

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: June 27, 2016

Findings Date: June 27, 2016

Project Analyst: Celia C. Inman

Team Leader: Lisa Pittman

Project ID #: J-11164-16

Facility: University of North Carolina Hospitals

FID #: 923517

County: Orange

Applicant: University of North Carolina Hospitals at Chapel Hill

Project: Develop 55 additional acute care beds on the Chapel Hill campus for a total of 789 acute care beds on the Chapel Hill campus and a total of 890 acute care beds on the hospital license

### 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.

CA

The University of North Carolina Hospitals at Chapel Hill (UNC Hospitals), the applicant, proposes to develop 55 additional acute care beds at UNC Hospitals Chapel Hill Campus (Main Campus), for a total of 789 licensed acute care beds on Main Campus upon completion of this project and Project ID #J-11032-15 (Add 42 acute care beds).

**Need Determination**

The 2016 State Medical Facilities Plan (SMFP) includes an Acute Care Bed Need Determination for 84 additional acute care beds in the Orange County Service Area. The 2016 SMFP states:

*“Any qualified applicant may apply for a certificate of need to acquire the needed acute care beds. A person is a qualified applicant if he or she proposes to operate the additional acute care beds in a hospital that will provide:*

- (1) a 24-hour emergency services department,*
- (2) inpatient medical services to both surgical and non-surgical patients,*  
*and*
- (3) if proposing a new licensed hospital, medical and surgical services on a daily basis within at least five of the major diagnostic categories as recognized by the Centers for Medicare and Medicaid services (CMS), as follows: ... [as listed on pages 46-47 of the 2016 SFMP].”*

The applicant submitted two concurrent and complementary applications in response to the need identified in the 2016 SMFP for 84 additional beds in Orange County. This application (Project ID #J-11164-16) proposes to develop 55 additional acute care beds on UNC Hospitals Chapel Hill Campus, located at 101 Manning Drive, Chapel Hill, NC, for a total of 789 acute care beds on Main Campus. The concurrently filed application (Project ID # J-11163-16) proposes to develop 29 additional acute care beds at UNC Hospitals Hillsborough Campus for a total of 101 acute care beds on Hillsborough Campus upon project completion. Upon completion of both projects, UNC Hospitals will be licensed for a total of 890 acute care beds.

The applicant does not propose to develop more acute care beds than are determined to be needed in the Orange County Service Area. UNC Hospitals currently operates a 24-hour emergency services department. The applicant describes its medical, surgical and women’s services on pages 24-28 of the application. UNC Hospitals adequately demonstrates that it provides inpatient medical services to both surgical and non-surgical patients. The applicant is not proposing a new licensed hospital or new health services. Thus, UNC Hospitals is a qualified applicant and the proposal is consistent with the need determination in the 2016 SMFP for acute care beds in Orange County.

## Policies

Policy GEN-3: BASIC PRINCIPLES, on page 39 of the 2106 SMFP is applicable to this review. Policy GEN-3 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.”*

The applicant responds to Policy GEN-3 in Section III.2, pages 66-69. On page 66, the applicant states:

*“UNC Hospitals maintains that the development of additional acute care capacity in Orange County will promote cost-effectiveness, quality, and access to services in the proposed service area and will thus be in compliance with the spirit and legislative intent of the Certificate of Need Law.”*

## Promote Safety and Quality

In Section III.2, pages 66-67, the applicant discusses patient safety and quality of care, stating that UNC believes the proposed project will promote the provision of quality healthcare services to patients from all 100 North Carolina counties. The applicant further states:

*“UNC Hospitals is known for providing high quality services and expects the proposed project to expand its acute care programs while bolstering its high quality reputation. The proposed project will not only add needed capacity to UNC Hospitals, but will also ensure that the needs of patients are being met in the most appropriate setting.”*

Exhibits 6, 7, 8, and 14 contain UNC Health Care policies on performance improvement, utilization management, risk management and competency assessment, respectively. The applicant also discusses UNC Hospitals' quality awards and designations on page 67.

The applicant adequately demonstrates that the proposal will promote safety and quality care.

Promote Equitable Access

In Section III.2, pages 67-68, the applicant discusses how the proposed project will promote equitable access. 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 presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance as demonstrated in Section VI.2.”*

In Section VI.2, page 109, the applicant states that UNC Hospitals traditionally provides services to a wide variety of patient groups and provides the following supporting FY2015 data.

	<b>Low Income</b>	<b>Racial &amp; Ethnic Minorities</b>	<b>Women</b>	<b>Elderly</b>	<b>Other Underserved</b>
UNC Hospitals Total	16.2%	36.3%	58.4%	24.0%	9.3%
Medical/Surgical Inpatients	21.0%	39.1%	49.3%	27.9%	6.5%
Women’s Inpatient	45.1%	51.7%	100.0%	0.1%	2.6%

Low Income = Medicaid and ½ of Medicaid Pending; Other Underserved = Self Pay and ½ of Medicaid Pending. “Low income” is based on Federal poverty guidelines as outlined in the Patient Financial Assistance Policy contained in Exhibit 19. “Elderly” is defined as patients age 65 and over.

In Section III.2, page 68, the applicant references Exhibit 15 and its “*Assuring Access at UNC Health Care*” document, which outlines the UNC health system’s commitment to provide adequate financial assistance and expand overall capacity in order to meet the health care needs of North Carolinians.

In Section VI.8, pages 112-113, the applicant discusses charity care and bad debt, stating that UNC Hospitals’ service will provide more than \$308,000,000 and \$330,000,000 in charity care in the first two full fiscal years of operation, respectively; and approximately \$150,000,000 and \$160,000,000 in bad debt in the first two full fiscal years, respectively. The applicant further states:

*“Charity care is defined in accordance with UNC Hospitals’ Patient Financial Assistance Policy based upon the guarantor’s ability to pay. The guarantor’s ability to pay is determined after a financial statement is obtained with the required verification documentation and assigned a credit rating. Provision for bad debts represents services for which individuals have refused to make payment even though they have the financial ability to pay. These are incurred on uninsured (self pay) patients and on portions of the copayments and deductibles that are the patient’s liability under*

*commercial indemnity insurance policies. See Exhibit 19 for the Patient Financial Assistance Policy.”*

The applicant adequately demonstrates that the proposal will promote adequate access.

#### Maximize Healthcare Value

In Section III.2, pages 68-69, the applicant states that the proposed complementary applications are indicative of UNC Hospitals’ commitment to containing healthcare costs and maximizing healthcare benefit per dollar expended. The applicant states that this proposed project will maximize healthcare value because:

- The project will provide additional capacity to meet the continued need at UNC Hospitals’ Main Campus and Hillsborough Campus in the most cost effective manner;
- UNC Hospitals, as a member of the larger UNC Health Care System, benefits from the significant cost saving measures through the consolidation of multiple services and large economies of scale, resulting in lower costs that are passed to patients in the form of lower charges; and
- The project ensures the best patient care possible while being responsive to a healthcare environment that emphasizes cost containment, efficient utilization of existing resources, coordination with managed care and continued healthcare system development.

