ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

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

Decision Date:	August 17, 2015
Findings Date:	August 17, 2015
Project Analyst:	Julie Halatek
Team Leader:	Lisa Pittman
Project ID #:	J-11028-15
Facility:	University of North Carolina Hospitals
FID #:	923517
County:	Orange
Applicant:	University of North Carolina Hospitals at Chapel Hill
Project:	Cost overrun for Project I.D. #J-8812-12 [develop 27 acute care beds for a total of 756 acute care beds upon completion of that project and Project I.D. #J-8501-10 (develop 36 acute care beds on the hospital main campus)]

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 applicant, University of North Carolina Hospitals at Chapel Hill (UNCH-CH), proposes a cost overrun for Project I.D. #J-8812-12 [develop 27 acute care beds at University of North Carolina Hospitals (UNCH)]. Effective October 1, 2012, UNCH-CH was issued a certificate of need (CON) to develop 27 additional acute care beds at UNCH. The applicant stated that it planned to add eight beds to its existing bone marrow transplant unit (BMTU) and develop the additional 19 beds as medical/surgical (med/surg) beds. The approved capital cost was $16.1 million and the project was

scheduled to be complete by July 1, 2014. In Section VI.2, pages 62-65, the applicant states that the previously approved capital cost of $16,178,760 is now projected to be $20,090,800, an increase of $3,912,040 or 24.2 percent [($20,090,800 / $16,178,760) – 1 = 0.242 or 24.2%]. The applicant states that the project will be complete by March 1, 2016.

Need Determination

The applicant does not propose to increase the number of licensed beds in any category, add any new health services, or acquire equipment for which there is a need determination in the 2015 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations in the 2015 SMFP that are applicable to this review.

Policies

Policy GEN-3: BASIC PRINCIPLES, on page 38 of the 2015 SMFP, is not applicable to this review. In Project I.D. #J-8812-12, the application was consistent with Policy GEN-3. The applicant does not propose changes in the current application which would affect that determination.

Policy GEN-4: ENERGY EFFICIENCY AND SUSTAINABILITY FOR HEALTH SERVICE FACILITIES, on page 39 of the 2015 SMFP, is applicable to this review because the applicant is proposing a capital expenditure greater than $2 million. Policy GEN-4 states:

> *"Any person proposing a capital expenditure greater than $2 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178 shall include in its certificate of need application a written statement describing the project's plan to assure improved energy efficiency and water conservation.*
>
> *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 editions 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.*
>
> *Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan for energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant's representation in the written statement as*

described in paragraph one of Policy-GEN 4. The plan shall not adversely affect patient or resident health, safety or infection control."

In Project I.D. #J-8812-12, the application was consistent with Policy GEN-4. The applicant does not propose changes in the current application which would affect that determination.

Conclusion

In summary, the applicant was previously approved to develop 27 acute care beds at UNCH. In Project I.D. #J-8812-12, the application was conforming to this criterion, and the applicant does not propose changes in the current application which would affect that determination. Therefore, the application is conforming to 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.

C

On October 1, 2012, UNCH-CH was issued a certificate of need (CON) to develop 27 acute care beds at UNCH. The applicant stated that it planned to add eight beds to its existing bone marrow transplant unit (BMTU) and develop the additional 19 beds as medical/surgical (med/surg) beds. The approved capital cost was $16.1 million and the project was scheduled to be complete by July 1, 2014. The current application is for a cost overrun of the initially approved project and the applicant states that services will be offered beginning on March 1, 2016. There is no material change in scope from the originally approved project in this application; the applicant states in Section II.4, page 28, that necessary changes to location, additional square footage, and system upgrades to be in full compliance with safety requirements are responsible for the increased costs. In Section VI.2, pages 62-65, the applicant states that the previously approved capital cost of $16,178,760 is now projected to be $20,090,800, an increase of $3,912,040 or 24.2 percent [($20,090,800 / $16,178,760) – 1 = 0.242 or 24.2%].

