ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS
C = Conforming
CA = Conditional
NC = Nonconforming
NA = Not Applicable

Decision Date: October 26, 2016
Findings Date: October 26, 2016

Project Analyst: Jane Rhoe-Jones
Team Leader: Fatimah Wilson

Project ID #: F-11178-16
Facility: Davis Regional Medical Center
FID #: 923134
County: Iredell
Applicant: Statesville HMA, LLC
Project: Relocate 14 inpatient psychiatric beds from Cherry Hospital pursuant to Policy PSY-1 for a total of 42 adult inpatient psychiatric beds upon project completion

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

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

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

C

The applicant, Statesville HMA, LLC proposes to relocate 14 inpatient psychiatric beds from Cherry Hospital pursuant to Policy PSY-1 in the 2016 State Medical Facilities Plan (SMFP) to Davis Regional Medical Center (DRMC), located at 218 Old Mocksville Road, Statesville. The applicant states that DRMC currently operates 28 adult inpatient psychiatric beds (16 adult and 12 geriatric). In Section II.2(c), page 9, the applicant states that DRMC proposes to serve adult psychiatric patients 18 years of age and older. Upon project completion DRMC will be licensed for a total of 42 adult inpatient psychiatric beds. DRMC will not increase or decrease its licensed acute care bed capacity as a result of the proposed project. In Section II.2(b), page 9, the applicant states,

"*DRMC will develop the proposed 14 additional adult beds in existing space that is not currently utilized. Davis Regional Medical Center was originally built as a 149 bed facility with approximately 20 patient rooms to support double occupancy. The facility has existing beds and space on the second floor that can accommodate additional medical surgical acute care beds. Therefore, the 5th floor space can be utilized for the additional inpatient psychiatric beds without a reduction of capacity of acute care beds in the facility*."

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 SMFP. Therefore, there are no need determinations in the 2016 SMFP applicable to this review.

Policies

There are three policies in the 2016 SMFP which are applicable to the review of this application. The first of these, Policy MH-1: LINKAGES BETWEEN TREATMENT SETTINGS, states:

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

In Exhibit 15, the applicant provides a letter of support for the proposed project, dated May 5, 2016 from the CEO of Partners Behavioral Health Management, the Local Management Entity-Managed Care Organization (LME-MCO). Therefore, the application is conforming to Policy MH-1.

The second policy, Policy PSY-1: TRANSFER OF BEDS FROM STATE PSYCHIATRIC HOSPITALS TO COMMUNITY FACILITIES, states:

"*Beds in the state psychiatric hospitals used to serve short-term psychiatric patients may be relocated to community facilities through the certificate of need process. However, before beds are transferred out of the state psychiatric hospitals, services and programs shall be available in the community. State psychiatric hospital beds that are relocated to community facilities shall be closed within 90 days following the date the transferred beds become operational in the community.*

Facilities proposing to operate transferred beds shall submit an application to Certificate of Need of the North Carolina Department of Health and Human Services and commit to serve the type of short-term patients normally placed at the state psychiatric hospitals. To help ensure that relocated beds will serve those people who would have been served by the state psychiatric hospitals, a proposal to transfer beds from a state hospital shall include a written memorandum of agreement between the local management entity serving the county where the beds are to be located, the

secretary of the North Carolina Department of Health and Human Services, and the person submitting the proposal."

In Exhibit 3, the applicant provides a signed memorandum of agreement with signature dates of April 19, 2016 through May 10, 2016 between Davis Regional Medical Center, the applicant, Partners Behavioral Health Management, the LME-MCO (Partners LME-MCO) serving Burke, Catawba, Cleveland, Gaston, Iredell, Lincoln, Surry and Yadkin counties, and the North Carolina Department of Health and Human Services, which states:

"*WHEREAS, the 2016 State Medical Facilities Plan (SMFP) authorizes the transfer of psychiatric inpatient beds from the State psychiatric hospitals to community-based facilities that are willing to care for residents who are normally placed in psychiatric beds at the State psychiatric hospitals.*

WHEREAS, the SMFP, 'Policy PSY-1: Transfer of Beds from State Psychiatric Hospitals to Community Facilities', requires that an application for a Certificate of Need (CON) to transfer psychiatric beds from a State psychiatric hospital to a community-based facility must include a written agreement between the area MH/DD/SA authority serving the county where the beds are to be located, the Secretary of Health and Human Services, and the person submitting the proposal,

WHEREAS, the SMFP, 'Policy PSY-1: Transfer of Beds from State Psychiatric Hospitals to Community Facilities' additionally requires that the 'facilities proposing to operate transferred beds' shall 'commit to serve the type of short-term patients normally placed at the state psychiatric hospitals,' and that the written memorandum of agreement ensures that the 'relocated beds will serve those people who would have been served by the state psychiatric hospitals',

WHEREAS, the 'Policy PSY-1: Transfer of Beds from State Psychiatric Hospitals to Community Facilities' further requires that 'services and programs shall be available in the community' prior to the transfer of beds from state psychiatric hospitals,

NOW THEREFORE, the North Carolina Department of Health and Human Services, the Division of Mental Health, Developmental Disabilities and Substance Abuse Services, and Cherry Hospital, operated by the Division of State Operated Healthcare Facilities ('DSOHF') (collectively referred to as the 'Department'); Partners Behavioral Health Management (referred to as Partners LME-MCO); and Davis Regional Medical Center in Iredell County, N.C. (referred to as Davis Regional) collective referred to as the 'Parties', do hereby agree as follows:

A. The Department and Partners LME-MCO assure that services and, programs in the county in which the community hospital is located and/or in the immediately adjacent counties for which Partners LME-MCO are responsible, are readily available and accessible within the timeliness performance standards contained in the existing current contracts with the Department and the LME-MCO),

B. The Department and Partners LME-MCO assure that services and, programs

provide a comprehensive continuum of care that will accommodate the needs of persons who will be discharged from the transferred community hospital beds so that the need for psychiatric re-admission to any hospital within 30 days of discharge would be expected to be at or below the existing current contractual performance standard. Nothing in this paragraph places any additional requirements on Partners other than those requirements that already exist in its current contract.

