

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: September 27, 2018

Findings Date: September 27, 2018

Project Analyst: Mike McKillip

Team Leader: Gloria Hale

Project ID #: J-11535-18

Facility: University of North Carolina Hospitals-Eastowne Drive

FID #: 180321

County: Orange

Applicant: University of North Carolina Hospitals at Chapel Hill

Project: Relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building in Chapel Hill

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

N.C. Gen. Stat. §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

University of North Carolina Hospitals at Chapel Hill [**UNCH-CH**] proposes a relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill (Orange County).

Need Determination

There are no need determinations in the 2018 State Medical Facilities Plan (SMFP) applicable to the development of hospital outpatient clinics. Therefore, this criterion is not applicable to this review.

Policies

There is one policy in the 2018 SMFP which is applicable to this review: Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities.

Policy GEN-4

On page 33 of the 2018 SMFP, 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, 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 is required to submit a plan for energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy-GEN 4. The plan shall not adversely affect patient or resident health, safety, or infection control.”

The proposed capital expenditure for this project is greater than \$5 million. In Exhibit B.10, the applicant describes its plan to ensure energy efficiency and water conservation. The applicant adequately demonstrates that the application includes a written statement describing the project’s plans to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4, subject to Condition (4) of Criterion (4).

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion because the applicant demonstrates that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation.

- (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, UNCH-CH, proposes a relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill (Orange County). The medical office building is being developed by Health System Properties, LLC, the sole member of which is UNC Health Care System. In Section C.1, pages 31-32, the applicant describes the project as follows:

“The proposed project involves the relocation and expansion of UNC Hospitals hospital-based physician clinics and other hospital-based services to the Eastowne medical office building (MOB), including but not limited to the following specialties: pulmonology, diabetes/endocrinology, cardiology, geriatrics, hematology, therapeutic infusion, rheumatology, urology, and pain management.

The land is owned by, and the MOB will be developed by, Health System Properties, LLC, the sole member of which is UNC Health Care System. Pursuant to a CON exempt project (see Exhibit C.1), Health System Properties, LLC is constructing the entire shell and core of the building and intends to lease space in the building to UNC Hospitals to accommodate various physician clinics....

To support increasing patient demand and enhance services, UNC Hospitals needs to expand its clinical space as its primary campus in Chapel Hill is nearing full capacity. The Eastowne project seeks to create a flagship ambulatory medical campus for UNC Hospitals to meet this need. As part of this project, physician clinics and hospital-based services located at multiple existing sites will be relocated to expanded space in the Eastowne building....

The MOB will consist of six floors in approximately 150,000 square feet of space. ... As shown on the project line drawings included in Exhibit C.1, the hospital-based services provided on the first floor will consist of lab, pharmacy – including retail pharmacy, and outpatient imaging services, including one unit each of CT and ultrasound equipment, both of which will be new equipment, and one unit each of X-ray and bone density (DEXA) equipment, both of which will be relocated from other existing locations. The third floor will house collaborative, multi-disciplinary clinic space for pulmonology, nephrology, diabetes/endocrinology, and cardiology.

Similarly, the fourth floor will house collaborative, multi-disciplinary clinic space for geriatrics, rheumatology, hematology, and therapeutic infusion, including a total of 25 infusion therapy spaces. Urology clinic space will occupy the fifth floor and the sixth floor will consist of clinic space for pain management as well as four procedure rooms, three of which will be relocated from existing locations, to be used primarily for urology and pain management procedures. Each physician clinic floor will include patient registration and waiting areas, staff break rooms and conference space, as well as necessary support spaces.”

Patient Origin

N.C. Gen. Stat. §131E-176(24a) states, “Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility.” The 2018 SMFP does not define a service area for hospital-based outpatient clinics nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient clinics. Thus, the service area in this review is as defined by the applicant.

In Section C.3, page 36, the applicant provides a table showing its projected patient origin for the proposed physician clinics for the first three operating years (FY2021-FY2023) of the proposed project, as summarized in the following table:

County of Origin	Percent of Total Patients
Orange	18.8%
Wake	17.1%
Durham	8.5%
Alamance	7.4%
Chatham	6.7%
Cumberland	4.4%
Other*	37.1%
Total	100.0%

Source: Table on page 36 of the application.

*The applicant provides a list of the counties included in the “Other” category on page 36 of the application.