Population to be Served

On page 44, the 2015 SMFP defines the service area for licensed acute care hospitals as the county where the hospital is located, with the exception of any multicounty planning areas. Thus, in this application, the service area is Orange County. Hospitals may serve residents of counties not included in their service area.

In Section II.3, page 25, the applicant provides the updated projected patient origin for the BMTU for operating years one and two, as illustrated in the table below.

UNCH BMTU Projected Patient Origin – Operating Years One and Two			
County/Area	**Patient Days OY1**	**Patient Days OY2**	**Percent of Patient Days**
Wake	839	932	11.697%
Orange	686	762	9.561%
Cumberland	505	561	7.041%
New Hanover	476	529	6.637%
Onslow	330	367	4.598%
Pitt	327	363	4.559%
Guilford	311	345	4.329%
Mecklenburg	247	275	3.444%
Brunswick	229	255	3.194%
Buncombe	224	248	3.117%
Durham	192	213	2.674%
Alamance	189	210	2.636%
Craven	141	156	1.962%
Chatham	131	146	1.828%
Harnett	120	133	1.674%
Randolph	112	124	1.558%
Lee	92	103	1.289%
Rowan	90	100	1.250%
Carteret	87	97	1.212%
Haywood	86	95	1.193%
Lenoir	79	87	1.097%
Moore	77	86	1.077%
Johnston	73	81	1.020%
Wayne	72	80	1.000%
Other NC counties*	1,067	1,188	14.889%
Other US states	392	436	5.464%
Total	**7,174**	**7,972**	**100.000%**

*Other NC counties with a projected patient origin of less than one percent are Beaufort, Bertie, Cabarrus, Caldwell, Caswell, Catawba, Chowan, Dare, Duplin, Forsyth, Franklin, Gaston, Granville, Halifax, Henderson, Iredell, Madison, Mitchell, Montgomery, Nash, Pamlico, Pender, Perquimans, Robeson, Rutherford, Sampson, Scotland, Stanly, Union, Vance, and Wilson counties.

In Section II.3, page 26, the applicant provides the updated projected patient origin for the med/surg bed population for the entire facility for operating years one and two, as illustrated in the table below.

UNCH Medical/Surgical Bed Population Projected Patient Origin Operating Years One and Two			
County/Area	**Patient Days OY1**	**Patient Days OY2**	**Percent of Patient Days**
Orange	22,490	23,622	13.20%
Wake	19,994	21,000	11.73%
Alamance	12,700	13,339	7.45%
Chatham	10,477	11,004	6.15%
Cumberland	10,219	10,733	6.00%
Durham	9,637	10,122	5.65%
Lee	6,377	6,698	3.74%
Harnett	5,523	5,801	3.24%
Robeson	4,362	4,582	2.56%
Guilford	3,992	4,193	2.34%
Johnston	3,819	4,012	2.24%
Sampson	2,957	3,105	1.73%
Moore	2,890	3,036	1.70%
New Hanover	2,746	2,884	1.61%
Randolph	2,701	2,837	1.58%
Onslow	2,649	2,782	1.55%
Wayne	2,451	2,574	1.44%
Nash	2,023	2,125	1.19%
Wilson	1,848	1,941	1.08%
Brunswick	1,826	1,918	1.07%
Halifax	1,713	1,799	1.01%
Vance	1,719	1,805	1.01%
Other NC counties*	30,141	31,658	17.69%
Other US states	5,134	5,392	3.01%
International	50	52	0.03%
Total	**170,437**	**179,014**	**100.00%**

