

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: August 29, 2019

Findings Date: August 29, 2019

Project Analyst: Julie M. Faenza

Team Leader: Gloria C. Hale

Project ID #: J-11721-19

Facility: Johnston Endoscopy Center

FID #: 150206

County: Johnston

Applicants: Johnston Health Endoscopy Services, LLC

Johnston Health Services Corporation

Project: Cost overrun and change of scope for Project I.D. #J-11033-15 (develop an ambulatory surgical facility with two gastrointestinal endoscopy rooms) involving a change in location and new ownership

### 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

Johnston Health Endoscopy Services, LLC (JHES) and Johnston Health Services Corporation (JHSC) (hereinafter collectively referred to as “Johnston Health” or “the applicant”) proposes a cost overrun (COR) and change of scope (COS) for the approved but undeveloped Project I.D. #J-11033-15, which authorized the applicant to develop a new ambulatory surgical facility (ASF) with two gastrointestinal (GI) endoscopy rooms by relocating an existing GI endoscopy room from Johnston Health Clayton and developing a new GI endoscopy room. The approved capital expenditure for the original project was \$822,451.

In the current COR/COS application, the applicant still proposes to develop the new ASF with two GI endoscopy rooms, to be named Johnston Endoscopy Center (JEC), but proposes to change the approved location, which results in increased capital costs. Additionally, the company that will operate the proposed facility, JHES, proposes changes to the ownership structure, adding new entities, and those entities will also finance portions of the proposed capital expenditure. The proposed capital expenditure for the COR/COS application is \$2,895,494, for a combined capital expenditure of \$3,717,945.

### 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 2019 State Medical Facilities Plan (2019 SMFP). Therefore, there are no need determinations applicable to this review.

### Policies

In Project I.D. #J-11033-15, there were no policies from the 2015 SMFP applicable to that review.

In the current COR/COS application, *Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities* (page 31 of the 2019 SMFP) is applicable to this review. *Policy GEN-4* states:

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

*In approving a certificate of need proposing an expenditure greater than \$5 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178, 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 \$2 million but less than \$5 million. In Section B, page 12, the applicant provides a written statement describing its plan to assure improved energy efficiency and water conservation.

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

### Conclusion

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 adequately demonstrates that the application is consistent with Policy GEN-4.

- (2) Repealed effective July 1, 1987.
- (3) The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.

### C

The applicant proposes a COR/COS to Project I.D. #J-11033-15 (develop a new ASF with two GI endoscopy rooms) by changing the location of the proposed facility, resulting in increased capital costs, and making ownership and operating company changes.

### Patient Origin

The 2019 SMFP does not define the service area for GI endoscopy rooms. The Criteria and Standards for Gastrointestinal Endoscopy Procedure Rooms, promulgated in 10A NCAC 14C .3901(6), define the service area as “...the geographical area, as defined by the applicant using county lines, from which the applicant projects to serve patients.” In Project I.D. #J-11033-15, the applicant defined the service area as Johnston County. Facilities may also serve residents of counties not included in their service area.

The following table illustrates projected patient origin.

<b>Projected Patient Origin – JEC – FYs 1-3 (CYs 2021-2023)</b>						
	<b>FY 1 – CY 2021</b>		<b>FY 2 – CY 2022</b>		<b>FY 3 – CY 2023</b>	
	<b># Cases</b>	<b>% of Total</b>	<b># Cases</b>	<b>% of Total</b>	<b># Cases</b>	<b>% of Total</b>
Johnston	1,971	85.0%	2,129	85.0%	2,308	85.0%
Wake	242	10.4%	261	10.4%	282*	10.4%
Harnett	29	1.3%	32	1.3%	35	1.3%
Other**	77	3.3%	83	3.3%	90	3.3%
<b>Total</b>	<b>2,319</b>	<b>100.0%</b>	<b>2,504</b>	<b>100.0%</b>	<b>2,715</b>	<b>100.0%</b>

**Source:** Section C, page 27

\*Based on the total number of cases, the applicant appears to have made a typo on page 27. The correct number is shown in the table.

