that the three-year compound annual growth rate is 13.7%

“Step 2: Project Utilization During Interim Project Years”

On page 50 the applicants provide the following utilization projections for the interim years, as shown in the table below.

	CY 2012	CY 2013
Beds	Jan – May: 64 June – Dec: 80	80
Discharges	3,153	3,368
ALOS	8.7	8.7
Patient Days of Care	27,299	29,164
% Occupancy	102.1%	99.9%

Totals may not foot due to rounding.

The applicants assume that during the January – May, 2012 period, utilization will remain constant at the CY 2011 utilization level. When the additional 16 beds become operational in June (Project ID# J-8442-09), HHH projects that discharges will increase at 6.8%, one-half the three-year compound annual growth rate [$13.7\% / 2 = 6.8\%$].

“Step 3: Project Utilization During Project Years”

On page 51 HHH provides the utilization projections for the first three years of the project, as shown in the table below.

	CY 2014	CY 2015	CY 2016
Beds	117	117	117
Discharges	3,537	3,713	3,881
ALOS	8.7	8.7	8.7
Patient Days of Care	30,622	32,154	33,761
% Occupancy	71.7%	75.3%	79.1%

Totals may not foot due to rounding.

The applicants assume that the utilization growth rate during the first three years of operation will be 5%, which is less than the historical growth rate of 13.7%.

The applicants adequately demonstrate that projected utilization is reasonable based upon population growth, limited number of inpatient psychiatric beds in the proposed service area and historical utilization of adult inpatient psychiatric beds at HHH. Therefore, the applicants adequately demonstrate the need to add 37 inpatient psychiatric beds. Consequently, the application is conforming with 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.

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In Section III.3, pages 54-55, the applicants discuss the alternatives considered prior to the submission of this application, which include:

- 1) Maintain the Status Quo - the applicants concluded that this alternative is less effective and unacceptable because HHH has been operating at over 100% of capacity since 2009. Even with the addition of the 16 adult psychiatric inpatient beds, the utilization is projected to reach 99% during 2013.
- 2) Develop the Proposed Adult Psychiatric Beds in a Different Location – The applicants concluded that this alternative is less effective and more costly because “*a freestanding 37-bed facility would not be financially feasible due to the relatively small size of the facility.*” It would be “*counterproductive*” to construct the adult beds in the same facility as the child and adolescent beds since the two patient populations are different and should not be combined if possible.
- 3) Develop 37 adult inpatient psychiatric beds at the existing facility – the applicants concluded that the proposed project is the more effective and less costly alternative since HHH will have space in the existing facility after the relocation of the child and adolescent psychiatric inpatient beds to a new facility. This will result in all of the adult patients being located in the same facility.

Furthermore, the application is conforming with all other statutory and regulatory review criteria and is therefore, approvable. A project that cannot be approved cannot be an effective alternative.

The applicants adequately demonstrate that the proposal is their least costly or most effective alternative for the provision of the proposed psychiatric services. Therefore, the application is conforming to this criterion and approved, subject to the following conditions.

1. **Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall materially comply with all representations made in the certificate of need application.**
 2. **Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall develop and operate no more than 37 additional inpatient psychiatric beds for a total licensed bed complement of no more than 117 adult inpatient psychiatric beds, 60 child and adolescent inpatient psychiatric beds and 28 chemical dependency treatment beds upon completion of this project and Project I.D. #J-8442-09.**
 3. **Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall accept patients requiring involuntary admission for inpatient psychiatric services.**
 4. **Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to issuance of the certificate of need.**
- (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.

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In Section VIII.1, page 89, the applicants project the capital cost of the project to be \$25,000 for consultant fees. The 37 beds will be located in space currently occupied by child/adolescent beds which will be relocated to a new building (see Project ID #J-8820-12). In Section XI.1, page 94, the applicants project no start-up expenses or initial operating expenses.

Exhibit 17 contains a letter from the Chief Financial Officer of Universal Health Services, the parent company of HHH and HHRE, which states:

“I can and will commit UHS’ reserves to cover all of the capital costs associated with this project. The anticipated project costs are approximately \$25,000.”

UHS will fund the capital cost from existing accumulated reserves.”

