

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: November 16, 2016

Findings Date: November 16, 2016

Project Analyst: Julie Halatek

Team Leader: Fatimah Wilson

Project ID #: O-11189-16

Facility: New Hanover Regional Medical Center

FID #: 943372

County: New Hanover

Applicant: New Hanover Regional Medical Center

Project: Construct additional floors on top of the existing Surgical Pavilion, relocate 68 acute care beds from NHRMC Orthopedic Hospital, and relocate five operating rooms from NHRMC Orthopedic Hospital, which results in a change of scope for Project I.D. #O-11042-15 (add 31 acute care beds and relocate nine acute care beds)

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

G.S. 131E-183(a) The Department shall review all applications utilizing the criteria outlined in this subsection and shall determine that an application is either consistent with or not in conflict with these criteria before a certificate of need for the proposed project shall be issued.

- (1) The proposed project shall be consistent with applicable policies and need determinations in the State Medical Facilities Plan, the need determination of which constitutes a determinative limitation on the provision of any health service, health service facility, health service facility beds, dialysis stations, operating rooms, or home health offices that may be approved.

C

New Hanover Regional Medical Center (NHRMC) proposes to relocate 68 existing acute care beds as well as five operating rooms from the existing NHRMC Orthopedic Hospital (Orthopedic Hospital) to the Surgical Pavilion on the 17th Street campus and to construct a 108-bed tower above the Surgical Pavilion. This project also involves a change of scope for Project I.D. #O-11042-15 (add 31 acute care beds and relocate nine existing acute care beds) by including those beds in the 108-bed tower.

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 this review.

Policies

There are is one policy in the 2016 SMFP which is applicable to this review: Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities.

Policy GEN-4 states:

“Any person proposing a capital expenditure greater than \$2 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178 shall include in its certificate of need application a written statement describing the project’s plan to assure improved energy efficiency and water conservation.

In approving a certificate of need proposing an expenditure greater than \$5 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178, the Certificate of Need Section shall impose a condition requiring the applicant to develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy GEN-4.

Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan 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.”

The proposed capital expenditure for this project is greater than \$5 million. In Section X.1, pages 133-134, and Section XI.7, page 142, the applicant provides a written statement describing the proposed project’s plan to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4.

Conclusion

In summary, the application is consistent with Policy GEN-4. Consequently, the application is conforming to this criterion.

- (2) Repealed effective July 1, 1987.

- (3) The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.

C

The applicant proposes to relocate 68 existing acute care beds as well as five operating rooms from the existing Orthopedic Hospital to the Surgical Pavilion on the 17th Street campus and to construct a 108-bed tower above the Surgical Pavilion. This project also involves a change of scope for Project I.D. #O-11042-15 (add 31 acute care beds and relocate nine existing acute care beds) by including those beds in the 108-bed tower.

In Section II.1, pages 16-17 and page 24, the applicant describes the current status of the Orthopedic Hospital, which was formerly Cape Fear Hospital before it was acquired by the applicant in 1998. The Orthopedic Hospital is described as a collection of buildings, building expansions, and building renovations that have been constructed or renovated over the last 70 years. Each particular project was constructed or renovated to the building code standard at the time it was constructed or renovated. The applicant states that during a review of the facility, it was determined that the collection of buildings needed considerable renovations or complete demolition and redevelopment to be viable for the level of healthcare delivery provided by the applicant.

The applicant states that after numerous meetings with varying stakeholders, the best alternative that emerged was to relocate the inpatient orthopedic services (both acute care beds and operating rooms) from the Orthopedic Hospital to a 108-bed tower built over the top of the existing Surgical Pavilion. To make the development of the 108-bed tower feasible, the 40 acute care beds to be developed or relocated as part of Project I.D. #O-11042-15 were included in the plans for the 108-bed tower. Renovations within the Surgical Pavilion will allow for the relocation of the inpatient operating rooms. Additionally, Project I.D. #O-11190-16 (relocate one GI endoscopy procedure room) and a future letter of exemption to be submitted that will allow for renovation of existing space to accommodate the four remaining GI endoscopy procedure rooms are also part of the master facility renovation plan. The outpatient operating rooms at the Orthopedic Hospital will be addressed through an application that the applicant plans to submit to the Agency in November 2016 for the December 1, 2016 review cycle.

