



**PETITION FOR AN ADJUSTED NEED DETERMINATION FOR
OPERATING ROOMS IN THE 2018 STATE MEDICAL
FACILITIES PLAN**

Petitioner:

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To:

Healthcare Planning and Certificate of Need Section
Division of Health Service Regulation
2704 Mail Service Center
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Requested Adjustment

Graystone Eye Surgery Center, LLC (Graystone) petitions for an adjusted need determination. Specifically, Graystone seeks to include need for one additional surgical operating room (OR) in the Catawba County service area in the 2018 State Medical Facilities Plan (SMFP).

Reasons Supporting Requested Adjustment:

Background

In 2010, Graystone successfully petitioned the State Health Coordinating Council for an adjusted need determination for one additional surgical OR for Catawba County. The Agency concluded that Graystone sufficiently demonstrated unique or special circumstances that warrant an additional operating room in the Catawba County OR service area. Subsequently, Graystone received CON approval to develop a second surgical OR in 2011. Seven years have passed since Graystone first petitioned the SHCC. During that time, Catawba County's ambulatory surgical utilization in dedicated-outpatient ORs has increased significantly.

On July 28, 2016, Graystone submitted a petition for an adjusted need determination for one additional operating room in Catawba County in the 2017 SMFP. On September 6, 2016 Graystone received the Agency Report regarding our petition, which stated "the petition demonstrates that Catawba County's OR utilization patterns may be sufficiently different from the state as a whole to warrant an adjusted need determination" and "the agency recommends approval of the petition".

After the agency staff member presented her report at the September 13, 2016 Acute Care Committee meeting, one committee member opined that Graystone needed to figure out how to use the hospital operating rooms to address the ASC's capacity constraints. Another committee member followed by inaccurately stating "costs run about the same for the hospital and the ASC". However, ASCs and hospitals are paid by CMS on totally different scales, with ASCs reimbursed 58% of what hospital outpatient departments are paid for the same procedures. That leaves the patient with the 20% co-pay of a much larger charge, thus making ASCs much more cost effective than a hospital for these surgical cases. Unfortunately, although we were in attendance at the committee meeting, Graystone was not permitted the opportunity to speak in response, so

these mistaken comments went unchallenged. A motion was then called for, and the committee denied the petition. The meeting minutes from the September 13, 2016 committee meeting indicate “[S]ufficient operating room capacity exists in the service area, and the Committee concluded that these resources were not being accessed.” Graystone disagrees with this statement and will address this issue in the following pages.

Following denial of our 2016 petition, on October 26, 2016 Graystone appealed to former Governor McCrory to request that he consider including a need determination for one additional OR in Catawba County in the 2017 SMFP. Graystone also provided input to the Operating Room Methodology Workgroup via written comments on October 27, 2016.

Graystone provides this background information to demonstrate it has diligently followed and participated in the State health planning process for seven years. Despite a revised OR methodology, there is no need for additional operating rooms in the Proposed 2018 SMFP. The unique circumstances remain in Catawba County that support the need for one additional OR to be included in the 2018 SMFP.

The detailed rationale for this adjusted need determination is described in the remainder of the petition.

Efforts To Coordinate With Local Hospitals

Productive efforts to explore any possible options for maximizing utilization the existing OR inventory in Catawba County have yet to offer any feasible alternative.

During the time since it’s 2016 petition was denied, Graystone has actively sought opportunities to access available OR capacity in Catawba County hospitals.

On January 19, 2017, Graystone’s CEO, Sheree Watson, and Graystone Board Chairman Dr. T.R. Williams met with Tony Rose, CEO of Catawba Valley Medical Center (CVMC’s) to discuss potential ways to collaborate to expand cost effective access to outpatient surgical services for Graystone’s patients. Graystone recommended transferring one of CVMC’s ORs to an ASC setting. Mr. Rose indicated that CVMC’s hospital-based ORs were too busy to contemplate a scenario that involved transferring ownership of an existing hospital-based OR to a joint venture-owned ASC setting. Given the different cost and reimbursement structures for hospital-based ORs and ASCs, it was agreed

there is currently no feasible scenario for Graystone's ambulatory surgical patients to utilize CVMC's hospital-based ORs at the same out-of-pocket costs they receive at Graystone's ASC.