\*\*"Other" includes Chatham, Craven, Cumberland, Duplin, Durham, Edgecombe, Franklin, Halifax, Lee, Lenoir, Nash, New Hanover, Onslow, Orange, Pitt, Sampson, Wayne, and Wilson counties in North Carolina, and other states.

In Section C, page 28, the applicant provides the assumptions and methodology used to project its patient origin. The applicant’s assumptions are reasonable and adequately supported.

Analysis of Need

In Section C, pages 19-21, the applicant describes the scope of the previously approved project, Project I.D. #J-11033-15, and explains the changes it proposes to make in this COR/COS application compared with the previously approved project.

In Section C, pages 22-24, the applicant explains why it believes each of the proposed changes from the previously approved application is necessary:

- The applicant states change to the ownership structure of JHES resulting in more entities with partial ownership is beneficial for the following reasons:
  - Partial ownership by Raleigh Endoscopy Center, LLC, which in turn is owned by physicians, provides benefits that are associated with lower costs, better coordination of care and services, and improved patient access. The applicant states physician ownership brings clinical experience, expertise, better scheduling, and more efficient care coordination. The applicant also states physician ownership offers an opportunity to build relationships with physicians and supports both recruitment and retention of physicians, which in turn increases patient access to physicians in Johnston County.
  - Partial ownership by AMSURG provides high quality and necessary management services for JEC. The applicant states AMSURG is a market leader in strategic and operational management of ASFs and has more than 25 years of experience operating single specialty ASFs offering GI endoscopy services. The applicant states AMSURG owns or operates 261 ASFs nationally, including 160 GI partnerships. Six of those GI partnerships are in North Carolina.
  - Partial ownership by UNC Rex Healthcare allows for greater regional collaboration. The applicant states Johnston Health is already involved in joint ventures with UNC

Rex Healthcare and this additional joint venture provides further opportunities to benefit from the experience and expertise of UNC Rex Healthcare in developing ASFs.

- A change in the location of JEC is beneficial for the following reasons:
  - In Project I.D. #J-11033-15, the application proposed to locate the ASF in space at a medical office building which had previously been used as a two-room ASF. The applicant states that, subsequent to the approval of that application, a more in-depth evaluation of the building revealed several deficiencies, such as limited space for future expansion, lack of space for a physician clinic to be located with the ASF, and a less effective location than other potential options.
  - The applicant states locating JEC in a medical office building to be developed on the campus of Johnston Health Clayton allows for space designed specifically for a GI endoscopy ASF to be located alongside a physician practice and provides future expansion opportunities. The applicant states that, despite the increase in capital cost which comes with the site change, the site proposed in this application is more cost-effective overall, because of better collaboration with the site owner (which is one of the entities comprising JHES) and because of future expansion opportunities which do not exist at the previous site.
  - The applicant states the new location proposed in this application puts JEC on a campus patients are already familiar with, which has accessible parking and is located off of a major thoroughfare, and which potentially allows patients to schedule multiple appointments in the same day at the same overall location.

The information is reasonable and adequately supported for the following reasons:

- The applicant provides adequately supported information to explain the need for changes to the previously approved project.
- The applicant does not propose to change the number of GI endoscopy rooms or the arrangements involving the addition of those GI endoscopy rooms to the proposed facility.

*Projected Utilization*

In Section Q on Form C, the applicant provides updated projected utilization, as shown in the table below.

<b>JEC Projected Utilization – FYs 1-3 (CYs 2021-2023)</b>			
	<b>FY 1</b>	<b>FY 2</b>	<b>FY 3</b>
	<b>CY 2021</b>	<b>CY 2022</b>	<b>CY 2023</b>
# GI Endoscopy Rooms	2	2	2
# Procedures	3,015	3,255	3,530
# of Procedures/Room	1,508	1,628	1,765

In Section Q, the applicant provides the assumptions and methodology used to project utilization, which are summarized below.