In Section C.3, page 38, the applicant states projected patient origin is based on the historical (FY2017) patient origin for the proposed services. The applicant’s assumptions are reasonable and adequately supported.

Analysis of Need

In Section C.4, pages 39-43, the applicant explains why it believes the population projected to utilize the proposed physician clinics need the proposed services, including:

- The need to address the capacity constraints of the Chapel Hill campus by relocating services to off-campus locations to create additional capacity on the hospital’s main campus (p. 41).
- The need to expand clinic space for the physician clinics, to provide more convenient locations and better geographic access to the services, and to reduce the lease expenses associated with the current arrangements for various off-site clinics (pp. 41-43).

The information provided by the applicant in the pages referenced above is reasonable and adequately supported for the following reasons:

- The applicant provides information regarding the current capacity constraints on the hospital’s main campus.
- The applicant provides information regarding the improved access and convenience of the proposed location of the clinics, and the expected lease cost savings associated with consolidating the physician clinics at the proposed facility.

Projected Utilization

In Section Q, Form C, the applicant provides projected utilization for the proposed outpatient clinics through the first three full fiscal years (FY2021-FY2023) as summarized in the following table:

UNC Outpatient Clinics – Eastowne			
	FY2021	FY2022	FY2023
Physician Visits	192,434	200,649	209,224
Infusion Therapy	9,680	9,941	10,209
Procedure Rooms	12,537	13,093	13,674
Bone Density Scans	455	469	483
X-ray scans	8,205	8,650	9,119
CT Scans	6,174	6,421	6,678
Ultrasound Scans	1,925	2,002	2,082

Source: Form C, Section Q of the application.

The applicant provides its assumptions and methodology for projecting utilization for its proposed services in Section Q, Form C, pages 1-5, which is summarized as follows:

Physician Visits - The applicant states that projected utilization for physician visits is based on the historical utilization of the physician clinics in their existing Chapel Hill locations from FY2015 to FY2017, and by the projected growth rates by service from The Advisory Board, which the applicant identifies as a “*healthcare intelligence firm.*” Physician visits at the existing locations grew by an average annual rate of 18.8 percent during that time period, and the applicant assumes physician visits will grow by an average annual rate of 4.5 percent through the first three operating years of the proposed project, from FY2018 to FY2023.

Infusion Therapy - The applicant states that projected utilization of infusion therapy services is based on the historical utilization of the infusion therapy services at the existing clinics in

Chapel Hill from FY2015 to FY2017, and by the projected growth rates by service from The Advisory Board. Infusion therapy services at the existing Chapel Hill location grew by an average annual rate of 82.5 percent during that time period, and the applicant assumes infusion therapy will grow by an average annual rate of 2.8 percent through the first three operating years of the proposed project, from FY2018 to FY2023.

Procedure Rooms - The applicant states that projected utilization of the procedure rooms is based on the historical utilization of the existing procedure rooms at the Chapel Hill locations from FY2015 to FY2017, and by the projected growth rates by service from The Advisory Board. Procedure room utilization at the existing Chapel Hill locations grew by an average annual rate of 5.4 percent during that time period, and the applicant assumes procedure rooms utilization will grow by an average annual rate of 4.8 percent through the first three operating years of the proposed project, from FY2018 to FY2023.

X-ray and Bone Density - The applicant states that projected utilization of X-ray, bone density and ultrasound is based on the historical utilization of those services at the existing clinics in Chapel Hill from FY2015 to FY2017, and by the projected growth rates by service from The Advisory Board. X-ray utilization at the existing Chapel Hill locations grew by an average annual rate of 4.7 percent during that time period, and the applicant assumes X-ray utilization will grow by an average annual rate of 5.6 percent through the first three operating years of the propose project, from FY2018 to FY2023. Bone density utilization at the existing Chapel Hill locations grew by an average annual rate of 40.3 percent during that time period, and the applicant assumes bone density utilization will grow by an average annual rate of 4.6 percent through the first three operating years of the proposed project, from FY2018 to FY2023.

CT Scanner - The applicant states that projected utilization of the CT scanner is based on the historical utilization of the existing CT scanner at its *“comparable off-campus, hospital-based CT service located at UNC Hospitals Imaging and Spine Center.”* The applicant states that CT scanner provided 5,937 CT scans in FY2017, and, based on the projected growth rates by service from The Advisory Board, the applicant projects the CT scanner utilization will grow by an average annual rate of 4.0 percent through the first three operating years of the proposed project, from FY2020 to FY2023.