On May 4, 2017, Graystone's CEO Sheree Watson and Graystone Board Chairman Dr. T.R. Williams, met with Gar Atchison, CEO of Frye Regional Medical Center (FRMC) to discuss a potential creative solution to expand cost effective access to outpatient surgical services for Graystone's patients and one that could be of significant benefit to the hospital. Graystone recommended purchasing an underutilized OR from the FRMC inventory; giving the hospital dollars that would contribute directly to their bottom line and subsequently allow Graystone to meet the needs of its patients. Graystone would relocate the OR to its ASC (subject to CON approval). Mr. Atchison stated he would consider the concept; however, each of Graystone's multiple efforts to follow up with FRMC have been unsuccessful. To date, there has been no response from FRMC.

On July 18, 2017, Graystone contacted William F. Carpenter III, Chairman and CEO of LifePoint Health. LifePoint Health is the parent company of FRMC. Graystone summarized its previous meeting with Mr. Atchison and requested the opportunity to discuss the concept with LifePoint Health. To date, there has been no response from LifePoint Health.

Productive efforts to explore any possible options for maximizing utilization of the existing OR inventory in Catawba County have yet to offer any feasible alternative. When contemplating potential alternatives, it is imperative to acknowledge that there are significant differences in the out-of-pocket costs for patients that have surgery in an ASC compared to patients that have surgery in a hospital. The Centers for Medicare & Medicaid Services (CMS) is the payor source for the vast majority of Graystone's surgical cases. Medicare payments to ASCs are lower than Medicare payments to HOPDs for 100 percent of procedures. Currently, Medicare pays ASCs 58% of the amount paid to hospital outpatient departments for performing the same services. For example, Medicare pays hospitals \$1,670 for performing an outpatient cataract surgery while paying ASCs only \$964 for performing the same surgery. In addition, patients typically pay less coinsurance for procedures performed in the ASC than for comparable procedures in the hospital setting. For example, a Medicare beneficiary could pay as much as \$490 in coinsurance for a cataract extraction procedure performed in a hospital outpatient department, whereas that same beneficiary's copayment in the ASC would be only \$193.¹ Please see the cost comparison in Table 1 on the following page.

¹ Ambulatory Surgery Centers: A Positive Trend in Health Care. <http://www.ascassociation.org>

Table 1
Cost Comparison:
ASC v. Hospital Outpatient Department

	Patient Out-of-Pocket Cost		Medicare Cost	
	ASC Co-pay	HOPD Co-Pay	Total Procedure Cost ASC	Total Procedure Cost Hospital OP Department
Cataract	\$193	\$490	\$964	\$1,670

Source: Ambulatory Surgery Center Association (ASCA) Analysis of CMS Rates Effective 1 Jan 2012

The out-of-pocket patient costs for co-pays (or co-insurance) translates to real money for patients. This fundamental difference in costs between ASCs and hospitals is a driving factor that determines where patients choose to have their surgery. This fundamental difference is also why Graystone is unable to utilize available hospital-based OR capacity in Catawba County. Graystone’s patients demand the cost-effective ASC setting for their surgical services.

The only reasonable alternative at this time is to petition the SHCC for an adjusted need determination to include one additional OR in Catawba County in the 2018 SMFP.

Revised OR Methodology

Like many other interested parties, Graystone provided input to the Operating Room Methodology Workgroup via written comments. Graystone supports the efforts of the SHCC and OR Methodology Workgroup members to update the OR need methodology. Graystone notes the vast majority of models (10 of 15) that the OR Methodology Workgroup reviewed and considered during its December 2016 and February 2017 meetings resulted in need determinations for additional OR capacity in Catawba County. In each of the 10 models that produced a need determination in Catawba County, Graystone was the facility responsible for generating need. Please see Table 2.

Table 2
OR Methodology Workgroup Reference Models

December 13, 2016 Meeting	
Reference Model	Catawba County OR Need
1	2
2	2
3	2
4	0
5	0
February 15, 2017 Meeting	
Reference Model	Catawba County OR Need
6	0
6a	0
7	2
8	3
9	1
10	0
11	2
12	2
13	2
14	2
Median OR Need	2
Average OR Need	1.3

Source: Meeting materials for February 15, 2017 OR Methodology Workgroup Meeting

Of the 15 models that the OR Methodology Workgroup reviewed and considered, the median OR need in Catawba County was 2 ORs and the average OR need was 1.3 ORs. Graystone provides this information as context to demonstrate there are consistent and legitimate factors that support the need for an additional OR in Catawba County.

Graystone acknowledges the valuable work that went into the revised OR methodology. Graystone supports changes to the OR methodology that acknowledge the fundamental differences between hospitals and ASCs, for example, facility average case times and standard hours per OR per year by facility type. However, unique circumstances remain in Catawba County and at

Graystone Eye Surgery Center (GESC) that support an adjusted need determination for one additional OR in Catawba County in the 2018 SMFP.