Exhibit 18 contains the United States SEC Form 10-K filed by Universal Health Services, Inc. for the years ending December 31, 2009, December 31, 2010 and December 31, 2011. As of December 31, 2011, the consolidated financial statements show the company had \$41,229,000 in cash and cash equivalents, \$7,665,245,000 in total assets, and \$2,347,118,000 in total stockholders' equity (total assets less total liabilities). The applicants adequately demonstrate the availability of sufficient funds for the capital needs of the project.

In the Financials Section of the application, the applicants provide the projected revenues and operating costs for the project, in addition to the assumptions used to calculate the pro formas. Form C, Statement of Revenues and Expenses, shows revenues in excess of costs for adult inpatient psychiatric services in each of the first three years of operation following project completion. Furthermore, Form B shows revenues in excess of costs for the entire facility in the first three years of operation following project completion. The assumptions used by the applicants in preparation of the pro formas are reasonable, including projected utilization. See the Financials Section of the application for the pro formas and assumptions. See Criterion (3) for discussion of utilization projections which is incorporated hereby as if set forth fully herein. The applicants adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and revenues, and therefore, the application is conforming with 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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Holly Hill Hospital (HHH) currently operates 64 adult inpatient psychiatric beds, 60 child and adolescent inpatient psychiatric beds and 28 chemical dependency treatment beds in Raleigh. HHH was approved to add 16 adult psychiatric beds on May 4, 2010 (Project I.D. #J-8442-09). The applicants propose to add 37 adult inpatient psychiatric beds in the space vacated by the relocation of 60 child and adolescent inpatient psychiatric beds to a new facility about four tenths of a mile away (Project ID #J-8820-12). The State Health Coordinating Council and Governor have determined that 37 additional adult inpatient psychiatric beds are needed in Wake County. HHH is the only facility listed in the inventory in the 2012 SMFP and was the only applicant to submit a proposal to develop the beds in the SMFP. The applicants adequately demonstrate the need to develop 37 additional beds in Wake County. See Criterion (3) for discussion regarding need which is incorporated hereby as if set forth fully herein. Therefore, the applicants adequately demonstrate that the proposed project will not result in unnecessary duplication of existing or approved adult inpatient psychiatric beds. Consequently, the application is conforming with 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 following table illustrates the proposed staffing for the adult inpatient psychiatric beds for Year 2 of the project, as shown in Section VII.2, page 80.

Position	Current & Proposed FTEs	Contract Hours
Nursing Administration	6.80	
Psychiatrists		78
Psychologists	1.00	
Psychiatric Social Workers	15.00	
Psychiatric Registered Nurses	39.00	
Utilization Review	4.50	
Licensed Practical Nurses	4.50	
Nursing Assistants/Aides/Orderlies	60.30	
Clerical support/Unit Secretaries/ Medical Records	6.00	
Pharmacy	3.75	4,784
Dietary	7.50	
Housekeeping & Laundry	8.55	
Engineering/Maintenance	3.90	
Purchasing	0.40	
Security	3.45	
Communications / IT	2.25	
Administration	2.00	
Finance/Business Office	6.00	
Admissions/Intake/Remote Triage	18.00	
Marketing	1.00	
Transcription	2.25	
Quality Assurance	2.25	
Personnel	2.00	
Training	4.50	
Activity Therapy	3.00	
Total	207.90	4,862

Exhibit 3 contains a signed letter and resume from the current medical director which states he will continue to serve in the medical director role. The applicants adequately demonstrate the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided. Therefore, the application is conforming with 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.

In Section II.9, page 22, the applicants identify the necessary ancillary and support services for the proposed services. Additionally, in Section V, page 64, the applicants identify the acute care hospitals with which transfer agreements exist. On page 64 the applicants list the eight LMEs with which HHH has transfer agreements. Letters of support for the proposal from physicians and other health care providers are provided in Exhibit 22. The applicants adequately demonstrate that the necessary ancillary and support services will be made available and that the proposed services will be coordinated with the existing health care system. Therefore, the application is conforming with this criterion.

- (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 (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 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

- (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.11, page 75, the applicants provide the current payor mix for the entire facility during calendar year 2011, which is illustrated in the table below.