The applicant adequately demonstrates that the proposal will maximize healthcare value. The applicant also adequately demonstrates how its projected volumes incorporate the concepts of quality, equitable access and maximum value for resources expended in meeting the need identified in the 2016 SMFP. Therefore the application is conforming to Policy GEN-3.

Policy GEN-4: ENERGY EFFICIENCY AND SUSTAINABILITY FOR HEALTH SERVICE FACILITIES, on pages 39-40 of the 2016 SMFP, is also applicable to this review. 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*

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*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 of 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 Section III.2, pages 69-70, the applicant addresses Policy GEN-4, stating:

*"UNC Hospitals will develop and implement an Energy Efficiency and Sustainability Plan for the proposed project that conforms to or exceeds the energy efficiency and water conservation standards incorporated in the latest editions of the NC State Building Codes. The Plan shall not adversely affect patient or resident health, safety or infection control."*

UNC Hospitals proposes to add 55 additional acute care beds to Main Campus. The addition of the beds will require renovation of 52,990 square feet in the existing facility.

The applicant states that UNC Hospitals' Energy Efficiency and Sustainability Plan for the proposed project will address the following systems and features:

1. Lighting Systems – Lighting systems will provide higher energy efficiency in accordance with energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The lighting systems shall not adversely affect patient or resident health, safety or infection control.
2. Water Systems – Water systems, hand wash facilities, and toilets will provide higher energy efficiency ...
3. Heating, Ventilation, and Air-conditioning (HVAC) Systems – HVAC systems will provide higher energy efficiency ...
4. Minor Equipment will be evaluated prior to purchase and implementation based on energy efficiency and water conservation. ...
5. Other potential energy conservation measures for the project will be researched and evaluated by the project engineer and architect as well as UNCH administration.

The applicant adequately demonstrates the proposal includes a plan to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4, subject to Condition (4) in Criterion (4).

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**Conclusion**

In summary, the applicant adequately demonstrates that its proposal to add acute care beds is consistent with the 2016 Acute Care Bed Need Determination, Policy GEN-3 and Policy GEN-4. Therefore, the application is conforming to this criterion, subject to Condition 4 in Criterion (4).

- (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

UNC Hospitals proposes to develop 55 additional general acute care beds at UNC Hospitals Main Campus. Of the 55 additional acute care beds, ten will be developed as ten licensed Labor, Delivery, Recovery and Post-partum Rooms (LDRP beds) and fill existing space resulting from the conversion of ten unlicensed Labor and Delivery and Recovery Rooms (LDRs). The remaining 45 additional acute care beds will backfill space on Level 7 that is currently occupied by inpatient rehabilitation and related office and support space. All inpatient rehabilitation services will be relocated to UNC Hospitals Hillsborough Campus pursuant to the concurrently filed application, Project ID #J-11163-16, (develop 29 additional acute care beds on Hillsborough Campus). In addition to the development of the 55 new beds, the proposed project also includes the conversion of four existing double occupancy rooms on 3 West to single occupancy, which results in the availability of four existing bed licenses that will be utilized to convert four existing observation beds on Level 5 of the Women’s Hospital to licensed acute care beds. The following table provided by the applicant on page 31 summarizes the location of the proposed 55 beds, and the increase in the number of beds by service component.

	<b>Current # of AC Beds</b>	<b># of AC Beds Gained/(Lost)</b>	<b>Proposed AC Beds Upon Completion</b>
3 West Med/Surg	26	(4)	22
7 West Med/Surg	0	21	21
7 East/West Med/Surg	0	24	24
Women’s Level 4 LDRP	4	10	14
Women’s Level 5 Obstetrics	24	4	28
<b>Total</b>	<b>54</b>	<b>55</b>	<b>109</b>

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Line drawings are provided in Exhibit 2 of the application. The development of this project is contingent upon the approval and development of the concurrently filed application, Project ID #J-11163-16, which proposes to relocate all inpatient rehabilitation services from Main Campus to Hillsborough Campus, vacating space to be used for the addition of the acute care beds.

**Population to be Served**

On page 48, the 2016 SMFP defines the service area for acute care services by county (or multicounty service area for counties without a hospital). UNC Hospitals is located in Orange County. Thus, the service area for this facility consists of Orange County. Facilities may also serve residents of counties not included in their service area.

In Section III.4(a), pages 72-75, the applicant identifies the facility-wide UNC Hospitals patient origin during FY2015. Pages 75-80 identify Obstetrics and non-specialty medical/surgical patient origin. As North Carolina's only state-owned, tertiary care referral center, UNC Hospitals provides care to residents residing in counties throughout North Carolina with Orange County residents receiving the highest percentage of that care. The tables below summarize the historical percentage of patient origin for UNC Hospitals' facility-wide services, non-specialty medical/surgical, and Obstetrics based on the applicant's information as reported on pages 72-80 of the application.



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<b>County of Residence</b>	<b>Facility-wide Services</b>	<b>Medical/Surgical Services</b>
Orange	17.3%	12.9%
Wake	13.1%	11.7%
Alamance	8.5%	7.1%
Durham	7.1%	5.4%
Chatham	6.9%	6.3%
Cumberland	5.6%	7.2%
Lee	3.5%	3.8%
Harnett	2.8%	3.1%
Robeson	2.2%	2.9%
Johnston	2.1%	2.3%
Guilford	1.9%	2.1%
Other NC Counties	26.7%	32.6%
Total NC	97.7%	97.4%
Other US	2.3%	2.6%
International	>0.1%	>0.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Totals may not sum due to rounding.

Other NC Counties includes patients from NC counties as listed on pages 72-80.

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County of Residence	Obstetrics
Orange	22.1%
Wake	16.9%
Durham	16.0%
Alamance	10.9%
Chatham	6.9%
Lee	5.2%
Harnett	3.2%
Randolph	3.2%
Cumberland	2.0%
Johnston	1.8%
Moore	1.0%
All Other NC Counties	10.6%
Total NC	99.8%
Other US Total	0.2%
<b>Total</b>	<b>100.0%</b>

Totals may not sum due to rounding.  
 Other NC Counties includes patients from NC counties as listed on pages 75-77.

As illustrated in the tables above, Orange, Wake, Alamance, Durham, Chatham, Cumberland, Lee, Harnett, Robeson, Johnston, and Guilford counties represent approximately 71% of the facility-wide services patient origin at UNC Hospitals and approximately 64.8% of its non-specialty medical/surgical services. Orange, Wake, Durham, Alamance, Chatham, Lee, Harnett, Randolph, Cumberland, Johnston, and Moore, counties represent approximately 89% of UNC's Obstetrics patient origin.

