

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: May 6, 2016

Findings Date: May 6, 2016

Project Analyst: Jane Rhoe-Jones

Team Leader: Fatimah Wilson

Project ID #: J-11128-16

Facility: Veritas Collaborative

FID #: 110280

County: Durham

Applicant: Veritas Collaborative, LLC

Project: Relocate existing child/adolescent psychiatric hospital to another location within Durham County

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.

CA

The applicant, Veritas Collaborative, LLC (VC), proposes to relocate its existing child/adolescent psychiatric hospital to another location within Durham County. The site the applicant is proposing to relocate the existing child/adolescent facility to is the approved site for the applicant's adult psychiatric facility. The applicant's child/adolescent psychiatric facility is currently located at 615 Douglas Street in Durham. The applicant was approved to develop its adult psychiatric facility at 2812 Erwin Road in Durham, however, on August 10, 2015 the Agency approved a material compliance request to change the site of this facility to 4024 Stirrup Creek Drive in Durham. In Section II, page 7, the applicant states that relocating the child/adolescent facility and the adult facility is contingent upon approval of this project and a determination of material compliance from the Agency to develop the adult facility at the Douglas Street site as opposed to Stirrup Creek Drive. On February 10, 2016, the Agency

approved the material compliance request to relocate the adult psychiatric facility to Douglas Street in Durham.

Need Determination

The proposed project does not involve the addition of any new health service facility beds, services, or equipment for which there is a need determination in the 2016 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations applicable to the review of this application.

Policies

There is one policy in the 2016 SMFP which is applicable to this review: Policy GEN-4 ENERGY EFFICIENCY AND SUSTAINABILITY FOR HEALTH SERVICE FACILITIES which 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, Certificate of Need 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 efficient and water conservation standards incorporated in the latest editions of the North Carolina States Building Codes. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy GEN-4.

Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 is required to submit a plan for energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the 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.”

The proposed capital expenditure for this project is greater than \$9 million. In Section IX.5, pages 61-62, the applicant states:

“VC will use several methods to maintain energy-efficient facility operation [sic].

The facility owner designed the Stirrup Creek Drive building to be in compliance with all applicable federal, state, and local requirements for energy efficiency and water conservation. During the up-fit of spaces to relocate the mental health hospital, VC will

work with experienced architects and engineers to ensure energy efficient systems are incorporated into the spaces. ...”

The applicant also lists the steps it will take to contain utility costs and conserve water.

The applicant adequately demonstrates that the application includes a written statement describing the project’s plan to assure improved energy efficiency and water conservation.

Conclusion

In summary, the applicant adequately demonstrates that its proposal is consistent with Policy GEN-4 and 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

The applicant proposes to relocate its existing child/adolescent psychiatric hospital to another location within Durham County.

Population to be Served

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

In Section III, pages 29, the applicant provides historical quarterly utilization data for child and adolescent inpatient psychiatric services for calendar years CY2014 and CY2015, as illustrated in the following table:

	CY2014					CY2015				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
IP Beds	5	5	*6	6	6	6	6	6	6	6
Total patients admitted to IP bed	7	13	9	11	40	11	9	10	9	39
Total IP DOC	355	511	357	550	1,773	530	446	506	325	1,807
ALOS	44.3					46.3				
*July 2014 CON approval to develop one additional psychiatric inpatient bed, which was licensed August 19, 2014. IP = inpatient. DOC = days of care. ALOS = average length of stay.										

The table above shows that the child/adolescent facility had an increase of approximately 3.2% in days of care from CY2014 to CY2015.

Analysis of Need

The applicant proposes to relocate its existing child/adolescent psychiatric hospital to another location within Durham County.

The applicant was approved to develop five child/adolescent inpatient psychiatric beds pursuant to the need determination in the 2011 SMFP and approved to develop one additional child/adolescent inpatient psychiatric bed pursuant to the need determination in the 2014 SMFP for the Durham County Local Management Entity-Managed Care Organization (LME-MCO) which is Alliance Behavioral Healthcare.

In Section II.4, pages 8-24, the applicant states the need to relocate the existing facility is based on the factors listed below.