- The applicant identified the number of outpatient GI endoscopy cases performed on Johnston County residents in CY 2017 and calculated the percent of Johnston County residents who had GI endoscopy services at Johnston Health.
- According to the North Carolina Office of State Budget and Management (NC OSBM), Johnston County's population will grow at an annual rate of 1.9 percent between 2019 and 2023. The applicant states it uses that 1.9 percent annual growth rate as its projected growth rate to calculate future GI endoscopy cases for Johnston County residents through the end of its third full fiscal year (CY 2023).
- The applicant did a market share analysis and assumes Johnston Health as a whole (which includes JEC but has other locations that offer GI endoscopy services) will have a 42 percent market share of GI endoscopy cases for Johnston County residents by CY 2023. The applicant states this assumption is based on analysis of Truven Health Analytics data, its own internal data, and other factors:
  - The only other freestanding ASF in the county that offers GI endoscopy services, Clayton Endoscopy, is only operational two days per week, whereas JEC will be operational five days per week.
  - Many patients who currently travel to Wake County to receive GI endoscopy services at freestanding ASFs are treated by physicians who support the proposed project.

The applicant also assumes the market share will ramp up from its current 27 percent market share to the assumed 42 percent market share over a period of four years.

- The applicant analyzed historical GI endoscopy cases performed by Johnston Health to determine the proportion of clinically appropriate cases it projects will transfer to JEC. The applicant assumes 70 percent of outpatient GI endoscopy cases are clinically appropriate to transfer to JEC and the remaining 30 percent of cases will stay at a hospital-based outpatient location. The applicant then applied those percentages to the projected number of GI endoscopy cases to be performed by Johnston Health to calculate the number of Johnston County GI endoscopy cases projected to transfer to JEC.
- The applicant assumes it will serve some patients from other surrounding counties. The applicant states Johnston Health's 2019 License Renewal Application (LRA) shows 22 percent of its total GI endoscopy cases originated outside of Johnston County, and assumes 15 percent of cases to be performed at JEC will originate from outside Johnston County.
- The applicant analyzed the historical case to procedure ratio for Johnston County residents, as well as for physicians who will serve patients at JEC and assumes, based on the historical experience of those physicians, that there will be a case to procedure ratio of 1.3 procedures per case.

A summary of the applicant’s assumptions and methodology for projecting utilization is shown in the table below.

<b>JEC Projected Utilization – Summary of Assumptions/Methodology</b>						
	<b>Interim</b>		<b>Projected</b>			<b>AAGR*</b>
	<b>2019</b>	<b>2020</b>	<b>FY 1 -2021</b>	<b>FY 2 - 2022</b>	<b>FY 3 - 2023</b>	
# of Johnston County Outpatient Cases	7,185	7,325	7,467	7,612	7,760	1.9%
% of Johnston Health Market Share	27%	36%	38%	40%	42%	
# of Johnston Health Outpatient Cases	1,966	2,618	2,816	3,041	3,297	
% of Johnston County Cases to be Performed at JEC			70%	70%	70%	
# of Johnston County Cases to be Performed at JEC			1,971	2,128	2,308	
% In-migration Cases			15%	15%	15%	
# of In-migration Cases			348	376	407	
Total # Outpatient Cases at JEC			2,319	2,504	2,715	
Ratio of Procedures to Cases			1.3	1.3	1.3	
# of Procedures at JEC			3,015	3,255	3,530	
# GI Endoscopy Rooms			2	2	2	
Average # of Procedures per Room			1,508	1,628	1,765	

\*AAGR = Average Annual Growth Rate

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

- The applicant relies on historical utilization to calculate its projected utilization.
- The applicant relies on adequately supported data sources to calculate its projected utilization.
- The applicant accounts for GI endoscopy cases that would not be clinically appropriate to transfer to JEC.

Access

In Section L, page 65, the applicant projects the following payor mix during the third full fiscal year of operation following completion of the project, as illustrated in the following table.