The tables on pages 72-80 illustrate that UNC Hospitals treats patients from all over North Carolina and from outside the State. In Section III.5(a), page 80, the applicant states:

*“The 2016 SMFP identifies UNC Hospitals as a part of the Orange County acute care bed service area, as used in the development of the acute care bed need determination. The remainder of UNC Hospitals’ service area includes every other county in North Carolina and a small percentage of patients from other states and countries. During most fiscal years, UNC Hospitals admits acute care patients from all 100 North Carolina counties.”*

In Section III.5(c), pages 81-86, the applicant provides the projected patient origin for Obstetrics and non-specialty medical/surgical inpatient services, as a percent of discharges, for the first two years following completion of the proposed project.

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On pages 81-82, the applicant provides the projected patient origin for Obstetric services, as a percent of discharges, for the first two years following completion of the proposed project. The table below illustrates the 11 North Carolina counties projected to have patient origin of at least one percent of the total Obstetrics patient origin, with 22.1%, the highest percentage originating in Orange County, and 16.9% originating in Wake County.

**Obstetrics Services**

County of Residence	Percent Patient Origin
Orange	22.1%
Wake	16.9%
Durham	16.0%
Alamance	10.9%
Chatham	6.9%
Lee	5.2%
Harnett	3.2%
Randolph	3.2%
Cumberland	2.0%
Johnston	1.8%
Moore	1.0%
All Other NC Counties	10.6%
Total NC	99.8%
Other US Total	0.2%
<b>Total</b>	<b>100.0%</b>

Totals may not sum due to rounding.

The table below illustrates the 11 North Carolina counties projected to have patient origin of at least two percent of the total non-specialty medical/surgical patient origin, with 12.9%, the highest percentage originating in Orange County, and 11.7% originating in Wake County.

**Non-specialty Medical/Surgical Services**

County of Residence	Percent Patient Origin
Orange	12.9%
Wake	11.7%
Cumberland	7.2%
Alamance	7.1%
Chatham	6.3%
Durham	5.4%
Lee	3.8%
Harnett	3.1%
Robeson	2.9%
Johnston	2.3%
Guilford	2.1%
Total Top 11 Counties	64.8%
Other NC Counties	32.7%
Out of State	2.6%
International	<0.1%
<b>Total</b>	<b>100.0%</b>

Totals may not sum due to rounding.

As illustrated in the tables above, the applicant projects a large percentage of its medical/surgical inpatients and Obstetrics patients will originate from 13 North Carolina counties. Another 33% of its total medical/surgical discharges and 11% of its obstetrics patients will originate from other North Carolina counties, as listed on pages 81-86.

The applicant states that the proposed project is not expected to have any impact on UNC Hospitals’ acute care or inpatient rehabilitation patient origin; therefore, patient origin for the proposed project will remain consistent with its FY 2015 UNC Hospitals patient origin.

The applicant adequately identifies the population it proposes to serve.

**Analysis of Need**

In Section III.1, page 41, the applicant states:

*“The overall need for the proposed complementary projects is based on the following factors:*

- *The need for additional acute care beds in Orange County identified in the 2016 SMFP;*
- *The continued need for additional capacity at UNC Hospitals’ main campus and the decompression of the main campus through the relocation of inpatient*

*rehabilitation services and the development of inpatient dialysis at the Hillsborough campus; and*

- *The projected population growth in Orange County.”*

The applicant discusses the above factors on pages 42-53 of the application, as summarized below.

2016 SMFP Identified Need for Additional Acute Care Beds

In Section III.1, pages 42-44, the applicant discusses the need for additional acute care beds in the 2016 SMFP being triggered by the utilization of the total number of existing and approved acute care beds within a given service area. The applicant states that the 2014 utilization data from Truven Health Analytics is used to project the average daily census (ADC) for 2018, using the Orange County growth rate multiplier of 1.0334, based on UNC Hospitals’ annual percentage of change in days of care over the last five federal fiscal years, as shown in the table below.

	<b>2014 Acute Days of Care</b>	<b>Growth Rate Multiplier</b>	<b>2018 Projected Acute Care Days</b>	<b>2018 Projected ADC</b>
UNC Hospitals	221,528	1.0334	252,640	692

The ADC is then multiplied by the appropriate target occupancy factor (1.28 for ADC >400) to determine the projected bed need. Subtracting the existing and approved beds from the projected need results in the need determination for an additional 84 beds, as shown in the table below.

	<b>2018 Projected ADC</b>	<b>Occupancy Factor</b>	<b>Projected 2018 Bed Need</b>	<b>Existing and Approved Beds</b>	<b>Need Determination</b>
UNC Hospitals	692	1.28	886	802	84

The applicant states (pages 42-44) that the 2016 SMFP acute care bed need projection (Table 5A) does not include four burn ICU beds previously approved to be developed by UNC Hospitals (Project ID #J-8836-12). As a result, the 2016 SMFP understates UNC Hospitals’ acute care bed inventory and overstates the county need by four beds. The four bed difference does not impact this review.

On pages 44-45, the applicant states that since 2010, four need determinations for Orange County have been identified: 36 beds in 2010, 27 beds in 2012, 46 beds in 2015 and now 84 additional acute care beds in the 2016 SMFP. UNC Hospitals received approval to develop the 36 bed (Project ID #J-8501-10), the 27 bed (Project ID #J-8812-12), and the 46 bed (Project ID #J-11032-15 and #J-11034-15) need determinations. The applicant states that despite these additional beds, UNC Hospitals still requires additional capacity to meet the needs of its patients as discussed below.

UNC Hospital's Continued Need for Additional Capacity

*Acute Care Services*

On page 45, the applicant states:

*“For several years, UNC Hospitals has experienced periods of extremely high utilization during which the availability of beds for new admissions has been challenged. The need for the additional 84 beds between the two UNC Hospitals campuses is primarily based on the inadequacy of the existing number of acute care beds to meet current and projected patient demand.”*

The applicant further states that because UNC Hospitals is a quaternary referral hospital, trauma center, and provider of specialty care for complex diseases for patients from all 100 North Carolina counties, the issue of capacity constraints is of great concern. On page 47, the applicant states:

*“For each of the past five federal fiscal years, UNC Hospitals has operated at occupancy levels greater than the 78 percent target identified in the 2016 SMFP for facilities with an average daily census (ADC) greater than 400.”*

The applicant discusses the development of UNC Hospitals Hillsborough Campus as a means to reduce crowded conditions at Main Campus, and its delay in development because of an appeal. Hillsborough Campus began offering inpatient services in September 2015, over two years after it originally intended to provide services. The applicant says the delay exacerbated the need at UNC Hospitals and for Orange County as the demand for inpatient services has outpaced the development of capacity.

UNC Hospitals expects its growth to continue in the future due to a number of factors: the addition of programming and physicians, increasing volume in its emergency department and inpatient beds, and the recent affiliation with several hospitals across the state which may result in increased transfers for tertiary and quaternary patients.