- VC is the only behavioral health inpatient hospital providing treatment of child/adolescent patients with eating disorders in North Carolina and states its market includes all counties in the state.
- Inquiries for VC services increased by 35% from 2014 to 2015. Inquiries are expected to increase by 35% or more in 2016.
- The current child/adolescent facility on Douglas Street in Durham has inadequate space for the child/adolescent treatment program. The Douglas Street facility is 21,600 square feet; while the proposed Stirrup Creek Drive location will be 48,300 square feet for the comprehensive treatment program (Section IX, pages 59-60).
- The inadequate space results in an ongoing waitlist for patients. Over 170 children were placed on VC’s waitlist in 2015 with 50% of those children needing inpatient care. The child/adolescent population in the service area is sizeable and continues to grow. Demand for specialized services for children and adolescents with eating disorders is expected to continue to grow in 2016 and beyond.
- Access to child/adolescent psychiatric inpatient beds in the state: Some children wait in other hospitals not specializing in the treatment they need while others are under the care of outpatient facilities ill equipped to manage the severity of their illnesses, or

some children do not receive the care they need at all. VC also treats patients from out of state and other countries due to the scarcity of treatment resources for children and adolescents with eating disorders.

The Stirrup Creek Drive location will:

- Negate the problem of inadequate dining space for patients whose treatment is based on eating disorders.
- Increase space for interdisciplinary treatment modalities, additional psychiatric residential treatment services (PRTF), office and support space.
- Provide outdoor space suitable for patient recreational therapy activities.
- Provide increased parking access for families, visitors and staff.
- Provide improved travel accessibility for patients, visitors and staff as the proposed site is closer to Raleigh-Durham International Airport and major highways such as Interstate 40.

The applicant adequately demonstrates the need to relocate the existing child/adolescent psychiatric hospital facility to the Stirrup Creek Drive site which will be up-fitted (designed and equipped) to serve child/adolescent psychiatric patients with eating disorders based on the discussion above and found in pages 18-24.

Projected Utilization

In Section III, page 30, the applicant provides projected quarterly utilization for CY2017 and CY2018, the first two years of operation following project completion, as illustrated in the following table:

VC CHILD/ADOLESCENT FACILITY PROJECTED IP BED UTILIZATION CY2017 - CY2018										
	CY 2017					CY 2018				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
IP Beds	6	6	6	6	6	6	6	6	6	6
Total patients admitted to IP bed	13	11	12	6	43	14	11	12	8	45
Total IP DOC	570	480	545	350	1,945	592	498	565	363	2,018
IP = inpatient. DOC = days of care.										

The applicant’s projected utilization from CY2017 to CY2018 (which is three full years of utilization of six beds) is expected to show an increase of one percent in the days of care. In Section II.4(b), pages 22-24, the applicant provides its methodology and assumptions for projecting utilization of child/adolescent psychiatric services at VC, which are described below.

Step 1: Historical Inpatient Utilization Review

VC CHILD/ADOLESCENT PSYCHIATRIC INPATIENT BEDS CY2012 - CY2015					
	CY2012 (June-Dec)	CY2013	CY2104	CY2015	2-yr CAGR
IP Beds	5	5	**6	6	
IP DOC	568	1,679	1,773	1,807	3.7%
% Occupancy	*53.1%	92.0%	81.0%	82.5%	
*Occupancy based on partial operating year June-December. **July 2014, VC received CON approval to develop one additional psychiatric IP bed which was licensed August 19, 2014.					

- CY2013 was the first full year of operation. The applicant states occupancy was 92% (1,679 DOC /365 days / 5 beds).
- There was a need determination in the 2014 SMFP and CON approval (Project ID# J-10240-14) for one additional inpatient bed for a total of six beds.
- Inpatient utilization continues to increase in 2016.
- The CAGR from CY2012 to CY2015 was 3.7% (see table above); which exceeded the target patient population growth during the next three years with a CAGR of 0.8% (see table below).

NORTH CAROLINA PROJECTED POPULATION: AGES 10-19					
	2016	2017	2018	2019	3-Yr CAGR
Population Ages 10-19	1,352,999	1,386,296	1,379,259	1,385,285	0.8%
Source: NC Office of State Budget & Management					

Step 2: Project Inpatient Utilization Through 2019

- Large and growing child/adolescent population
- Less than ideal access in the state for child/adolescent psychiatric beds
- North Carolina Mental Health Initiative
- Prevalence of eating disorders
- Expanded clinical definitions for eating disorders
- Utilization of VC existing inpatient beds
- VC projects its inpatient utilization to increase based on its recent two-year CAGR of 3.7 percent (see table below)

VC CHILD/ADOLESCENT PSYCHIATRIC INPATIENT BEDS				
	CY2016	CY2017	CY2018	CY2019
IP beds	6	6	6	6
IP DOC	1,875	1,945	2,018	2,093
% Occupancy	84.1%	85.6%	87.2%	88.9%

Projected utilization is based on reasonable and adequately supported assumptions.

