

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: June 23, 2016

Findings Date: June 23, 2016

Project Analyst: Mike McKillip

Team Leader: Fatimah Wilson

Project ID #: J-11165-16

Facility: SECU Jim and Betsy Bryan Hospice Home of UNC Healthcare

FID #: 130369

County: Chatham

Applicant: University of North Carolina Hospitals at Chapel Hill

Project: Cost overrun on Project I.D. # J-10175-13 (Develop an inpatient hospice facility)

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.

NA

The applicant, University of North Carolina Hospitals at Chapel Hill d/b/a SECU Jim and Betsy Bryan Hospice Home of UNC Healthcare [**UNC Hospice**] proposes a cost overrun to Project I.D. # J-10175-13, which authorized the applicant to develop a 10-bed hospice facility with six inpatient hospice beds and four residential hospice beds on Russet Road in Pittsboro (Chatham County). The original project, Project I.D. # J-10175-13, which was approved on February 25, 2014, was approved for a capital cost of \$4,710,222. In Section VI.4, page 29, the applicant states that the project is now projected to cost \$5,745,854, an increase of \$1,035,632 or 22% [$(\$5,745,854/\$4,710,222) - 1 = 0.22$ or 22%]. In Section X, page 84, the applicant states that the project will be complete in October 2016. There is no material change in scope from the originally approved project in this application.

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 2016 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations in the 2016 SMFP that are applicable to this review.

Policies

There are no policies in the 2016 SMFP which are applicable to this review.

Conclusion

In summary, there are no need determinations or policies applicable to this review. Therefore, this criterion is not applicable.

- (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

The applicant, UNC Hospice, proposes a cost overrun to Project I.D. # J-10175-13 (Develop an inpatient hospice facility). In Section II.1(a), pages 4-5, the applicant describes the project as follows:

“The scope of the project is consistent with the previously approved project scope. UNC Hospitals is developing a 10 beds [sic] facility, with 6 general inpatient rooms and 4 residential patient rooms. The proposed project is a change in a previously approved project, CON Project ID #J-10175-13, as the new capital expenditure is now projected to exceed the approved total project cost by more than 15%...”

Bids were opened on June 11, 2015 and the construction contract was awarded to LeChase Construction. The construction bids came in much higher than anticipated but staff was determined to value engineer the overage out of the project in order to avoid a cost overrun situation. Construction began September 1, 2015.

Staff has worked with engineers and architects to evaluate numerous ways to reduce the project costs, and many reductions were able to be made. However, most recently, it became apparent that not enough costs could be value engineered without sacrificing patient care quality and safety, LEED certification, and patient and staff comfort. Thus, this Abridged CON application is being submitted to allow the project to be developed without sacrificing these essential components. ... The abridged application proposes

an increase in SF [square feet] from the previously approved 11,000 to approximately 11,900.”

Population to be Served

On page 326, the 2016 SMFP defines the service area for hospice inpatient beds as the county in which the bed is located. Each of the 100 counties in the state is a separate hospice inpatient facility bed planning area. Thus, in this application, the service area is Chatham County. Hospice facilities may serve residents of counties not included in their service area.

In Section II.4(b), page 9, the applicant states that it is not projecting any changes in the services, service area or utilization from the previously approved application. Therefore, the applicant has adequately identified the population to be served.

Analysis of Need

The following table compares the previously approved capital cost and the proposed capital cost in this application, as reported on page 30.

UNC Hospice PREVIOUSLY APPROVED AND PROPOSED CAPITAL COSTS			
	Previously Approved Cost	Proposed Cost	Increase/ (Decrease)
Site Costs	\$1,300,000	\$1,051,200	(\$248,800)
Construction Costs	\$2,514,677	\$3,684,900	\$1,170,223
Fixed Equipment Purchase/Lease	\$174,260	\$136,060	(\$38,200)
Movable Equipment Purchase/Lease	\$270,998	\$207,182	(\$63,816)
Furniture	\$163,616	\$216,234	\$52,618
Architect/Engineering Fees	\$286,672	\$450,278	\$163,606
Total Capital Costs	\$4,710,223	\$5,745,854	\$1,035,632

Source: Table on page 30 of the application.

In Section II.4, pages 7-9, the applicant describes the need that necessitated the cost overrun. On page 7, the applicant states:

“The abridged application proposes an increase in SF from the previously approved 11,000 SF to approximately 11,900 SF. Of the additional SF, all but the creation of one ‘quiet room’ was the result of spaces that were identified previously approved CON application now being enclosed, conditioned and enlarged [sic]. 10A NCAC 14C .4000 includes regulation that hospice facilities endeavor to provide care in a home-like setting. The sentiment of resident-centered care in tranquil environments is an industry standard of care. UNC Hospice is committed to develop and maintain the home-like setting in accordance with regulatory standards. The increased SF is needed to allow UNC Hospice and the facility meet patient and family needs through the provision of palliative care for the terminally ill [sic].”

