

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: July 8, 2016

Findings Date: July 8, 2016

Project Analyst: Jane Rhoe-Jones

Team Leader: Lisa Pittman

Project ID #: J-11168-16

Facility: Holly Hill Specialty Hospital

FID #: 160196

County: Wake

Applicants: Holly Hill Hospital, LLC  
Holly Hill Real Estate, LLC  
Universal Health Services, Inc.

Project: Develop 32 additional adult inpatient psychiatric beds in a newly constructed facility on the Michael J. Smith campus for a total of 172 adult inpatient psychiatric, 60 child/adolescent inpatient psychiatric and 28 substance abuse beds upon projection completion

### REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

G.S. 131E-183(a) The Agency 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 applicants, Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. (HHH) propose to develop 32 additional adult inpatient psychiatric beds in a newly constructed facility, Holly Hill Specialty Hospital, on the Michael J. Smith campus, Michael J. Smith Lane, Raleigh.

The 2016 State Medical Facilities Plan (SMFP) contains a need methodology for determining the number of new adult psychiatric inpatient beds needed by service area. Application of the

need methodology in the 2016 SMFP identified a need for 32 additional adult psychiatric inpatient beds in the area served by the Alliance Behavioral Healthcare local management entity-managed care organization (LME-MCO), which includes Cumberland, Durham, Johnston and Wake counties. The applicants do not propose to add more than 32 beds; therefore, the application is conforming to the need determination in the 2016 SMFP.

### **Policies**

There are three policies in the 2016 SMFP which are applicable to this review: Policy MH-1: Linkages between Treatment Settings, Policy GEN-3: Basic Principles, and Policy GEN-4: Energy Efficiency & Sustainability for Health Service Facilities.

Policy MH-1 states:

*“An applicant for a certificate of need for psychiatric, substance abuse, or intermediate care facilities for individuals with intellectual disabilities (ICF/IID) beds shall document that the affected local management entity-managed care organization has been contacted and invited to comment on the proposed services.”*

Exhibit 4 contains a copy of a letter, dated April 5, 2016, from the applicants to Alliance Behavior Healthcare, the LME-MCO, inviting them to comment on the proposed project. The application is conforming to Policy MH-1.

Policy GEN-3: Basic Principles, states:

*“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 II.11, pages 26-27, and Section III.2, page 47, the applicants discuss how the project will promote safety and quality. Exhibit 10 contains a copy of the applicants' quality and safety related policies and procedures. 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, pages 46-47, and Section VI, pages 63-71, the applicants discuss how the project will promote equitable access to psychiatric services. The applicants adequately demonstrate that the proposal will promote equitable access for medically underserved populations.

### Maximizing Healthcare Value

In Section III.2, page 47, the applicants state:

*“HHH will alleviate capacity constraints and reduce patient wait times in the community. Additional access to psychiatric inpatient beds will also reduce the strain on local emergency departments. Instead of languishing in an emergency department or observation unit, psychiatric patients can be appropriately admitted to an inpatient bed in a timelier manner. This reduces the total resources expended for each patient.*

*The proposed project is cost effective in that it leverages some of HHH’s existing staff and infrastructure to facilitate economies of scale.”*

The applicants adequately demonstrate the proposal will maximize healthcare value. See Criterion (3) for discussion regarding the need for the project which is incorporated herein by reference. See Criterion (5) for discussion regarding revenues and costs which is incorporated herein by reference. The application is conforming to Policy GEN-3.

Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities, 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 applicants 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 applicants’ 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 is 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 applicants’ 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.”*

The proposed capital expenditure for this project is greater \$5 million. In Section XI.7, pages 100-102, the applicants state,

*“For the proposed adult bed addition, HHH will design the new facility to be in compliance with all applicable federal, state, and local requirements for energy efficiency and water conservation, including the North Carolina Energy Conservation Code and Policy GEN-4 in the 2016 SMFP. The estimate and design of the proposed spaces takes [sic] into account all necessary energy-saving technologies that can be integrated into this project.*

*HHH will work with experienced architects and engineers ... Together they will strive to do the following:*

- *Use energy guidelines of the U.S. Department of Housing and Urban Development, U.S. Department of Energy, and the American Society of Heating, Refrigeration, and Air Conditioning Engineers for the design of health care facilities.*
- *USGBC LEED guidelines and Hospitals for a Healthy Environment Green Guide for Healthcare (GGHC) ... for opportunities to improve the cost of facility-wide operations, improve safety and improve patient outcomes.*
- *Provide natural lighting where possible to augment electrical lighting and minimize electricity usage.*
- *Design and locate windows to appropriately serve functions of lighting, ventilation and external views for patient rooms, family and staff areas.*
- *Incorporate a plumbing design which includes sensor-operated faucets and low flow toilets to minimize water usage.*
- *Control the solar heat gain into the facility through overhangs, natural buffers, sun controls and selection of glazing systems.*
- *Design for maximum efficiency and life cycle benefits within each mechanical system: heating, cooling, water, sewer and irrigation, including low-flow toilets and faucets.*
- *Provide, where feasible, heat recovery systems to extract heat normally wasted in exhaust air and transfer this energy to upcoming ventilation air to reduce energy usage.*
- *A third-party Commissioning Agent to verify the facility operates as designed.*

- *EPA Energy Star for Hospitals rating system to compare performance across HHH, NC and US, for benchmarking performance.”*

The applicants further described how the proposed facility will contain energy cost, including:

- Energy efficient light fixtures
- Window blinds to minimize heat gain
- Energy efficient heating, ventilation and air conditioning (HVAC) systems
- Double switch and sensor light switches to conserve energy
- Sensor-operated water faucets and low-gallon flush toilets

The application is consistent with Policy GEN-4.