Payor	Patient Days as % of Total
Self Pay/ Indigent/ Charity	1.1%
Medicare/ Medicare Managed Care	14.1%
Medicaid	23.6%
Commercial Insurance / Local Govt	61.2%
Total	100.0%

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 were obtained on June 6, 2012. More current data, particularly with regard to the estimated uninsured percentages, were not available.

County	Total # of Medicaid Eligibles as % of Total Population	Total # of Medicaid Eligibles Age 21 and older as % of Total Population	% Uninsured CY 2008-2009 (Estimate by Cecil G. Sheps Center)
Wake	10%	3.4%	18.4%
Statewide	17%	6.8%	19.7%

The majority of Medicaid eligibles are 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.

Moreover, the number of persons eligible for Medicaid assistance may be greater than the number of Medicaid eligibles who actually utilize 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 48.6% for those age 20 and younger and 31.6% 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 are available by age, race or gender. However, a direct comparison to the applicants' current payor mix would be of little value. The population data by age, race or gender do 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.

The applicants demonstrate that medically underserved populations currently have adequate access to services available at Holly Hill Hospital. Therefore, the application is conforming with this criterion.

- (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;

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Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section VI.10, page 74, the applicants state:

“HHH is a recipient of federal funds, and is compliant with all applicable federal regulations to insure continued access to these funds. HHH does not discriminate based on race, ethnicity, creed, color, sex, age, religion, national origin, handicap, or ability to pay.”

In Section VI.9, page 74, the applicants state that no civil rights equal access complaints or violations were filed against HHH in the last five years. Therefore, the application is conforming with 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

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In Section VI.12, page 76, the applicants provide the projected payor mix for adult inpatient psychiatric beds for the second year of operation following project completion, which is shown in the following table.

Payor	Patient Days as % of Total
Self Pay/ Indigent/ Charity	0.9%
Medicare	25.6%
Medicaid	6.7%
Commercial Insurance	14.5%
Local Government	38.0%
Blue Cross	14.3%
Total	100.0%

On page 46 the applicants state that The Centers for Medicare and Medicaid Services (CMS) is conducting a demonstration project to determine “*whether Medicaid can support higher quality care at a lower total cost by reimbursing private psychiatric hospitals for certain psychiatric services for which Medicaid reimbursement has historically been unavailable.*” On page 48 the applicants state that HHH is the only hospital in North Carolina selected to participate in this demonstration project, which will enable HHH to serve Medicaid patients age 21-64. Current Medicaid policy requires patients in this age group to be served in an inpatient psychiatric unit in an acute care hospital in another county.

The applicants demonstrate that medically underserved populations would continue to have adequate access to services offered at Holly Hill Hospital after project completion. See page 76 for the applicants’ assumptions. Therefore, the application is conforming with this criterion.

- (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.

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In Section VI.8, page 73, the applicants discuss the means by which patients will have access to the proposed services, which include referrals from physicians or other medical providers, emergency departments and law enforcement agencies. Exhibit 5 contains HHH’s admission policies. The applicants adequately demonstrate that the facility will offer a range of means by which patients will have access to services. Therefore the application is conforming with 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.

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In Section V.1, page 63, the applicants identify the existing agreements for clinical training, which include area college nursing programs and social work programs. Exhibit 15 contains an affiliation agreement with Wake Technical Community College. The applicants adequately demonstrate that the facility will continue to accommodate the clinical needs of

area health professional training programs. Therefore, the application is conforming with 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 Section V.6, pages 66-67, where HHH discusses the impact of the proposed project on competition in the service area as it relates to promoting cost-effectiveness, quality and access. See also Sections II, III, VI and VII for discussion regarding the impact of the proposal on cost effectiveness, quality and access. The information provided by the applicants 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 adult inpatient psychiatric services in Wake County. This determination is based on the information in the application, and the following:

- ◆ The applicants adequately demonstrate the need to add 37 inpatient psychiatric beds at HHH, and that it is a cost-effective alternative to meet the need;
- ◆ The applicants have and will continue to provide quality services; and
- ◆ The applicants have and will continue to provide adequate access to medically underserved populations.

Therefore, the application is conforming with this criterion.

- (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.

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According to the files in the Acute and Home Care Licensure and Certification Section, DHHSR, 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 on the hospital. Therefore, the application is conforming with 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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The application is conforming to all applicable Criteria and Standards for Psychiatric Beds. The specific criteria are discussed below.