C. *The Department agrees to transfer fourteen (14) psychiatric inpatient beds from Cherry (State) Hospital to Davis Regional.*

D. *The Department agrees to close fourteen (14) psychiatric inpatient beds at Cherry (State) Hospital within ninety (90) days following the date the transferred beds become operational in the community.*

E. *Partners LME-MCO and Davis Regional agree to comply with the requirements of Policy PSY 1: Transfer of Beds from State Psychiatric Hospitals to Community Facilities set forth in the State Medical Facilities Plan*

F. *All Parties agree that this MOA is for the expressed purpose of transferring beds from Cherry (State) Hospital to Davis Regional and that such transfer does not include or imply the transfer of any monetary or other resources associated with these beds from the Department to support operation of such beds by Davis Regional in Iredell County. Nothing in this Memorandum of Agreement amends the contracts existing between Partners LME-MCO and Davis Regional or the contracts between Partners LME-MCO and the Department.*

G. *Davis Regional agrees to admit persons into the transferred beds who are between the ages of 18 years and older, and who have mental illness with or without, intellectual/developmental disabilities, and substance use disorders and whose behavioral and mental acuities are of the same types and levels as those served by state psychiatric hospitals, and whose needs for care are medically necessary.*

H. *Davis Regional agrees to screen, assess, admit or refer all crisis/walk-ins and referrals 24/7 with primary psychiatric emergencies/crises who may have medical complications.*

I. *As set forth in 10A NCAC 26C.0101, the participating Davis Regional has a designation as an IVC site prior to accepting first patient.*

This MOA contains the full understanding between the Department, Partners LME-MCO and Davis Regional for the transfer of fourteen (14) psychiatric inpatient beds set forth herein.

This MOA may be executed in counterparts, each of which shall be an original, all of which taken together *shall constitute one and the same instrument. The Parties may exchange electronic signatures on this MOA or written signatures by facsimile or e-mail, which shall be acceptable and deemed binding as originals.*"

The signed memorandum of agreement in Exhibit 3 and the letter of support from Partners LME-MCO in Exhibit 15 adequately document the following:

- The Local Management Entity-Managed Care Organization (LME-MCO), Partners, has provided a letter of support for the proposal.
- The Department of Health and Human Services has agreed to close 14 inpatient psychiatric beds at Cherry Hospital within 90 days following the transfer of the beds to Davis Regional.
- Davis Regional has committed to serve the type of short-term psychiatric patients normally placed at the state psychiatric hospitals.
- The application includes a written memorandum of agreement between the LME-MCO, the Department of Health and Human Services and Davis Regional.

The third policy in the 2016 SMFP that is applicable to the proposed project is 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 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 project is greater than $2 million but less than $5 million. In Section III, pages 44-45, the applicant provides a written statement describing its energy efficiency and sustainability plan. Also in Section XI.7(a-b), page 82, the applicant describes the energy saving features to be incorporated into the construction/renovation plans and how DRMC will contain utility costs. The applicant also states that plans include compliance with applicable

licensure and certification requirements for inpatient psychiatric beds. The application is consistent with Policy GEN-4.

Conclusion

In summary, the application is consistent with Policy MH-1, Policy PSY-1, and Policy GEN-4. Therefore, 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 14 inpatient psychiatric beds from Cherry Hospital, pursuant to Policy PSY-1 in the 2016 SMFP, to DRMC for a total of 42 adult inpatient psychiatric beds upon project completion.

Population to be Served

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 DRMC consists of Burke, Catawba, Cleveland, Gaston, Iredell, Lincoln, Surry and Yadkin counties. Facilities may also serve residents of counties not included in the catchment area.

In Section III.4, page 47, the applicant provides historical patient origin and in III.5(a), page 48, the applicant provides projected patient origin by county of residence for the first two operating years following completion of the project. Historical and projected patient origin are the same and are shown below in the table.

DRMC HISTORICAL PATIENT ORIGIN FFY 2015 & PROJECTED PATIENT ORIGIN ADULT INPATIENT PSYCHIATRIC SERVICES CY2018 – CY2019	
County	**Adult Inpatient % of Total**
Iredell	50.43%
Alexander	5.49%
Surry	3.60%
Rowan	2.91%
Wake	2.44%
Catawba	2.29%
Wilkes	2.00%
Mecklenburg	1.81%
Cleveland	1.63%
Buncombe	1.57%
Davidson	1.45%
Caldwell	1.38%
Guilford	1.45%
Davie	1.06%
Forsyth	1.04%
Other NC*	17.79%
Other States	1.63%
Total	**100.0%**

*Other NC includes <1% patient origin from other counties. See application pages 47-48 for the complete list.

In Section III.5 (b), page 49, the applicant states,

> "*The projected patient origin for the adult inpatient psychiatric beds … are based on the historical patient origin data and percentages that were obtained from the 2016 DRMC License Renewal Application. The applicant assumes that the future patient origin percentages will be the same as the most recent annual data.*"

The applicant adequately identifies the population to be served.

<u>Analysis of Need</u>

In Section III.1(a-b), pages 27-40, the applicant describes the need for the proposed project. The applicant summarizes this need, on page 27, as follows:

- "*The projected increase in the adult population of the service area contributes to higher demand for healthcare services including inpatient psychiatric services.*

- *National trends, North Carolina trends, and DRMC utilization data demonstrate increased utilization and days of care for adult inpatient psychiatric beds.*
- *The high occupancy of the existing adult inpatient beds at DRMC supports the development of additional inpatient beds to improve patient access and reduce treatment delays.*
- *Recruitment of an additional psychologist and physicians will support increases in referrals.*
- *The project is needed to expand services to provide greater depth of services for dual diagnosis patients.*
- *Utilization projections for the proposed adult inpatient psychiatric beds demonstrate that the proposed project will exceed the regulatory performance standards."*

These factors are briefly described below.

Population Growth

The applicant states on pages 27-28, that Iredell County has the fifteenth largest population in the state and continued growth is projected over the next five years. The table below shows that between 2015 and 2020, the population between ages 18 and 64 is expected to increase by 6.83%; while 65 years and older is projected to increase by 18.39%. The overall population is projected to increase by 6.27%.

IREDELL COUNTY PROJECTED POPULATION 2015-2020				
Iredell County	**2015**	**2020**	**Change**	**% Change**
Ages 0-17	39,107	37,934	-1,173	-3.00%
Ages 18-64	105,151	112,330	7,179	6.83%
Ages 65 up	25,023	29,624	4,601	18.39%
Total Population	**169,281**	**179,888**	**10,607**	**6.27%**

Source: NC Office of State Budget and Management

The table below is depicted on page 28 of the application. The applicant includes data taken from page 281, Table 15B in the 2016 SMFP: *2018 Projections of Psychiatric Bed Need By Local Management Entity-Management Care Organization (LME-MCO) Part 2: Projections of Adult Psychiatric Bed Need for 2018.* The table shows that the 18 year old and up population in the Partners LME-MCO is expected to increase by 3.50% from 2014 to 2018.

