

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DATE: October 29, 2012

PROJECT ANALYST F. Gene DePorter

TEAM LEADER: Lisa Pittman

PROJECT I.D. NUMBER: J-8837-12 / University of North Carolina Hospitals at Chapel Hill [UNC Hospitals] / Predevelopment activities for major renovation and relocation of multiple services/Orange.  
FID # 923517

### 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.

NA

University of North Carolina Hospitals at Chapel Hill [UNC Hospitals] 101 Manning Drive, Chapel Hill proposes predevelopment activities for the renovation of several spaces, the internal relocation of some of these spaces and the possible addition of square footage adjacent to the existing hospital. The project's scope will encompass co-location, renovation, and internal relocation of existing surgical, heart, and vascular services, which are operational and exist within the main hospital complex.

This application is a predevelopment activity proposal. Final identification of the square footage to be renovated and additional square footage to be constructed can not be determined until this predevelopment project is complete. The overall project

scope will continue to be refined during the predevelopment and planning phases. The basis of submittal of this application is to allow for the performance of predevelopment activities including architectural design, plans, working drawing, studies, surveys, and other preliminary planning activities in excess of the \$2 million threshold.

In Section II.6, page 10; the applicant states that renovation of some existing inpatient units might also become part of the overall project to be submitted at a later date. The applicant has estimated predevelopment costs at \$ 7,751,000.

UNC Hospitals does not propose to develop any health service facility beds or services or acquire any medical equipment for which there is a need determination in the 2012 State Medical Facilities Plan (2012 SMFP). There are no 2012 SMFP policies or CON rules that apply to predevelopment activities. The applicant indicates that a resulting proposed project will address and comply with all appropriate SMFP Policies and CON rules.

- (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.

## C

University of North Carolina Hospitals at Chapel Hill, (UNC Hospitals) proposes a capital expenditure of \$7,751,000 to initiate predevelopment activities for the renovation of several spaces, the internal relocation of some of these spaces and the possible addition of square footage adjacent to the existing hospital. The applicant states that this change is driven by the need to eliminate disjointed location of existing operational spaces, improve spatial relationships, and improve the overall environment of care through addressing access, quality and cost for spaces that are referenced in this proposal and other spaces that maybe identified as a result of predevelopment activities.

In Section II.1, pages 6-7, UNC Hospitals indicates that actual square footage involved will be difficult to define until various proposed studies are complete.

### Population to be Served

In Section II, page 13-14 of the application, the applicant indicates the following:

*“This CON application is for a predevelopment activity only and is not required to provide projected volumes. The future CON application resulting from this predevelopment activity will contain all projected volumes required by the CON Section and will document how the volumes incorporate these concepts in meeting the needs addressed in the SMFP and of all the residents in the proposed service area.”*

In Section II, pages 13-14; UNC Hospitals provided FY 2011 patient origin data for all services, stating that *“this overall patient origin does not change substantially.”* The following table shows those counties with patient origin of 1% or greater:

**Table 1**  
**UNC Hospitals FY 2011 Patient Origin**

County	UNC Hospitals Patient Origin by County %
Orange	24.60%
Wake	13.27%
Durham	10.24%
Alamance	9.30%
Chatham	7.00%
Lee	3.95%
Cumberland	3.40%
Harnett	2.05%
Johnston	1.85%
Guilford	1.80%
Moore	1.34%
Randolph	1.13%
Robeson	1.07%
Other NC Counties	18.28%
<b>North Carolina Total</b>	<b>98.21%</b>
Other US & Int'l	<b>1.79%</b>
Total	100.00%

Source: Certificate of Need Application J-8837-12, Section II. 7, Pages 13-14.

Based upon FY 2011 patient origin data, 98% of UNC Hospitals’ patients are from North Carolina. The five North Carolina counties of Orange (24.6%), Wake (13.3%), Durham (10.2%), Alamance (9.3%) and Chatham (7.0%) account for 64% of patients receiving services at UNC Hospitals.

In Section IV.2, page 18, UNC Hospitals states that it provides services to a wide variety of patient groups as reflected in the following table:

**Table 2**  
**Patient Mix**

<b>FY 2011 UNC Hospitals</b>	<b>Low Income</b>	<b>Racial &amp; Ethnic Minorities</b>	<b>Women</b>	<b>Elderly</b>	<b>Other Underserved</b>
	16.4%	35.6%	59.0%	21.9%	10.3%

In addition, on page 20, the applicant provided payor mix for FY 2011 to further demonstrate its provision of service to a range of patients as defined by reimbursement source:

**Table 3**  
**UNC Hospitals**  
**Reimbursement as a % of Total Utilization-FY 2011**

	<b>IP Days Only As % of Total</b>	<b>All Services % of Total</b>
Self Pay/Indigent/Charity	6.40%	9.80%
Medicare/Medicare Managed Care	29.70%	29.90%
Medicaid	30.30%	16.90%
Commercial Insurance	1.00%	0.80%
Managed Care	26.40%	36.10%
Other	6.20%	6.60%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>

Need for the Proposed Services

In Section II.7, pages 10-16, the applicant states that this application is focused on predevelopment activity that will support the programmatic and facility structural needs of UNC Hospitals. The future project will be planned and developed to address patient safety features, reduce the risk of falls, enhance infection control, provide needed capacity and develop and implement Energy Efficiency and Sustainability Plans that meet or exceed energy efficiency and water conservation standards.