<b>JEC Projected Payor Mix – FY 3 (CY 2023)</b>	
<b>Payor Source</b>	<b>Patients</b>
Self-Pay*	1.8%
Medicare**	43.8%
Medicaid**	3.6%
Insurance**	45.1%
Other***	5.8%
<b>TOTAL</b>	<b>100.0%</b>

**Source:** Johnston Health Internal Data

\*Charity care is included in the self-pay category.

\*\*Including any managed care plans.

\*\*\*"Other" includes Worker's Compensation and TRICARE.

The projected payor mix is reasonable and adequately supported.

### 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 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.
- The applicant adequately explains the need to change the scope of the previously approved 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

In Project I.D. #J-11033-15, the applicant proposed to locate the facility three miles from where the GI endoscopy room to be relocated was originating from. In the current application, the applicant proposes to locate the proposed facility on the same campus where the GI endoscopy room to be relocated will originate from. In Project I.D. #J-11033-15, the applicant was found conforming with this criterion, and the applicant proposes no changes in the current application which would affect that determination.

### 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.

- (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 proposes a COR/COS to Project I.D. #J-11033-15 (develop a new ASF with two GI endoscopy rooms) by changing the location of the proposed facility, resulting in increased capital costs, and making ownership and operating company changes.

In Section E, page 34, 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:

Relinquish the Certificate of Need: The applicant states this alternative would not expand access to GI endoscopy services for Johnston County residents and would not expand access to GI endoscopy services in a freestanding ASF; therefore, this was not an effective alternative.

Develop the Previously Approved Project: The applicant states this alternative would not allow for future expansion, required renovation which was not cost-effective, did not allow for physician practices to be co-located with the proposed ASF, and would not have allowed for the new ownership structure and the increased benefits that come with that new structure; therefore, this was not an effective alternative.

On page 34, the applicant states the proposed project is the most effective alternative because it allows for physician practices to be located alongside the proposed ASF, is more cost-effective than renovating existing space and later having to relocate due to space constraints,

allows for future expansion, and creates an ownership structure that brings additional benefits to the project and to the future patients.

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 application is conforming to all statutory and regulatory review criteria.
- The applicant provides credible information to explain why it believes the proposed project is the most effective alternative.

### 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. Johnston Health Endoscopy Services, LLC and Johnston Health Services Corporation shall materially comply with the representations in this application and the representations made in Project I.D. #J-11033-15. Where representations conflict, Johnston Health Endoscopy Services, LLC, and Johnston Health Services Corporation shall materially comply with the last made representation.**
- 2. Johnston Health Endoscopy Services, LLC and Johnston Health Services Corporation shall develop Johnston Endoscopy Center by relocating no more than one gastrointestinal endoscopy room from Johnston Health Clayton to Johnston Endoscopy Center and by developing no more than one new gastrointestinal endoscopy room.**
- 3. Upon completion of this project, Johnston Endoscopy Center shall be licensed for no more than two gastrointestinal endoscopy rooms.**
- 4. Johnston Health Endoscopy Services, LLC and Johnston Health Services Corporation shall not acquire as part of this project any equipment that is not included in the project's proposed capital expenditures in Sections F and Q of the application and that would otherwise require a certificate of need.**
- 5. Johnston Health Endoscopy Services, LLC and Johnston Health Services Corporation shall receive accreditation from the Joint Commission for the Accreditation of Healthcare Organizations, the Accreditation Association for**

**Ambulatory Health Care, or a comparable accreditation authority within two years following licensure of the facility.**

- 6. For the first three years of operation following completion of the project, Johnston Health Endoscopy Services, LLC and Johnston Health Services Corporation shall not increase charges more than 5% of the charges projected in Section Q of the application without first obtaining a determination from the Healthcare Planning and Certificate of Need Section that the proposed increase is in material compliance with the representations in the certificate of need application.**
  - 7. 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, Johnston Health Endoscopy Services, LLC, and Johnston Health Services Corporation 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.**
  - 8. Johnston Health Endoscopy Services, LLC and Johnston Health Services Corporation shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency in writing prior to issuance of the certificate of need.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

The applicant proposes a COR/COS to Project I.D. #J-11033-15 (develop a new ASF with two GI endoscopy rooms) by changing the location of the proposed facility, resulting in increased capital costs, and making ownership and operating company changes.