PARTNERS BEHAVIORAL HEALTH MANAGEMENT PROJECTED POPULATION 2015-2020				
Partners LME-MCO	**2014 18+ Population**	**2018 18+ Population**	**Population Increase**	**% Population Increase**
Iredell, Burke, Catawba, Cleveland, Gaston, Lincoln, Surry & Yadkin	706,801	731,510	24,709	3.50%

National Trends, North Carolina Trends and DRMC Utilization Data Trends

On pages 28-29, the applicant discusses national trends and quotes the *Healthcare Cost and Utilization Project Statistical Brief #175*. The applicant states,

> "… *between 2003 and 2011 hospitalization for mental disorders increased at a faster rate than for any other type of hospitalization (i.e., medical, surgical, injury, maternal/neonatal*)." [1]

On page 29, the applicant quotes North Carolina trends from the North Carolina Center for Public Policy Research. The applicant states,

> "… *between 1992 and 2011, the state psychiatric hospitals lost 1,879 beds, and between 2000 and 2011, they went from serving 16,789 people to serving just 5,754 people. This kind of care has been expensive for community hospitals to provide because insurance companies did not always cover mental health care, and if they did, payment rates were often less than the cost to the hospital of providing inpatient care*.
>
> *Without enough beds available, those in crisis began turning to their local hospital emergency rooms for help. In 2010, more than 135,000 people across the state were seen in a hospital emergency room for a mental health crisis. Community hospitals have responded to the need for more patient beds, and between 2009 and 2011, the number of patients served in community hospitals increased by 22.8%, rising from 15,442 to 18,966. At the same time, the number of patients served through three-way contracts nearly quadrupled, rising from 1,531 to 5,650 – almost as many as those served by the state's psychiatric hospitals. This means the state hospitals can focus on patients with more complex needs requiring longer care. Even so, the demand for these beds still often exceeds supply*."[2]

On pages 29-30, the applicant discusses DRMC trends. The applicant states that similar to national utilization trends, it has experienced an increase in hospitalizations related to mood disorders and schizophrenia including other psychotic disorders.

DRMC
ADULT INPATIENT PSYCHIATRIC BEDS
9/30/2011 – 9/30/2015

	9/30/2011	9/30/2012	9/30/2013	9/30/2014	9/30/2015
Days of Care	4,794	6,171	6,970	7,152	8,374
% increase		28.72%	12.95%	2.61%	17.09%

[1] Weiss AJ, Barrett ML, Steiner C. Trends and projections in inpatient hospital costs and utilization, 2003-2013. HCUP Statistical Brief # 175, July 2014. Agency for Healthcare Research and Quality, Rockville, MD. http://www.hcup-us.ahrq.gov/reports/statbriefs/sb175-Hospital-Cost-Utilization-Projections-2013.pdf

[2] Rash M, Quinterno J, Serving Mental Health Patients in Crisis: A Review of the State's Program To Buy Beds and Build Capacity in Local Hospitals, www.nccppr.org, Accessed April 28, 2016

As shown in the table above, for the period ending September 30, 2011 through September 30, 2015, the applicant experienced a compound annual growth rate of 14.95% in days of care for the 28 adult inpatient psychiatric beds at DRMC. The applicant states the following as factors in this growth:

- "*A long term reduction in the inpatient psychiatric bed capacity at State facilities*
- *Increases in emergency department visits for psychiatric conditions*
- *Implementation of 'three-way' contracts among the N.C. Department of Health and Human Services (DHHS), local mental health management entities (LMEs), and local hospitals*
- *The available capacity at DRMC, the scope of services for the adult inpatient psychiatric units and the support of the medical staff and community*."

The applicant further states that the benefits of having adult psychiatric beds at DRMC have been significant including:

- "*Reductions in Emergency Department waiting times for psychiatric admissions*
- *Reductions in the numbers of patients referred to more distant State psychiatric facilities*
- *Providing inpatient average lengths of stays of approximately seven days which is consistent with the projected length of stay under the 'three-way' contracts*
- *Coordination of high quality and cost-effective adult inpatient psychiatric services with the medical staff and local mental health management entities*"

High Occupancy of Existing Inpatient Psychiatric Beds at DRMC

On page 31, the applicant discusses the occupancy of its existing 28 beds during the previous year. The following table shows the number of days that occupancy was 100%.

DRMC ADULT INPATIENT PSYCHIATRIC BEDS DAYS AT FULL CAPACITY MARCH 1, 2015 – FEBRUARY 29, 2016		
	# Licensed Beds	**# Days at 100% Occupancy**
Adult	16	65 days
Geriatric	12	117 days
Combined	28	23 days

The applicant states that when the psychiatric beds are full, new patient admissions are delayed. Delayed admissions cause holding patients in the emergency department which results in additional staff resources being expended. Delays in admitting psychiatric patients also leads to increased stress for the patients and decreased patient satisfaction and access to needed inpatient services.

Recruitment of An Additional Psychologist, Psychiatrist and Primary Care Physicians

On page 31, the applicant discusses its current recruitment efforts for another clinical psychologist who will be appointed director of the proposed 42 inpatient psychiatric unit. The applicant states that its physician recruitment efforts are driven by expected demand for services due to population growth and aging of its market area population.

Expansion of Services for Dual Diagnosis Patients

On page 33, the applicant discusses expanding staffing resources to provide greater in-depth care for dual diagnosis patients. The applicant states that psychiatric illness and substance abuse frequently co-occur. The applicant states that that statistics from the Journal of the American Medical Association indicate that approximately 50% of individuals with severe mental disorders are also affected by substance abuse and of all people diagnosed with mental illness, 29% abuse either alcohol or drugs.
The information provided in the application is reasonable and adequately supports the applicant's representations.