The applicant states that the additional square footage and associated increases in project costs were necessary to add one larger bariatric patient room, small increases to the other patient rooms, the enclosure of a sun room to allow year round use of the space, the addition of a “quiet room” at the end of the patient room corridor, the development of an enclosed meditation room rather than a meditation garden, the addition of a fence for outdoor privacy for the patient room patios, and the installation of an oxygen system and piping rather than relying on portable oxygen tanks in patient rooms.

The applicant is not proposing any new or additional services. The applicant adequately demonstrated the need for the proposed cost overrun.

Access

In Section IV.2, pages 21-23, the applicant states its commitment to provide services to all patients who need the services regardless of their ability to pay, racial/ethnic origin, age, gender, physical or mental conditions or other conditions that would classify them as underserved. In Section IV.6, page 24, the applicant projects that 93 percent of hospice inpatient days of care will be provided to Medicare or Medicaid recipients. The applicant adequately demonstrates the extent to which all residents, including underserved groups, will have access to the proposed services.

Conclusion

In the original application, the applicant adequately identified the population to be served, demonstrated the need for the 10-bed inpatient hospice facility, and the extent to which all residents of the service area, including underserved groups, are likely to have access to its services. In this application, the applicant adequately demonstrates the need for the proposed cost overrun. Consequently, the cost overrun 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.5, pages 10-11, the applicant describes the alternatives considered prior to submitting this application for the proposed project, which include:

- Maintain the Status Quo –The applicant states that maintaining the status quo is not an effective alternative because it would not address the requirement that all buildings in Chatham Park meet LEED certification. Therefore, the decision not to meet LEED certification requirements would require a change of site for the facility. Also, a decision to forgo the development of a bariatric patient room, enclose the sun room and meditation rooms, or make the other modifications, would not meet the need to provide palliative hospice care for patients and families in home-like spaces and common areas in a manner that would maximize the quality of life and meet the patient’s physical, spiritual, psychological and emotional needs.
- Complete the Approved Project and Wait One or Two Years to Make Changes – The applicant states that it considered completing the previously approved project, and then adding the needed spaces at a later time. However, the applicant states this alternative is not practical or cost-effective because it would result in disruption to patients and families due to additional construction following the opening of the facility, and would be more costly than undertaking the changes at this time.

After considering those alternatives, the applicant states 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 applicant 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. University of North Carolina Hospitals at Chapel Hill d/b/a SECU Jim and Betsy Bryan Hospice Home of UNC Healthcare shall materially comply with all representations made in the certificate of need for Project I.D. # J-10175-13 except as specifically modified by the conditions of approval for this application, Project I.D. # J-11165-16.**
- 2. The total approved capital expenditure for Project I.D. # J-10175-13 and Project I.D. # J-11165-16 combined shall be \$5,745,854.**
- 3. University of North Carolina Hospitals at Chapel Hill d/b/a SECU Jim and Betsy Bryan Hospice Home of UNC Healthcare shall not acquire, as part of this project, any equipment that is not included in the project’s proposed capital expenditures in Section VII of the application and that would otherwise require a certificate of need.**
- 4. University of North Carolina Hospitals at Chapel Hill d/b/a SECU Jim and Betsy Bryan Hospice Home of UNC Healthcare shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to issuance of the certificate of need.**

- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

The proposed project is for a cost overrun for UNC Hospice’s project to develop a 10-bed inpatient hospice facility in Chatham County (Project I.D. # J-10175-13).

Capital and Working Capital Costs

The total capital cost is now expected to be \$5,745,854, an increase of \$1,035,632 [\$5,745,854 - \$4,710,223 = \$1,035,632] over the previously approved capital cost. See Section VI.4, pages 29-30. In Section VII.1, page 34, the applicant states there will be no change in start-up expenses or initial operating expenses associated with this cost overrun. The following table compares the previously approved capital cost and the proposed capital cost in this application, as reported on page 30.

UNC Hospice PREVIOUSLY APPROVED AND PROPOSED CAPITAL COSTS			
	Previously Approved Cost	Proposed Cost	Increase/ (Decrease)
Site Costs	\$1,300,000	\$1,051,200	(\$248,800)
Construction Costs	\$2,514,677	\$3,684,900	\$1,170,223
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Furniture	\$163,616	\$216,234	\$52,618
Architect/Engineering Fees	\$286,672	\$450,278	\$163,606
Total Capital Costs	\$4,710,223	\$5,745,854	\$1,035,632

Source: Table on page 30 of the application.