10A NCAC 14C .2602 INFORMATION REQUIRED OF APPLICANT

- (a) *An applicant proposing to establish new psychiatric beds shall project resident origin by percentage by county of residence. All assumptions and the methodology for projecting occupancy shall be stated.*
- C- In Section III.5, pages 57-58, and Section III.1, pages 35-52, the applicants provide projected resident origin by percentage by county of residence and all assumptions and the methodology used to project occupancy.
- (b) *An applicant proposing to establish new psychiatric beds shall project an occupancy level for the entire facility for the first eight calendar quarters following the completion of the proposed project, including average length of stay. All assumptions and the methodology for projecting occupancy shall be stated.*
- C- In Section IV.1, pages 61-62, and Section III.1, pages 35-52, the applicants project occupancy for the entire facility for the first eight calendar quarters, including ALOS, and all assumptions and the methodology used to project occupancy.
- (c) *The applicant shall provide documentation of the percentage of patients discharged from the facility that are readmitted to the facility at a later date.*
- C- In Section II, page 28, the applicants state that 8.5% of admissions were readmitted during September 2011 – January 2012.
- (d) *An applicant proposing to establish new psychiatric beds shall describe the general treatment plan that is anticipated to be used by the facility and the support services to be provided, including provisions that will be made to obtain services for patients with a dual diagnosis of psychiatric and chemical dependency problems.*
- C- See Exhibit 9 for the general treatment plan.

- (e) *The applicant shall document the attempts made to establish working relationships with the health care providers and others that are anticipated to refer clients to the proposed psychiatric beds.*
- C- On page 28 the applicants state that they have contracts with 8 LMEs. Exhibits 4 and 22 contain letters of support from physicians, Durham County LME and other health care providers.
- (f) *The applicant shall provide copies of any current or proposed contracts or agreements or letters of intent to develop contracts or agreements for the provision of any services to the clients served in the psychiatric facility.*
- C- Exhibit 21 contains copies of existing agreements between the facility and LMEs.
- (g) *The applicant shall document that the following items are currently available or will be made available following completion of the project:*
- (1) *admission criteria for clinical admissions to the facility or unit;*
- C- Exhibit 5 contains facility admission/assessment policies.
- (2) *emergency screening services for the targeted population which shall include services for handling emergencies on a 24-hour basis or through formalized transfer agreements;*
- C- In Section II.12, page 29, the applicants state that emergency services are offered 24/7/365. Exhibits 5 and 9 contain facility policies regarding admissions and assessment.
- (3) *client evaluation procedures, including preliminary evaluation and establishment of an individual treatment plan;*
- C- Exhibits 5 and 9 contain facility policies regarding assessment and care planning.
- (4) *procedures for referral and follow-up of clients to necessary outside services;*
- C- Exhibit 9 contains facility policies regarding discharge planning and referrals.
- (5) *procedures for involvement of family in counseling process;*
- C- Exhibit 9 contains facility policies which state that family members are involved in the treatment plan and counseling process.
- (6) *comprehensive services which shall include individual, group and family therapy; medication therapy; and activities therapy including recreation;*
- C- Exhibit 9 contains facility policies regarding services offered, including those required by this rule.
- (7) *educational components if the application is for child or adolescent beds;*
- NA- This project does not involve children and adolescents.
- (8) *provision of an aftercare plan; and*
- C- Exhibits 6 and 9 contain facility policies regarding discharge planning and referrals.
- (9) *quality assurance/utilization review plan.*

- C- Exhibit 10 contains facility policies regarding organizational performance and utilization review.

- (h) *An applicant proposing to establish new psychiatric beds shall specify the primary site on which the facility will be located. If such site is neither owned by nor under option by the applicant, the applicant shall provide a written commitment to pursue acquiring the site if and when a certificate of need application is approved, shall specify at least one alternate site on which the facility could be located should acquisition efforts relative to the primary site ultimately fail, and shall demonstrate that the primary site and alternate sites are available for acquisition.*

- C- The applicants will develop the additional beds at the existing facility on Falstaff Road in Raleigh.