### **Conclusion**

In summary, the application is conforming to Policy MH-1, Policy GEN-3, Policy GEN-4, and the need determination in the 2016 SMFP for new adult psychiatric inpatient beds. Therefore, the application is conforming to this criterion.

- (2) Repealed effective July 1, 1987.
- (3) The applicants 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

The applicants, Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. propose to develop 32 additional adult inpatient psychiatric beds in a newly constructed facility on the Michael J. Smith campus, Michael J. Smith Lane, Raleigh (Wake County) pursuant to the need determination in the 2016 SMFP.

### **Population to be Served**

On page 376, the 2016 SMFP defines the service area for psychiatric inpatient beds as “*the catchment area for the LME-MCO for mental health, developmental disabilities, and substance abuse services in which the bed is located.*” The LME-MCO for this project is Alliance Behavioral Healthcare, and the service area for this project consists of Cumberland, Durham, Johnston and Wake counties. Facilities may serve residents of counties not included in their service area.

In Section III.5, page 52, the applicants provides the projected patient origin for adult psychiatric inpatient services during the first two full fiscal years following project completion, as summarized below in the table.

<b>HOLLY HILL SPECIALTY HOSPITAL Projected Patient Origin (CY2018-CY2019)</b>	
<b>County</b>	<b>Percent of Total Patients</b>
Wake	53.7%
Franklin	2.4%
Harnett	2.3%
Durham	1.7%
Vance	1.6%
Davidson	1.6%
Johnston	1.5%
Cumberland	1.4%
Granville	1.2%
New Hanover	1.1%
Lee	1.0%
Other*	30.5%
<b>TOTAL</b>	<b>100.0%</b>

\*The applicants provide a list of the counties included in the "Other" category (<1% patient origin) on page 52 of the application.

In Section III.5, page 53, the applicants state their assumptions regarding projected patient origin as follows:

*"Projected patient origin is based on historical patient origin for adult inpatient services at HHH. HHH does not anticipate a significant change in patient origin as a result of the proposed bed expansion project."*

The applicants adequately identify the population proposed to be served.

### **Analysis of Need**

In Section III.1(a) and (b) of the application, pages 30-41 the applicants describe the factors which they state support the need for the proposed project; and in pages 42-46 provide their assumptions. The factors the applicants state to support need include:

- The 2016 SMFP need determination for 32 new adult psychiatric inpatient beds in the service area. (page 30)
- Psychiatric hospital bed reduction in North Carolina. State operated inpatient psychiatric beds decreased from 1,755 beds in State Fiscal Year01 to 812 beds in State Fiscal Year14. (pages 30-31)
- Psychiatric patients receiving care in emergency departments has increased due to increased population, increased demand for psychiatric services and decreased treatment options. Many acute care hospitals and their emergency departments are not designed or staffed for psychiatric patients. (pages 33-34)
- State mental health initiatives launched in November 2013 which focus on identifying and implementing best practice strategies for psychiatric crisis care while reducing

visits to emergency departments and criminal justice system involvement for individuals in behavioral health crises. (pages 34-36)

- Federal parity laws and the Affordable Care Act are projected to increase access to mental health services and mandate broader access to inpatient mental health care. (pages 36-37)
- The large and growing population in Wake County corresponds to increased need for additional mental health services and inpatient capacity in the county. (pages 38-39)
- Utilization of existing adult inpatient beds at Holly Hill Hospital has exceeded 100% occupancy since Calendar Year 2009 (CY). The applicants state that the average waitlist for admission to HHH is approximately 25 patients per day. (pages 39-41)

In Section IV(a), page 54, the applicants provide historical utilization for the adult psychiatric inpatient beds for the six months immediately preceding the submittal of the application (includes 117 beds October-December 2015 and 140 beds during January-March 2016), which is shown below in the table.

<b>HOLLY HILL HOSPITAL ADULT PSYCHIATRIC INPATIENT BEDS MOST RECENT SIX MONTH UTILIZATION</b>			
<b>Month-Year</b>	<b>Beds</b>	<b>Days of Care</b>	<b>Occupancy</b>
October 2015	117	3,913	107.9%
November 2015	117	3,786	107.9%
December 2015	117	3,913	107.9%
January 2016	140	4,013	92.5%
February 2016	140	3,754	92.5%
March 2016	140	4,160	92.5%

As shown in the above table, the applicants project stated an occupancy rate of 107.9% in October-December 2015 and an occupancy rate of 92.5% in January-March 2016; the six months immediately preceding submittal of their application. In Section II, page 29, the applicants state that the occupancy rate for all inpatient psychiatric beds (child/adolescent and adult) during the most recent six months was 92.7%. This exceeds the utilization standards required in 10A NCAC 14C .2603(a). (33,945 projected days of care / 183 days / 200 beds = 92.7% occupancy)

In Section IV.1(c), page 56, the applicants provide projected utilization for the proposed 172 adult psychiatric inpatient beds (includes current 140 beds plus 32 proposed) through the first two years of operation following completion of the project (CY2018-CY2019), which is summarized below in the following tables.