Patient Origin

On page 48, the 2016 SMFP defines the service area for acute care bed services by county (or multicounty service area for counties without a hospital). On page 67, the 2016 SMFP defines the service area for operating room services by county (or multicounty service area for counties without a hospital). NHRMC is located in New Hanover County. Thus, the service area for this facility consists of New Hanover County. Facilities may also serve residents of counties not included in their service area.

In Section III.5(a), page 68, the applicant states that patients originating from Brunswick, Columbus, New Hanover, Onslow, and Pender counties comprise more than 86 percent of its orthopedic days of care and surgical cases in FY 2015. In Sections III.4 and III.5, pages 67-71, the applicant provides its current and projected patient origin by county for orthopedic days of care as well as orthopedic surgical cases, as shown in the table below.

NHRMC Historical and Projected Patient Origin by County Orthopedic Surgical Procedures and Days of Care – FY 2015 & FY 2020-2021						
County	FY 2015		FY 2020		FY 2021	
	Ortho DoC	Ortho Surg.	Ortho DoC	Ortho Surg.	Ortho DoC	Ortho Surg.
New Hanover	46.2%	43.5%	46.2%	43.5%	46.2%	43.5%
Brunswick	16.2%	18.7%	16.2%	18.7%	16.2%	18.7%
Pender	10.2%	10.0%	10.2%	10.0%	10.2%	10.0%
Columbus	7.3%	6.9%	7.3%	6.9%	7.3%	6.9%
Onslow	6.3%	8.2%	6.3%	8.2%	6.3%	8.2%
Other*	13.8%	12.8%	13.8%	12.8%	13.8%	12.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*The applicant provides a patient origin list by county or state of residence for the entire facility, including orthopedic services, on page 66. On page 68, the applicant states that it serves other North Carolina counties as well as South Carolina counties.

On page 71, the applicant states that it expects its patient origin to remain relatively consistent through FY 2022.

The applicant adequately identifies the population to be served.

Analysis of Need

In Section III.1(a) of the application, the applicant states the identified need is to relocate 68 existing acute care beds from the Orthopedic Hospital to a proposed 108-bed tower to be built above the existing Surgical Pavilion as well as relocation of the inpatient operating rooms from the Orthopedic Hospital to the Surgical Pavilion, due to the outdated condition of the existing Orthopedic Hospital and the potential costs associated with renovation. Throughout Section III, the applicant describes the factors which it states result in the need for the proposed project, including:

- Population growth trends for New Hanover County as well as Brunswick, Columbus, Onslow, and Pender counties (pages 54-57).
- NHRMC Physician Group has continued to expand and add to its physician network, thereby increasing the number of referrals to NHRMC facilities (page 58).
- The development of a new Accountable Care Organization (Physician Quality Partners) by NHRMC and a corresponding increase in NHRMC’s market share (pages 59-60).
- Continued increases in NHRMC utilization, including monthly Code Lavender days (when inpatient medical-surgical units exceed 95 percent of their capacity) (page 61).
- Concerns about the cost of renovation to bring the Orthopedic Hospital up to code, as well as determining the useful life of the building and proximity to services, along with a lack of other viable options (pages 64-65).

In Section III.3, page 64, the applicant states:

“The existing NHRMC Orthopedic Hospital is a collection of individual buildings, building expansions, and building renovations that have constructed/renovated [sic] since before 1957.

Each of the buildings, expansions, and renovations occurred under the building codes and healthcare delivery models of the time. This collection of buildings currently warrants considerable renovations or complete demolition and reconstruction to be viable facilities for the level of healthcare delivery expected from NHRMC in the future. These issues and concerns were identified and assessed through a series of facility and healthcare service line reviews. The costs to just bring the building to current code exceeds \$20.0 million.”

Exhibit 4 contains a review done by Navigant Consulting, Inc., of the aforementioned needs and the costs to accomplish those needs at the Orthopedic Hospital. According to the Infrastructure Upgrade Summary and Budget Assessment, the low end and high end of the budget just to bring the building up to code is \$17.5 million to \$22.2 million, respectively. In Section III.3, page 64, the applicant states some of the concerns that were considered along the way were related to the provision of ancillary and support services, ease of patient access, support of medical staff for call and consult coverage, and the overhead costs of running two facilities instead of just one.