- (i) *An applicant proposing to establish new psychiatric beds shall provide documentation to show that the services will be provided in a physical environment that conforms with the requirements in 10A NCAC 27G .0300.*

- C- On page 31 the applicants state that HHH is an existing facility that conforms to 10A NCAC 27G .0300, and that it will continue to comply upon project completion.

- (j) *An applicant proposing to establish new adult or child/adolescent psychiatric beds shall provide:*
 - (1) *documentation that adult or child/adolescent inpatient psychiatric beds designated for involuntary admissions in the licensed hospitals that serve the proposed mental health planning area were utilized at less than 70 percent for facilities with 20 or more beds, less than 65 percent for facilities with 10 to 19 beds, and less than 60 percent for facilities with one to nine beds in the most recent 12 month period prior to submittal of the application; or*
 - (2) *a written commitment that the applicant will accept involuntary admissions and will meet the requirements of 10A NCAC 26C .0103 for designation of the facility, in which the new psychiatric beds will be located, for the custody and treatment of involuntary clients, pursuant to G.S. 122C-252.*

- C- On page 32 the applicants state that HHH will continue to accept involuntary admissions.

.2603 PERFORMANCE STANDARDS

- (a) *An applicant proposing to add psychiatric beds in an existing facility shall not be approved unless the average occupancy over the six months immediately preceding the submittal of the application of the total number of licensed psychiatric beds within the facility in which the beds are to be operated was at least 75 percent.*

- C- On page 32 the applicants state that during the past six months the occupancy rate of the adult beds was 107.9% and the occupancy rate of the child and adolescent beds was 85.3%, for an occupancy rate of the entire facility of 97.0% . .

- (b) *An applicant proposing to establish new psychiatric beds shall not be approved unless occupancy is projected to be 75% for the total number of licensed psychiatric beds proposed*

to be operated in the facility no later than the fourth quarter of the second operating year following completion of the project.

- C- On page 61 the applicants project that the occupancy rate in the fourth quarter of Year 2 of the project will be 75.3%

.2605 STAFFING AND STAFF TRAINING

(a) *A proposal to provide new or expanded psychiatric beds must provide a listing of disciplines and a staffing pattern covering seven days per week and 24 hours per day.*

- C- On page 83 the applicants provide a staffing table showing the staffing pattern covering seven days a week and 24 hours a day.

(b) *A proposal to provide new psychiatric beds must identify the number of physicians licensed to practice medicine in North Carolina with a specialty in psychiatry who practice in the primary service area. Proposals specifically for or including child or adolescent psychiatric beds must provide documentation to show the availability of a psychiatrist specializing in the treatment of children or adolescents.*

- C- On page 33 the applicants state that there are 216 psychiatrists actively licensed to practice medicine in Wake County.

(c) *A proposal to provide additional psychiatric beds in an existing facility shall indicate the number of psychiatrists who have privileges and practice at the facility proposing expansion. Proposals specifically for or including child or adolescent psychiatric beds must provide documentation to show the availability of a psychiatrist specializing in the treatment of children or adolescents.*

- C- On page 33 the applicants state that HHH has 12 psychiatrists on its medical staff.

(d) *A proposal to provide new or expanded psychiatric beds must demonstrate that it will be able to retain the services of a psychiatrist who is eligible to be certified or is certified by the American Board of Psychiatry and Neurology to serve as medical director of the facility or department chairman of the unit of a general hospital.*

- C- On page 34 the applicants state that Thomas Cornwall, MD will continue to serve as medical director and that he is board eligible for certification by the American Board of Psychiatry and Neurology and board certified in Psychoanalysis.

(e) *A proposal to provide new or expanded psychiatric beds must provide documentation to show the availability of staff to serve involuntary admissions, if applicable.*

- C- On page 34 the applicants state that they will continue to provide staff to serve involuntary admissions. The weekly staffing table is provided on page 83.

(f) *A proposal to provide new or expanded psychiatric beds must describe the procedures which have been developed to admit and treat patients not referred by private physicians.*

- C- Exhibits 5 and 9 include procedures for admitting and treating patients not referred by private physicians.

- (g) *A proposal to provide new or expanded psychiatric beds shall indicate the availability of training or continuing education opportunities for the professional staff.*
- C- Exhibit 11 includes policies and procedures for training and continuing education of professional staff.