<b>HOLLY HILL SPECIALTY HOSPITAL ADULT PSYCHIATRIC INPATIENT BEDS PROJECTED UTILIZATION Operating Year 1 – CY2018</b>					
	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>	<b>Qtr 4</b>	<b>Total</b>
Licensed Inpatient Psychiatric Beds	172	172	172	172	172
Admissions	1,534	1,534	1,534	1,534	6,136
Patient Days of Care	13,270	13,270	13,270	13,270	53,081
Average Length of Stay (ALOS)	8.6	8.6	8.6	8.6	8.6
<b>Occupancy Rate</b>	<b>84.5%</b>	<b>84.5%</b>	<b>84.5%</b>	<b>84.5%</b>	<b>84.5%</b>
Total discharged patients readmitted at a later date					8.3%

<b>HOLLY HILL SPECIALTY HOSPITAL ADULT PSYCHIATRIC INPATIENT BEDS PROJECTED UTILIZATION Operating Year 2 – CY2019</b>					
	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>	<b>Qtr 4</b>	<b>Total</b>
Licensed Inpatient Psychiatric Beds	172	172	172	172	172
Admissions	1,608	1,608	1,608	1,608	6,432
Patient Days of Care	13,912	13,912	13,912	13,912	55,649
Average Length of Stay (ALOS)	8.6	8.6	8.6	8.6	8.6
<b>Occupancy Rate</b>	<b>88.6%</b>	<b>88.6%</b>	<b>88.6%</b>	<b>88.6%</b>	<b>88.6%</b>
Total discharged patients readmitted at a later date					8.3%

As shown in the above table, the applicants project they will have an occupancy rate of 88.6% in OY2. Furthermore, in the pro forma assumptions, the applicants show that occupancy for the total licensed psychiatric beds is projected to be 92.8% no later than the fourth quarter of the second operating year (CY2019) which exceeds the utilization standards required in 10A NCAC 14C .2603(b). (172 adult beds + 60 child/adolescent beds = 232 beds, 232 beds x 365 days = 84,680 days. 78,597 days /85,680 days = 92.8% occupancy in OY2)

The applicants describe their four-step methodology used to project adult inpatient psychiatric bed utilization in Section III.1(b), pages 42-46.

Step 1: Historical Utilization at HHH

The applicants state, “... the utilization of adult psychiatric beds at HHH has exceeded 100 percent occupancy since 2009.”

The following table shows an occupancy rate above 100% at Holly Hill Specialty Hospital for CY2009 – CY2015.



HOLLY HILL HOSPITAL ADULT INPATIENT PSYCHIATRIC UTILIZATION							
	CY2009	CY2010	CY2011	CY2012	CY2013	CY2014	CY2015
Licensed Adult IP Beds	64	64	64	64	80	80	117
Admissions	2,888	3,098	3,097	3,235	3,930	5,152	5,325
Discharges	2,891	3,114	3,032	3,200	3,927	5,138	5,326
Patient Days	24,766	26,639	26,253	27,669	35,592	43,882	46,068
ALOS	8.6	8.6	8.7	8.6	9.1	8.5	8.6
% Occupancy	106.0%	114.0%	112.4%	118.4%	121.9%	150.3%	107.9%

The applicants further state,

*“The most recent four-year compound annual growth rate (CY11-CY15) for HHH’s adult inpatient psychiatric admissions is 14.5%. Despite development of 16 additional adult IP beds in CY2013 and 37 additional adult IP beds in 2015, HHH’s adult occupancy rate remained above 100% occupancy through CY2015. In 2015, HHH deflected 3,754 adult patients because an inpatient bed was not available.*

*Most recently, HHH added 23 new adult IP beds in January 2016, (CON Project I.D. # J-10276-14). Immediately upon implementation of these additional beds, HHH’s adult inpatient capacity is maxed out. ... April 24, 2016 ... there were 67 adults in Wake County on the waitlist for admission to an adult inpatient psychiatric bed. Most of these patients were in Wake County hospital emergency departments. For adult patients, the average waitlist for admission to HHH is around 25 patients a day.*

*Additionally, ... the Affordable Care Act is expected to provide coverage for millions of Americans, including benefits for mental health. Therefore, additional capacity is clearly needed to address the growing need for behavioral health services at HHH.”*

**Step 2: Project Utilization During Interim Project Years (CY2016-CY2017)**

The applicants project admissions will increase one-third of its 14.5% four-year compound annual growth rate which is 4.8% ( $14.5 / 3 = 4.8\%$ ). The 23 additional beds will alleviate some capacity constraints. On page 48, the applicants state that the projected growth rate of 4.8% will continue through the first three project years.