Ultrasound - The applicant states that projected utilization of the ultrasound unit is based on the historical utilization of the two existing ultrasound units located at UNC Hospitals Imaging and Spine Center. The applicant states those ultrasound units performed 1,851 scans per unit in FY2017, and, based on the projected growth rates by service from The Advisory Board, the applicant projects the ultrasound unit utilization will grow by an average annual rate of 4.3 percent through the first three operating years of the proposed project, from FY2020 to FY2023.

Projected utilization is reasonable and adequately supported for the following reasons:

- The applicant’s utilization projections for the physician visits, procedure rooms, X-ray, bone density and infusion therapies are based on the projected growth rates by service from The Advisory Board, and are supported by the historical utilization of

those services at the applicant's existing clinics in Chapel Hill from FY2015 to FY2017.

- The applicant's utilization projections for the CT scanner and ultrasound units are based on its historical experience on that same equipment currently located at UNC Hospitals Imaging and Spine Center in Chapel Hill, and the projected growth rates are based on projections from The Advisory Board.

Access

In Section C.11, page 48, the applicant states UNC Hospitals will continue to provide services to all patients regardless of income, racial/ethnic origin, gender, physical or mental condition, age, ability to pay, or any other factor. In Section L.3, page 87, the applicant projects the following payor mix for UNC Hospitals and the proposed services during the second year of operation (FY2022) following completion of the project, as shown in the following table.

Payment Source	UNC Hospitals	Physician Clinics	Imaging	Infusion	Procedure Rooms
Self-Pay	6.5%	7.7%	10.3%	6.7%	7.2%
Medicare	36.3%	42.8%	38.2%	40.4%	47.4%
Medicaid	20.4%	10.7%	7.1%	9.3%	11.9%
Insurance	31.7%	34.2%	39.9%	39.7%	29.1%
Other (Gov't, Workers Comp)	5.2%	4.6%	4.5%	3.9%	4.5%
Total*	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Table on page 87 of the application.

*Totals may not foot due to rounding.

The projected payor mix is reasonable and adequately supported.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately identifies the population to be served.
- The applicant adequately explains why the population to be served needs the services proposed in this application.
- Projected utilization is reasonable and adequately supported.

- The applicant projects the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately supports its assumptions.

(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, UNCH-CH, proposes a relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill. In Section C.5, page 43, the applicant states, *“The proposed project involves the relocation of physician clinics and other hospital-based services that are currently located in seven different buildings in multiple locations including UNC Hospitals’ Medical Center campus, Hillsborough, and other parts of Chapel Hill.”* In Section D.2, pages 55-56, the applicant explains why it believes the needs of the population presently utilizing the services to be relocated will be adequately met following completion of the project. On pages 55-56, the applicant states:

“With the exception of the proposed additional CT unit, ultrasound unit and one additional procedure room, all of the services included in the proposed project currently exist and will be relocated from their current locations... The physician clinics and other hospital-based services included in the project that will be relocated to the proposed Eastowne building will not continue to be offered at their existing locations. As such, the proposed services will be reduced at or eliminated from their existing locations and relocated to the proposed Eastowne building....”

As discussed in Section C.4, the proposed project will provide expanded capacity and convenient access to the patients of the included physician clinics and services. All of the existing patients of these services are ambulatory patients who most [sic] travel to their site of care. The building is conveniently located on a major thoroughfare, U.S. Route 15-501, between I-40 and the UNC Hospitals’ Medical Center Campus, which will provide convenient access to the site as the vast majority of patients will come from outside Orange County. Eastowne will offer convenient parking and easy access for all patients, staff, and physicians in contrast to the access offered on UNC Hospitals’ congested Medical Center campus.”

In Section Q, page 1, the applicant provides historical utilization of the services to be relocated to the proposed Eastowne facility as illustrated in the following table.

	FY2015	FY2016	FY2017
Physician Visits	114,010	149,461	160,860
Bone Density	185	234	364
X-ray	5,991	7,201	6,564
Infusion Therapy	2,595	8,213	8,643
Procedure Room	9,196	9,989	10,215

Source: Section Q, page 1.

In Section Q, page 2, the applicant provides projected utilization of the services to be relocated to the proposed Eastowne facility as illustrated in the following table.