In Section II.1, pages 16-17, the applicant states that the proposed project will result in a change of scope for Project I.D. #O-11042-15, which was approved to develop a 40-bed acute care bed unit by developing 31 new acute care beds and converting nine existing semi-private rooms into private rooms. The capital expenditure for that project which will now be included in the capital expenditure for this project is \$39,234,000.

In clarifying information received October 31, 2016, the applicant states that the costs listed in the application as those necessary to bring buildings up to code do not include costs such as equipment or furniture and do not include costs to demolish and replace buildings constructed prior to 1972 in order to continue operating the Orthopedic Hospital’s operating rooms and beds.

The applicant’s representations regarding the need to develop a new bed tower and to relocate the acute care beds and operating rooms to serve existing and projected patients are reasonable and adequately supported.

Projected Utilization

In Section IV.1, page 74, the applicant projects orthopedic inpatient days of care and orthopedic inpatient surgical utilization at NHRMC for the interim years and the first three fiscal years after completion of the project, as shown in the table below.

NHRMC Historical, Interim, & Projected Orthopedic Service Utilization									
	Historical		Interim				Projected		
	FFY 2014	FFY 2015	FFY 2016	FFY 2017	FFY 2018	FFY 2019	FFY 2020	FFY 2021	FFY 2022
Ortho Days of Care	11,524	11,866	12,208	12,562	12,930	13,311	13,706	14,078	14,464
Annual Change		342	342	354	368	381	395	372	386
Annual Change Rate		3.0%	2.9%	2.9%	2.9%	2.9%	3.0%	2.7%	2.7%
Ortho IP Surgical Cases	3,321	3,381	3,483	3,585	3,691	3,801	3,915	4,023	4,135
Annual Change		60	102	102	106	110	114	108	112
Annual Change Rate		1.8%	3.0%	3.0%	3.0%	3.0%	3.0%	2.8%	2.8%

In Section IV, pages 74-86, the applicant states that it hired Navigant Consulting (Navigant), a consulting firm that specializes in highly regulated industry sectors like healthcare, to assist in developing its strategic plan, which includes utilization projections. On page 76, the applicant states:

“Many of Navigant’s analytical tools are proprietary models, which does not permit Navigant to supply each and every assumption that was utilized in the development of the service line volume projections. However, it is important to remember that Navigant’s service line projections are individually modeled for each service line using the most current national, regional, state, and local data available, which may result in service line projections that mimic or are dramatically different from either simple trend lines or service area population growth.”

In Section IV, page 79, the applicant lists the following assumptions and methodologies that were used by Navigant to develop the utilization projections:

- The baseline year for forecasting inpatient volumes was FFY 2015.
- Market share from the seven counties with the highest NHRMC utilization was combined with age cohort data from Claritas to determine 2015 inpatient use rates (discharges per 1,000 population).
- Actual NHRMC FFY 2015 orthopedic market share and in-migration rates were used and assumed to remain constant during the entire projection period.
- Population estimates from Claritas for 2015 and 2020 were used to calculate estimates for five-year market volumes, and then average growth rates were applied to the interim years to develop interim year estimates.
- Elements in determining future inpatient market share included variables such as demographic changes, economic shifts, changes in disease incidence and technological/standard of care changes, service line strategies, actions of competitors, effects of new or renovated facilities, and reduction of in-migration due to added capacity.

The explanation of the utilization projections can be found on pages 80-86. Exhibit 9 contains additional data used by Navigant in projecting utilization.

In Section II.1, pages 16-17, Section III.3, pages 64-65, and in clarifying information received October 31, 2016, the applicant states that the purpose of the relocation of the beds and operating rooms is to consolidate services at one campus as well as avoid the excessive costs

that would be associated with the renovation of the existing Orthopedic Hospital campus. There are no Regulatory Review Criteria that are applicable to this project; therefore, there are no performance standards for utilization that must be met. The applicant's projections of the orthopedic surgeries and days of care following the relocation of existing beds and operating rooms and development of the new bed tower is based on reasonable and adequately supported assumptions. Therefore, the applicant adequately demonstrates the need to relocate 68 existing acute care beds and five operating rooms from the existing Orthopedic Hospital campus to the 17th Street campus, and to develop a 108-bed tower above the Surgical Pavilion to house those beds as well as beds approved as part of Project I.D. #O-11042-15.