As shown in the following table, the applicants project average length of stay (ALOS) based on their CY2015 length of stay of 8.6 days. The applicants state their ALOS formula as days of care divided by discharges.

<b>HOLLY HILL SPECIALTY HOSPITAL INTERIM YEAR UTILIZATION ADULT INPATIENT PSYCHIATRIC BEDS</b>		
	<b>Interim Years</b>	
<b>Adult IP Psychiatric Beds</b>	<b>CY2016</b>	<b>CY2017</b>
# Licensed beds	140	140
# Patients admitted	5,583	5,853
# Patients discharged	5,584	5,854
# Days of patient care	48,296	50,632
ALOS	8.6	8.6
% Occupancy	94.5%	99.1%

**Step 3: Project Utilization During Project Years**

The applicants project utilization based on assumptions and methodology stated in the application, pages 30-45 and summarized above in this criterion. The following table shows projected utilization for the adult inpatient psychiatric beds at HHH, during the first three Project Years 1-3 (PY).

<b>HOLLY HILL SPECIALTY HOSPITAL PROJECTED UTILIZATION ADULT INPATIENT PSYCHIATRIC BEDS</b>			
<b>Adult IP Psychiatric Beds</b>	<b>PY1 CY2018</b>	<b>PY2 CY2019</b>	<b>PY3 CY2020</b>
# Licensed beds	172	172	172
# Patients admitted	6,136	6,432	6,744
# Patients discharged	6,137	6,434	6,745
# Days of patient care	53,081	55,649	58,340
ALOS	8.6	8.6	8.6
% Occupancy	84.6%	88.6%	92.9%

The applicants state their over-100% occupancy since 2009 and having deflected 3,754 adult patients in 2015 due to capacity constraints and a waitlist of 25 adult patients everyday as factors supporting the projected growth rate. The applicants state, as shown in the above table, the additional 32 beds will reduce occupancy and corresponding capacity constraints.

**Step 4: Project ECT Visits**

Electroconvulsive therapy (ECT) is not regulated by certificate of need. However, the applicants project that five to seven percent of adult inpatient admissions will have ECT visits during Project Years 1-3.

Projected utilization is based on reasonable and adequately supported assumptions. Therefore, the applicants adequately demonstrate the need to develop 32 additional adult psychiatric inpatient beds at the proposed new facility in Wake County.

**Access**

In Section VI.2, pages 63-74, the applicants state that Holly Hill Hospital will provide services to all patients who meet medical criteria and are age appropriate regardless of their ability to

pay, racial/ethnic origin, color, religion, age, gender, physical or any other factors that would classify a patient as underserved. The applicants adequately demonstrate the extent to which all residents of the area, including underserved groups, are likely to have access to the proposed services.

### **Conclusion**

In summary, the applicants adequately identify the population to be served, demonstrate the need the population has for the project and demonstrate the extent to which all residents of the area, including underserved groups, are likely to have access to the proposed 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 applicants 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 applicants shall demonstrate that the least costly or most effective alternative has been proposed.

C

In Section III.3, pages 48-50, the applicants describe the alternatives considered prior to submitting this application for the proposed project, which include:

- Maintain the Status Quo –The applicants state that maintaining the status quo is not an effective alternative due to the need for community-based adult psychiatric inpatient beds which provide greater potential for patients to reintegrate into the community. The applicants also state that HHH has exceeded 100% occupancy since 2009 and cannot accommodate the growing need for behavioral health services as documented in Section III.1 in the application.
- Develop the Proposed Adult Psychiatric Beds in a Different Location – The applicants state this alternative was rejected because it would be less cost-effective due to land availability and the cost required to purchase additional land.
- Utilize Other IP Psychiatric Beds in Wake County – The applicants states that this not an effective choice to alleviate the need for beds at HHH.

After considering those alternatives, the applicants state the alternative represented in the application is the most effective alternative to meet the identified need.

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

In summary, the applicants adequately demonstrate that the proposal is the least costly or most effective alternative to meet the identified need. 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 no more than 32 adult psychiatric inpatient beds for a total of no more than 232 inpatient psychiatric beds (172 adult psychiatric beds and 60 child/adolescent beds).**
  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 Healthcare Planning and 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.

C

The applicants plan to develop 32 additional adult inpatient psychiatric beds in a newly constructed facility, Holly Hill Specialty Hospital, on its Michael J. Smith campus, Michael J. Smith Lane in Wake County.

**Capital and Working Capital Costs**

In Section VIII, page 87, the applicants project the total capital cost of the proposed project will be \$15,044,766, as shown in the following table:

<b>HOLLY HILL SPECIALTY HOSPITAL PROJECT CAPITAL COST</b>	
<b>Item</b>	<b>Total Costs</b>
Site Costs	\$899,220
Construction Contract	\$10,977,921
Equipment & Furniture	\$1,207,200
Landscaping	85,000
Consultant Fees (including A&E)	\$1,255,559
Contingency	\$ 619,867
<b>Total Capital Costs</b>	<b>\$15,044,766</b>

In Section IX, page 91, the applicants state there are no start-up or initial operating expenses for this project as this is an existing facility.