	FY18	FY19	FY20	FY21	FY22	FY23
Physician Visits	168,211	175,912	183,980	192,434	200,649	209,224
Bone Density	385	407	430	455	469	483
X-ray	6,941	7,339	7,760	8,205	8,650	9,119
Infusion Therapy	8,891	9,147	9,410	9,680	9,941	10,209
Procedure Room	10,799	11,416	11,963	12,537	13,093	13,674

Source: Section Q, page 5.

The applicant provides its assumptions and methodology for projecting utilization for its proposed services in Section Q, Form C, pages 1-5, which is summarized as follows:

Physician Visits - The applicant states that projected utilization for physician visits is based on the historical utilization of the physician clinics in their existing Chapel Hill locations from FY2015 to FY2017, and by the projected growth rates by service from The Advisory Board, which the applicant identifies as “*healthcare intelligence firm.*” Physician visits at the existing locations grew by an average annual rate of 18.8 percent during that time period, and the applicant assumes physician visits will grow by an average annual rate of 4.5 percent through the first three operating years of the proposed project, from FY2018 to FY2023.

Infusion Therapy - The applicant states that projected utilization of infusion therapy services is based on the historical utilization of the infusion therapy services at the existing clinics in Chapel Hill from FY2015 to FY2017, and by the projected growth rates by service from The Advisory Board. Infusion therapy services at the existing Chapel Hill location grew by an average annual rate of 82.5 percent during that time period, and the applicant assumes infusion therapy will grow by an average annual rate of 2.8 percent through the first three operating years of the proposed project, from FY2018 to FY2023.

Procedure Rooms - The applicant states that projected utilization of the procedure rooms is based on the historical utilization of the existing procedure rooms at the Chapel Hill locations from FY2015 to FY2017, and by the projected growth rates by service from The Advisory Board. Procedure room utilization at the existing Chapel Hill locations grew by an average annual rate of 5.4 percent during that time period, and the applicant assumes procedure rooms utilization will grow by an average annual rate of 4.8 percent through the first three operating years of the proposed project, from FY2018 to FY2023.

X-ray and Bone Density - The applicant states that projected utilization of X-ray, bone density and ultrasound is based on the historical utilization of those services at the existing clinics in Chapel Hill from FY2015 to FY2017, and by the projected growth rates by service from The Advisory Board. X-ray utilization at the existing Chapel Hill locations grew by an average annual rate of 4.7 percent during that time period, and the applicant assumes X-ray utilization will grow by an average annual rate of 5.6 percent through the first three operating years of the propose project, from FY2018 to FY2023. Bone density utilization at the existing Chapel Hill locations grew by an average annual rate of 40.3 percent during that time period, and the applicant assumes bone density utilization will grow by an average annual rate of 4.6 percent through the first three operating years of the proposed project, from FY2018 to FY2023.

Projected utilization is reasonable and adequately supported because the utilization projections for the physician visits, procedure rooms, X-ray, bone density and infusion therapies are based on the projected growth rates by service from The Advisory Board, and are supported by the historical utilization of those services at the applicant's existing clinics in Chapel Hill from FY2015 to FY2017.

In Section D.5, pages 58-59, the applicant states,

“As discussed in Section C.11, as North Carolina’s only state-owned comprehensive, full service hospital-based program, UNC Hospitals has the obligation to accept any Carolina citizen requiring medically necessary treatment. ... UNC Hospitals expects that patients with limited financial resources will continue to access its services upon completion of the proposed project, including hospital-based services to be relocated to the proposed medical office building.”

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicant adequately demonstrates that:

- The needs of the population currently using the services to be reduced, eliminated or relocated will be adequately met following project completion.
- The project will not adversely impact the ability of underserved groups to access these services following project completion.

- (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

The applicant, UNCH-CH, proposes a relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill.

In Section E.2, pages 60-61, the applicant describes the alternatives it considered and explains why each alternative is either more costly or less effective than the alternative proposed in this application to meet the need. The alternatives considered were:

- Maintain the status quo – The applicant states this was not an effective alternative due to the fact that it would not address the capacity constraints at the Chapel Hill campus and would not provide expanded space and improved access to the physician clinics and other hospital-based services.
- Develop the project at another location – The applicant states this was not an effective alternative because the proposed site is in a building already owned by UNC Health Care System, and the size and location are well-suited to the proposed ambulatory care facility, with convenient parking and easy access for patient and families.