Access

In Section VI.2, pages 110-111, the applicant states that it will provide services to all persons regardless of income, race, age, color, creed, religion, national origin, disability, or the level of care required. In Section VI.15, page 119, the applicant projects that 65.4 percent of its orthopedic inpatient service recipients and 66.6 percent of its medical/surgical inpatient service recipients will have some or all of their services paid for by Medicare and 4.3 percent of its orthopedic inpatient service recipients and 10.1 percent of its medical/surgical inpatient service recipients will have some or all of their services paid for by Medicaid during the second full operating year (FFY 2021). On pages 118-119, the applicant states that it based its projected payor mix on its FFY 2016 payor mix. The applicant adequately demonstrates the extent to which all residents of the area, including the medically underserved, 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 that this population has for the proposed project and adequately demonstrates the extent to which all residents, including underserved groups, will 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.

C

The applicant proposes to relocate 68 existing acute care beds and five operating rooms from the Orthopedic Hospital to its existing main campus. The geographic distance from the Orthopedic Hospital, located at 5301 Wrightsville Avenue in Wilmington, to the existing 17th Street campus in Wilmington, is approximately 5.5 miles. In Section II.1, pages 16-17, Section III.3, pages 64-65, and in clarifying information received October 31, 2016, the applicant provides the reasons it believes it is not feasible to continue to maintain and operate the acute care beds and operating rooms in their current location. The applicant provides reasonable and

adequately supported projections for the use of the operating rooms after relocation. The discussion regarding need and projected utilization found in Criterion (3) is incorporated herein by reference.

The applicant adequately demonstrates that the needs of the population presently served at the Orthopedic Hospital will be adequately met by the proposed relocation and that the proposal will not adversely affect the ability of medically underserved groups to obtain needed health care. 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 III.3, pages 64-65, the applicant discusses the alternatives considered prior to the submission of this application, which include:

- Maintain the Status Quo – The applicant states that maintaining the status quo would involve costly renovation as well as complete demolition and reconstruction of the facility in order to maintain the level of healthcare delivery expected from NHRMC in the future. The applicant states in clarifying information received October 31, 2016 that the costs associated beyond just the renovation as well as continued costs of operating two separate campuses would be unreasonable. Therefore, this alternative was rejected.
- Pursue a Joint Venture – The applicant states that the project is specific to NHRMC's needs and all renovations and relocations will take place among physical NHRMC locations. Therefore, this alternative was rejected.
- Develop a New Hospital Campus – The applicant states that developing a freestanding, separately licensed hospital or a satellite outpatient and inpatient department campus of NHRMC is feasible to accomplish; however, the estimated construction costs of \$65 million to \$125 million is not reasonable to accomplish the goals of the project. Therefore, this alternative was rejected.
- Develop Orthopedic Beds on the NHRMC Campus – the applicant states that constructing a 108-bed tower above the existing surgical pavilion would be the most cost-effective and reasonable alternative.

After considering the above alternatives, the applicant states the proposed alternative represents the most effective alternative to meet the identified need.

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

In summary, the applicant adequately demonstrates that the proposal is the least costly or most effective alternative to meet the identified need. Therefore, the application is conforming to this criterion, subject to the following conditions:

- 1. New Hanover Regional Medical Center shall materially comply with all representations made in the certificate of need application and in clarifying information received October 31, 2016.**
 - 2. New Hanover Regional Medical Center shall materially comply with all the conditions of approval on the certificate of need for Project I.D. #O-11042-15, except as specifically modified by the conditions of approval for this application, Project I.D. #O-11189-16.**
 - 3. New Hanover Regional Medical Center shall develop a 108-bed patient tower over the existing Surgical Pavilion by relocating 68 existing acute care beds and five operating rooms from the NHRMC Orthopedic Hospital to the NHRMC 17th Street campus as well as by including the acute care beds approved in Project I.D. #O-11042-15.**
 - 4. New Hanover Regional Medical Center shall de-license 68 acute care beds and five operating rooms at NHRMC Orthopedic Hospital. Following completion of this project and Project I.D. #O-11042-15, New Hanover Regional Medical Center shall be licensed for no more than 38 operating rooms, including 29 shared operating rooms, four dedicated ambulatory surgery operating rooms, three dedicated C-section operating rooms, and two dedicated open heart surgery operating rooms, and for no more than 678 general acute care beds.**
 - 5. New Hanover Regional Medical Center shall not acquire, as part of this project, any equipment that is not included in the project's proposed capital expenditures in Section VIII of the application and that would otherwise require a certificate of need.**
 - 6. New Hanover Regional Medical Center 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.**
 - 7. New Hanover Regional Medical Center shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to issuance of the certificate of need.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