Application of the four-year population growth rate in Catawba County to project surgical hours at Graystone’s ASC severely understates Graystone’s projected ambulatory surgical utilization. Step 6 of the revised OR methodology applies a four year “Growth Factor” calculated based on each service area’s projected population change between the “data year” (2016) and the “target year” for need projections (2020). However, the overall population growth rate for Catawba County is not representative of the demographic that utilizes ophthalmic surgery. Approximately 75% of Graystone’s surgical cases are paid for by Medicare.² Medicare is our country’s health insurance program for people age 65 or older. As seen in Table 3, Catawba County has an older population than the state as a whole, and this elderly population cohort is projected to increase significantly by 2020³.

Table 3
2016-2020 Projected Population Age 65+

	2016	% of Total	2020	% of Total
Catawba County	26,100	16.7%	28,627	18.2%
North Carolina	1,559,452	15.4%	1,781,470	16.8%

Source: NC Office of State Budget & Management

Not only does Catawba County have a comparatively older population than the state as a whole, Catawba County’s population age 65 and older is projected to increase rapidly during the next four years. See Table 4 on the following page.

² As documented on page 9 of Graystone’s 2017 License Renewal Application, during FY2016 4,628 surgical cases were paid for by Medicare & Medicare Managed Care (4,628 ÷ 6,208 = 74.5%).

³ 2020 is the planning year utilized in the Proposed 2018 SMFP operating room need methodology.

Table 4
Catawba County
2016-2020 Projected Population Comparison: Overall v. Age 65+

	2016	2017	2018	2019	2020	4-Year Growth Factor
Overall Population	156,106	156,381	156,657	156,932	157,209	0.71%
Age 65+ Population	26,100	26,713	27,306	27,928	28,627	9.68%

Source: NC Office of State Budget & Management

The four-year growth factor for the Catawba County population age 65 and older is projected to increase 9.68% by 2020. This is significant because this is the segment of population that predominately utilizes Graystone’s ASC. Application of the overall population growth factor (0.71%) assumes Graystone’s surgical volume will essentially remain flat during the next four years. This is simply unrealistic. Table 5 summarizes Graystone’s historical surgical utilization.

Table 5
Graystone Eye Surgery Center OR Utilization

	FY2012	FY2013	FY2014	FY2015	FY2016	4-Year Actual Growth*	FY2017**
Graystone Eye Surgery Center	5,770	6,025	5,924	6,069	6,208	7.6%	6,371

*Four-year growth factor = FY2016 surgical cases minus FY2012 surgical cases, then divided by the FY2016 surgical cases

**Annualized based on eight months of data

Source: 2014-2017 SMFP, Proposed 2018 SMFP

Graystone’s FY2012-FY2016 four-year growth rate is 7.6%. Based on year-to-date FY2017 data, Graystone’s surgical case volume is projected to increase an additional 2.6%. These growth rates are inconsistent with the four-year growth factor of 0.71% used in the Proposed 2018 SMFP. Please note that Graystone is not petitioning to change the growth factor in the revised OR methodology. Rather, comparing Graystone’s actual growth to the forecasted growth in the standard OR methodology supports Graystone’s request for an adjusted need

determination to include one additional OR in Catawba County in the 2018 SMFP.

Graystone also notes the “Final Ambulatory Case Time” in Column G, Table 6B of the Proposed 2018 SMFP uses a case time of 22 minutes for GESc. The case time has been adjusted based on Step 3 of the revised OR methodology because GESc’s case time in the 2017 License Renewal Application (LRA) is more than 10% longer than the previous year’s case time in the 2016 LRA. For information purposes, in completing its 2016 LRA, Graystone provided the average case time for a cataract procedure, which is the most common procedure performed at GESc. However, approximately 20% of Graystone’s surgical cases are retina, glaucoma, cornea and oculoplastic procedures – all of which require a case time of 50 to 90 minutes. It is important to note that these other cases were not included in the average case time on page 12 of Graystone’s 2016 LRA. Thus, the 2016 average case time of 20 minutes was reported in error. Therefore, when completing its 2017 LRA, Graystone determined a weighted average case time for all surgical procedures, which is 30 minutes. Please note that Graystone is not petitioning to change “Final Ambulatory Case Time” in the revised OR methodology. Rather, Graystone provides this information as a rational explanation for the change in GESc’s average case time in its 2017 LRA compared to its 2016 LRA.