The applicant also states that in spite of the submittal and approval of several CON applications to address patient needs, UNC Hospitals continues to experience high occupancies, must divert trauma patients, and occasionally must refuse to accept patients or delay transfers of patients from other facilities due to lack of an appropriate bed. On pages 45-46, the applicant states:

*“This can occur even for patients with life threatening disorders, as no beds suitable for admission may be available. Having this high demand for beds creates challenging admissions situations which are further complicated by situations such as:*

- *Obstetrics patients cannot easily be placed on a medical/surgical unit;*
- *Adults cannot be placed in a neonatal ICU bed or pediatric bed;*
- *ICU patients cannot be placed in a general medical/surgical bed.”*

The applicant states that similar instances of delays occur when patients require private rooms to accommodate their medical or physical conditions (i.e. infectious disease), and one is not available for admission. Main Campus still has several small semi-private rooms, which are less flexible from a capacity standpoint due to the inability to mix genders, and thus present difficulties for patient care and teaching due to space, privacy, and infection control constraints. Additionally, families, who are an important part of the care process, cannot stay with patients in semi-private rooms.

#### *Obstetrics Services*

On page 46, the applicant states that the proposed project will enable Main Campus to expand its ability to offer the LDRP model of care to its obstetrics patients. Main Campus currently operates four LDRPs and 11 unlicensed LDRs. Thus only a minority of obstetrics patients can receive the benefits offered by the LDRP model of care, which includes the increased convenience, efficiency, and safety of remaining in one room during the inpatient stay and the family centered care enabled by a larger physical space.

#### *Relocation of Inpatient Rehabilitation Services in Concurrently Filed Application Project ID #J-11163-16*

The applicant states that the primary need for the relocation of the inpatient rehabilitation beds and related services from Main Campus to Hillsborough Campus is to free up physical space at UNC Hospitals Main Campus for the development of general acute care bed capacity. The applicant further states, “*UNC Hospitals Main Campus simply does not have room to grow given its highly congested site.*” The proposed relocation of 30 inpatient rehabilitation beds and related services will vacate physical space that will be used to develop 45 additional general acute care beds. Hillsborough Campus’ support services for inpatient rehab are already available and will not have to be duplicated to accommodate the proposed relocation. Thus, the applicant states that the relocation of inpatient rehabilitation beds and equipment, along with the development of therapy space, will allow the services to be provided at Hillsborough Campus without compromising the level of clinical care.

#### Population Growth

In Section III.1, pages 52-54, the applicant provides population data for Orange County. According to data from the North Carolina Office of State Budget and Management (NC OSBM), Orange County is the 17th fastest growing county in North Carolina based on numerical growth and the 20<sup>th</sup> fastest growing county based on percentage growth (Exhibit

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10). The NC OSBM projects Orange County’s population to grow by 12.1% between 2010 and 2020, adding over 16,000 people within the decade (Exhibit 11). The applicant further states on page 53, that the need for medical services in Orange County will be greater as the population continues to age, “because, typically, older residents utilize healthcare services at a higher rate than those who are younger”. By 2020, 15% of the total population in Orange County will be over the age of 65 (more than 22,000 people), up from approximately 10% in 2010 (Exhibit 12). Further, between 2010 and 2020, Orange County’s population over the age of 65 is projected to grow by 72.4 percent.

Projected Utilization UNC Hospitals Main Campus

*Acute Care Services*

On page 54, the applicant states that this project involves two service components: obstetrics, including Women’s Level 4 LDRP and Women’s Level 5 Obstetrics; and non-specialty medical/surgical, including 3 West medical/surgical, 7 West medical/surgical, and 7 East/West medical/surgical. The service components correspond to the bed categories as reported in rows “j” and “m” of Table D on the UNC Hospitals 2016 License Renewal Application (LRA). The applicant provides a copy of UNC Hospitals’ 2016 LRA in Exhibit 13.

*Obstetrics Services*

On pages 56 of the application, the applicant provides the historical obstetrics utilization at Main Campus, showing an occupancy rate of 77.1% for annualized FY2016 and a 0.4% compound average growth rate (CAGR) from FY2012 through annualized FY2016. The applicant provides projected utilization for obstetrics on page 57, as summarized below.

**Main Campus Obstetrics Bed Utilization**

	<b>FY17</b> 7/16-6/17	<b>FY18</b> 7/17-6/18	<b>FY19</b> 7/18-6/19	<b>FY20</b> 7/19-6/20	<b>FY21</b> 7/20-6/21	<b>FY22</b> 7/21-6/22	<b>FY23</b> 7/22-6/23	<b>FY24</b> 7/23-6/24	<b>FY25</b> 7/24-6/25
Bed Days*	15,329	18,235	20,075	20,130	20,075	20,075	20,075	20,130	20,075
# Beds	42	50	55	55	55	55	55	55	55
Discharges	3,885	3,901	3,918	3,934	3,951	3,967	3,984	4,001	4,018
Patient Days	11,477	11,525	11,573	11,622	11,671	11,720	11,770	11,819	11,869
% Occupancy	74.9%	63.2%	57.7%	57.7%	58.1%	58.4%	58.6%	58.7%	59.1%

\*Bed Days = available bed days

Totals may not sum due to rounding

Assumptions:

- Proposed project will be completed in phases as shown in the table on page 55 of the application



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- Project years coincide with UNC Hospitals' fiscal years as follows:

PY1: FY2023: July 1, 2022 – June 30, 2023

PY2: FY2024: July 1, 2023 – June 30, 2024

PY3: FY2025: July 1, 2024 – June 30, 2025

- At project completion, UNC Hospitals will relicense four beds on Level 5 of the Women's Hospital and convert 10 LDRs to LDRPs. The overall capacity of the obstetrics service component will increase by 14 total beds, from 41 acute care beds to 55 acute care beds.
- Bed days are based on the number of days that beds are operational. Available bed days for the obstetrics component for FY2017 are calculated as follows: (41 beds x 274 days) + (45 beds x 91 days) = 15,329 total obstetric bed days in FY2017
- Patient days will increase at its historical rate of 0.4% annually (see table on page 56)
- Average Length of Stay (ALOS) equals 3.0 days based on historical experience

As shown in the table above, the applicant projects 11,869 obstetric patient days in the third project year, which results in 59.1% occupancy of its 55 obstetrics beds. The applicant states:

*“Given the specialized nature and seasonal fluctuations in volume for obstetrical services, UNC Hospitals needs to maintain sufficient capacity to meet demand during peak periods. For example, obstetrics days in September 2014 were 8.2 percent higher than the average obstetrics days per month for FY15 and were 24.9 percent higher than obstetrics days in April 2015, which was the month of lowest utilization in FY15.”*

*Non-specialty Medical/Surgical Services*

On page 58 of the application, the applicant provides the historical non-specialty medical/surgical utilization at Main Campus, showing an occupancy rate of 87.3% for annualized FY2016 and a 1.6% CAGR from FY2012 through annualized FY2016. The applicant provides projected utilization for non-specialty medical/surgical utilization on page 59, as summarized below.