Capital and Working Capital Costs

In Section Q on Form F.1b, the applicant projects the total capital cost of this project and compares that with the approved capital cost from Project I.D. #J-11033-15, as shown in the table below.

	<b>Original Costs (Project I.D.# J-11033-15)</b>	<b>Additional Costs Projected for COS</b>	<b>Total</b>
Construction Costs	\$224,753	\$2,035,247	\$2,260,000
Architect/Engineering Fees	\$14,609	\$143,391	\$158,000
Medical Equipment	\$568,282	\$362,762	\$931,044
Non-Medical Equipment	--	\$324,401	\$324,401
Furniture	\$14,807	\$29,693	\$44,500
<b>Total</b>	<b>\$822,451</b>	<b>\$2,895,494</b>	<b>\$3,717,945</b>

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

In Section F, page 44, the applicant projects that start-up costs will be \$126,220 and initial operating expenses will be \$189,329 for a total working capital of \$315,549. On page 44, the applicant provides the assumptions and methodology used to project the working capital needs of the project.

Availability of Funds

In Section F, page 41, the applicant states the capital cost will be funded entirely by JHES, through its different ownership entities, as shown in the table below.

<b>Sources of Capital Cost Financing</b>					
<b>Type</b>	<b>Raleigh Endoscopy Center, LLC</b>	<b>AMSURG, LLC</b>	<b>JHSC</b>	<b>Rex Hospital, Inc.</b>	<b>Total</b>
Loans	\$1,821,793	\$966,666			\$2,788,459
Accumulated reserves/OE*			\$855,127	\$74,359	\$929,486
<b>Total Financing</b>	<b>\$1,821,793</b>	<b>\$966,666</b>	<b>\$855,127</b>	<b>\$74,359</b>	<b>\$3,717,945</b>

\*OE = Owner's Equity

In Section F, page 45, the applicant states working capital needs for the proposed project will be funded entirely by JHES, through its different ownership entities, as shown in the table below.

<b>Sources of Financing for Working Capital</b>					
<b>Type</b>	<b>Raleigh Endoscopy Center, LLC</b>	<b>AMSURG, LLC</b>	<b>JHSC</b>	<b>Rex Hospital, Inc.</b>	<b>Total</b>
Loans	\$154,619	\$82,043			\$236,662
Accumulated reserves/OE*			\$72,576	\$6,311	\$78,887
<b>Total Financing</b>	<b>\$154,619</b>	<b>\$82,043</b>	<b>\$72,576</b>	<b>\$6,311</b>	<b>\$315,549</b>

\*OE = Owner's Equity

The table below shows the combined capital and working capital obligations for each ownership entity contributing funding for the proposed project.

<b>Combined Total Financing Obligations</b>					
<b>Type</b>	<b>Raleigh Endoscopy Center, LLC</b>	<b>AMSURG, LLC</b>	<b>JHSC</b>	<b>Rex Hospital, Inc.</b>	<b>Total</b>
Loans	\$1,976,412	\$1,048,709			\$3,025,121
Accumulated reserves/OE*			\$927,703	\$80,670	\$1,008,373
<b>Total Financing</b>	\$1,976,412	\$1,048,709	\$927,703	\$80,670	\$4,033,494

\*OE = Owner's Equity

Exhibit F.5-2 contains a letter from the Medical Director of Raleigh Endoscopy Center, LLC, stating it intends to fund its portion of financing with a loan, and committing the proceeds of that loan to the proposed project; a letter from a Senior Vice President of First Citizens Bank, stating the bank's willingness to fund up to \$2,100,000 in financing via a loan for the proposed project, and a proposed amortization schedule.

Exhibit F.5-3 contains a letter from a Division President of AMSURG, stating it intends to fund its portion of financing with a loan, and committing the proceeds of that loan to the proposed project; a letter from a Senior Vice President of First Citizens Bank, stating the bank's willingness to fund up to \$1,100,000 in financing via a loan for the proposed project, and a proposed amortization schedule.