Historical Utilization

On page 34, the applicant provides three years of historical utilization (2013, 2014 and 2015) for DRMC's adult inpatient psychiatric beds as shown in the following table;

DRMC ADULT PSYCHIATRIC INPATIENT BEDS HISTORICAL UTILIZATION FEDERAL FISCAL YEARS 2013-2015			
	FFY2013	FFY2014	FFY2015
# Beds	28	28	28
Discharges	971	1,048	1,162
ALOS	7.18	6.82	7.21
DOC	6,970	7,152	8,374
Occupancy	68.20%	69.98%	81.94%
FFY = federal fiscal year. ALOS = average length of stay. DOC = days of care			

Projected Utilization

On pages 34-39, the applicant provides its methodology for projecting utilization for the proposed project. The applicant states that projected utilization is based on historical utilization and annualized data for the current reporting year (October 1, 2015 to September 30, 2016) and the current calendar year (January 1, 2016 to December 31, 2016). The projected operational start date for the proposed project is January 1, 2018 which is the beginning of the fiscal year for DRMC.

Step One:

On page 35, the applicant projects future utilization based on forecasting the current year's utilization which is based on the most recent three month's annualized utilization data. As shown in the following table, the applicant projects a 2.24 percent increase in admissions and a 3.42 percent increase in days of care; which are less than the actual annual percentage growth of 10.88 percent in admissions and 17.09 percent in days of care that occurred from October 1, 2014 through September 30, 2015.

DRMC ADULT PSYCHIATRIC INPATIENT BEDS HISTORICAL UTILIZATION, YEAR-TO-DATE ANNUALIZED & CURRENT CALENDAR YEAR PROJECTED					
	FFY2013	**FFY2014**	**FFY2015**	**YTD Annualized 10/1/2015-9/30/2016**	**Current Calendar YR Projected 1/1/2016-12/31/2016**
# Beds	28	28	28	28	28
Discharges	971	1,048	1,162	1,188	1,188
ALOS	7.18	6.82	7.21	7.29	7.29
DOC	6,970	7,152	8,374	8,660	8,660
Occupancy	68.20%	69.98%	81.94%	84.74%	84.74%
FFY = federal fiscal year. ALOS = average length of stay. DOC = days of care					

Step Two:

On page 36, the applicant states the assumptions for the methodology used to project utilization for the interim year of January 2017 through December 2017, are as follows:

- "*The 14 additional adult inpatient psychiatric beds will not yet be operational.*
- *Growth in adult psychiatric admissions is projected to increase by 8 percent in 2017 due to ongoing physician recruitment and increasing referrals.*
- *These growth projections are reasonable and conservative because the previous year's growth in admissions was 10.88 percent.*
- *Average Length of Stay (ALOS) for the psychiatric beds is projected at 7.29 days based on the most recent three months' actual ALOS.*
- *The days of care for adult inpatient psychiatric beds are calculated based on admissions multiplied by the ALOS.*
- *Readmissions within a 30 day period are projected to average 3.945 percent of admissions based on the most recent 6 month period.*"

DRMC ADULT PSYCHIATRIC INPATIENT BED UTILIZATION CURRENT CALENDAR YEAR, ANNUALIZED & INTERIM YEAR		
	Current Calendar YR Projected 1/1/2016 – 12/31/16	**Interim Year 1/12017- 12/31/2017**
# Beds	28	28
Discharges	1,188	1,283
ALOS	7.29	7.29
Days of Care	8,660	9,353
Occupancy	84.74%	91.52%

Step Three:

On page 37, the applicant provides the assumptions used to project utilization all 42 inpatient psychiatric beds for the first three years following completion of the project.

- "*Growth in adult psychiatric admissions is projected to increase by 12 percent in 2018, 2019 and 2020.*
- *These growth assumptions are reasonable and conservative because the additional bed capacity will enable patients that are being held in the Emergency Department to be admitted.*
- *Average Length of Stay (ALOS) for the psychiatric beds is projected at 7.29 days based on the most recent three months' actual ALOS.*
- *The days of care for adult inpatient psychiatric beds are calculated based on admissions multiplied by the ALOS.*
- *Readmissions within a 30 day period are projected to average 3.945 percent of admissions based on the most recent six month period.*"

DRMC ADULT PSYCHIATRIC INPATIENT BED UTILIZATION INTERIM YEAR & PROJECT YEARS 1-3				
	Interim Year 1/12017- 12/31/2017	**Yr 1 1/12018- 12/31/2018**	**Yr 2 1/12019- 12/31/2019**	**Yr 3 1/12020- 12/31/2020**
# Beds	28	42	42	42
Discharges	1,283	1,437	1,609	1,803
ALOS	7.29	7.29	7.29	7.29
Days of Care	9,353	10,476	11,733	13,141
Occupancy	91.52%	68.34%	76.54%	85.49%
The Project Analyst attributes the decrease in occupancy to a 66% increase in the number of beds (28/42 = 0.66); while discharges increase only 12%.				

Step Four:

On page 39, the applicant discusses the calculation of its projected patient origin for the adult inpatient psychiatric beds, which is provided on page 40 and depicted below in the table. The applicant states that the projected patient origin for the adult inpatient psychiatric beds is based on the historical patient origin percentages as reported in its 2016 License Renewal Application.

DRMC PROJECTED PATIENT ORIGIN ADULT INPATIENT PSYCHIATRIC SERVICES CY2018 – CY2019/PY1-PY2			
County	**Adult Inpatients % of Total**	**PY1 # Patients**	**PY2 # Patients**
Iredell	50.43%	725	811
Alexander	5.49%	79	88
Surry	3.60%	52	58
Rowan	2.91%	42	47
Wake	2.44%	35	39
Catawba	2.29%	33	37
Wilkes	2.00%	29	32
Mecklenburg	1.81%	26	29
Cleveland	1.63%	23	26
Buncombe	1.57%	23	25
Davidson	1.45%	21	23
Caldwell	1.38%	20	22
Guilford	1.45%	21	23
Davie	1.06%	15	17
Forsyth	1.04%	15	17
Other NC*	17.79%	272	305
Other States	1.63%	23	26
Total	**100.0%**	**1,437**	**1,609**

*Other NC includes <1% patient origin from other counties. See page 40 of the application for the complete list.

Projected utilization is based on reasonable and adequately supported assumptions and adequately supports the need for 14 more beds. Therefore, the applicant adequately demonstrates the need to relocate 14 adult psychiatric inpatient beds from Cherry Hospital pursuant to Policy PSY-1 to DRMC in Iredell County.