**Availability of Funds**

In Section VIII.5, page 89, the applicants state that the total capital cost will be funded with Universal Health Services’ (UHS) Revolving Credit Agreement. UHS is the parent company of Holly Hill Hospital, LLC. Exhibit 17 contains a letter from the Vice President and Treasurer of UHS which documents its commitment to fund the proposed project and the availability of funds in its Revolving Credit Agreement.

Exhibit 18 contains the unaudited consolidated financial statements for Universal Health Services, Inc. for the calendar years ending December 31, 2015 and 2014. As of December 31, 2015, UHS had \$61.2 million in cash and cash equivalents, \$1.7 billion in total assets, and \$4.3 billion in equity as of December 31, 2015. The applicants adequately demonstrate the availability of sufficient funds for the capital needs of the project.

**Financial Feasibility**

In Section XIII, the applicants provide the pro formas. The pro formas contain the projected charges and costs for the proposed services, in addition to the assumptions used to develop the pro formas. Form C, Statement of Revenues and Expenses states that revenues are projected in excess of expenses for adult inpatient psychiatric services in each of the first three full years of operation following project completion, as shown below in the table.

<b>HH SPECIALTY HOSPITAL ADULT PSYCHIATRIC BEDS REVENUE/OPERATING EXPENSES PROJECT YEARS 1-3</b>			
	<b>Project Year 1 2018</b>	<b>Project Year 2 2019</b>	<b>Project Year 3 2020</b>
Total Revenue	\$40,168,209	\$42,090,883	\$44,106,553
Total Expenses	\$24,153,760	\$25,189,357	\$26,081,177
<b>Net Profit</b>	<b>\$16,014,449</b>	<b>\$16,901,526</b>	<b>\$18,025,375</b>

The assumptions used by the applicants in preparation of the pro formas are reasonable, including projected utilization, costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. The applicants adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections

of costs and charges.

**Conclusion**

In summary, the applicants adequately demonstrate that sufficient funds will be available for the capital needs of the project. Furthermore, the applicants adequately demonstrate 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 applicants shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

C

The applicants, Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. propose to develop 32 adult psychiatric inpatient beds in a new facility - Holly Hill Specialty Hospital, on the Michael J. Smith campus, Michael J. Smith Lane, Raleigh (Wake County) pursuant to the need determination in the 2016 SMFP.

On page 376, the 2016 SMFP defines the service area for inpatient psychiatric beds as *“the catchment area for the LME-MCO for mental health, developmental disabilities, and substance abuse services in which the bed is located.”* Thus, the service area consists of Cumberland, Durham, Johnston and Wake counties. Facilities may serve residents of counties not included in their service area.

According to the inventory of adult psychiatric beds in Table 15A of the 2016 SMFP (pages 378-379), there are a total of 1,683 licensed adult psychiatric inpatient beds in the state, excluding beds in State Hospitals. In the applicants’ LME-MCO, Alliance Behavioral Health, there are nine hospitals with a total of 186 existing licensed adult psychiatric beds and 139 CON-approved adult psychiatric beds, as shown below in the table:

<b>ALLIANCE BEHAVIORAL HEALTH LME-MCO ADULT PSYCHIATRIC IN-PATIENT BEDS</b>				
<b>Name of Facility</b>	<b>County</b>	<b>Licensed Beds</b>	<b>License Pending</b>	<b>Total Adult Inventory</b>
Holly Hill Hospital	Wake	80	60	140
Cape Fear Valley Medical Center	Cumberland	28	0	28
Duke Regional Hospital	Durham	23	0	23
Duke University Medical Center	Durham	19	0	19
Johnston Health	Johnston	20	0	20
Strategic Behavioral Center-Garner**	Wake	0	24	24
UNC Hospitals at Wakebrook**	Wake	16	12	28
Triangle Springs	Wake	0	43	43
Veritas Collaborative*	Durham	0	0	0
<b>Totals</b>		<b>186</b>	<b>139</b>	<b>325</b>

Source: 2016 SMFP, Table 15A, page 378. \*Excludes 25 adult CON-approved beds for eating disorders. These beds are not in the inventory used to project need for adult psychiatric inpatient beds. \*\* CON- approved beds which are PSY-1 bed transfers from State Psychiatric Hospitals.

Of the 1,683 existing adult psychiatric inpatient beds in North Carolina, excluding beds in State Hospitals, only 186 or 11.0% ( $186/1,683 = 0.110$ ) are located in the applicants' service area. In addition, on July 26, 2014, the Agency issued a certificate of need to Holly Hill Hospital to add 23 adult psychiatric inpatient beds. In that application, Holly Hill Hospital reported an average annual occupancy rate of 122% for its 80 existing adult psychiatric inpatient beds in the prior year of operation (CY2013), as also reported in this application.