The proposed project will allow for continued preplanning and adjustments as this process continues and serves as the basis for determining ongoing and future health service patient needs through UNC Hospitals. The finished product that results from this activity will address service specific components and ongoing scope of service to meet health care needs of the population served while being compliant with all SMFP policies and relevant CON rules as they relate to future CON filings.

In Section II.1, page 6, of the application the applicant states that: *“The project scope encompasses the co-location, internal relocation, and renovation of existing surgical, heart, and vascular services, which are currently operational in other*

*disparate spaces within the main hospital complex. Additionally, the renovation of some connecting spaces will be required.”*

The applicant adequately demonstrates the need to conduct predevelopment activities related to major renovations and relocation of multiple services. Therefore, the applicant 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.

NA

In Section II.5, pages 8-9; the applicant is requesting approval of \$7,751,000 for the implementation of predevelopment activities. UNC Hospitals states it considered the following alternatives to support determination of future program and space needs and the improved relationship of existing spaces in the main hospital complex:

- *“Maintaining the status quo-Cease planning activities now,*  
...
- *Proceed with planning activities up to \$2M threshold, and*  
...
- *Submit a Predevelopment Activity CON application and proceed with full predevelopment planning activities for the proposed project.”*

The project under review does not involve the provision of health care. The applicant is proposing predevelopment activities only. The results of the predevelopment activities will determine least costly and most effective alternatives, subject to the following conditions:

1. **University of North Carolina Hospitals at Chapel Hill shall materially comply with the representations made in its certificate of need application.**
  2. **University of North Carolina Hospitals at Chapel Hill shall not acquire as part of this project, equipment that is not included in the capital expenditure in Section VI of the application that would otherwise require a certificate of need.**
  3. **University of North Carolina Hospitals at Chapel Hill shall acknowledge acceptance of and compliance with all conditions stated herein to the Certificate of Need Section in writing prior to the 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.

C

In Section VI, page 23 under Predevelopment Activity Project Capital Cost, the applicant provides the following capital cost breakdown:

<u>Predevelopment Activities</u>	<u>Proposed</u>
(1) Architectural Designs	\$2,026,000
(2) Plans	\$1,791,000
(3) Working Drawings	\$2,610,000
(4) Specifications	\$ 0
(5) Studies & Surveys	\$ 665,000
(6) Site Purchase	\$ 0
(7) Other-Preconstruction Services	<u>\$ 659,000</u>
<b>TOTAL</b>	<b>\$7,751,000</b>

The applicant notes that the above costs were developed by the UNC Plant Engineering Department and AECOM design firm. See Exhibit 9 for the certified cost estimate. The following table lists the activities that are projected to occur during this project.

**Table 4  
UNC Hospitals Predevelopment Activities Schedule**

Initial Programming Activities	Topographic & Utility Surveys
Programming and other Consulting	Medical Equipment Planning
Preliminary Design Drawings	Engineering Consulting
Schematic Design Drawings	Interior Design

Design Development Drawings	Cost Estimating
Financial Analysis	Traffic Consulting
Financial Feasibility Studies	Site Planning
Geotechnical Surveys	Signage & Graphic Design
Preconstruction Consultation	Other Services as Required

In Exhibit III, the applicant provides correspondence, dated June 7, 2012, from the Executive Vice President and Chief Financial Officer, UNC Hospitals, which states the following:

*“...This letter is to confirm the availability of funding in excess of \$7,751,000 specifically for use for the capital costs associated with the predevelopment activities for the above referenced project.”*

In Section VI.5, page 25, the applicant indicates that the source of funds will be accumulated reserves.

Exhibit IV contains the University of North Carolina Hospitals’ Financial Statement Audit Report for the years ended June 30, 2011 and 2010. The financial statements indicate that UNC Hospitals had \$119,165,388 in cash and cash equivalents, \$53,788,463 in investments, \$1,627,765,197 in total assets, \$501,033,821 in total liabilities, and \$1,126,731,376 in total net assets as of June 30, 2011.

In Section VII, page 27, the applicant states that there are no start-up costs or operating costs associated with the proposed predevelopment activities.

The applicant adequately demonstrates the availability of funds for predevelopment activity and is therefore 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.

NA

The proposed project does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services at the UNC Hospitals’ complex.

- (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.

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services at UNC Hospitals' main complex.

- (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.

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services at UNC Hospitals' main complex.

- (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 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

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services at UNC Hospitals' main complex.

- (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;

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services at UNC Hospitals' main complex.

- (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;

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services at UNC Hospitals' main complex.

(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;

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services at UNC Hospitals' main complex.

(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.

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services at UNC Hospitals' main complex.

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

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services of UNC Hospitals' main complex.

- (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.

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services of UNC Hospitals' main complex.

- (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.

C

UNC Hospitals is accredited by The Joint Commission and certified for Medicare and Medicaid participation. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents have occurred within the eighteen months immediately preceding the date of the 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.

NA

The project under review does not involve the provision of a health service. The applicant proposes predevelopment activities for major renovation and relocation of multiple services of UNC Hospitals' main complex.