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**Main Campus Medical/Surgical Bed Utilization**

	<b>FY17</b> 7/16-6/17	<b>FY18</b> 7/17-6/18	<b>FY19</b> 7/18-6/19	<b>FY20</b> 7/19-6/20	<b>FY21</b> 7/20-6/21	<b>FY22</b> 7/21-6/22	<b>FY23</b> 7/22-6/23	<b>FY24</b> 7/23-6/24	<b>FY25</b> 7/24-6/25
Bed Days	114,975	114,975	114,975	115,290	116,886	128,100	129,940	130,296	129,940
# Beds	315	315	315	315	320	351	356	356	356
Discharges	19,280	19,584	19,892	20,206	20,525	20,848	21,177	21,511	21,850
Patient Days	100,975	102,567	104,185	105,827	107,496	109,191	110,913	112,661	114,438
% Occupancy	87.8%	89.2%	90.6%	91.8%	92.0%	85.2%	85.4%	86.5%	88.1%

Totals may not sum due to rounding

Assumptions:

- Project phasing and project years as stated in the Obstetrics Services section above and on page 55 of the application
- At project completion, the overall capacity of the medical/surgical service component will increase by 41 acute care beds from 315 to 356 acute care beds.
- Patient days will increase at its historical rate of 1.6% annually (see table on page 58)
- Average Length of Stay (ALOS) equals 5.2 days based on historical experience from FY2012 to annualized FY2016

As shown in the table above, the applicant projects 114,438 medical/surgical patient days in the third project year, which results in 88.1% occupancy of its 356 non-specialty medical/surgical beds.

*Total General Acute Care*

On page 60 of the application, the applicant provides the historical general acute care bed utilization at Main Campus, showing an occupancy rate of 83.2% for annualized FY2016 and a 0.7% CAGR from FY2012 through annualized FY2016. The applicant provides projected utilization for general acute care bed utilization on page 61, as summarized below.

**Main Campus Total General Acute Care Bed Utilization**

	<b>FY17</b> 7/16-6/17	<b>FY18</b> 7/17-6/18	<b>FY19</b> 7/18-6/19	<b>FY20</b> 7/19-6/20	<b>FY21</b> 7/20-6/21	<b>FY22</b> 7/21-6/22	<b>FY23</b> 7/22-6/23	<b>FY24</b> 7/23-6/24	<b>FY25</b> 7/24-6/25
Bed Days	265,719	268,625	273,020	273,768	274,931	286,145	287,985	288,774	287,985
# Beds	728	736	748	748	753	784	789	789	789
Discharges	35,022	35,274	35,528	35,784	36,042	36,302	36,563	36,827	37,092
Patient Days	219,461	221,042	222,634	224,238	225,853	227,480	229,118	230,769	232,431
% Occupancy	82.6%	82.3%	81.5%	81.9%	82.1%	79.5%	79.6%	79.9%	80.7%

Totals may not sum due to rounding

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As the table above shows, the applicant projects 232,431 total general acute care patient days at Main Campus in the third project year, which results in an occupancy rate of 80.7%.

On page 63, the applicant includes the projected utilization and methodology for total general acute care beds at Hillsborough Campus. These projections are consistent with the applicant's concurrently filed and complementary application for 29 acute care beds at Hillsborough Campus and are summarized below.

**Hillsborough Campus Total General Acute Care Bed Utilization**

	<b>FY17</b> 7/16-6/17	<b>FY18</b> 7/17-6/18	<b>FY19</b> 7/18-6/19	<b>FY20</b> 7/19-6/20	<b>FY21</b> 7/20-6/21	<b>FY22</b> 7/21-6/22	<b>FY23</b> 7/22-6/23	<b>FY24</b> 7/23-6/24	<b>FY25</b> 7/24-6/25
Bed Days	26,280	30,295	30,295	30,378	35,209	36,865	36,865	36,966	36,865
# Beds	72	83	83	83	96	101	101	101	101
Discharges	2,978	3,038	3,211	3312	3,423	3,447	3,472	3,497	3,523
Patient Days	18,661	19,038	20,121	20,756	21,449	21,603	21,759	21,915	22,073
% Occupancy	71.0%	62.8%	66.4%	68.3%	60.9%	58.6%	59.0%	59.3%	59.9%

Totals may not sum due to rounding

As the table above shows, the applicant projects 22,073 total general acute care patient days at Hillsborough Campus in the third project year. The following table shows the combined UNC Hospitals general acute care bed utilization in the third project year.

**UNC Hospitals Orange County Total General Acute Care Bed Utilization**

	<b>FY2025</b> <b>Patient Days</b>	<b>FY2025</b> <b>ADC</b>	<b>Acute Care</b> <b>Beds</b>	<b>Occupancy</b>
Main Campus	232,431	636.8	789	80.7%
Hillsborough Campus	22,073	60.5	101	59.9%
UNC Hospitals Total	254,504	697.3	890	78.3%

Totals may not sum due to rounding

As the table above shows, UNC Hospitals is projecting to operate at over 78% occupancy in the third year of the proposed project, which is greater than the 75.2% occupancy as required by the performance standard in *10A NCAC 14C .3803(a)*.

Projected utilization is based on reasonable and adequately supported assumptions which are provided in Section III, pages 54-64.

The applicant adequately demonstrates the need to develop 55 additional acute care beds on Main Campus. The applicant states that the proposed project will not only add needed capacity to UNC Hospitals, but will also ensure that the needs of patients are being met in the most appropriate setting. The applicant further states that this application and the concurrently

filed Hillsborough Campus application address the need to develop additional acute care beds at both campuses in the most effective manner.

**Access**

In Section III.2, pages 67-68, the applicant discusses how the proposed project will promote equitable access. 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 presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance as demonstrated in Section VI.2”*

The applicant further states that the document “Assuring Access at UNC Health Care” found in Exhibit 15, highlights UNC Hospital’s efforts to provide adequate financial assistance and expand its overall capacity in order to meet the health care needs of North Carolinians.

In Section VI.2, pages 108-109, the applicant states that UNC Hospitals has traditionally provided services to a wide variety of patient groups and provides the following table, based on FY2015 data.

	<b>Low Income</b>	<b>Racial &amp; Ethnic Minorities</b>	<b>Women</b>	<b>Elderly</b>	<b>Other Underserved</b>
UNC Hospitals Total	16.2%	36.3%	58.4%	24.0%	9.3%
Med/Surg Inpatients	21.0%	39.1%	49.3%	27.9%	6.5%
Women’s Inpatient	45.1%	51.7%	100.0%	0.1%	2.6%

Low Income = Medicaid and ½ of Medicaid Pending; Other Underserved = Self Pay and ½ of Medicaid Pending. “Low income” is based on Federal poverty guidelines as outlined in the Patient Financial Assistance Policy contained in Exhibit 19. “Elderly” is defined as patients age 65 and over.

In Section VI.8, page 113, the applicant discusses charity care and bad debt, stating that UNC Hospitals will provide more than \$308,000,000 and \$330,000,000 in charity care in project years one and two, respectively; and approximately and \$150,000,000 and \$160,000,000 in bad debt in project years one and two, respectively.

The applicant adequately demonstrates the extent to which residents of the area, including underserved groups, are likely to have access to the proposed services.