*Other NC counties with a projected patient origin of less than one percent are Alexander, Alleghany, Anson, Ashe, Avery, Beaufort, Bertie, Bladen, Buncombe, Burke, Cabarrus, Caldwell, Camden, Carteret, Caswell, Catawba, Cherokee, Chowan, Cleveland, Columbus, Craven, Currituck, Dare, Davidson, Davie, Duplin, Edgecombe, Forsyth, Franklin, Gaston, Gates, Graham, Granville, Greene, Haywood, Henderson, Hertford, Hoke, Hyde, Iredell, Jackson, Jones, Lenoir, Lincoln, Macon, Madison, Martin, McDowell, Mecklenburg, Mitchell, Montgomery, Northampton, Pamlico, Pasquotank, Pender, Perquimans, Person, Pitt, Polk, Richmond, Rockingham, Rowan, Rutherford, Scotland, Stanly, Stokes, Surry, Swain, Transylvania, Tyrrell, Union, Warren, Washington, Watauga, Wilkes, Yadkin, and Yancey counties.

The applicant adequately identifies the population it proposes to serve.

<u>Analysis of Need</u>

In Section II.1, pages 6-11, the applicant discusses why the cost for the project will exceed 115 percent of the originally approved capital cost:

- The original application called for the Neurology Clinic to be relocated to renovated space in the Hedrick Building. However, the Hedrick building did not have enough space to accommodate the needs of the Neurology Clinic, so the Neurology Clinic was instead moved to renovated space in the Prestwick Place Building. The costs

associated with renovating the space in the Prestwick Place Building were higher than those for renovating the space in the Hedrick Building. (See pages 6 and 8.)

- The original application called for moving the Psychiatry Clinic doctors, staff, and faculty from the first floor of the Neurosciences Hospital (NSH) to various locations, including the ground floor and second floor of the NSH and the MacNider building. However, based on feedback from physicians and staff, more space was required than had been projected in the approved project. The Psychiatry Clinic now occupies offices on the ground floor, first floor, second floor, and third floor of the NSH as well as space in the MacNider building. To make room for the additional space needed, the Public Relations department was moved off-campus, the Carolina Care at Home Convenience Center was relocated from the ground floor of the NSH to the ground floor of the NC Memorial Hospital, and the Crisis Unit space on the first floor of the NSH was eliminated (the applicant states that Crisis Unit services are still available 24 hours per day and seven days per week in the emergency department). Moving additional offices and departments had higher costs than projected in the approved project. (See pages 6, 9-10.)

- The original application called for moving the BMTU to the first floor of the NSH and expanding the BMTU. After the relocation of the BMTU, the vacated space was set to become a 16-bed medical/surgical unit. No renovations were planned for the vacated space set to become the 16-bed medical/surgical unit. The three additional approved beds were to be placed in existing private rooms to make semi-private rooms. However, the applicant chose to develop the three additional acute care beds as private rooms, instead of creating semi-private rooms, which required extensive renovation of the space vacated by the BMTU. The extensive renovations needed based on the change in the unit from 16 beds to 19 beds had higher costs than projected in the approved project. (See pages 6 and 11.)

- The planned location of the BMTU has not changed from the original application; however, to comply with best practice standards and to reduce the risk of infections acquired by patients while in the hospital, a water filtration system was added to the plumbing system. The water filtration system expense was not part of the approved project. (See page 11.)

- Improvements to the electrical systems were performed that were not part of the original application. The expense for the improvements was not part of the approved project. (See page 6.)

This application seeks approval only for the increased capital cost of the project, as a result of an increase in the aforementioned costs. The original project scope will not be changed.

The following table from Section VI.2, pages 63-65, lists the originally approved capital costs, the new proposed costs, and the difference between the two that are associated with this cost overrun application.