The applicant proposes to relocate 68 existing acute care beds and five operating rooms from the Orthopedic Hospital to the 17th Street campus and construct a 108-bed tower above the existing Surgical Pavilion, which will also include the acute care beds approved in Project I.D. #O-11042-15.

Capital and Working Capital Costs

In Section VIII, page 127, the applicant projects the total capital cost of the proposed project will be \$86,878,371, which will include the following items:

NHRMC Acute Care Bed/OR Relocation	
Description	Cost
Site Preparation Costs	\$1,400,000
Construction Costs (Labor & Parking)	\$64,687,026
Equipment/Furniture	\$13,291,345
Consultant Fees	\$6,150,000
Contingency	\$1,350,000
Total	\$86,878,371

In Section IX.1, page 132, the applicant states there will be no start-up expenses and no initial operating expenses associated with the project.

Availability of Funds

In Section VIII.3, page 128, the applicant states that the total capital cost will be funded with \$86,878,371 in NHRMC accumulated reserves. Exhibit 20 contains a letter from the Chief Financial Officer of NHRMC which documents its commitment to fund the proposed project and the availability of funds. Exhibit 21 contains the audited financial reports for NHRMC for the years ending September 30, 2015 and 2014. According to the financial statements, as of September 30, 2015, NHRMC had \$126,588,000 in cash and cash equivalents, \$1,141,261,000 in total assets, and \$695,977,000 in total net assets (total assets less total liabilities). The applicant adequately demonstrates the availability of sufficient funds for the capital and working capital needs of the project.

Financial Feasibility

In the pro forma financial statements for NHRMC’s proposed service components (Form C), the applicant projects that revenues will exceed operating expenses in each of the first three operating years of the project, as shown in the table below.

NHRMC – Acute Care Bed/OR Relocation			
Projected Revenue/Expenses – Project Years 1-3			
	Project Year 1 FFY 2020	Project Year 2 FFY 2021	Project Year 3 FFY 2022
Projected # IP Orthopedic Days of Care	13,706	14,078	14,464
Projected # IP Orthopedic Surgeries	3,915	4,023	4,135
Projected # IP Med/Surg Days of Care	9,855	10,541	11,169
Gross Patient Revenue	\$307,065,948	\$332,194,552	\$358,863,321
Deductions from Gross Patient Revenue	\$221,483,023	\$242,753,642	\$265,587,216
Net Patient Revenue	\$85,582,925	\$89,440,910	\$93,276,106
Total Expenses	\$49,677,269	\$51,851,303	\$54,103,642
Net Income	\$35,905,655	\$37,589,607	\$39,172,464

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs, and charges. See the financial section of the application for the assumptions used regarding costs and charges. The discussion regarding utilization projections for relocated acute care beds and operating rooms found in Criterion (3) is incorporated herein by reference. The discussion regarding staffing found in Criterion (7) is incorporated herein by reference. The applicant adequately demonstrates the availability of sufficient funds for the operating needs of the project and that the financial feasibility of the proposal is based upon reasonable and adequately supported assumptions regarding projected utilization, revenues (charges), and operating costs.

Conclusion

In summary, the applicant adequately demonstrates the availability of sufficient funds for the capital and working capital needs of the project. Furthermore, the applicant adequately demonstrates the availability of sufficient funds for the operating needs of the project and that the financial feasibility of the proposal is based upon reasonable and adequately supported assumptions regarding projected utilization, revenues (charges), and operating costs. Therefore, the application is conforming to this criterion.