Access by the Medically Underserved

In Section VI, pages 59-63, the applicant states that DRMC provides services to all persons that need medical care regardless of, race, sex, creed, national origin, handicap or the ability to pay. In review of and in response to public comments, the Agency compared the payor sources as reported and projected in the 2007 DRMC application for psychiatric beds (Project

ID# F-7869-07) and the proposed application. The Agency finds that the payor sources in the 2007 application and those reported and projected in this application are comparable. 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, demonstrates the need the population has for the project and demonstrates the extent to which all residents of the area, including underserved groups, are likely to have access to the proposed services. Therefore, the application is conforming to this criterion.

(3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA

(4) Where alternative methods of meeting the needs for the proposed project exist, the applicant shall demonstrate that the least costly or most effective alternative has been proposed.

CA

In Section III.3, pages 45-46, the applicant describes the alternatives considered prior to submitting this application for the proposed project, which include:

- Maintain the Status Quo –The applicant states that maintaining the status quo is not an effective alternative due to the high occupancy of the existing 28 adult inpatient psychiatric beds and the need to improve access and reduce treatment delays for patients. The applicant states that DRMC is the only provider of inpatient psychiatric care in Iredell County. The applicant states that hospital emergency departments are not capable of providing comprehensive psychiatric care for patients that need crisis services, detoxification and inpatient psychiatric care. Further, the applicant states that if additional adult inpatient psychiatric treatment capacity is not developed, then more patients that need such care will likely continue to be held for extended periods of time in the emergency departments in Iredell County hospitals.
- Add More Than 14 Adult Inpatient Psychiatric Beds – The applicant states this alternative was rejected because it has proven success in adding inpatient psychiatric beds in increments of 12 to 16 beds at a time. The applicant states having explored adding more than 14 beds, but doing so would require more extensive renovations resulting in higher project capital costs. The applicant also looked at utilization projections that indicated a need for no more than 14 additional adult inpatient psychiatric beds at this time. Thus, the option of adding more than 14 beds would not be cost-effective.

- Develop the Project in Other Locations within the DRMC Facility – The applicant states that this not an effective choice as this would be disruptive to other services and new construction would be too costly.

After considering those alternatives, the applicants state the alternative represented in the application to add 14 adult inpatient beds on the fifth floor is the most effective alternative to meet the identified need.

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

In summary, the applicant adequately 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 and approved subject to the following conditions.

1. **Statesville HMA, LLC shall materially comply with all representations made in the certificate of need application.**

2. **Statesville HMA, LLC shall relocate no more than 14 inpatient psychiatric beds from Cherry Hospital pursuant to Policy PSY-1 to Davis Regional Medical Center for a total licensed bed complement of no more than 42 adult inpatient psychiatric beds.**

3. **Statesville HMA, LLC shall accept patients requiring involuntary admission for adult inpatient psychiatric services at Davis Regional Medical Center.**

4. **The Emergency Room at Davis Regional Medical Center shall not go on diversion for psychiatric patients unless all options for managing hospital and Emergency Room flow have been exhausted. The decision to go on diversion will be made by the Emergency Room physician.**

5. **At the end of each the first three full operating years following completion of the project, Statesville HMA, LLC shall provide the following information in writing to the Healthcare Planning and Certificate of Need Section: 1) the total number of psychiatric patients seen in the Emergency Room; 2) the days (i.e., month/day/year) and the number of hours each day that the Emergency Room was on diversion for psychiatric patients; and 3) for each day that the Emergency Room was on diversion for psychiatric patients, a summary of the reasons for the diversion**

6. **Statesville HMA, LLC shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Healthcare Planning and Certificate of Need Section in writing prior to issuance of the certificate of need.**

(5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of

the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

In Section VIII.1(b), page 71, the applicant projects the total capital cost of the project to be $2,493,869, as shown in the following table:

DRMC 14 ADDITIONAL ADULT INPATIENT PSYCHIATRIC BEDS CAPITAL COST	
Item	**Projected Cost**
Construction Contract	$1,825,000
Fixed and Moveable Equipment	$ 216,369
Furniture/Signage	$ 120,000
Architect/Engineering/Consultant Fees	$ 150,000
Project Contingency	$ 182,500
Total	**$2,493,869**

In Section VIII.2, page 73, the applicant states that financing for the proposed project in the amount of $2,493,869 will be funded from reserves of its parent company, Community Health Systems, Inc. (CHS). Exhibit 25 includes a letter from the Director of Cash Management at CHS, dated August 28, 2014 which states:

> "*This letter is in response to your request for a letter of credit worthiness for Davis Regional Medical Center for capital expenditures totaling $2,493,869. … this will confirm that, as of the date of this letter, CHS/Community Health Systems, Inc. has available in immediate funds in excess of $2,493,869 under a Revolving Line of Credit to use as collateral for build out of the Inpatient Adult Psychiatric unit at Davis Regional. Documentation in support of available cash for this project can be found on the attached Form 10-Q consolidated balance sheet as filed with the SEC for the periods March 31, 2016 and December 31, 2015.*"

The Project Analyst notes that the applicant's funding letter is dated August 28, 2014. However, the consolidated balance sheet in Exhibit 25, page 220 is for the quarter ending March 31, 2016 and adequately demonstrates the availability of sufficient funds for the capital needs of the project.

In Section IX.1, page 76, the applicant states that there will be no start-up or initial operating expenses since DRMC has an operational adult inpatient psychiatric unit.

In addition to the consolidated balance sheet (Exhibit 25, page 220) which includes the quarters ending March 30, 2016 and December 31, 2015; Exhibit 26 contains an audited financial statement for CHS for years ending December 31, 2015, 2014 and 2013. CHS had total assets of $26,861,000,000 and total liabilities of $22,185,000,000. Total net assets were $4,676,000,000. CHS had cash and cash equivalents of $184,000,000. The applicant adequately demonstrates the availability of sufficient funds for the capital needs of the project.

The applicant provides pro forma financial statements for the first three operating years of the proposed project. The applicant projects that revenues will exceed operating expenses in all three operating years, illustrated as follows:

DRMC ADULT INPATIENT PSYCHIATRIC UNIT	**Project Year 1 1/01/2018 – 12/31/2018**	**Project Year 2 1/01/2019 – 12/31/2019**	**Project Year 3 1/01/2020 – 12/31/2020**
Projected # of days	10,476	11,733	13,141
Projected Average Charge (Gross Patient Revenue / Projected # of days)	$1,162.72	$1,197.61	$1,233.53
Gross Patient Revenue	$12,180,658	$14,051,607	$16,209,934
Net Patient Revenue	$6,620,188	$7,531,661	$8,566,950
Total Expenses	$4,393,452	$4,643,992	$4,919,215
Net Income	**$2,226,736**	**$2,887,670**	**$3,647,735**

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.