UNCH Capital Costs – J-8812-12 vs. J-11028-15			
Category	**J-8812-12 Capital Cost**	**J-11028-15 Capital Cost**	**Difference**
Site Costs	$0	$0	$0
Construction Contract	$12,086,500	$15,389,400	$3,302,900
Miscellaneous Costs			
Moveable Equipment Purchase	$586,760	$524,400	($62,360)
Furniture	$629,000	$696,400	$67,400
Architect/Engineer Fees	$1,300,000	$1,811,900	$511,900
Project Contingency	$1,576,500	$1,668,700	$92,200
Subtotal – Miscellaneous Costs	$4,092,260	$4,701,400	$609,140
Total Capital Cost	**$16,178,760**	**$20,090,800**	**$3,912,040**

As shown in the capital costs table provided in Section VI.2, page 64, the cost overrun is largely due to increased construction costs and associated architect and engineering costs. In Section VI.2, page 65, the applicant states the construction costs are higher due to increased square footage and more labor costs due to the extension of the timetable. The applicant states the moveable equipment cost is lower due to lower cost estimates, and furniture is higher because increased square footage means a need for more furniture. The applicant states the electrical systems upgrades and water filtration systems add to the costs as well as costs for the architects and engineers to be available for a longer period of time.

The applicant adequately demonstrates the need for the proposed cost overrun.

Projected Utilization

In Section III.2, page 35, the applicant provides the projected utilization during operating years one and two for the med/surg beds and the BMTU beds, as shown in the tables below.

UNCH Projected Utilization – Med/Surg Beds* Operating Years One & Two		
	Operating Year One FY 7/1/16 – 6/30/17	**Operating Year Two FY 7/1/17 – 6/30/18**
Bed Days	197,830	196,735
# Beds	542	539
Discharges	37,167	36,917
Patient Days	165,188	164,077
% Occupancy	83.5%	83.4%

*The data used here represents each category across the entire UNCH campus, not just the 19 beds to be developed.

UNCH Projected Utilization – BMTU Beds Operating Years One & Two		
	Operating Year One FY 7/1/16 – 6/30/17	**Operating Year Two FY 7/1/17 – 6/30/18**
Bed Days	8,760	8,760
# Beds	24	24
Discharges	674	701
Patient Days	7,972	7,976
% Occupancy	91.0%	91.1%

In Section III.2, page 36, the applicant discusses the methodology and assumptions used to project utilization. The applicant adequately demonstrates that the utilization projections are based on reasonable and adequately supported assumptions.

Access

In Section IV.7, pages 43-44, the applicant projects that for operating years one and two, at least 62.8 percent of patient days in med/surg units will be paid for in part by Medicare and/or Medicaid. The applicant further projects that for operating years one and two, at least 39.5 percent of patient days in the BMTU will be paid for in part by Medicare and/or Medicaid. In Section IV.2, page 37, the applicant states:

> *"As North Carolina's only state-owned comprehensive, full service hospital-based program, UNC Hospitals has the obligation to accept any North Carolina citizen requiring medically necessary treatment. No North Carolina citizen is denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance."*

The applicant adequately demonstrates the extent to which all residents, including the medically underserved, will have access to its services.

Conclusion

In summary, the applicant adequately identifies the population to be served, adequately demonstrates the need for the cost overrun, and adequately demonstrates the extent to which all residents, including the medically underserved, will have access to the services. 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 II.4, pages 27-28, the applicant states the following four alternatives were considered:

- Maintain the Status Quo by Not Adding the Approved Beds – the applicant states this was not a viable alternative because it would mean operating with inefficiency and the inability to place patients in appropriate beds.

- Build a New Bed Tower on the Manning Drive Campus – the applicant states this is not a viable alternative at this time due to the significant costs associated with designing and building a new tower on limited space on the campus.

- Develop the Project as Proposed in Project I.D. #J-8812-12 – the applicant states that even though this option was previously thought to be the best alternative, issues were discovered while developing the project that led to higher costs.

- Develop the Project as Proposed – the applicant states this is the least costly or most effective alternative because it provides the additional space necessary to provide quality care and enhance safety.