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

C

The applicant proposes to relocate 68 acute care beds as well as five operating rooms from the existing Orthopedic Hospital to the Surgical Pavilion on the 17th Street campus and to construct a 108-bed tower above the Surgical Pavilion. This project also involves a change of scope for Project I.D. #O-11042-15 (add 31 acute care beds and relocate nine existing acute care beds) by including those beds in the 108-bed tower.

On page 48, the 2016 SMFP defines the service area for acute care bed services by county (or multicounty service area for counties without a hospital). On page 67, the 2016 SMFP defines the service area for operating room services by county (or multicounty service area for counties without a hospital). NHRMC is located in New Hanover County. Thus, the service area for this facility consists of New Hanover County. Facilities may also serve residents of counties not included in their service area.

The following table summarizes the existing and approved operating room inventories for New Hanover County, as shown in Table 6A of the Proposed 2017 SMFP.

Operating Room Inventory – New Hanover County					
	Inpatient ORs	Ambulatory ORs	Shared ORs	CON Adjustments	Total
NHRMC*	5	4	29	0	38
Wilmington SurgCare	0	7	0	0	7
Total	5	11	29	0	45

*Includes NHRMC Orthopedic Hospital inventory

NHRMC proposes to relocate existing acute care beds and existing operating rooms from the Orthopedic Hospital to the 17th Street campus and to develop a 108-bed tower above the Surgical Pavilion. According to Table 5A in the Proposed 2017 SMFP, the applicant is the only provider of acute care bed services in New Hanover County. Therefore, the applicant does not propose to increase the inventory of operating rooms or acute care beds in the service area. The applicant adequately demonstrates the need to relocate the existing acute care beds and operating rooms, and adequately demonstrates that the projected utilization is based on reasonable and adequately supported assumptions. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

The applicant adequately demonstrates that the proposal would not result in an unnecessary duplication of existing or approved acute care beds or operating rooms in New Hanover County. Therefore, 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 and Exhibit 17, the applicant provides NHRMC's current and projected surgical and med/surg unit staffing for the second operating year, as shown in the following table.

NHRMC Acute Care Bed/OR Relocation – Staffing		
Employee Category	Current Staff FFY 2016	Projected Staff FFY 2021
	Total #FTE Positions	Total #FTE Positions
Orthopedic Unit		
Nurses/Aides	45.39	45.39
Clinical Personnel (other)	13.50	13.50
Non-Clinical Personnel	0.20	0.20
Total	59.09	59.09
Orthopedic Surgery		
Clinical OR Personnel	31.80	31.80
Clinical PACU Personnel	7.80	7.80
Clinical Anesthesia Personnel	12.30	12.30
Clinical Ambulatory Surgery Personnel	9.50	9.50
Clinical Pre-Admission Testing Personnel	5.20	5.20
Clinical Personnel (others)	0.60	0.60
Non-Clinical Personnel	16.20	16.20
Total	83.40	83.40
Med/Surg Unit		
Nurses/Aides	0.00	45.04
Clinical Personnel (other)	0.00	10.50
Non-Clinical Personnel	0.00	7.10
Total	0.00	62.64
Total Staff	142.49	205.13

The applicant proposes to add 62.64 FTE unit staff for the med/surg unit by the end of the second operating year and adequately budgeted for the expense of hiring that staff in its pro formas. The discussion regarding projected costs and charges found in Criterion (5) is incorporated herein by reference. In Section VII.3, page 122, and Section VII.7, pages 123-124, the applicant describes its experience and process for recruiting and retaining staff. Exhibit 13 contains a copy of a letter from Scott Q. Hannum, M.D., expressing his interest in continuing to serve as the Medical Director for NHRMC Orthopedic Services. The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services. 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

In Sections II.1 and II.2, pages 39-41, the applicant describes the manner in which it will provide the necessary ancillary and support services. Exhibit 24 of the application contains copies of letters from area physicians and surgeons expressing support for the proposed project. The applicant adequately demonstrates that necessary ancillary and support services are available and that the proposed services will be coordinated with the existing healthcare system. Therefore, the application is conforming to this criterion.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

- (10) When applicable, the 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 relocate 68 existing acute care beds and five operating rooms from the Orthopedic Hospital and develop a 108-bed tower above the existing Surgical Pavilion, which will include the 31 new acute care beds and nine relocated acute care beds from Project I.D. #O-11042-15. Exhibit 23 contains a certified cost estimate from an architect that estimates construction costs that are consistent with the project capital cost projections provided by the applicant in Section VIII.1 (page 127) of the application. In Section XI.7, page 142, and Exhibit 10, the applicant describes the methods that will be used by the facility to maintain efficient energy operations and contain the costs of utilities. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference. The applicant adequately demonstrates that the cost, design, and means of construction represent the most reasonable alternative, and that the construction cost will not unduly increase costs and charges for health services. Therefore, the application is conforming to this criterion.