In Section III.1, pages 30-46, the applicants discuss their assumptions and methodology to project their need to develop the 32 adult psychiatric inpatient beds per the need methodology published in the 2016 SMFP. The applicants discuss the psychiatric hospital bed reduction in the state, the increased number of psychiatric patients in hospital emergency departments, the growing population in Wake County, the high level of psychiatric utilization in Wake County and the greater than 100% occupancy at their existing facility. In Section III.1(a), page 30, the applicants state the development of the adult psychiatric inpatient beds as proposed will ease capacity constraints at HHH and improve the quality of behavioral health care in Wake County because the project will expand access to psychiatric inpatient care. In Section III.1(b), page 41, the applicants state that HHH is an important resource for the medically underserved residents of Wake and surrounding counties and that many physicians refer their medically indigent patients to HHH. In Sections V, pages 58-61 and VI.6, pages 63-70, the applicants discuss accessibility of HHH for medically unserved groups such as low income persons, racial and ethnic minorities, women, handicapped persons, elderly and other underserved persons including the medically indigent, the underinsured and uninsured.

Therefore, the applicants adequately demonstrate that the proposed project will not result in unnecessary duplication of existing or approved adult inpatient psychiatric services. Consequently, the application is conforming to this criterion.

- (7) The applicants 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 VII.2, pages 77-78, the applicants provide the proposed operating year 2 (CY2019) staffing for the new psychiatric facility in, as shown below in the table.

<b>HOLLY HILL SPECIALTY HOSPITAL ADULT INPATIENT PSYCHIATRIC SERVICES CY2019 PROPOSED STAFFING</b>	
<b>Position</b>	<b>Proposed FTEs</b>
Nursing Administration	4.20
Practicing Psychologist	1.00
Psychiatric Social Workers	1.50
Psychiatric Registered Nurses	8.40
Nursing Assistants/Aides/Orderlies	7.10
Clerical /Unit Secretaries	2.80
Medical Records	0.90
Dietary	1.00
Housekeeping & Laundry	0.70
Engineering/Maintenance	0.10
Security	0.25
Administration	1.99
Admissions/Intake/Remote Triage	1.00
Activity Therapy	0.30
<b>TOTAL</b>	<b>31.24</b>

Source: Table VII.2, pages 78.

In Section VII.3, page 79, the applicants describe their experience and process for recruiting and retaining staff. In Section VII.8, page 85, the applicants identify Thomas Cornwall, M.D., as the Medical Director for the proposed facility. Exhibit 3 contains a copy of a letter from Dr. Cornwall expressing his support for the project and willingness to serve as Medical Director. Exhibit 14 of the application contains copies of letters from area physicians and other healthcare providers expressing support for the proposed project. The applicants adequately demonstrate the availability of sufficient health manpower and management personnel to provide the proposed services. Therefore, the application is conforming to this criterion.

- (8) The applicants 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 applicants shall also demonstrate that the proposed service will be coordinated with the existing health care system.

C

In Section II.3, page 20, and Section II.9, pages 24-25, the applicants describe the proposed providers of the necessary ancillary and support services. Exhibit 9 contains the applicants' *Plan for Professional Services/Provision of Care*. Exhibit 14 contains letters of support from physicians and other health care providers. Exhibit 14 also contains letters of support from WakeMed and UNC Hospitals. The applicants adequately demonstrate that the necessary ancillary and support services are available and that the proposed services will be coordinated with the existing healthcare system. Therefore, 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 applicants shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicants 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 applicants 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

The applicants propose to develop the 32 adult psychiatric beds in Holly Hill Specialty Hospital - a new 44,710 square foot facility to be located at Michael J. Smith Lane in Raleigh. Exhibit 12 contains a letter from an architect that estimates construction costs of \$10,977,921, which corresponds to the project capital cost projections provided by the applicants in Section VIII.1, page 87, of the application. In Section XI.7, pages 100-102, the applicants describe the methods that will be used by the facility to maintain efficient energy operations and contain the costs of utilities. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference. The applicants adequately demonstrate that the cost, design and means of construction represent the most reasonable alternative, and that the construction cost will not unduly increase costs and charges for health services. Therefore, the application is conforming to this criterion.

- (13) The applicants 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 applicants 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;

C

In Section VI.11, page 72, the applicants provide the current payor mix for all inpatient psychiatric beds during calendar year 2015, which is illustrated below in the table.

<b>HOLLY HILL HOSPITAL INPATIENT PSYCHIATRIC BEDS CY2015</b>	
<b>Payor</b>	<b>Patient Days as % of Total</b>
Self-Pay/Indigent/Charity	3.2%
Medicare/Medicare Managed Care	17.9%
Medicaid	21.2%
Commercial Insurance/Managed Care/Blue Cross	39.0%
Local Government	18.7%
Total	100.0%

The United States Census Bureau provides demographic data for North Carolina and all counties in North Carolina. The following table contains relevant demographic statistics for the applicants' market area.

Percent of Population						
County	% 65+	% Female	% Racial & Ethnic Minority*	% Persons in Poverty**	% < Age 65 with a Disability	% < Age 65 without Health Insurance**
Wake	10%	51%	39%	12%	5%	14%
Franklin	15%	50%	37%	15%	11%	19%
Harnett	11%	51%	37%	21%	10%	19%
Durham	11%	52%	58%	17%	7%	18%
Vance	16%	53%	59%	27%	19%	18%
Davidson	17%	51%	19%	17%	12%	18%
Johnston	12%	51%	31%	15%	10%	19%
Cumberland	11%	51%	55%	18%	11%	16%
Granville	15%	49%	42%	16%	15%	17%
New Hanover	16%	52%	23%	18%	9%	19%
Lee	15%	51%	42%	19%	10%	21%
Statewide	15%	51%	36%	17%	10%	15%

Source: <http://www.census.gov/quickfacts/table>, 2014 Estimate as of December 22, 2015.