On page 61, the applicant states that its proposal is the most effective alternative because it *“will provide convenient, patient-centered care in a cost-effective manner”* and *“eliminate nearly \$1.5 million in annual lease costs to third parties.”*

The applicant adequately demonstrates that the alternative proposed in this application is the most effective alternative to meet the need for the following reasons:

- The alternative will meet the need for additional space and improved access to physician clinics and other hospital-based services.
- The alternative meets the need to *“decompress”* the main campus and reduce lease expenses for existing services currently located at multiple sites in Chapel Hill.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above. Therefore, the application is approved subject to the following conditions:

- 1. University of North Carolina Hospitals at Chapel Hill shall materially comply with all representations made in the certificate of need application.**

- 2. University of North Carolina Hospitals at Chapel Hill shall relocate and expand hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill.**
 - 3. University of North Carolina Hospitals at Chapel Hill, as part of this project, shall not acquire any equipment that is not included in the project's proposed capital expenditures in Section Q of the application and that would otherwise require a certificate of need.**
 - 4. No later than three months after the last day of each of the first three full years of operation following initiation of the services authorized by this certificate of need, University of North Carolina Hospitals at Chapel Hill shall submit, on the form provided by the Healthcare Planning and Certificate of Need Section, an annual report containing the:**
 - a. Payor mix for the services authorized in this certificate of need.**
 - b. Utilization of the services authorized in this certificate of need.**
 - c. Revenues and operating costs for the services authorized in this certificate of need.**
 - d. Average gross revenue per unit of service.**
 - e. Average net revenue per unit of service.**
 - f. Average operating cost per unit of service.**
 - 5. University of North Carolina Hospitals at Chapel Hill shall develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes.**
 - 6. University of North Carolina Hospitals at Chapel Hill shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency in writing prior to insurance 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, UNCH-CH, proposes a relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill.

Capital and Working Capital Costs

In Section Q, Form F.1a, the applicant projects the total capital cost of the project as shown in the table below.

Construction Costs	\$14,350,543
Miscellaneous Costs	\$10,411,573
Total	\$24,762,116

In Section Q, the applicant provides the assumptions used to project the capital cost.

In Section F.3, pages 64-65, the applicant states the project does not involve a new service and there will be no start-up costs or initial operating expenses required.

Availability of Funds

In Section F, page 63, the applicant states that the capital cost will be funded as shown in the table below.

Type	UNC Hospitals	Total
Loans	\$	\$
Accumulated reserves or OE *	\$24,762,116	\$24,762,116
Bonds	\$	\$
Other (Specify)	\$	\$
Total Financing	\$24,762,116	\$24,762,116

* OE = Owner's Equity

Exhibit F.2 contains a letter dated June 15, 2018 from the Executive Vice President and Chief Financial Officer of UNC Hospitals documenting its intention to provide accumulated reserves for the capital needs of the proposed project. Exhibit F.2 contains the audited financial statements of UNC Hospitals which show that as of June 30, 2016, the applicant had \$190 million in cash and cash equivalents, \$2.1 billion in total assets, and \$1.3 billion in net assets (total assets less total liabilities).

Financial Feasibility

The applicant provided pro forma financial statements for UNC Hospitals for the first three full fiscal years of operation following completion of the project. In Form F.3, the applicant projects that revenues will exceed operating expenses in the first three operating years of the project, as shown in the table below.

	1 st Fiscal Year	2 nd Fiscal Year	3 rd Fiscal Year
Total Patients	952,248	987,196	1,023,426
Total Gross Revenues (Charges)	\$5,474,346,175	\$5,845,512,320	\$6,241,843,900
Total Net Revenue	\$2,195,636,923	\$2,341,401,638	\$2,497,049,346
Net Revenue per Patient	\$2,306	\$2,372	\$2,440
Total Operating Expenses (Costs)	\$1,967,249,203	\$2,118,834,025	\$2,259,589,379
Operating Expense per Patient	\$2,066	\$2,146	\$2,208
Net Income	\$228,387,720	\$222,567,613	\$237,459,967

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See Section Q of the application for the assumptions used regarding costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately demonstrates that the capital costs are based on reasonable and adequately supported assumptions.
 - The applicant adequately demonstrates availability of sufficient funds for the capital needs of the proposal.
 - The applicant adequately demonstrates sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.
- (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, UNCH-CH, proposes a relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill.

N.C. Gen. Stat. §131E-176(24a) states, “*Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility.*” The 2018 SMFP does not define a service area for hospital-based outpatient clinics nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient clinics. Thus, the service area in this review is as defined by the applicant.