For information purposes, Table 6 follows the revised OR methodology using the four-year growth factor for Catawba County population age 65+ (Column I) and GESc’s accurate FY2016 case time of 30 minutes (Column G). Substituting these inputs result in the need for an additional OR at GESc. Graystone does not propose to change the revised OR methodology, rather this projection scenario is intended to support Graystone’s rationale for an adjusted need determination to include one additional OR in Catawba County in the 2018 SMFP.

Table 6
Scenario - Table 6B: Projected OR Need for 2020

A	B	C	D	E	F	G	H	I	J	K	L	M	N
Service Area	License	Facility	IP Cases	IP Case Time	OP Cases	OP Case Time	Surgical Hrs	65+ Growth Factor	Projected Surgical Hours	Projected Surgical ORs Required in 2020	Adjusted Planning Inventory	Deficit/ (Surplus)	OR Need
Catawba	AS0036	Graystone Eye Surgery Center	0	0	6,208	30	3,104	9.68%	3,405	2.59	2	0.59	1

Ambulatory Surgery

Ambulatory Surgery Centers

Surgical volume performed in ambulatory surgical centers (ASC) is growing at a rapid pace. Forthcoming changes in Medicare payments are likely to contribute to future growth cases performed in low cost, high-quality ASCs.

Technological advancements have enabled a growing range of procedures to be performed safely on an outpatient basis. Faster acting and more effective anesthetics, combined with less invasive techniques have driven this outpatient migration. Procedures that only a few years ago required major incisions, long-acting anesthetics and extended convalescence can now be performed through closed techniques utilizing short-acting anesthetics, and with minimal recovery time. As a result, more and more procedures have been performed safely in a dedicated-outpatient setting.

Nationwide, the number of ASCs continues to grow in response to demand from the key participants in surgical care – patients, physicians and payors. This demand has been made possible by technology, but has been driven by high levels of patient satisfaction, efficient physician practice, high levels of quality and the cost savings that have benefited all. From 2007 through 2011, the number of Medicare-certified ASCs grew by an average annual rate of 2.5 percent. From 2007 through 2011, the volume of services per Medicare beneficiary grew by an average annual rate of 4.6 percent⁴. Ophthalmology is the most common case specialty by volume performed in ASCs, comprising 28 percent of all ASC Medicare procedures⁵.

The Affordable Care Act requires the Secretary of Health and Human Services to develop a plan to implement a value-based purchasing (VBP) program for payments under the Medicare program for ASCs. CMS views VBP as an important step forward in changing how Medicare pays for health care services; moving the program towards rewarding better value, outcomes, and innovations, instead of merely volume. ASCs have long demonstrated their ability to provide high quality care and positive outcomes at a low cost.

In summary, ASCs are a vital component of the healthcare delivery system from quality, access, and cost perspectives. The historical growth of ASC volume is not

⁴ MedPac Report to the Congress: Medicare Payment Policy – March 2014
Ambulatory Surgery Center Association. Ambulatory Surgery Centers: A Positive Trend in Healthcare. 2012

an anomaly. Upcoming changes in Medicare payments are likely to contribute to future growth cases performed in low cost, high-quality ASCs. Therefore, the requested adjusted need determination for one additional OR in Catawba County will ensure adequate access to surgical services for residents of Catawba County and the Unifour area.

Catawba County Ambulatory Surgical Use Rate

Catawba County exhibits a higher ambulatory surgical use rate compared to the State as a whole.

An adjusted need determination to include one operating room is appropriate for the Catawba County service area, based on the high ambulatory surgical use rate within the county. As indicated in Table 7, Catawba County’s ambulatory surgical use rate has increased in recent years.

Table 7
Catawba County Ambulatory Surgical Use Rate (per 1,000 population)

	FY2015	FY2016
Population	155,828	156,106
Ambulatory Surgery Cases	18,854	19,103
Amb Surg Use Rate	120.99	122.37

Source: 2017 SMFP, Proposed 2018 SMFP, NC Office of State Budget & Management

Using population estimates and ambulatory utilization, the FY2016 ambulatory surgery use rate for Catawba County is 122.37 surgeries per 1,000 people. 81% of surgical cases in Catawba County are outpatient. Notably, Catawba County’s ambulatory surgery use rate is significantly higher than the FY2016 North Carolina ambulatory surgery use rate of 65.86. In fact, Catawba County has the highest ambulatory surgery use rate of all 24 counties in Health Service Area I.

The comparatively high use of ambulatory surgery in Catawba County is evidence that one additional operating room in the Catawba County service area

will be well utilized, and will improve access to care without unnecessary duplication of existing resources.