**Conclusion**

In summary, the applicant adequately identifies the population to be served, adequately demonstrates the need the population to be served has for the proposed project and demonstrates 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 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 III.3, pages 70-71, the applicant describes several alternatives considered which include the following:

- 1) Maintain Status Quo – UNC Hospitals considered maintaining the status quo, however, the applicant concluded this option would force UNC Hospitals to continue to operate with inefficiencies and the inability to place patients in the most appropriate beds. The applicant also says that patients would continue to endure long wait times in the emergency room while waiting for a bed, in addition to surgical case delays and delays in the delivery of critical treatments due to lack of appropriate bed availability. Furthermore, the applicant states this option does not respond to the increased demand in the future generated by population growth and is therefore not the most effective alternative.
- 2) Build a New Bed Tower on Main Campus – the applicant evaluated this alternative and future master facility plans do include a new bed tower on Main Campus; however, the applicant states that this option is not practically or financially feasible in the near term and is therefore not the most effective alternative at this time.
- 3) Develop the Concurrently Filed Projects as Proposed – The applicant states on page 71 that UNC Hospitals' concurrently filed applications for 29 additional beds on Hillsborough Campus and 55 beds on Main Campus is the most effective alternative to meet the identified need for 84 additional acute care beds in Orange County. The

applicant states that the proposals are cost-effective because the cost to develop new space at Hillsborough, including the space to accommodate the relocated inpatient rehabilitation beds, dialysis and observation space is less than the cost to develop new space on Main Campus, given its complexity. In addition, the applicant states that the space vacated by inpatient rehabilitation services can be used to develop a majority of the additional acute care beds proposed on Main Campus. The applicant states that the project as proposed is the most reasonable and cost-effective for meeting the identified need for additional beds in Orange County and the identified needs at UNC Hospitals.

The applicant adequately demonstrates that developing 55 additional acute care beds on Main Campus and 29 additional acute care beds on Hillsborough Campus is the most effective alternative to meet the identified need.

Furthermore, the application is conforming or conditionally conforming to all other applicable 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 demonstrates that its 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 shall materially comply with all representations made in its certificate of need application.**
- 2. University of North Carolina Hospitals at Chapel Hill shall not acquire, as part of this project, any equipment that is not included in the project's proposed capital expenditure in Section VIII of the application and which would otherwise require a certificate of need.**
- 3. University of North Carolina Hospitals at Chapel Hill shall develop no more than 55 additional acute care beds at UNC Hospitals Chapel Hill Campus for a total of no more than 789 acute care beds, including 143 ICU beds, on that campus. This project and Project ID #J-11163-16 (add 29 acute care beds at UNC Hospitals Hillsborough Campus for a total of no more than 101) would bring the total number of acute care beds for UNC Hospitals to 890 beds, upon completion of both projects.**
- 4. University of North Carolina Hospitals at Chapel Hill shall 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.**

**5. Prior to issuance of the certificate of need, University of North Carolina Hospitals at Chapel Hill shall acknowledge acceptance of and agree to comply with all conditions stated herein in writing to the Certificate of Need Section.**

- (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.

CA

In Section VIII.1, pages 132-133, the applicant states that the total capital cost of the project will be \$28.8 million, as shown in the table below.

**Project Capital Cost**

Construction / Labor Costs	\$18,833,000
Furniture/Equipment	\$4,231,730
Architect & Engineering Fees	\$3,200,000
Contingency and IT Costs	\$2,578,000
<b>Total Capital Cost</b>	<b>\$28,842,730</b>

In Section IX, page 138, the applicant states there will be no start-up or initial operating expenses associated with the proposed project. In Section VIII.3, page 133, the applicant states that the project will be funded through UNC Hospitals' accumulated reserves. Exhibit 22 contains an April 15, 2016 letter signed by the President for UNC Hospitals, which states:

*“UNC Hospitals will fund the capital cost from existing accumulated cash reserves. This expenditure will not impact any other capital projects currently underway or planned for at this time. For verification of the availability of these funds and our ability to finance these projects internally, please refer to the “Cash and Cash Equivalents” line item in the audited financial statements included with this Certificate of Need application.”*

Exhibit 23 of the application contains the audited financial statements for UNC Hospitals for the year ending June 30, 2015. As of June 30, 2015, UNC Hospitals had \$125,863,753 in cash and cash equivalents and \$1,223,645,247 in net assets. The applicant adequately demonstrates the availability of sufficient funds for the capital needs of the project.

The information provided by the applicant in Form C shows that UNC Hospitals' facility-wide medical/surgical expenses will exceed revenues in the first three fiscal years following completion of the proposed project, as shown below.

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<b>UNC Hospitals Non-specialty Medical/Surgical Services</b>	<b>FY2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Projected # of Patient Days	126,913	128,840	130,796
Projected Average Charge	2,676	2,756	2,838
Gross Patient Revenue	\$ 339,557,040	\$ 355,052,777	\$ 371,256,526
Deductions from Gross Patient Revenue	\$ 193,540,030	\$ 202,372,258	\$ 211,508,038
Net Patient Revenue	\$ 146,017,011	\$ 152,680,519	\$ 159,748,488
Total Expenses	\$ 168,824,786	\$ 175,522,332	\$ 180,923,187
Net Income Fiscal Year	\$ (22,807,775)	\$ (22,841,813)	\$ (21,174,699)

Totals may not sum due to rounding

Furthermore, Form C for the obstetrics services shows expenses will exceed revenues in the first three fiscal years following completion of the proposed project, as shown below.

<b>UNC Hospitals Obstetrics Services</b>	<b>FY2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Projected # of Patient Days	11,770	11,819	11,869
Projected Average Charge	4,788	4,932	5,080
Gross Patient Revenue	\$ 56,354,330	\$ 58,289,397	\$ 60,290,910
Deductions from Gross Patient Revenue	\$ 31,754,711	\$ 32,845,089	\$ 33,972,907
Net Patient Revenue	\$ 24,599,619	\$ 25,444,308	\$ 26,318,003
Other Revenue	\$ 86,726	\$ 86,726	\$ 86,726
Total Expenses	\$ 26,983,021	\$ 27,853,488	\$ 28,752,537
Net Income Fiscal Year	\$ (2,296,676)	\$ (2,322,454)	\$ (2,347,808)

Totals may not sum due to rounding

However, Form B, the Statement of Revenue and Expenses for UNC Hospitals' entire facility shows that revenue exceeds expenses in each of the first three fiscal years following completion of the proposed project, as shown below.



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<b>UNC Hospitals</b>	<b>FY2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Gross Patient Revenue	\$5,789,119,051	\$6,204,910,021	\$6,650,564,280
Deductions from Gross Patient Revenue	\$3,911,056,740	\$4,254,326,193	\$4,627,875,751
Net Patient Revenue	\$1,878,062,311	\$1,950,583,829	\$2,022,688,528
Other Operating Revenue	\$35,614,214	\$35,614,214	\$35,614,214
Total Expenses	\$1,432,753,354	\$1,467,730,853	\$1,503,702,607
Net Income Fiscal Year	\$480,923,170	\$518,467,190	\$554,600,135

Totals may not sum due to rounding

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable including projected utilization, costs and charges. The discussion regarding projected 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.