Exhibit F.5-4 contains a letter from the Chief Financial Officer of JHSC, stating it intends to fund its portion of financing with accumulated reserves and committing the accumulated reserves to the proposed project. Exhibit F.5-6 contains the Combined Financial Statements, including an Independent Auditor's Report, for JHSC for the fiscal years ending June 30, 2018 and 2017. As of June 30, 2018, JHSC had adequate assets to meet the financing requirements of the proposed project.

Exhibit F.5-5 contains a letter from the Chief Financial Officer of Rex Hospital, Inc., stating it intends to fund its portion of financing with accumulated reserves and committing the accumulated reserves to the proposed project. Exhibit F.5-7 contains the Combined Financial Statements, including an Independent Auditor's Report, for Rex Healthcare, Inc., and Subsidiaries (Rex Hospital, Inc. is a subsidiary of Rex Healthcare, Inc.) for the fiscal years ending June 30, 2018 and 2017. As of June 30, 2018, Rex Healthcare, Inc. had adequate assets to meet the financing requirements of the proposed project.

Financial Feasibility

In Section Q on Form F.2, the applicant provided pro forma financial statements for the first three full fiscal years of operation following completion of the project. The applicant projects that revenues will exceed operating expenses in the first three full fiscal years of the project, as shown in the tables below.

<b>JEC Projected Revenues/Operating Expenses – FYs 1-3 (CYs 2021-2023)</b>			
	<b>FY 1 (CY 2021)</b>	<b>FY 2 (CY 2022)</b>	<b>FY 3 (CY 2023)</b>
Total GI Endoscopy Procedures	3,015	3,255	3,530
Total Gross Revenues (Charges)	\$4,529,655	\$5,037,848	\$5,626,868
Total Net Revenue	\$2,049,094	\$2,278,987	\$2,545,444
Average Net Revenue per Procedure	\$679	\$700	\$721
Total Operating Expenses (Costs)	\$1,776,067	\$1,851,168	\$1,933,748
Average Operating Expense per Procedure	\$589	\$569	\$548
Net Income	\$273,027	\$427,819	\$611,696

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

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 and working capital costs are based on reasonable and adequately supported assumptions.
  - The applicant adequately demonstrates availability of sufficient funds for the capital and working 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 proposes a COR/COS to Project I.D. #J-11033-15 (develop a new ASF with two GI endoscopy rooms) by changing the location of the proposed facility, resulting in increased capital costs, and making ownership and operating company changes.

The 2019 SMFP does not define the service area for GI endoscopy rooms. The Criteria and Standards for Gastrointestinal Endoscopy Procedure Rooms, promulgated in 10A NCAC 14C .3901(6), define the service area as “...the geographical area, as defined by the applicant using

county lines, from which the applicant projects to serve patients.” In Project I.D. #J-11033-15, the applicant defined the service area as Johnston County. Facilities may also serve residents of counties not included in their service area.

There are five existing or approved GI endoscopy rooms in two facilities in Johnston County, as shown in the table below.

<b>Johnston County GI Endoscopy Services – FFY 2018</b>			
<b>Existing Facilities</b>	<b># of Rooms</b>	<b>FFY 2018 # of Cases</b>	<b>FFY 2018 # of Procedures</b>
Clayton Endoscopy	2	1,330	1,684
Johnston Health	3	2,715	3,391
<b>Total</b>	<b>5</b>	<b>4,045</b>	<b>5,075</b>

Source: Table 6F, 2019 SMFP

In Project I.D. # J-11033-15, the application was conforming to this criterion, and the applicant proposes no changes in the current application which would affect that determination.

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.

- (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 H, page 51, the applicant states its projected staffing has changed from what was proposed as part of Project I.D. #J-11033-15 due to updated utilization projections. In Section Q on Form H, the applicant provides updated projected staffing for the first three full fiscal years following project completion, as shown in the table below.