Additionally, in Form B, page 85, the applicant provides the projected revenues and expenses and on page 86, its assumptions for DRMC's total facility, as illustrated below in the table:

DRMC REVENUE AND EXPENSES		
	Project Year 1 FFY 2018	**Project Year 1 FFY 2019**
Gross Revenue	$ 382,117,136	$ 427,560,858
Deductions from Gross Revenue	$298,656,432	$337,381,200
Net Revenue	$ 70,230,388	$ 75,366,001
Expenses	$ 66,067,628	$ 69,025,155
Net Income	**$ 4,222,760**	**$ 6,340,846**

As illustrated, DRMC's total facility revenues will also exceed operating expenses in each of the first two Operating Years following completion of the proposed project.

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. All assumptions for the pro formas are provided in in the pro formas. 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, and 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 14 inpatient psychiatric beds from Cherry Hospital, pursuant to Policy PSY-1 in the 2016 SMFP, to DRMC for a total of 42 adult inpatient psychiatric beds upon project completion.

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 LME-MCO is Partners Behavioral Health Management and the service area for DRMC consists of Iredell, Burke, Catawba, Cleveland and Gaston counties. Facilities may also serve residents of counties not included in the catchment area.

The 2016 SMFP indicates that there are five other hospitals with licensed inpatient psychiatric beds in the Partners Behavioral Health Management LME-MCO service area. They are: Carolinas Healthcare System – Blue Ridge in Burke County, Catawba Valley Medical Center in Catawba County, Frye Regional Medical Center in Catawba County, Carolinas Healthcare System Kings Mountain in Cleveland County, and CaroMont Regional Medical Center in Gaston County. The following table provides data from the 2016 SMFP and from the 2016 License Renewal Applications (LRAs) for each of these hospitals in the Partners Behavioral Health Management LME-MCO service area as follows:

PARTNERS BEHAVIORAL HEALTH MANAGEMENT LME-MCO LICENSED BEDS FY2015 (October 1, 2014-September 30, 2015)					
Hospital	**County**	**Child/ Adolescent Licensed Inpatient Psychiatric Beds**	**Adult Licensed Inpatient Psychiatric Beds**	**Total Licensed, Inpatient Psychiatric Bed**	**Total OPERATIONAL Licensed, Inpatient Psychiatric Beds***
Davis Regional Medical Center	Iredell	0	28	28	28
Carolinas Healthcare System-Blue Ridge	Burke	0	22	22	22
Catawba Valley Medical Center	Catawba	0	38	38	38
Frye Regional Medical Center	Catawba	0	84	84	65
Carolinas Healthcare System Kings Mountain	Cleveland	0	14	14	14
CaroMont Regional Medical Center	Gaston	27	36	63	36
Total		**27**	**222**	**249**	**203**

***2016 LRAs**

As depicted in the table above, there are 27 licensed child/adolescent inpatient psychiatric beds and 222 licensed adult inpatient psychiatric beds in the Partners Behavioral Health Management LME-MCO service area for a total of 249 licensed psychiatric beds. However, the 2016 LRAs for both Frye Regional Medical Center and CaroMont Regional Medical Center indicate that only some of their licensed inpatient psychiatric beds are staffed. Frye Regional Medical Center staffed only 65 of its 84 inpatient psychiatric beds and CaroMont Regional Medical Center staffed only 36 of their 63 inpatient psychiatric beds. The LRAs only show the total number of staffed beds. Therefore, it appears that both Frye Regional Medical Center and CaroMont Regional Medical Center have additional capacity for inpatient psychiatric patients in the Partners Behavioral Health Management LME-MCO service area; however, only a portion of the licensed beds are being staffed.

A letter of support was received by the Agency for the proposed DRMC project from Partners Behavioral Health Management LME-MCO.

The 2016 SMFP indicates that there are surpluses of seven child/adolescent inpatient psychiatric beds and 77 adult inpatient psychiatric beds in the Partners Behavioral Health Management LME-MCO service area. However, the applicant adequately demonstrates the need for 14 additional/42 total adult inpatient psychiatric beds at DRMC. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. Therefore, the applicant adequately demonstrates that the proposed project will not result in unnecessary duplication of existing or approved inpatient psychiatric beds. 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

The following table illustrates the current and proposed staffing for DRMC's adult inpatient psychiatric services, as shown in Section VII.2, pages 64 and 65, respectively:

DRMC CURRENT AND PROPOSED ADULT INPATIENT PSYCHIATRIC SERVICES STAFFING			
Position	**Current FTEs**	**Proposed Additional FTEs**	**Total FTEs**
Executive Director/Psychologist	0.00	1.00	1.00
Director Behavioral Health/ Psychiatric Nurse	1.00	0.00	1.00
Social Worker	3.12	1.00	4.12
Registered Nurse	19.60	10.00	29.60
Licensed Practical Nurse	2.00	0.00	2.00
Certified alcoholism, drug abuse or substance abuse counselor	0.00	1.00	1.00
Recreational Therapist	1.00	0.00	1.00
Nursing Assistants/ Aides/ Orderlies	8.20	4.00	12.20
Total Hospital Staff	34.92	17.00	51.92
Medical Staff (non-Hospital Staff)	Current	Proposed	Total
Psychiatrist	3.00	1.00	4.00
Practicing Psychologist	1.00	0.00	1.00
Total Medical Staff	4.00	1.00	5.00

The applicant proposes to employ 17 additional full-time equivalent (FTE) positions for adult inpatient psychiatric services in the second operating year following project completion. In Section VII.3, page 66, the applicant discusses its recruitment and staff retention methods.

In Section VII.8, page 69, the applicant states that Victor M. Rosado, M.D, who is board-certified in psychiatry and neurobiology psychiatry by the American Board of Psychiatry and Neurology, will continue to serve as Medical Director of the DRMC psychiatric unit. In Exhibit 20, the applicant provides a copy of a letter signed by Dr. Rosado, indicating his willingness to continue to serve in this capacity. A copy of Dr. Rosado's curriculum vitae is also included in Exhibit 20.