Access

In Section IV.2, pages 32-33, the applicant states,

“VC is committed to continuing to treat patients and families from a wide variety of cultural backgrounds and across all income brackets. Consistent with its current business practice, at the relocated facility VC will continue to provide all services (as clinically appropriate, per physician order) to all child / adolescent patients with eating disorders, regardless of income, racial / ethnic origin, gender, physical or mental conditions, or any other factor that would classify a patient as underserved. The majority of VC’s patients are female, ... because the beds are licensed for children and adolescents, none of the patients is elderly. ... VC provides services to both voluntary and involuntarily admitted patients; this will continue after the proposed facility relocation. The relocated hospital will be located in spaces conforming to ... and any other requirement of federal, state, and local bodies. ...”

On page 34, the applicant states,

“ ... Veritas Collaborative has established relationships with national treatment scholarship funds for patients with eating disorders ... set up specifically to provide treatment resources for uninsured and underinsured persons. Administrative and clinical staff at VC assists patients and their families in making connections with these external resources in order to financially assist them with treatment.”

On page 35, the applicant also projects the following payor mix for the child/adolescent psychiatric eating disorder beds:

VC CHILD/ADOLESCENT BEDS INPATIENT DAYS OF CARE	
PAYOR SOURCE	%
BCBS	70.3%
Commercial Insurance	28.3%
Self-Pay (includes self-pay, indigent and charity care)	1.4%
Total	100.0%

The applicant states that projected payor mix is based on CY2015 VC patient payor mix.

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

Conclusion

In summary, the applicant adequately identifies the population to be served, adequately demonstrates the need the population to be served has for the proposed project and adequately demonstrates the extent to which all residents of the area, including medically underserved populations, will have access to its 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.

C

The applicant proposes to relocate its existing child/adolescent psychiatric hospital to another location in Durham County. The proposed site on Stirrup Creek Drive is approximately 10 miles/12 minutes or 13 miles/20minutes from the existing Douglas Street facility location (based on two suggested MapQuest routes). Although the new facility will be 10-13 miles away from the current facility, it will remain in Durham County and the needs of the population presently served (patient origin includes the entire United States) will still be met upon relocation of the facility. The proposed new facility will actually be larger to better accommodate the clinical needs of the child/adolescent patients and their families.

In Section I.9, page 3, the applicant states that relocating the child/adolescent patients to the Stirrup Creek Drive site will allow VC to better meet the growing demand for clinical services for this population. Also, relocation of the facility will enable VC to develop the 25 adult inpatient psychiatric beds in the space vacated at the Douglas Street site.

In summary, the applicant adequately demonstrates that the needs of the population presently served at Veritas Collaborative will continue to be adequately met following the relocation of the child/adolescent facility to another location in Durham. Furthermore, the applicant adequately demonstrates that the proposed relocation will have no effect on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain dialysis services at Veritas Collaborative. Therefore, the application is conforming to this criterion.

- (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 25-27, the applicant discusses the alternatives considered prior to the submission of this application, which include:

- 1) Maintain the Status Quo - the applicant concluded that this alternative is less effective because the child/adolescent psychiatric inpatient program requires more space to meet the needs of the growing patient population. The demand for services has outgrown the current physical space at the Douglas Street (current) site.
- 2) Relocate the Six Child/Adolescent Inpatient Psychiatric Beds to a Different Location – The applicant concluded that this alternative is less effective because no other site was available in the immediate timeframe desired or more ideally located to major thoroughfares for ease of travel for patients and their families.
- 3) Relocate the Six Child/Adolescent Inpatient Psychiatric Beds to the Proposed Site – the applicant concluded that the proposed project is the more effective alternative because the project will allow VC to meet the growing demand for services and allow VC to adjust programming needs of patients and their families; as the proposed space is nearly twice as large as the current space and also has suitable outdoor space (not adequate at the current site). The Stirrup Creek Drive site is in closer proximity to Raleigh-Durham airport and major highway arteries making it more accessible to patients, visitors and employees.