In Section G.1, page 70, the applicant states there are no other providers of hospital services in Orange County.

In Section G.3, pages 70-71, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved services in the Orange County service area. The applicant states:

“The need for the proposed project is based on the need for UNC Hospitals to enhance access to, and develop sufficient capacity for, UNC Hospitals’ outpatient hospital-based Clinics. ... No other provider can meet these needs at UNC Hospitals. Further, though other imaging and diagnostic services may be available in the service area, they are not reasonably available to the patients of UNC Hospitals’ hospital-based physician practices. Specifically, use of such equipment would require leaving the physician office building, registering as a patient at another facility, waiting hours, days or weeks for an available appointment, then having to return to the UNC Hospitals hospital-based practice. Compared to the availability of the service within the same building, typically on the same day as the office visit, the use of other capacity in the service area is ineffective at providing sufficient access to patients.”

The applicant adequately demonstrates that the proposal would not result in an unnecessary duplication of existing or approved services in the service area because the applicant adequately demonstrates that the proposed physician clinics and hospital-based services are needed in addition to the existing or approved services.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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 Q, Form H, the applicant provides projected full-time equivalent (FTE) staffing in the first three operating years (FY2021-FY2023) for the proposed services. The assumptions and methodology used to project staffing are provided in Section Q. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in Form F.3, which is found in Section Q. In Sections H.2 and H.3, pages 72-73, the applicant describes the methods to be used to recruit or fill new positions and its proposed training and continuing education programs. In Section H.4, page 73, the applicant identifies the proposed medical director and provides supporting documentation in Exhibit H.4.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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 I.1, page 75, the applicant states,

“Patients of the Eastowne MOB may require ancillary and support services such as pharmacy, lab, diagnostic imaging, housekeeping, maintenance, and administration, among others. ... As discussed in Section C.1, pharmacy, lab, and basic diagnostic imaging services (CT, X-ray, ultrasound, and bone density) will be provided at the MOB. All necessary support services required for the Eastowne MOB, including but not limited to billing and collections, contract negotiation, marketing, quality improvement, and human resources will be provided by UNC Hospitals.”

In Section I.2, page 75, the applicant states it has established relationships with other local health care and social service providers and provides which will continue following completion of the proposed project. The applicant provides supporting documentation in Exhibit I-2.

The applicant adequately demonstrates that the proposed services will be coordinated with the existing health care system.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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

The applicant does not project to provide the proposed services to a substantial number of persons residing in Health Service Areas (HSAs) that are not adjacent to HSA IV where the services will be offered. Furthermore, the applicant does not project to provide the proposed services to a substantial number of persons residing in other states that are not adjacent to the North Carolina county in which the services will be offered. Therefore, Criterion (9) is not applicable to this review.

- (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

The applicant is not an HMO. Therefore, Criterion (10) is not applicable to this review.

- (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

In Section K.3, page 75, the applicant states that the project involves up fitting 150,000 square feet of existing space. Line drawings are provided in Exhibit C.1.

In Section K.4, page 79, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal.

In Section K.4, page 79, the applicant adequately explains why the proposal will not unduly increase the costs to the applicant of providing the proposed services or the costs and charges to the public for the proposed services.

In Section K.4, page 80, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans and provides supporting documentation in Exhibit F.1.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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 L.1, page 85, the applicant provides the historical payor mix during FY2017 for the proposed services, as shown in the table below.

Payor Category	UNC Hospitals	Physician Clinics	Imaging	Infusion	Procedure Rooms
Self-Pay	6.5%	7.7%	10.3%	6.7%	7.2%
Medicare	36.3%	42.8%	38.2%	40.4%	47.4%
Medicaid	20.4%	10.7%	7.1%	9.3%	11.9%
Insurance	31.7%	34.2%	39.9%	39.7%	29.1%
Other	5.2%	4.6%	4.5%	3.9%	4.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Table on page 85 of the application.

In Section L.1, pages 84-85, the applicant provides the following comparison.