Furthermore, in Project I.D. #J-8812-12, the application was conforming to all other applicable statutory review criteria. An application that cannot be approved cannot be an effective alternative. The applicant adequately demonstrates that the proposal is the least costly or most effective alternative. The application is conforming to this criterion and approved subject to the following conditions:

1. **University of North Carolina Hospitals at Chapel Hill shall materially comply with the representations made in Project I.D. #J-8812-12, this certificate of need application, Project I.D. #J-11028-15, and the supplemental information received July 30, 2015. In those instances where representations conflict, University of North Carolina Hospitals at Chapel Hill shall materially comply with the last made representation.**

2. **University of North Carolina Hospitals at Chapel Hill shall comply with all conditions of approval on the certificate of need for Project I.D. #J-8812-12, except as specifically modified by the conditions of approval for this application, Project I.D. #J-11028-15.**

3. **The total capital expenditure for both projects combined shall be $20,090,800.**

4. **University of North Carolina Hospitals at Chapel Hill shall acknowledge acceptance of and agree to comply 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.2, pages 62-65, the applicant states that the capital cost for this project will be $3,912,040 for a total capital cost for both projects of $20,090,800. In Section VI.2, page 65, the applicant provides a breakdown of the increased costs, summarized as follows:

UNCH Capital Costs – J-8812-12 vs. J-11028-15			
Category	**J-8812-12 Total Capital Cost**	**J-11028-15 Total Capital Cost**	**Difference**
Site Costs	$0	$0	$0
Construction Contract	$12,086,500	$15,389,400	$3,302,900
Miscellaneous Costs:			
Moveable Equipment Purchase	$586,760	$524,400	($62,360)
Furniture	$629,000	$696,400	$67,400
Architect/Engineer Fees	$1,300,000	$1,811,900	$511,900
Project Contingency	$1,576,500	$1,668,700	$92,200
Subtotal – Miscellaneous Costs	$4,092,260	$4,701,400	$609,140
Total Capital Cost	**$16,178,760**	**$20,090,800**	**$3,912,040**

In Sections VII.1 and VII.2, page 71, the applicant states there will be no start-up or initial operating expenses. In Section VI.5, page 67, the applicant states the capital cost of the project will be funded through accumulated reserves. Exhibit 10 contains a letter dated April 8, 2015 from the Executive Vice President and Chief Financial Officer for UNC Hospitals at Chapel Hill, confirming the availability of an additional $3,912,040 for the project from accumulated reserves.

Exhibit 11 contains an audited financial statement for UNCH-CH as of June 30, 2014. The applicant had cash and cash equivalents of $43,554,656 and total assets of $1,878,719,638. The applicant adequately demonstrates the availability of sufficient funds for the capital needs of the project.

In the pro forma financial statement for UNCH-CH (Form B), the applicant projects that revenues will exceed operating expenses in each of the first three years of the project, as illustrated in the table below.

UNCH-CH Total Revenue/Expenses – Operating Years 1-3			
	OY1 7/1/15 – 6/30/16	**OY2 7/1/16 – 6/30/17**	**OY3 7/1/17 – 6/30/18**
Total Revenue	$1,400,154,000	$1,468,736,000	1,496,386,000
Total Expenses	$1,243,315,000	$1,276,736,000	$1,295,915,000
Net Income	$156,839,000	$192,000,000	$200,471,000

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs, and charges. See the Financials section of the application for the assumptions used regarding costs and charges. The discussion regarding utilization found in Criterion (3) is incorporated herein by reference. The applicant adequately demonstrates that the financial feasibility of the proposal is based upon reasonable projections of costs and charges. 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.

C

On page 44, the 2015 SMFP defines the service area for licensed acute care hospitals as the county where the hospital is located, with the exception of any multicounty planning areas. Thus, in this application, the service area is Orange County. Hospitals may serve residents of counties not included in their service area.