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

The applicant adequately demonstrates that the proposal is the least costly or most effective alternative for provision of the child/adolescent inpatient psychiatric services, particularly given the conditional approval of Project ID# J-10307-14 and material compliance determination (develop 25 adult inpatient psychiatric beds in the existing facility). Therefore, the application is conforming to this criterion and approved, subject to the following conditions.

- 1) **Veritas Collaborative, LLC shall materially comply with all representations made in the certificate of need application and in the clarifying information materials submitted during the review. In those instances where representations conflict, Veritas Collaborative, LLC shall materially comply with the last made representation.**
- 2) **Veritas Collaborative, LLC shall accept patients requiring involuntary admission for inpatient psychiatric services.**
- 3) **Veritas Collaborative, LLC shall submit to the Certificate of Need Section an annual report for each of the three full calendar years following the issuance of the certificate of need to document that at least 3.42% of annual gross revenue amounts to charity / indigent care as that term was defined by Veritas Collaborative, LLC. The report shall be submitted to the Certificate of Need Section no later than April 15th of the following year and shall contain at least the following information:**
 - a) **The total number of patient days of care by level (i.e., inpatient psychiatric, psychiatric residential treatment, outpatient).**

- b) **The total number of patients served by level.**
 - c) **Total gross revenue.**
 - d) **The total dollar amount of charity care.**
 - e) **The total dollar amount of indigent care.**
- 4) **Veritas Collaborative, LLC 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. The plan must be consistent with the applicant's representations in the written statement as described in paragraph one of Policy GEN-4.**
- 5) **Veritas Collaborative, LLC shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency 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 applicant proposes to relocate its existing child/adolescent psychiatric hospital to another location within Durham County.

Capital and Working Capital Costs

In Section VI, page 43, the applicant projects the total capital cost of the proposed project will be \$9,066,066, as shown in the following table:

VC PROJECT CAPITAL COST	
Item	Total Costs
Construction Contract	\$6,214,333
Equipment & Furniture	\$1,932,000
IT Equipment	\$ 133,333
Consultant Fees	\$ 386,400
Contingency	\$ 400,000
Total Capital Costs	\$9,066,066

In Section VII, page 48, the applicant states there are no start-up or initial operating expenses for this project as this is an existing facility.

Availability of Funds

In Section VI.5, pages 45-46, the applicant states that the total capital cost will be funded with accumulated reserves. Exhibit 7 contains a letter from the Chief Financial Officer of Veritas

Collaborative, LLC which documents its commitment to fund the proposed project and the availability of funds. The letter also documents that Vestar Capital Partners, a financial partner, has committed additional funds if sufficient cash reserves are not available.

Exhibit 8 contains the unaudited consolidated financial statements for Veritas Collaborative, LLC for the calendar year ending December 31, 2015. According to clarifying information received on April 4, 2016, VC had \$7.3 million in cash and cash equivalents, \$11.4 million in total current assets, \$21 million in total assets and \$15.8 million in total net assets (total assets less total liabilities) as of December 31, 2015. The applicants adequately demonstrate the availability of sufficient funds for the capital needs of the project.

Financial Feasibility

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

VC ADOLESCENT FACILITY REVENUE/OPERATING EXPENSES PROJECT YEARS 1-3			
	Project Year 1 2017	Project Year 2 2018	Project Year 3 2019
Total Revenue	\$3,201,319	\$3,320,811	\$3,444,774
Total Operating Expenses	\$2,917,725	\$3,131,202	\$3,212,868
Net Profit	\$283,594	\$189,609	\$231,906

On April 4, 2016, the applicant submitted clarifying financial information. In the clarifying pro forma financial statements submitted by the applicant, positive net income is shown for the entire facility, which includes PRTF beds. The assumptions used by the applicant in preparation of the pro formas are reasonable, including projected utilization, costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. The applicant adequately demonstrates that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

Conclusion

In summary, the applicant adequately demonstrates that sufficient funds will be available for the capital needs of the project. Furthermore, the applicant adequately demonstrates that the financial feasibility of the proposal is based upon reasonable projections of costs and charges. Therefore, the application is conforming to this criterion.

- (6) The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

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

The applicant proposes to relocate its existing child/adolescent psychiatric hospital to another location in Durham County. The proposal will not result in any change in the inventory of psychiatric beds or facilities in the service area. The applicant adequately demonstrates that the proposed project will not result in unnecessary duplication of existing or approved inpatient psychiatric beds for children and adolescents. Consequently, the application is conforming to this criterion.