- (13) The applicant shall demonstrate the contribution of the proposed service in meeting the health-related needs of the elderly and of members of medically underserved groups, such as medically indigent or low income persons, Medicaid and Medicare recipients, racial and ethnic minorities, women, and handicapped persons, which have traditionally experienced difficulties in obtaining equal access to the proposed services, particularly those needs identified in the State Health Plan as deserving of priority. For the purpose of determining the extent to which the proposed service will be accessible, the applicant shall show:
 - (a) The extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved;

C

In Sections VI.12 and VI.13, pages 117-118, the applicant provides the payor mix during FFY 2016 for all of NHRMC as well as the orthopedic inpatient service component and med/surg patient component for NHRMC, as illustrated in the tables below:

NHRMC Historical Payor Mix Orthopedic IP Services – FFY 2016	
Self-Pay/Charity	2.0%
Medicare/Medicare Managed Care	65.4%
Medicaid	4.3%
Managed Care/Commercial	23.4%
Other (Government)	3.5%
Other	1.4%
Total	100.0%

NHRMC Historical Payor Mix Med/Surg IP Services – FFY 2016	
Self-Pay/Charity	6.3%
Medicare/Medicare Managed Care	66.6%
Medicaid	10.1%
Managed Care/Commercial	13.6%
Other	3.4%
Total	100.0%

NHRMC Historical Payor Mix Entire Facility – FFY 2016	
Self-Pay/Charity/Other	10.7%
Medicare/Medicare Managed Care	51.5%
Medicaid	19.6%
Managed Care/Commercial	18.2%
Total	100.0%

The United States Census Bureau provides demographic data for North Carolina and all counties in North Carolina. The following table contains relevant demographic statistics for the applicant’s service area (New Hanover County).

Percent of Population						
County	% 65+	% Female	% Racial & Ethnic Minority*	% Persons in Poverty**	% < Age 65 with a Disability	% < Age 65 without Health Insurance**
New Hanover	16%	52%	23%	18%	9%	19%
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

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 116, the applicant states:

“NHRMC fulfilled its Hill-Burton obligation and does not have any related obligation under any applicable federal regulations to provide uncompensated care, community service, or access by minorities and the handicapped.”

The applicant states it is dedicated to providing care to all members of the community, regardless of ability to pay, and provides charity care. See Exhibit 16 for a copy of the NHRMC community benefits report, documenting some of its charity care. In Section VI.10, page 116, the applicant states that no civil rights access complaints have been filed against NHRMC in the last five years. 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 Sections VI.14 and VI.15, pages 118-119, the applicant provides the projected payor mix for the second full fiscal year following project completion (FFY 2021) for all of NHRMC as well as the orthopedic inpatient service component and med/surg patient component for NHRMC, as illustrated in the tables below:

NHRMC Projected Payor Mix Orthopedic IP Services – FFY 2021	
Self-Pay/Charity	2.0%
Medicare/Medicare Managed Care	65.4%
Medicaid	4.3%
Managed Care/Commercial	23.4%
Other (Government)	3.5%
Other	1.4%
Total	100.0%

NHRMC Projected Payor Mix Med/Surg IP Services – FFY 2021	
Self-Pay/Charity	6.3%
Medicare/Medicare Managed Care	66.6%
Medicaid	10.1%
Managed Care/Commercial	13.6%
Other	3.4%
Total	100.0%

NHRMC Projected Payor Mix Entire Facility – FFY 2021	
Self-Pay/Charity/Other	10.7%
Medicare/Medicare Managed Care	51.5%
Medicaid	19.6%
Managed Care/Commercial	18.2%
Total	100.0%

On pages 118-119, the applicant states that it based its projected payor mix on its FFY 2016 payor mix. The applicant 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 115, the applicant describes the range of means by which a person will have access to NHRMC's orthopedic surgical services and med/surg inpatient services. The applicant adequately demonstrates that the facility will offer a range of means by which patients will have access to the proposed services. Therefore, the application is conforming to this criterion.