In summary, the applicant adequately demonstrates the availability of funds for the capital needs of the proposal and 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, subject to Condition (5) of Criterion (4).

- (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 48, the 2016 SMFP defines the service area for acute care services by county (or multicounty service area for counties without a hospital). UNC Hospitals is located in Orange County. Thus, the service area for this facility consists of Orange County. Facilities may also serve residents of counties not included in their service area.

The 2016 SMFP identifies a need determination for 84 additional acute care inpatient beds in the Orange County service area. UNC Hospitals is the only provider of acute care hospital services located in Orange County. UNC Hospitals proposes to add 84 acute care beds for a total of 890 facility-wide acute care beds upon completion of this project (add 55 beds on Main Campus) and the concurrently filed application, Project ID #J-11163-16 (add 29 beds on Hillsborough Campus). The applicant does not propose to develop more acute care beds than are determined to be needed in the service area. The applicant adequately demonstrates the need the population proposed to be served has for the 55 additional acute care beds at UNC Hospitals Main Campus. The discussions regarding analysis of need, including projected utilization, and access, found in Criteria (3) and (4), respectively, are incorporated herein by reference.

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Therefore, the applicant adequately demonstrates the project would not result in unnecessary duplication of existing or approved acute care services in the Orange County service area. 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 VII.1(b), pages 122-123, the applicant provides the projected staffing for Main Campus' proposed project components during the second full fiscal year following the completion of the project, as illustrated in the table below.

	<b>Total Number of FTE Positions</b>				
	<b>Women's Level 5 Obstetrics</b>	<b>Women's Level 4 LDRP</b>	<b>7 West Med/Surg</b>	<b>7 East West Med/Surg</b>	<b>Total</b>
Patient Services Manager III	1.0	1.0	1.0	1.0	4.0
Clinical Nurse IV	1.0	2.0	1.0	1.0	5.0
Clinical Nurse II	44.2	35.9	17.5	26.7	124.3
Nursing Assistant	1.0	0.0	0.0	0.0	1.0
Nursing Assistant II	1.0	0.0	0.0	0.0	1.0
Surgical Tech	4.2	0.0	0.0	0.0	4.2
HUC	4.3	1.8	0.0	0.0	6.1
L&D Patient Service Asst	1.0	0.0	0.0	0.0	1.0
Clinical Support Tech	0.0	6.9	0.0	0.0	6.9
Clinical Support Tech II	0.0	1.9	9.2	13.9	25.0
<b>Total FTE Positions</b>	<b>57.7</b>	<b>49.5</b>	<b>28.7</b>	<b>42.6</b>	<b>178.5</b>

As illustrated in the table above, the applicant projects 178.5 full-time equivalent (FTE) positions in FY2024, the second full fiscal year following completion of the proposed project. Furthermore, in Section VII.3(a), page 124, the applicant states:

*“Because UNC Hospitals currently provides each of the services in the proposed project, the positions [emphasis in original] that result from this project will not be new. That is, UNC Hospitals currently employs staff in each of these positions. No new positions (i.e. types of FTEs) will result from the proposed project; however, UNC Hospitals does intend to hire incremental staff to support the additional acute care capacity.”*

In Section VII.6 (a) and (b), pages 125-126, the applicant provides UNC's recruitment and staff retention plans. In Section VII.8 (a), page 127, the applicant states Dr. B. Anthony Lindsey is the Chief Medical Officer for UNC Hospitals. See Exhibit 18 for a copy of Dr. Lindsey's letter of support. On pages 128-129 the applicant provides the number of UNC Hospitals' active medical staff by specialty. The applicant demonstrates the availability of adequate health manpower and management personnel to provide the proposed services, and therefore, 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

The applicant currently provides acute care inpatient and obstetrics services. UNC Hospitals has the necessary ancillary and support services currently available. In Section II.2 (b), page 33, the applicant states:

*“UNC Hospitals currently has all ancillary and support services in place necessary to support hospital operations. These existing ancillary and support services will also support the 55 additional beds to be developed as proposed in this application.”*

The applicant discusses the services to be offered in Section II.1 on pages 29-32. See Exhibit 3 of the application for a copy of a letter from Dr. Brian P. Goldstein, Executive Vice President and Chief Operating Officer of UNC Hospitals, attesting to the availability of ancillary and support services. Exhibit 30 contains letters of support from physicians for the proposed project. The applicant adequately demonstrates the availability of the necessary ancillary and support services and that the proposed services will be coordinated with the existing health care 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 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.

CA

The applicant proposes to develop the proposed project in existing renovated space located within the UNC Main hospital. The application estimates 52,990 square feet of renovated space. Exhibit 28 contains a certified estimate which includes construction costs totaling \$18,833,000, with total capital costs of \$28,842,730, which corresponds to the project capital cost projections provided by the applicant in Section VIII, pages 132-133. In Section XI.7, pages 148-149, 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 proposed 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. However, the development of this project is contingent upon the development of the concurrently filed application, Project ID #J-11163-16, which proposes to relocate inpatient rehabilitation services from Main Campus to Hillsborough Campus, vacating space to develop the additional beds on Main Campus. Therefore, the application is conforming to this criterion, subject to Condition (5) in Criterion (4).

- (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 Section VI.12 and VI.13, pages 116-117, the applicant provides the payor mix during FY 2015 for UNC Hospitals' entire facility and UNC Hospitals' Medical/Surgical and Obstetrics services, as illustrated in the table below:

**UNC Hospitals  
 FY 2015(7/1/14-6/30/15)  
 Inpatient Days as a Percent of Total Utilization**

	<b>Entire Facility</b>	<b>Non-specialty Medical/Surgical</b>	<b>Obstetrics</b>
Self-Pay / Indigent / Charity	6.0%	6.5%	2.6%
Medicare/Medicare Managed Care	34.3%	41.4%	1.8%
Medicaid	21.9%	21.0%	45.1%
Commercial Insurance	21.5%	0.6%	0.5%
Managed Care	9.2%	25.3%	45.1%
Other (Other Gov't)	7.1%	5.2%	4.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

In Section VI.2, page 108, 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 presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance.*

*The proposed project will be designed in accordance with the latest State of North Carolina and Federal guidelines for handicapped accessibility. The project incorporates all applicable provisions of the Americans with Disabilities Act.”*

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 applicant’s service area.

Percent of Population						
County	% 65+	% Female	% Racial and Ethnic Minority*	% Persons in Poverty**	% < Age 65 with a Disability	% < Age 65 without Health Insurance**
	2014 Estimate	2014 Estimate	2014 Estimate	2010-2014	2010-2014	2014 Estimate
Orange	11%	52%	30%	14%	6%	15%
Statewide	15%	51%	36%	17%	10%	15%

<http://www.census.gov/quickfacts/table>

Latest Data as of 12/22/15

\*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 applicant’s 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 applicant demonstrates that it currently provides 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 applicant;

C

Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section VI.11, page 115, the applicant states:

*“UNC Hospitals has long since satisfied its “free care” obligation under the Hill-Burton Act. Charity care provided by UNC Hospitals for Fiscal Year 2015 is estimated to be \$176 million (12.7 percent of Net Revenue). UNC Hospitals provides care to all persons based only on their need for care, and without regard to minority status or handicap/disability.”*

See Exhibits 19 and 20 for copies of the applicant’s Financial Assistance and Admission policies, respectively.