- (7) The applicant shall show evidence of the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided.

C

In Section V, page 38, the applicant provides the staffing for the proposed project. The following table illustrates the current full-time equivalent (FTE) staffing. The applicant states that currently there are no vacant staff positions.

VC CHILD/ADOLESCENT HOSPITAL FTE STAFFING Current & Proposed	
	FTEs
RNs	30.0
LPNs	4.0
Nurse’s Aides	7.0
Other Clinical Staff	80.0
Non-Clinical Staff	10.0
Department Heads	4.0
Total	135.0
Inpatient services only.	

In Section V.1, page 37, the applicant describes Veritas’ recruitment and retention policies and procedures. The applicant states, “*This area has a superfluity of clinicians and technicians seeking healthcare jobs/careers locally. In fact, Veritas regularly receives an abundance of applications for clinical and other positions at the mental health hospital.*” The applicant states that no new positions will be added as a result of this project. The applicant adequately demonstrates the availability of resources, including health manpower and management

personnel, for the provision of the services proposed to be provided. Consequently, this application to relocate the existing child/adolescent psychiatric hospital to another location in Durham County is conforming to this criterion.

- (8) The applicant shall demonstrate that the provider of the proposed services will make available, or otherwise make arrangements for, the provision of the necessary ancillary and support services. The applicant shall also demonstrate that the proposed service will be coordinated with the existing health care system.

C

In Section II, pages 13-14, the applicant describes the specialized care required by patients with eating disorders and the needs of children and adolescents for specialized care. The applicant describes its multi-disciplinary clinical team of nurses, psychiatrists, internists, pediatric medicine physicians, psychotherapists, dietitians, clinical social workers, therapists and other health care professionals. The applicant states that several staff have certification in eating disorders. The applicant further describes its referral network on pages 14-15, which includes general and psychiatric hospitals, emergency departments, urgent care centers, family medicine and pediatric medicine physicians, psychiatrists, RNs and nurse practitioners, school guidance counselors, dentists, gynecologists, etc. The applicant adequately demonstrates that the necessary ancillary and support services will be made available and that the proposed services will be coordinated with the existing health care system. Consequently, this application to relocate the existing child/adolescent psychiatric hospital to another location in Durham County 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 to upfit an existing building at Stirrup Creek Drive that has a total of 96,600 square feet. The six existing child and adolescent inpatient psychiatric beds will occupy 16,100 square feet and the PRTF will occupy 32,200 square feet for a total of 48,300 square feet for both programs. The remaining 48,300 square feet will house VC corporate and administrative spaces and the partial hospitalization program. Exhibit 6 contains a line drawing of the proposed facility. In Section IX.5, pages 61-62, the applicant identifies the energy-saving features that will be incorporated into this project. In Section VI.1, page 43, the applicant states that the construction costs to relocate the child/adolescent psychiatric hospital are \$6,214,333. Exhibit 6 contains a letter dated February 12, 2016 from an architect which confirms the projected costs associated with the relocation of the child/adolescent psychiatric hospital. 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 costs 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 Section IV.6, page 35, the applicant provides its CY2015 patient payor mix, which is shown below in the following table.

VC CHILD/ADOLESCENT INPATIENT DAYS OF CARE AS PERCENT OF TOTAL UTILIZATION

Medicare	0.0%
Medicaid	0.0%
Blue Cross and Blue Shield	70.3%
Commercial Insurance	28.3%
State Employees Health Plan	0.0%
Self-Pay (includes self-pay, indigent & charity care)	1.4%
TOTAL	100.0%

In Project I.D.# J-10240-14, the applicant was required to document that at least 3.42% of its annual gross revenue amounts to charity/indigent care. In Section 11, Form B of the proformas, the applicant provides historical gross patient revenue, deductions from revenue and net patient revenue. In the Statement of Revenues and Expenses, the applicant does show that in 2015 its percentage of self pay/charity care was 3.42% of gross patient revenue (net patient revenue/total gross patient revenue).

In Section IV.2-3, on pages 32-33, the applicant states,

“VC is committed to continuing to treat patients and families from a wide variety of cultural backgrounds and across all income brackets. Consistent with its current business practice, at the relocated facility VC will continue to provide all services (as clinically appropriate, per physician order) to all child/adolescent patients with eating disorders, regardless of income, racial/ethnic origin, gender, physical or mental conditions, or any other factor that would classify a patient as underserved. The majority of VC’s patients are female, and of course, because the beds are licensed for children and adolescents, none of the patients is elderly. Operating under the VC mental health hospital license, the relocated beds will continue to be available to and accessible by any child/adolescent patient having a clinical need for behavioral health services specific to eating disorders. VC provides services to both voluntary and involuntarily admitted patients; this will continue after the proposed facility relocation.