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

C

In Section V.1, page 88, the applicant documents that NHRMC accommodates the clinical needs of health professional training programs in the service area and that it will continue to do so. Exhibit 11 contains a list of the health professional training programs that currently utilize the training opportunities at NHRMC. The information provided is reasonable and supports a finding of conformity with this criterion.

- (15) Repealed effective July 1, 1987.
(16) Repealed effective July 1, 1987.

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

C

The applicant proposes to relocate 68 acute care beds as well as five operating rooms from the existing Orthopedic Hospital to the Surgical Pavilion on the 17th Street campus and to construct a 108-bed tower above the Surgical Pavilion. This project also involves a change of scope for Project I.D. #O-11042-15 (add 31 acute care beds and relocate nine existing acute care beds) by including those beds in the 108-bed tower.

On page 48, the 2016 SMFP defines the service area for acute care bed services by county (or multicounty service area for counties without a hospital). On page 67, the 2016 SMFP defines the service area for operating room services by county (or multicounty service area for counties without a hospital). NHRMC is located in New Hanover County. Thus, the service area for this facility consists of New Hanover County. Facilities may also serve residents of counties not included in their service area.

The following table summarizes the existing and approved operating room inventories for New Hanover County, as shown in Table 6A of the Proposed 2017 SMFP.

Operating Room Inventory – New Hanover County					
	Inpatient ORs	Ambulatory ORs	Shared ORs	CON Adjustments	Total
NHRMC*	5	4	29	0	38
Wilmington SurgCare	0	7	0	0	7
Total	5	11	29	0	45

*Includes NHRMC Orthopedic Hospital inventory

NHRMC proposes to relocate existing acute care beds and existing operating rooms from the Orthopedic Hospital to the 17th Street campus and to develop a 108-bed tower above the Surgical Pavilion. According to Table 5A in the Proposed 2017 SMFP, the applicant is the only provider of acute care bed services in New Hanover County. Therefore, the applicant does not propose to increase the inventory of operating rooms or acute care beds in the service area.

In Section V.7, pages 93-107, the applicant discusses how any enhanced competition in the service area will have a positive impact on the cost-effectiveness, quality, and access to the proposed services. On page 93, the applicant states:

“This project will foster competition. NHRMC competes not only with other hospitals in the service area, but also with much larger system both inside and outside of North Carolina. NHRMC recognizes that patients have a choice of where to receive their care, and it strives to earn the loyalty of its patients every day.”

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 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 applicant adequately demonstrates 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 applicant adequately demonstrates it will provide quality services. The discussion regarding quality found in Criterion (20) is incorporated herein by reference.
- The applicant demonstrates that it will provide adequate access to medically underserved populations. The discussion regarding access found in Criteria (3), (3a), and (13) is incorporated herein by reference.

Therefore, the application is conforming to this criterion.

- (19) Repealed effective July 1, 1987.
- (20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

C

Section I.12, pages 10-12, contains a list of NHRMC-owned or operated health care facilities. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, there were two instances where NHRMC or an affiliated facility was out of compliance with Medicare conditions of participation within the last 18 months. The problems have since been corrected and at this time, all of the facilities are in compliance with all Medicare conditions of participation. Additionally, an incident is under investigation by the Centers for Medicare and Medicaid Services for potential violations with no timetable for any decision or outcome. 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 both facilities, the applicant provides sufficient evidence that quality care has been provided in the past. Therefore, the application is conforming to this criterion.

- (21) Repealed effective July 1, 1987.

- (b) The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

NA

The Criteria and Standards for Surgical Services and Operating Rooms, and Acute Care Beds, promulgated in 10A NCAC 14C .2100 and 10A NCAC 14C .3800, respectively, are not applicable to this review because the applicant is not proposing to develop new operating rooms, surgical services, or acute care beds. The applicant is proposing to relocate operating rooms and acute care beds to an existing campus with newly developed and newly renovated space.