\*Excludes "White alone" who are "not Hispanic or Latino"

\*\*"This geographic level of poverty and health estimates are not comparable to other geographic levels of these estimates. Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable...The vintage year (e.g., V2015) refers to the final year of the series (2010 thru 2015). Different vintage years of estimates are not comparable."

However, a direct comparison to the applicants' current payor mix would be of little value. The population data by age, race or gender does not include information on the number of elderly, minorities, women or handicapped persons utilizing health services.

The applicants demonstrate that they currently provide adequate access to medically underserved populations. Therefore, 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 applicants;

C

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 70, 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 70, 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 to this criterion.

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

C

In Section VI.12, page 73, 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.

<b>HOLLY HILL SPECIALTY HOSPITAL ADULT INPATIENT PSYCHIATRIC BEDS CY2019</b>	
<b>Payor</b>	<b>Patient Days as % of Total</b>
Self-Pay/Indigent/Charity	4.6%
Medicare/Medicare Managed Care	25.7%
Medicaid	5.1%
Commercial Insurance/Managed Care/Blue Cross	38.7%
Local Government	25.9%
Total	100.0%

On page 71, the applicants state,

*“HHH provides many community benefits as a corporate citizen. Included in the community benefits is provision of healthcare services without receiving reimbursement for services. HHH experienced write-offs for Medicare, Medicaid, Wake County and charity care patients during CY 2015. As previously described, HHH has procedures in place to assist patients who are facing difficulty in paying for healthcare services, due to an absence of medical insurance coverage, or due to medical coverage which provides only minimal benefits.”*

As shown in the table above, the applicants project that 30.8% of all adult psychiatric inpatient days of care will be provided to recipients of Medicare and Medicaid; while another 25.9% of adult psychiatric inpatient days will be paid for by local government. The applicants demonstrate that medically underserved population will have adequate access to the services offered at Holly Hill Specialty Hospital. Therefore, the application is conforming to this criterion.

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

C

In Section VI.8, page 69, the applicants describe the range of means by which a person will have access to Holly Hill Specialty Hospital services, including physician referral, law enforcement, other medical providers and hospitals. Exhibit 5 contains HHH's *Patient Admission & Discharge Policies*. The applicants adequately demonstrate that the facility will offer a range of means by which patients will have access to adult inpatient psychiatric services. Therefore, the application is conforming to this criterion.

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

C

In Section V.1, page 58, the applicants state that they will continue to accommodate the clinical needs of area health professional training programs. Exhibit 15 contains a copy of a clinical training agreement. The applicants state that they have clinical training agreements with the UNC-CH Department of Psychology, Barton College School of Nursing, East Carolina University schools of Nursing and Social Work and ECPI School of Nursing. The information provided is reasonable and credible and supports a finding of conformity 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 applicants 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 applicants shall demonstrate that its application is for a service on which competition will not have a favorable impact.

C

The applicants, Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. propose to develop 32 adult psychiatric inpatient beds in a new facility - Holly Hill Specialty Hospital, on the Michael J. Smith campus, Michael J. Smith Lane, Raleigh (Wake County) pursuant to the need determination in the 2016 SMFP.

On page 376, the 2016 SMFP defines the service area for inpatient psychiatric beds as "*the catchment area for the LME-MCO for mental health, developmental disabilities, and substance abuse services in which the bed is located.*" Thus, the service area consists of Cumberland, Durham, Johnston and Wake counties. Facilities may serve residents of counties not included in their service area.

According to the inventory of adult psychiatric beds in Table 15A of the 2016 SMFP (pages 378-379), there are a total of 1,683 licensed adult psychiatric inpatient beds in the state, excluding beds in State Hospitals. In the applicants' LME-MCO, Alliance Behavioral Health, there are nine hospitals with a total of 186 existing licensed adult psychiatric beds and 139 CON-approved adult psychiatric beds, as shown below in the table:

<b>ALLIANCE BEHAVIORAL HEALTH LME-MCO ADULT PSYCHIATRIC IN-PATIENT BEDS</b>				
<b>Name of Facility</b>	<b>County</b>	<b>Licensed Beds</b>	<b>License Pending</b>	<b>Total Adult Inventory</b>
Holly Hill Hospital	Wake	80	60	140
Cape Fear Valley Medical Center	Cumberland	28	0	28
Duke Regional Hospital	Durham	23	0	23
Duke University Medical Center	Durham	19	0	19
Johnston Health	Johnston	20	0	20
Strategic Behavioral Center-Garner**	Wake	0	24	24
UNC Hospitals at Wakebrook**	Wake	16	12	28
Triangle Springs	Wake	0	43	43
Veritas Collaborative*	Durham	0	0	0
<b>Totals</b>		<b>186</b>	<b>139</b>	<b>325</b>

Source: 2016 SMFP, Table 15A, page 378. \*Excludes 25 adult CON-approved beds for eating disorders. These beds are not in the inventory used to project need for adult psychiatric inpatient beds. \*\* CON-approved beds which are PSY-1 bed transfers from State Psychiatric Hospitals.