... VC works with the family to determine a payment plan that is mutually acceptable. Child/Adolescent patients’ financial guarantors are responsible for any cost sharing or deductible payments as determined by their insurance provider.”

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 & Ethnic Minority*	% Persons in Poverty**	% < Age 65 with a Disability	% < Age 65 without Health Insurance**
Durham***	11%	52%	58%	17%	7%	18%
Statewide	15%	51%	36%	17%	10%	15%

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

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

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

However, a direct comparison to the 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

In clarifying information received on April 29, 2016, the applicant states that no civil rights equal access complaints or violations were filed against VC. 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

C

In Section IV.6, page 35, the applicant states that its projected payor mix is based on its CY2015 patient payor mix. The projected payor mix is shown below in the following table.

VC CHILD/ADOLESCENT INPATIENT PROJECTED DAYS OF CARE AS PERCENT OF TOTAL UTILIZATION	
Medicare	0.0%
Medicaid	0.0%
Blue Cross and Blue Shield	70.3%
Commercial Insurance	28.3%
State Employees Health Plan	0.0%
Self-Pay (includes self-pay, indigent & charity care)	1.4%
TOTAL	100.0%

As required by Condition #3 in Criterion (4) of these findings the applicant is required to document that at least 3.42% of its annual gross revenue amounts to charity/indigent care. In Section 11, Form B of the proformas, the applicant provides projected gross

patient revenue, deductions from revenue and net patient revenue. In the Statement of Revenues and Expenses, the applicant does show that in Project Years 1-3 its percentage of self pay/charity care will be 3.42% of gross patient revenue (net patient revenue/total gross patient revenue).

In Section IV.2, page 32, the applicant states that its services are to meet the needs of child/adolescent patients with eating disorders and that its beds are licensed for children and adolescents, and thus, none of its patients are elderly.

In Section IV.4, page 34, the applicant states,

“All persons will continue to have access to VC’s behavioral health services.

... Veritas Collaborative has established relationships with national treatment scholarship funds for patients with eating disorders, such as the Manna Scholarship Fund, set up specifically to provide treatment resources for uninsured and underinsured persons. Administrative and clinical staff at VC assists patients and their families in making connections with these external resources in order to financially assist them with treatment.

VC requires no payment upon admission. The hospital verifies insurance at the time of admission, and notifies the patient or responsible party about payment responsibility. This will not change upon relocation of the hospital to the new VC location on Stirrup Creek Drive.”

The applicant demonstrates that medically underserved populations will have adequate access to services available at Veritas Collaborative. 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.

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In Section IV.5, page 34, the applicant states, *“Most child/adolescent patient access to Veritas is by physician referral. Other access to Veritas’ inpatient services include via: 1) other clinical referral sources (psychotherapist, registered dietician, or nurse practitioner, 2) self-referral, 3) referral from a school or a school mental health staff, 4) referral from hospitals and other treatment centers, and 5) referral by law enforcement.”*

The applicant adequately demonstrates that the facility will offer a range of means by which patients will have access to child/adolescent inpatient psychiatric services. The information provided in Section IV.5 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.3, pages 38-39, the applicant states that Veritas has an existing training relationship with both the Duke University School of Medicine and the Duke University School of Nursing through which medical and nursing students participate in a clerkship at Veritas, as well as the Watts School of Nursing and the Smith College School for Social Work. On page 39, the applicant states, “*VC will continue to be available to accommodate the clinical needs of any applicable health professional training program in the area.*” The application is conforming to this criterion.

- (15) Repealed effective July 1, 1987.
(16) Repealed effective July 1, 1987.
(17) Repealed effective July 1, 1987.
(18) Repealed effective July 1, 1987.
- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

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

The applicant proposes to relocate its existing child/adolescent psychiatric hospital to another location in Durham County. The proposal will not result in any change in the inventory of psychiatric beds or facilities in the service area. The applicant adequately demonstrates that the proposed project will not result in unnecessary duplication of existing or approved inpatient psychiatric beds for children and adolescents. Consequently, the application is conforming to this criterion.