<b>JEC Projected Staffing in FTEs – FYs 1-3</b>			
<b>Position</b>	<b>FY 1</b>	<b>FY 2</b>	<b>FY 3</b>
Registered Nurses	4	4	4
Clerical Staff	1	1	1
Administrator	1	1	1
Director of Nursing	1	1	1
Endoscopy Technicians	3	3	3
<b>Total FTEs</b>	<b>10</b>	<b>10</b>	<b>10</b>

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 Section Q on Form F.3. In Section I, page 54, the applicant identifies the proposed medical director. In Exhibit I.4-2, the applicant provides a letter from the proposed medical director indicating his willingness to serve as medical director for the proposed project.

Project I.D. #J-11033-15 was found conforming with this criterion, and the applicant proposes no other changes as part of this project which would affect that determination.

### 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, page 53, the applicant states that the following ancillary and support services are necessary for the proposed services:

- Laboratory Testing
- Diagnostic Procedures
- Anesthesia Services
- Management Services (such as billing, collections, and clinical oversight)
- Support Services (such as housekeeping, security, and maintenance)
- Other Services

On page 53, the applicant adequately explains how each ancillary and support service will be made available and provides supporting documentation in Exhibits C.10-3 and I.4-3.

In Section I, page 54, the applicant describes its efforts to develop relationships with other local health care and social service providers and provides supporting documentation in Exhibit I.4-1.

In Project I.D. # J-11033-15, the application was conforming to this criterion, and the applicant proposes no other changes in the current application which would affect that determination.

## 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 the HSA in which 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 C, pages 20-23, the applicant states that, as part of Project I.D. #J-11033-15, it proposed to renovate space in an existing building which had previously housed a two-room ASF. The existing building was located three miles from the campus of Johnston Health Clayton. The applicant provides the line drawings for Project I.D. #J-11033-15 in Exhibit C.10-1.

In Section K, page 58, the applicant states the COR/COS project involves renovating a total of 7,800 square feet of space in a medical office building to be located on the campus of Johnston Health Clayton. Line drawings are provided in Exhibit C.10-4.

In Section K, pages 58-59, the applicant adequately explains how the cost, design, and means of construction represent the most reasonable alternative for the proposal.

On page 59, 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.

On page 59, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans.

### Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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, page 65, the applicant provides the historical payor mix for GI endoscopy services provided at Johnston Health for FFY 2018, as illustrated in the following table.

<b>Johnston Health Historical Payor Mix – FFY 2018</b>			
<b>Payor Source</b>	<b>Total Facility</b>	<b>Clayton GI Endo</b>	<b>Smithfield GI Endo</b>
Self-Pay*	12.7%	1.8%	7.2%
Medicare**	36.4%	43.8%	41.2%
Medicaid**	22.3%	3.6%	12.7%
Insurance**	25.7%	45.1%	33.8%
Other***	3.4%	5.8%	5.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Source:** Johnston Health Internal Data

\*Charity care is included in the self-pay category.

\*\*Including any managed care plans.

\*\*\*"Other" includes Worker's Compensation and TRICARE.

In Section L, page 64, the applicant provides the following comparison.

	<b>Percentage of Total Patients Served by Johnston Health during the Last Full FY</b>	<b>Percentage of the Population of Johnston County</b>
Female	60.7%	50.8%
Male	39.3%	49.2%
Unknown	0.0%	0.0%
64 and Younger	71.5%	74.4%
65 and Older	28.5%	15.6%
American Indian	0.1%	1.3%
Asian	0.2%	5.8%
Black or African-American	24.4%	13.4%
Native Hawaiian or Pacific Islander	0.0%	0.2%
White or Caucasian	64.5%	76.6%
Other Race	9.7%	2.7%
Declined / Unavailable	1.1%	0.0%

**Sources:** Johnston Health Internal Data, US Census Bureau

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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;

C

In Project I.D. #J-11033-15, the applicant was found conforming with this criterion. In Section L, page 65, the applicant states there are no changes to the responses provided in that application, and the applicant proposes no changes in the current application which would affect that determination.

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.