The applicant adequately demonstrates the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided. 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 Section II, pages 10-13, the applicant describes the support services that will be provided by DRMC. The applicant lists the ancillary and support services on page 13. In Section V.2, V.3, and V.4, pages 53-55, the applicant discusses how the proposed services will be coordinated with the existing health care system. Continued referrals to DRMC are expected from existing referring psychiatrists, emergency department and primary care physicians. In

addition, the applicant states that DRMC has a current transfer agreement with Lake Norman Regional Medical Center. Letters of support from Lake Norman Regional Medical Center are included in Exhibit 12, Partners Behavioral Health Management LME-MCO in Exhibit 15, and various physicians and other providers of mental health services in Exhibits 7-10. The applicant states that DRMC has established relationships with various healthcare providers in the region, including, but not limited to, hospitals and their emergency departments, physicians, nursing homes and assisted living facilities. 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. 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, Statesville HMA, LLC proposes to relocate 14 inpatient psychiatric beds from Cherry Hospital to DRMC, pursuant to Policy PSY-1 in the 2016 SMFP. The proposed beds

will serve adults, ages 18 and above. DRMC is located at 218 Old Mocksville Road in Statesville, Iredell County. The applicant proposes to locate the proposed 14 adult beds in renovated space in its existing facility, for a total of 42 adult inpatient psychiatric beds when the project is completed. The proposed 14 adult beds will be located in existing space that is not currently utilized. The facility has existing beds on the second floor that can accommodate some of its medical surgical beds; while fifth floor space will be renovated and utilized for the additional 14 psychiatric beds in the form of private rooms without a reduction of capacity for acute care beds. Space to be renovated consists of 9,000 square feet and is adjacent to the existing 28 inpatient psychiatric beds. The space that is occupied by the current 28 beds will not be renovated. The floor plan for current and proposed beds is located in Exhibit 28.

Exhibit 23 contains letters from an architectural firm and a construction firm certifying that the total construction costs are estimated to be $1.8 million. The architectural letter dated April 14, 2016, states,

> "*Your facility is proposing to renovate approximately 9,000 square feet of an existing patient unit on the fifth floor to create a new Adult Behavioral Health Unit. It is my opinion that a reasonable construction estimate for this project, including contingency, is $1,825,000. This budget should not include professional fees, medical equipment costs, furniture costs, etc. and is only intended to represent construction cost*."

The estimates of architectural and construction firms of the total capital cost of the project are consistent with the construction costs $1.8 million stated by the applicant in Section VIII, page 71. The additional $668,869 proposed to complete the project is for miscellaneous project costs such as architect/engineering fees, contingency and furniture/equipment. In Section XI.7, page 82, the applicant discusses the guidelines and methods that will be used to address energy efficiency and water conservation. The applicant adequately demonstrates that the cost, design and means of construction/renovation represent the most reasonable alternative for the project they propose, and that the construction costs will not unduly increase costs and charges for health services. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference. 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 VI.11, page 63, the applicant provides the payor mix for DRMC's licensed adult inpatient psychiatric beds during FY2014-15, as illustrated in the following table:

DRMC PAYOR MIX FFY 2015 (October 1, 2014 –September 1, 2015)	
Payor Category	**Licensed Adult Inpatient Psychiatric Beds**
Self-Pay/ Indigent/ Charity	0.9%
Medicare/ Medicare Managed Care	38.1%
Medicaid	21.5%
Commercial	6.4%
Managed Care & HMO/PPO	32.6%
Other	0.5%
Total	**100.0%**

In review of and in response to public comments, the Agency compared the payor source as reported and projected in the 2007 DRMC application for psychiatric beds (Project ID# F-7869-07) and the proposed application. The Agency finds that the payor sources in the 2007 application and those reported and projected in this application are comparable.
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 market area.

PERCENT OF POPULATION DRMC'S ADULT PSYCHIATRIC INPATIENT UNIT						
County	**% 65+**	**% Female**	**% Racial & Ethnic Minority***	**% Persons in Poverty****	**% < Age 65 with a Disability**	**% < Age 65 without Health Insurance****
Iredell	15%	51%	23%	13%	9%	18%
Alexander	19%	49%	13%	16%	12%	17%
Surry	19%	51%	16%	19%	13%	20%
Rowan	16%	51%	27%	18%	12%	19%
Wake	10%	51%	39%	12%	5%	14%
Catawba	16%	51%	23%	16%	9%	18%
Wilkes	20%	51%	12%	23%	14%	21%
Mecklenburg	10%	52%	51%	15%	6%	19%
Cleveland	17%	52%	27%	21%	12%	17%
Buncombe	18%	52%	16%	14%	10%	20%
Davidson	17%	51%	19%	17%	12%	18%
Caldwell	18%	51%	12%	19%	14%	20%
Guilford	14%	53%	48%	17%	7%	18%
Davie	19%	51%	15%	14%	9%	18%
Forsyth	14%	53%	42%	20%	7%	17%
Statewide	15%	51%	36%	17%	10%	15%
*The counties listed above = greater than 1% of DRMC's psychiatric inpatient origin.						

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 Section VI, page 59, the applicant states,

"*Davis Regional Medical Center provides services to all persons in need of medical care regardless of race, sex, creed, national origin, handicap, or the ability to pay.*"

In Section VI.9, page 62, the applicant states that no civil rights access complaints have been filed against it 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 Section VI.2, pages 59, the applicant states,

"*Davis Regional Medical Center provides services to all persons in need of medical care regardless of race, sex, creed, national origin, handicap, or the ability to pay. For the 12 month period October 1, 2014 through September 30, 2015, DRMC provided 59.6% of patient days to Medicare and Medicaid recipients. During the same time period, DRMC provided more than $10,000,000 in bad debt plus charity care. Please see Exhibit 6 for a copy of admission policies. The proposed adult inpatient psychiatric beds are not permitted to admit persons under the age of 18 due to licensure regulation.*"

In Section VI.12, page 63, the applicant provides the projected payor mix for DRMC during CY2019, the second full fiscal year of operation following completion of the proposed project, as illustrated below in the table.

DRMC PROJECTED PAYOR MIX PATIENT DAYS AS PERCENT OF TOTAL PATIENT DAYS CY 2019	
Payor Category	**Licensed Adult Inpatient Psychiatric Beds**
Self-Pay/ Indigent/ Charity	0.9%
Medicare/ Medicare Managed Care	38.1%
Medicaid	21.5%
Commercial	6.4%
Managed Care & HMO/PPO	32.6%
Other	0.5%
Total	**100.0%**

In review of and in response to public comments, the Agency compared the payor sources as reported and projected in the 2007 DRMC application for psychiatric beds (Project ID# F-7869-07) and the proposed application. The Agency finds that the payor sources in the 2007 application and those reported and projected in this application are comparable.