Availability of Funds

In Section VI.5, page 32, the applicant states that the project capital costs will be funded by the owner’s equity. In Exhibit 9, the applicant provides a copy of a letter dated April 8, 2016, from the Executive Vice President and Chief Financial Officer for UNC Hospitals documenting its intention to fund the capital costs for the proposed project. Exhibit 10 contains a copy of the financial statements for UNC Hospitals at Chapel Hill that indicate it had \$126 million in cash and cash equivalents, \$2 billion in total assets, and \$1.2 billion in net assets as of June 30, 2015. The applicant adequately demonstrates that sufficient funds will be available for the capital needs of the project.

Financial Feasibility

In the pro forma financial statements for UNC Hospice (Form B), the applicant projects that revenues will exceed operating expenses in the third operating year of the project, as shown in the table below.

UNC Hospice			
	FFY2017	FFY2018	FFY2019
Total Revenue	\$1,129,681	\$1,238,934	\$1,349,933
Total Expenses	\$1,209,740	\$1,244,343	\$1,253,231
Net Income (Loss)	(\$80,059)	(\$5,409)	\$96,702

The original application was determined to be conforming to this criterion with regard to the financial feasibility of the proposed 10-bed inpatient hospice facility. In the current application, the applicant does not propose any changes that would affect that determination.

Conclusion

In summary, the applicant adequately demonstrates the availability of funds for the increased capital needs of the project. Therefore, the cost overrun 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 326, the 2016 SMFP defines the service area for hospice inpatient beds as the county in which the bed is located. Each of the 100 counties in the state is a separate hospice inpatient facility bed planning area. Thus, in this application, the service area is Chatham County. Hospice facilities may serve residents of counties not included in their service area.

In Project I.D. # J-10175-13, the applicant was approved to develop a 10-bed inpatient hospice facility. In Project I.D. # J-10175-13, the application was conforming to this criterion and no changes are proposed in this application that would affect that determination. Consequently, the cost overrun 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, page 25, the applicant states the staffing projections for the proposed hospice facility in this application are the same as those in the previously approved application. In Project I.D. # J-10175-13, the application was conforming to this criterion, and the applicant

proposes no changes in the current application that would affect that determination. Consequently, the cost overrun 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 Project I.D. # J-10175-13, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the change of scope 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

The applicant proposes a cost overrun to Project I.D. # J-10175-13 to develop a 10-bed inpatient hospice facility. Following the cost overrun, the proposed project will include a total of 11,900 square feet of new construction. Exhibit 7 contains a certified cost estimate from an architect that estimates construction costs that are consistent with the project capital cost projections provided by the applicant in Section VI.1, page 29 of the application. The additional capital cost associated with this project is \$1,035,632. The applicant states that construction bids for the project came in much higher than anticipated. The discussion regarding analysis of need found in Criterion (3) is incorporated herein by reference. In Section IX.5, pages 47-49, and Exhibit 6, the applicant describes 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 applicant adequately demonstrates 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 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;

C

In Project I.D. # J-10175-13, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the cost overrun 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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In Project I.D. # J-10175-13, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the cost overrun 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 24, the applicant projects the following payer mix for UNC Hospice's services for the second operating year (FFY2018):

Payer Category	Hospice Inpatient Days of Care Percent of Total
Medicare	88.12%
Medicaid	4.60%
Commercial Insurance	6.44%
Self Pay (Includes Indigent)	0.84%
Total	100.0%

In Project I.D. # J-10175-13, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the cost overrun 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.

C

In Project I.D. # J-10175-13, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the cost overrun application is conforming to this criterion.

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

C

In Project I.D. # J-10175-13, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the cost overrun 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.

C

On page 326, the 2016 SMFP defines the service area for hospice inpatient beds as the county in which the bed is located. Each of the 100 counties in the state is a separate hospice inpatient facility bed planning area. Thus, in this application, the service area is Chatham County. Hospice facilities may serve residents of counties not included in their service area.

In Project I.D. # J-10175-13, the application was conforming to this criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the cost overrun 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

According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, one UNC Health Care System facility, Wayne Memorial Hospital, is currently out of compliance pursuant with a CMS Condition of Participation following a March 15, 2016 EMTALA survey. No other 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 other facility owned and operated by the UNC Health Care System in North Carolina. After reviewing and considering information provided by the applicant and by the Acute and Home Care Licensure and Certification Section and considering the quality of care provided at UNC Health Care System facilities, the applicant 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.

NA