- (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, page 65, the applicant projects the following payor mix during the third full fiscal year of operation following completion of the project, as illustrated in the following table.

<b>JEC Projected Payor Mix – FY 3 (CY 2023)</b>	
<b>Payor Source</b>	<b>Patients</b>
Self-Pay*	1.8%
Medicare**	43.8%
Medicaid**	3.6%
Insurance**	45.1%
Other***	5.8%
<b>TOTAL</b>	<b>100.0%</b>

**Source:** Johnston Health Internal Data

\*Charity care is included in the self-pay category.

\*\*Including any managed care plans.

\*\*\*"Other" includes Worker's Compensation and TRICARE.

As shown in the table above, during the third full fiscal year of operation, the applicant projects that 1.8 percent of all services at JEC will be provided to self-pay patients, 43.8 percent will be provided to Medicare patients, and 3.6 percent will be provided to Medicaid patients.

In Section L, page 65, the applicant provides the assumptions and methodology used to project payor mix for the proposed services during the third full fiscal year of operation following completion of the project. The projected payor mix is reasonable and adequately supported because it is based on the applicant's FFY 2018 payor mix.

### Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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 Project I.D. # J-11033-15, the application was conforming to this criterion, and the applicant proposes no changes in the current application which would affect that determination.

### 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.

- (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 Project I.D. # J-11033-15, the application was conforming to this criterion, and the applicant proposes no changes in the current application which would affect that determination.

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 proposes a COR/COS to Project I.D. #J-11033-15 (develop a new ASF with two GI endoscopy rooms) by changing the location of the proposed facility, resulting in increased capital costs, and making ownership and operating company changes.

The 2019 SMFP does not define the service area for GI endoscopy rooms. The Criteria and Standards for Gastrointestinal Endoscopy Procedure Rooms, promulgated in 10A NCAC 14C .3901(6), define the service area as “...the geographical area, as defined by the applicant using county lines, from which the applicant projects to serve patients.” In Project I.D. #J-11033-15, the applicant defined the service area as Johnston County. Facilities may also serve residents of counties not included in their service area.

There are five existing or approved GI endoscopy rooms in two facilities in Johnston County, as shown in the table below.

<b>Johnston County GI Endoscopy Services – FFY 2018</b>			
<b>Existing Facilities</b>	<b># of Rooms</b>	<b>FFY 2018 # of Cases</b>	<b>FFY 2018 # of Procedures</b>
Clayton Endoscopy	2	1,330	1,684
Johnston Health	3	2,715	3,391
<b>Total</b>	<b>5</b>	<b>4,045</b>	<b>5,075</b>

Source: Table 6F, 2019 SMFP

In Project I.D. # J-11033-15, the application was conforming to this criterion, and the applicant proposes no changes in the current application which would affect that determination.

### 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.

- (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, page 69, the applicant states Johnston Health is the only facility located in North Carolina providing GI endoscopy services which is owned, operated, or managed by the applicant or a related entity. However, the Project Analyst identified a total of 20 facilities (12 hospitals and 8 ASFs) providing GI endoscopy services which are owned, operated, or managed by the applicant or a related entity.

In Section O, page 69, the applicant states that, during the 18 months immediately preceding the submittal of the application, there were no incidents related to quality of care at Johnston Health. According to the files in the Acute and Home Care Licensure and Certification Section,

DHSR, during the 18 months immediately preceding submission of the application through the date of this decision, incidents related to quality of care occurred in four of these facilities. Incidents related to quality of care occurred in two other facilities prior to the 18-month lookback period, but the facilities were not back in compliance until after the 18-month lookback period began. 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 20 facilities, the applicant provided sufficient evidence the 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

In Project I.D. # J-11033-15, the application was conforming to Criteria and Standards for Gastrointestinal Endoscopy Procedure Rooms in Licensed Health Service Facilities promulgated in 10A NCAC 14C .3903, and the applicant proposes no changes in the current application which would affect that determination. The applicant does not propose any other changes in this application which would make any other Criteria and Standards applicable to this review. Therefore, the application is conforming with this criterion.