	Percentage of Total Patients Served by the Facility or Campus during the FY2017	Percentage of the Population of the Orange County Service Area
Female	58.4%	52.2%
Male	41.6%	47.8%
Unknown	NA	NA
64 and Younger	73.1%	86.5%
65 and Older	27.0%	13.5%
American Indian	0.6%	0.8%
Asian	1.8%	8.5%
Black or African-American	22.7%	10.9%
Native Hawaiian or Pacific Islander	0.1%	Included in Asian
White or Caucasian	60.7%	77.0%
Other Race	9.0%	2.8%
Declined / Unavailable	5.2%	0.0%

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicant adequately documents 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. 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;

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section L.2, page 86, the applicant states UNC Hospitals has satisfied the requirements of applicable federal regulations to provide a certain amount of uncompensated care, and that UNC Hospitals complies with all the relevant regulatory requirements with regard to uncompensated care, community service and access by minorities and handicapped persons.

In Section L.2, page 86, the applicant states that during the last five years, no patient civil rights access complaints have been filed against UNC Hospitals.

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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 L.3, page 87, the applicant projects the following payor mix for UNC Hospitals and the proposed services at the Eastowne facility during the second year of operation (FY2022) following completion of the project, as shown in the following table.

Payor Category	Physician Clinics	Imaging	Infusion	Procedure Rooms
Self-Pay	7.7%	10.3%	6.7%	7.2%
Medicare	42.8%	38.2%	40.4%	47.4%
Medicaid	10.7%	7.1%	9.3%	11.9%
Insurance	34.2%	39.9%	39.7%	29.1%
Other	4.6%	4.5%	3.9%	4.5%
Total	100.0%	100.0%	100.0%	100.0%

Source: Table on page 87 of the application.

As shown in the table above, during the second full fiscal year of operation, the applicant projects that 7.7% of physician clinic services will be provided to self-pay patients, 42.8% to Medicare patients, and 10.7% to Medicaid patients.

In Section L.3, page 87, the applicant provides the assumptions and methodology used to project payor mix during the first three full fiscal years of operation following completion of the project. The projected payor mix is reasonable and adequately supported because it is based on the applicant's historical experience.

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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 L.5, page 88, the applicant adequately describes the range of means by which patients will have access to the proposed services.

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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 M.1, pages 89-90, the applicant describes the extent to which health professional training programs in the area will have access to the facility for training purposes.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicant adequately demonstrates that the proposed services will accommodate the clinical needs of area health professional training programs, and therefore, 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, UNCH-CH, proposes a relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill.

N.C. Gen. Stat. §131E-176(24a) states, “*Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility.*” The 2018 SMFP does not define a service area for hospital-based outpatient clinics nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient clinics. Thus, the service area in this review is as defined by the applicant.

In Section G.1, page 70, the applicant states there are no other providers of hospital services in Orange County.

In Section N.2, pages 92-95, the applicant describes the expected effects of the proposed services on competition in the service area and discusses how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed services. On pages 92-93, the applicant states,

“The proposed project is expected to enhance competition in the service area by promoting cost effectiveness, quality, and access to the proposed services, as discussed in response to Section N.2 below. ... Finally, UNC Hospitals, as a member of the larger UNC Health Care System, benefits from the significant cost saving measures through

the consolidation of multiple services and large economies of scale. This efficiency results in lower costs that are passed to patients in the form of lower charges. The proposed project will enable UNC Hospitals to continue to provide its patient population with the best care possible, while also being responsive in a healthcare environment that emphasizes cost containment, efficient utilization of existing resources, coordination with managed care, and continued healthcare system development.”

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates:

- The cost-effectiveness of the proposal (see Sections F and Q of the application and any exhibits)
- Quality services will be provided (see Section O of the application and any exhibits)
- Access will be provided to underserved groups (see Section L of the application and any exhibits)

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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 O.3, page 97, the applicant states that it owns or manages ten licensed healthcare facilities in North Carolina, including UNC Hospitals at Chapel Hill.

In Section O, pages 97-100, the applicant states that, during the 18 months immediately preceding the submittal of the application, incidents related to quality of care occurred at five UNC Health Care System facilities. In Section O.2, page 101, the applicant states that all of the facilities are back in compliance with all Medicare Conditions of Participation. According to the files in the Acute and Home Care Licensure and Certification Section, DHRSR, all of the facilities are back in compliance with all Medicare Conditions of Participation. After reviewing and considering information provided by the applicant and by the Acute and Home Care Licensure and Certification Section, and considering the quality of

care provided at all ten 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 applicant proposes a relocation and expansion of hospital-based physician clinics and other hospital-based services to a medical office building at 100 Eastowne Drive in Chapel Hill. There are no administrative rules that are applicable to proposals to develop hospital-based outpatient clinics.