The applicant states on page 63,

> "*The payor percentages for the existing and proposed additional adult inpatient psychiatric beds for Year 2 are projected to be the same as historical percentages*."

The applicant demonstrates that medically underserved populations would have adequate access to the proposed adult inpatient psychiatric beds.

(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.8, page 61, the applicant states,

> "*Patients seen at DRMC are either self-referred, referred by their personal physician or by a member of the medical staff. Access is through physician referrals for existing services which are discussed in Sections V and VI. DRMC has formal and informal working agreements and referral relationships with other hospitals, community physicians and community agencies. Please see Exhibit 3 for the MOA*."

The applicant adequately demonstrates that the facility will offer a range of means by which patients will have access to adult inpatient psychiatric services. Therefore, the application is conforming to this criterion.

(14) The 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 53, the applicant lists the five health professional training programs with which it has training agreements. Exhibit 16 contains a letter of support for the proposed project from Mitchell Community College. The applicant adequately demonstrates that DRMC will continue to accommodate the clinical needs of health professional training programs 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.

C

The applicant proposes to relocate 14 inpatient psychiatric beds from Cherry Hospital, pursuant to Policy PSY-1 in the 2016 SMFP, to DRMC for a total of 42 adult inpatient psychiatric beds upon project completion.

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 LME-MCO is Partners Behavioral Health Management and the service area for DRMC consists of Iredell, Burke, Catawba, Cleveland and Gaston counties. Facilities may also serve residents of counties not included in the catchment area.

The 2016 SMFP indicates that there are five other hospitals with licensed mental health beds in the Partners Behavioral Health Management LME-MCO service area. They are: Carolinas Healthcare System – Blue Ridge in Burke County, Catawba Valley Medical Center in Catawba County, Frye Regional Medical Center in Catawba County, Carolinas Healthcare System Kings Mountain in Cleveland County, and CaroMont Regional Medical Center in Gaston County. The following table provides data from the 2016 SMFP and from the 2016 License Renewal Applications (LRAs) for each of these hospitals in the Partners Behavioral Health Management LME-MCO service area as follows:

PARTNERS BEHAVIORAL HEALTH MANAGEMENT LME-MCO LICENSED BEDS FY2015 (October 1, 2014-September 30, 2015)					
Hospital	**County**	**Child/ Adolescent Licensed Inpatient Psychiatric Beds**	**Adult Licensed Inpatient Psychiatric Beds**	**Total Licensed, Inpatient Psychiatric Bed**	**Total OPERATIONAL Licensed, Inpatient Psychiatric Beds***
Davis Regional Medical Center	Iredell	0	28	28	28
Carolinas Healthcare System-Blue Ridge	Burke	0	22	22	22
Catawba Valley Medical Center	Catawba	0	38	38	38
Frye Regional Medical Center	Catawba	0	84	84	65
Carolinas Healthcare System Kings Mountain	Cleveland	0	14	14	14
CaroMont Regional Medical Center	Gaston	27	36	63	36
Total		**27**	**222**	**249**	**203**

***2016 LRAs**

As depicted in the table above, there are 27 licensed child/adolescent inpatient psychiatric beds and 222 licensed adult inpatient psychiatric beds in the Partners Behavioral Health Management LME-MCO service area for a total of 249 licensed psychiatric beds. However, the 2016 LRAs for both Frye Regional Medical Center and CaroMont Regional Medical Center indicate that only some of their licensed inpatient psychiatric beds are staffed. Frye Regional Medical Center staffed only 65 of its 84 inpatient psychiatric beds and CaroMont Regional Medical Center staffed only 36 of their 63 inpatient psychiatric beds. The LRAs only show the total number of staffed beds. Therefore, it appears that both Frye Regional Medical Center and CaroMont Regional Medical Center have additional capacity for inpatient psychiatric patients in the Partners Behavioral Health Management LME-MCO service area; however, only a portion of the licensed beds are being staffed.

Section V.6(a)(b), pages 56-58, the applicant discusses how any enhanced competition will have a positive impact on cost-effectiveness, quality and access to the proposed services. In addition, see Section III.1, pages 41-42, for further discussion on cost-effectiveness of the proposed project, Section III.2, page 42, and Exhibits 13-14 for further discussion on quality, and page 42 for further discussion on access. Also, see Section VI, pages 59-63, for discussion on access to the proposed adult inpatient psychiatric services.

The information provided by the applicant in those sections is reasonable and adequately demonstrates that relocating 14 inpatient psychiatric beds to DRMC will have a positive impact on cost-effectiveness, quality and access to the proposed services. This determination is based on the information in the application and the following analysis:

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

In Section I.2, page 1, the applicant states that Community Health Systems, Inc. is the ultimate parent company of Davis Regional Medical Center. After reviewing and considering information provided by the applicant and by the Acute and Home Care Licensure and Certification Section, DHSR and considering the quality of care provided at the facility, 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.

C

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

.2603 PERFORMANCE STANDARDS

(a) *An applicant proposing to add psychiatric beds in an existing facility shall not be approved unless the average occupancy over the six months immediately preceding the submittal of the application of the total number of licensed psychiatric beds within the facility in which the beds are to be operated was at least 75 percent.*

-C- In Section II, page 25, the applicant provides historical utilization for a six month period from October 2015 to March 2016. DRMC had a six-month average occupancy rate of 81.76% which exceeds the 75% average occupancy required by this Rule.

(b) *An applicant proposing to establish new psychiatric beds shall not be approved unless occupancy is projected to be 75% for the total number of licensed psychiatric beds proposed to be operated in the facility no later than the fourth quarter of the second operating year following completion of the project.*

-C- In Section II, page 25, the applicant provides the projected utilization for the adult psychiatric inpatient beds during the fourth quarter (January 2019-December 2019) of the second operating year (CY2019) following completion of the project. The applicant projects occupancy to be 76.54% during the second operating year which exceeds the 75% average occupancy required by this Rule.

The applicant's assumptions and methodology used to project utilization of the psychiatric beds are provided in Section III.1, pages 34-39. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.