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In Section VI.10 (a), page 115, the applicant states that it has not been notified of any civil rights equal access complaints being filed against the hospital and/or any facilities or services owned by the hospital within the past 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 applicant's proposed services and the extent to which each of these groups is expected to utilize the proposed services; and

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In Section VI.14 (a) and (b) and VI.15 (a) and (b), pages 117-118, the applicant provides the projected payor mix for the entire facility, medical/surgical services, and inpatient rehabilitation services for UNC Hospitals Fiscal Year (July 1, 2022 – June 30, 2023), the second full fiscal year following completion of the project, as illustrated in the table below:

**UNC Hospitals Projected FY 2024 Payor Mix  
 Inpatient Days as a Percent of Total Utilization**

	<b>Entire Facility</b>	<b>Non-specialty Medical/Surgical</b>	<b>Obstetrics Services</b>
Self-Pay / Indigent / Charity	6.0%	6.5%	2.6%
Medicare/Medicare Managed Care	34.3%	41.4%	1.8%
Medicaid	21.9%	21.0%	45.1%
Commercial Insurance	21.5%	0.6%	0.5%
Managed Care	9.2%	25.3%	45.1%
Other (Other Gov't)	7.1%	5.2%	4.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Totals may not sum due to rounding.

On page 118, the applicant states that its payor mix for medical/surgical and obstetrics services is not expected to change from its historical mix.

The applicant adequately demonstrates that medically underserved populations will have adequate access to the proposed services. Therefore, 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.

C

In Section VI.9, page 114, the applicant describes the range of means by which a person will have access to its services. The information provided is reasonable and credible and supports a finding of conformity 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 Section V.1(b), page 96, the applicant states that UNC Hospitals is associated with several health professional training programs. The applicant also states that the proposed project will be available as a clinical site for training programs and UNC Hospitals' medical and surgical programs will continue to serve as a training site with the addition of the proposed acute care beds. The information provided in Section V.1 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 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 48, the 2016 SMFP defines the service area for acute care services by county (or multicounty service area for counties without a hospital). UNC Hospitals is located in Orange County. Thus, the service area for this facility consists of Orange County. Facilities may also serve residents of counties not included in their service area.

The applicant operates the only state-owned academic medical center in North Carolina and is the only acute care hospital located in the Orange County service area. UNC Hospitals serves patients originating from all 100 counties in North Carolina. The applicant proposes to add 55 additional acute care beds for a total of 789 at UNC Hospitals Chapel Hill Campus.



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In Section V.7, pages 104-107, the applicant discusses how any enhanced competition in the service area will promote cost-effectiveness, quality and access to the proposed services. The applicant states:

*“UNC Hospitals believes that the proposed project may foster some competition in the proposed service area, particularly as the only provider of acute care services in the service area. However, the proposed project is not specifically being developed to foster competition per se, but rather to enhance the provision of timely, quality patient care and to assist UNC Hospitals in meeting its four-fold mission of patient care, teaching, research, and community service. UNC Hospitals maintains that the development of additional acute care capacity in Orange County will promote cost-effectiveness, quality, and access to services in the proposed service area and will be in compliance with the spirit and legislative intent of the Certificate of Need Law.”*

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

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

- The applicant adequately demonstrates the need to add 55 acute care beds and that the project is a cost-effective alternative. The discussions regarding analysis of need and alternatives found in Criteria (3) and (4), respectively, are incorporated herein by reference.
- The applicant adequately demonstrates that UNC Hospitals has and will continue to provide quality services. The discussions regarding quality found in Criteria (1) and (20) are incorporated herein by reference.
- The applicant adequately demonstrates UNC Hospitals will continue to provide adequate access to medically underserved populations. The discussions regarding access found in Criteria (1) and (13) are incorporated herein by reference.

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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In Section I.12, pages 16-17, the applicant states that in addition to the UNC Hospitals, it currently owns, leases, or manages eight other hospitals in North Carolina. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, incidents occurred at three of the nine 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 applicant and by the Acute and Home Care Licensure and Certification Section and considering the quality of care provided at all nine facilities, the applicant provided sufficient evidence that quality care has been provided in the past and adequately demonstrated that there is no pattern of substandard quality of care. 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 submitted by University of North Carolina Hospitals at Chapel Hill is conforming with all applicable Criteria and Standards for Acute Care Beds as promulgated in 10A NCAC 14C .3800. The specific criteria are discussed below.

**SECTION .3800 - CRITERIA AND STANDARDS FOR ACUTE CARE BEDS**

**10A NCAC 14C .3803 PERFORMANCE STANDARDS**

*(a) An applicant proposing to develop new acute care beds shall demonstrate that the projected average daily census (ADC) of the total number of licensed acute care beds proposed to be licensed within the service area, under common ownership with the applicant, divided by the total number of those licensed acute care beds is reasonably projected to be at least 66.7 percent when the projected ADC is less than 100 patients, 71.4 percent when the projected ADC is 100 to 200 patients, and 75.2 percent when the projected ADC is greater than 200 patients, in the third operating year following completion of the proposed project or in the year for which the need determination is identified in the State Medical Facilities Plan, whichever is later.*

-C- In Section II.8, page 38, the applicant projects that the utilization rate for all UNC Hospitals acute care beds in the Orange County service area will be 78.3% in the third Project Year (PY3: FY2025: July 1, 2024 – June 30, 2025) following completion of the proposed project, using average daily census (ADC) to calculate occupancy.

**Projected UNC Hospitals Acute Care Bed Utilization  
 Orange County Service Area  
 PY3 (FY2025)**

<b>Combined Total Acute Care Beds</b>	<b>Patient Days</b>	<b>ADC</b>	<b>AC Beds</b>	<b>Occupancy</b>
UNC Hospitals Main Campus	232,431	636.8	789	-
UNC Hospitals Hillsborough Campus	22,073	60.5	101	-
<b>UNC Hospitals Total</b>	<b>254,504</b>	<b>697.3</b>	<b>890</b>	<b>78.3%</b>

The applicant provides the methodology and assumptions for projecting utilization in Section III, pages 54-63. Projected utilization is based on reasonable and adequately supported assumptions. The projected occupancy rate is above the required 75.2% occupancy rate. Thus, the application is conforming with this rule.

*(b) An applicant proposing to develop new acute care beds shall provide all assumptions and data used to develop the projections required in this rule and demonstrate that they support the projected inpatient utilization and average daily census.*

-C- See Section III.1(b), pages 54-63, for the applicant’s assumptions and methodology used to project utilization. The data support the projected utilization and average daily census. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.