According to the inventory of child/adolescent psychiatric inpatient beds in Table 15A of the 2016 SMFP (pages 378-379), there are a total of 404 child/adolescent psychiatric inpatient beds in the state. However, in the applicant’s LME-MCO, Alliance Behavioral Health, there are three facilities (applicant included) with a total of 98 existing licensed child/adolescent psychiatric inpatient beds. All 404 child/adolescent psychiatric inpatient beds in the state are shown in the table below:

CHILD/ADOLESCENT PSYCHIATRIC INPATIENT BED INVENTORY				
Name of Facility	County	Licensed Beds	License Pending	Total Child/Adolescent Inventory
Alliance Behavioral Healthcare LME-MCO				
Veritas Collaborative	Durham	6	0	6
Holly Hill Hospital	Wake	60	0	60
Strategic Behavioral Center-Garner	Wake	32	0	32
Total --- Alliance Behavioral Healthcare LME-MCO		98	0	98
Other in North Carolina				
Alamance Regional Medical Center	Alamance	8	0	8
UNC Hospitals	Orange	18	0	18
Carolinas Medical Center (Behavioral Health)	Mecklenburg	22	0	22
Novant Health Presbyterian Medical Center	Mecklenburg	20	0	20
SBH-Charlotte	Mecklenburg	0	24	24
NC Baptist Hospital	Forsyth	20	0	20
Old Vineyard Youth Services	Forsyth	18	34	52
CaroMont Regional Medical Center	Gaston	27	0	27
Cone Behavioral Health	Guilford	30	0	30
Mission Hospital/Copystone Center	Buncombe	17	0	17
Strategic Behavioral Center-Leland	Brunswick	20	0	20

Brynn Marr Behavioral Health System	Onslow	42	6	48
Total Other in NC		242	64	306
State Totals		340	64	404

Source: 2016 SMFP, Table 15A, pages 378-379.

Of the 2,336 licensed and approved psychiatric inpatient beds in North Carolina only 404 or 17.3% are licensed as child/adolescent beds. In Section II, page 17, the applicant states, “*VC is the only provider of its kind in the state. VC is North Carolina’s first behavioral health hospital ... dedicated solely to the treatment of children and adolescents with eating disorders.*”

In Section V.6, pages 40-41, the applicant discuss how the proposed project would have a positive impact on the cost-effectiveness, quality and access to the proposed services. The applicant states,

“VC’s ... financial management enables case-by-case discounts for families with limited financial resources. Further, VC is committed to connecting potential patients and their families with not-for-profit agencies and other ... resources that offer treatment scholarship funds to ease the financial burden of this specialized care.

It is VC’s philosophy to ‘treat to outcome, not to resource.’ This means that a patient’s treatment will not be immediately discontinued because their insurance benefits have ended.

VC has existing quality-related policies and procedures... VC constantly reviews its data and processes to determine how it can improve the services it provides.

... The hospital promotes a cost-effective approach to the provision of eating disorders care, it offers health care services to all, including the medically underserved, and it encourages quality health care services. ...”

See also Sections II, IV and VIII, and IX where the applicants discuss the impact of the project on cost-effectiveness, quality and access.

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

- The applicants adequately demonstrate the need for the project and that it is a cost-effective alternative. The discussions regarding the analysis of need and alternatives found in Criteria (3) and (4), respectively, are incorporated herein by reference.
- The applicants adequately demonstrate they will provide quality services. The discussion regarding quality found in Criterion (20) is incorporated herein by reference.
- The applicants demonstrate that they will provide adequate access to medically underserved populations. The discussion regarding access found in Criteria (3) and (13) is incorporated herein by reference.

- (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 Exhibit 5, which contains the proposed legal structure of Veritas Collaborative, the applicant states that it currently owns the child/adolescent psychiatric hospital and will own the approved adult psychiatric hospital (Project ID# J-10307-14) in North Carolina. The child/adolescent facility is the only existing facility the applicant owns in North Carolina. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents occurred within the eighteen months immediately preceding submission of the application through the date of this decision, for which any sanctions or penalties related to quality of care were imposed by the State on the child/adolescent facility owned and operated by the applicant 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 the facility, the applicant provides sufficient evidence that quality care has been provided in the past and adequately demonstrates 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.

NA

The Criteria and Standards for Psychiatric Beds in 10A NCAC 14C .2600 are not applicable because the applicants do not propose to establish new psychiatric beds.