On October 1, 2012, University of North Carolina Hospitals at Chapel Hill (UNCH-CH) was issued a certificate of need (CON) to develop 27 acute care beds for a total complement of 756 acute care beds at the completion of the project and Project I.D. #J-8501-10. The approved capital cost was $16.1 million and the project was scheduled to be complete by July 1, 2014. The current application is for a cost overrun of the initially approved project and the applicant states that services will be offered beginning on March 1, 2016. There is no material change in scope from the originally approved project in this application; the applicant states in Section II.4, page 28, that necessary changes to location, additional square footage, and system upgrades to be in full compliance with safety requirements are responsible for the increased costs. In Section VI.2, pages 62-65, the applicant states that the previously approved capital cost of $16,178,760 is now projected to be $20,090,800, an increase of $3,912,040 or 24.2 percent [($20,090,800 / $16,178,760) – 1 = 0.242 or 24.2%].

The applicant was previously approved to develop 27 acute care beds at UNCH (Project I.D. #J-8812-12). In Project I.D. #J-8812-12, the application was conforming to this

criterion, and the applicant proposes no changes in the current application that would affect that determination. 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.

C

In Section V.1, pages 45-47, the applicant states that there will be no new position or position categories necessary as a result of the change in the design of the facility, but additional personnel in those categories will be required. In Project I.D. #J-8812-12, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, 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.

C

In Section V.4, pages 50-60, the applicant describes the efforts made to coordinate with the existing health care system, and provides a list of names of providers, both within and outside the hospital system, who have expressed support for the project. In Section IV.5, pages 38-43, the applicant provides a list of hospitals with which it has transport agreements and a list of outside providers who refer patients to UNCH. Moreover, in Project I.D. #J-8812-12, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the application is conforming to 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.

C

In Sections II.1 and II.3, page 6 and pages 8-11, respectively, the applicant states that changes to the previously-approved project were needed due to the determination that the existing square footage was not adequate for the planned relocation of various clinics and offices as well as the addition of a water filtration system and electrical system upgrades to enhance patient safety. In Section II.4, page 28, the applicant states: *"..., once the more detailed planning and space programming commenced and early renovations began, it was determined that additional square footage and other changes were needed to accommodate the clinical needs of patients and the operational requirements of staff:…"*

This application for a cost overrun seeks only approval for increased capital cost of the project, resulting from the need to move clinics and offices differently because of the need for additional square footage and the installation and upgrade of systems. The original project scope will not be changed. In Section VI.2, page 65, the applicant provides a breakdown of the increased costs, summarized as follows:

UNCH Capital Costs – J-8812-12 vs. J-11028-15			
Category	**J-8812-12 Capital Cost**	**J-11028-15 Capital Cost**	**Difference**
Site Costs	$0	$0	$0
Construction Contract	$12,086,500	$15,389,400	$3,302,900
Miscellaneous Costs			
Moveable Equipment Purchase	$586,760	$524,400	($62,360)
Furniture	$629,000	$696,400	$67,400
Architect/Engineer Fees	$1,300,000	$1,811,900	$511,900
Project Contingency	$1,576,500	$1,668,700	$92,200
Subtotal – Miscellaneous Costs	$4,092,260	$4,701,400	$609,140
Total Capital Cost	**$16,178,760**	**$20,090,800**	**$3,912,040**

In Section IX.4(e), page 86, the applicant states that it proposes an increase in square footage to be renovated from 66,298 square feet to 75,354 square feet, an increase of 9,056 square feet. In addition, the applicant proposes to install a water filtration system in the BMTU and to upgrade existing electrical systems. The applicant provides line drawings for the updated plans for the project in Exhibit 14 as well as the original line drawings for Project I.D. #J-8812-12 in Exhibit 15.

The applicant adequately demonstrates that the cost, design, and means of construction represent the most reasonable alternative and that the construction costs will not unduly increase the costs and charges of the proposed services. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference. Therefore, the application is conforming to this criterion.