Of the 1,683 existing adult psychiatric inpatient beds in North Carolina, excluding beds in State Hospitals, only 186 or 11.0% ( $186/1,683 = 0.110$ ) are located in the applicants' service area. In addition, on July 26, 2014, the Agency issued a certificate of need to Holly Hill Hospital to add 23 adult psychiatric inpatient beds. In that application, Holly Hill Hospital reported an average annual occupancy rate of 122% for its 80 existing adult psychiatric inpatient beds in the prior year of operation (CY2013), as also reported in this application.

In Section V.6, pages 60-62, the applicants discuss how any enhanced competition in the service area would have a positive impact on the cost-effectiveness, quality and access to the proposed services. The applicants state,

*"... HHH is the largest provider of inpatient behavioral health services in Wake County, and has earned a reputation of being a high-quality health care provider. Additionally, HHH will continue to provide behavioral health services to medically indigent patients.*

...

*Access - HHH's behavioral health services are an important resource for medically underserved residents in Wake County and surrounding communities. Many physicians refer their patients to HHH who are medically indigent. Please refer to Exhibit 14 for letters of support from many of these physicians.*

*HHH participated in the IMD waiver pilot, in which HHH was eligible to be reimbursed for treating Medicaid patients ages 21-64 through December 31, 2015. ... HHH will continue to provide access to the medically indigent as discussed in Section VI.*

*Quality - ... HHH constantly reviews its data and processes to determine how it can improve the services it provides.*

*... 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. Please refer to Exhibit 10...*

*Cost Effectiveness – HHH will alleviate capacity constraints and reduce patient wait times in the community. Additional access to psychiatric inpatient beds will also reduce the strain on local emergency departments. ... This reduces the total resources for each patient.*

*The proposed project is cost effective in that it leverages some of HHH's existing staff and infrastructure to facilitate economies of scale.”*

See also Sections II, III, V, VI and VII where the applicants discuss the impact of the project on cost-effectiveness, quality and access.

The information provided by the applicants in the application is reasonable and adequately demonstrates that any enhanced competition in the service area would have a positive impact on the cost-effectiveness, quality and access to the proposed services. This determination is based on the information in the application and the following analysis:

- The applicants adequately demonstrate the need for the project and that it is a cost-effective alternative. The discussions regarding the analysis of need and alternatives found in Criteria (3) and (4), respectively, are incorporated herein by reference.
- The applicants adequately demonstrate that they will provide quality services; and
- The applicants adequately demonstrate that they will provide adequate access to medically underserved populations. The discussion regarding access found in Criterion (13) is incorporated herein by reference.

Therefore, 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.

## C

In Section I.12 (a-c), pages 14-15, the applicants state that Universal Health Services, Inc. is the ultimate parent company of Holly Hill Hospital (Holly Hill Hospital and Holly Hill Child and Adolescent in Raleigh) and Holly Hill Real Estate, LLC, and is also the parent company of the corporate entities owning two other psychiatric facilities in North Carolina. The other two facilities are Brynn Marr Hospital in Jacksonville and Old Vineyard Behavioral Health in Winston –Salem. The facilities are shown below in the table.

Facility	Survey Date	Back in Compliance
Holly Hill Hospital: Raleigh (including Holly Hill Hospital-Child & Adolescent: Raleigh)	5.12.2016	Yes
Brynn Marr Hospital: Jacksonville	5.11.2016	Yes
Old Vineyard Behavioral Health: Winston-Salem	6.22.16	Yes

In Section I.12a-b, page14, the applicants state that they currently own three facilities in North Carolina. According to the files in Acute and Home Care Licensure and Certification Section, DHRS, one incident occurred at each of the three different facilities within the eighteen months immediately preceding submission of the application through the date of this decision related to quality of care. As of the date of this decision, the problems had been corrected. After reviewing and considering information provided by the applicants and by the Acute and Home Care Licensure and Certification Section and considering the quality of care provided at all three facilities, the applicants provided sufficient evidence that quality care has been provided in the past. 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.

C

The application is conforming to all applicable Criteria and Standards for Psychiatric Beds promulgated in 10A NCAC 14C .2600. The specific criteria are discussed below.

**.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- In Section II, page 29, the applicants provide historical utilization for the total number of licensed psychiatric beds for a six month period from October 2015 to March 2016. HHH had a six-month average occupancy rate of 92.70% which exceeds the 75% average occupancy required by this Rule.



- (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- In the pro formas, the applicants provide the projected total number of days for inpatient beds for the second operating year (CY2019) following completion of the project. The applicants' project utilization to be 92.8% during the second operating year (78,597 projected inpatient psychiatric days / (232 beds x 365 days) = 78,597 / 84,680 = 92.8%) which exceeds the 75% average occupancy required by this Rule.

The applicants' assumptions and methodology used to project utilization of the psychiatric beds are provided in Section III.1, pages 30-46. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.