(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 IV.2, page 37, the applicant states: *"UNC Hospitals has traditionally provided services to a wide variety of patient groups."* The applicant provides utilization percentages for low income and medically underserved populations for UNC Hospitals as a whole, for inpatients excluding normal newborns, for the med/surg beds, and the BMTU, as illustrated the in the table below.

UNCH Utilization by Underserved Percentages – FY 2014					
	Low Income	**Racial & Ethnic Minorities**	**Women**	**Elderly**	**Other Underserved**
Total Hospital	16.6%	36.3%	58.5%	23.9%	11.0%
Inpatient (excl. norm newborn)	29.6%	40.9%	50.7%	22.4%	6.7%
Med/Surg	22.6%	39.8%	52.3%	28.0%	7.6%
BMTU	18.0%	28.1%	40.6%	15.7%	0.3%

Note: On page 37, the applicant states: *"Low-income is based on Medicaid plus one half of Medicaid pending. Other Underserved is based on Self Pay plus one half of Medicaid pending. Elderly is defined as patients aged 65 and over."*

In addition, the applicant's original application, Project I.D. #J-8812-12, was conforming to this criterion and the applicant proposes no changes in the current application that would affect that determination. Consequently, the application is conforming to 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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The applicant's original application, Project I.D. #J-8812-12, was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, 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

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In Section IV.6, page 44, and supplemental information received July 30, 2015, the applicant provides the payer mix for the second full fiscal year following completion of the proposed project, as illustrated in the following table. The applicant states that it projects the payer mix for future years to be the same as it was for fiscal year 2014.

UNCH Inpatient Days as a % of Total Utilization BMTU Patients		
Payer	**Days**	**% of Total**
Self Pay/Indigent/Charity	18	0.34%
Medicare/Medicare Managed Care	1,066	20.08%
Medicaid	1,032	19.44%
Commercial Insurance	14	0.27%
Managed Care	2,704	50.95%
Other	473	8.91%
Total	**5,308**	**100.00%**

UNCH Inpatient Days as a % of Total Utilization Med/Surg Patients*		
Payer	**Days**	**% of Total**
Self Pay/Indigent/Charity	12,948	7.86%
Medicare/Medicare Managed Care	66,062	40.10%
Medicaid	37,620	22.84%
Commercial Insurance	1,443	0.88%
Managed Care	38,573	23.42%
Other	8,085	4.91%
Total	**164,730**	**100.0%**

*For all med/surg patients – not just those in the beds to be developed.

Moreover, in Project I.D. #J-8812-12, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the application is conforming to 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 IV.5, page 38, the applicant states:

> *"Patients seen at UNC Hospitals are either self-referred, referred by their personal physicians or by a member of the medical staff at UNC Hospitals."*

On pages 39-43, the applicant provides a list of hospitals and facilities with which it has existing transfer agreements as well as a list of providers who refer patients to UNCH. In Section V.4, pages 54-60, the applicant provides a list of physicians and other affected individuals who have expressed support for the project. Moreover, the application was conforming to this criterion in Project I.D. #J-

8812-12 and the applicant proposes no changes in the current application that would affect that determination. Consequently, 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.

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In Project I.D. #J-8812-12, the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect that determination. Consequently, the application 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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On page 44, the 2015 SMFP defines the service area for licensed acute care hospitals as the county where the hospital is located, with the exception of any multicounty planning areas. Thus, in this application, the service area is Orange County. Hospitals may serve residents of counties not included in their service area.

The applicant was previously approved to add 27 acute care beds (Project I.D. #J-8812-12) to its existing facility. That application was conforming to this criterion and the applicant proposes no changes in the current application that would affect that determination. Consequently, the application is conforming to 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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The original application, Project I.D. #J-8812-12, was found to be conforming to this criterion. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents occurred within the eighteen months immediately preceding submission of the application through the date of this decision, for which any sanctions or penalties related to quality of care were imposed by the State on any facility owned and operated by UNCH-CH in North Carolina. 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