Catawba County Ambulatory Surgical Trends

Ambulatory surgical cases performed in Catawba County's ASCs are increasing, while ambulatory surgical cases performed in Catawba County hospitals are decreasing.

Ambulatory surgical utilization in Catawba County has experienced the greatest increase in dedicated-outpatient settings, i.e., ASCs. Table 8 summarizes ambulatory surgical utilization by site.

Table 8
Catawba County Ambulatory Surgical Utilization by Site

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	5-Yr CAGR
Graystone Eye Surgery Center	4,999	5,770	6,025	5,924	6,069	6,208	4.4%
Viewmont Surgery Center	2,767	2,327	2,614	2,450	2,905	3,172	2.8%
Frye Regional Medical Center	5,416	4,959	4,748	4,455	4,564	4,067	-5.6%
Catawba Valley Medical Center	5,718	5,689	5,021	5,368	5,316	5,656	-0.2%
Total	18,900	18,745	18,408	18,197	18,854	19,103	0.2%

Source: 2013-2017 SMFP, Proposed 2018 SMFP

As shown in Table 8, ambulatory surgical cases performed in hospital-based ORs have steadily declined during recent years. Conversely, the number of ambulatory surgical cases performed in ASCs experienced an overall five-year compound annual growth rate (CAGR) of 3.8%. Notably, Graystone's surgical volume experienced a 5-year CAGR of 4.4%.

Growth of Catawba County's ASC case volume can be partially attributed to out-of-pocket patient costs. As described previously, patients typically pay less coinsurance for procedures performed in an ASC than for comparable procedures in the hospital setting. For example, a Medicare beneficiary could pay as much as \$490 in coinsurance for a cataract extraction procedure performed in a hospital-based OR, whereas that same beneficiary's co-payment

in the ASC would be only \$193⁶. This is a tangible difference and often a deciding factor for patients when determining where to have their surgery performed.

Private insurance companies tend to save similarly, which means employers also incur lower health care costs when employees utilize ASC services. For this reason, both employers and insurers have recently been exploring ways to incentivize the movement of patients and procedures to the ASC setting.

The future growth of ambulatory surgical cases performed in ASCs is now severely limited by the availability of dedicated-outpatient ORs in Catawba County. According to the Proposed 2018 SMFP, only five (5) of Catawba County’s 39 ORs are located in an ASC.

Catawba County ASC Utilization

There is extremely limited capacity in Catawba County ASCs to accommodate current and projected ambulatory surgical volume.

According to the Proposed 2018 SMFP, 6,208 ambulatory cases were performed at Graystone during FY2016. As described previously, during FY2012-FY2016 Graystone’s surgical volume experienced a 4-year CAGR of 7.6%. See Table 9.

Table 9
Graystone Eye Surgery Center OR Utilization

	FY2012	FY2013	FY2014	FY2015	FY2016	4-Year Actual Growth*	FY2017**
Graystone Eye Surgery Center	5,770	6,025	5,924	6,069	6,208	7.6%	6,371

*Four-year growth factor = FY2016 surgical cases minus FY2012 surgical cases, then divided by the FY2016 surgical cases

**Annualized based on eight months of data

Source: 2014-2017 SMFP, Proposed 2018 SMFP

Based on year-to-date FY2017 data, Graystone’s surgical case volume is projected to increase an additional 2.6%. OR time is very limited at Graystone. The capacity constraints are problematic from an operational and patient access

⁶ Ambulatory Surgery Center Association. Ambulatory Surgery Centers: A Positive Trend in Healthcare. 2012

perspective. For example, at times Graystone's ORs have been booked two to three months out for surgery. In addition, the recent and upcoming recruitment of additional physicians will have a direct impact on surgical utilization and capacity constraints at GESOC. For example:

- Graystone recruited one new physician who joined the practice in August 2016. Dr. Gabriela Rodrigues joined the practice in August 2016 and is currently performing 10 surgical cases per week. Graystone expects her surgical volume to increase as her practice continues to build.
- Dr. Christopher Tanzie joined Graystone on June 30, 2017. Dr. Tanzie will begin operating one-half day each week and is estimated to perform 8-10 surgical cases per week. Graystone expects his surgical volume to increase as his practice continues builds.
- Dr. Peter Lipscomb starts July 31, 2017 full time in Boone. Dr. Lipscomb will begin operating one-half day each week and is estimated to perform 8-10 surgical cases per week. Graystone expects his surgical volume to increase as his practice continues builds.
- Dr. Ryan Wise (glaucoma specialist & comprehensive ophthalmologist) expected to join July, 2018. Dr. Wise would begin operating one-half day each week and is estimated to perform 8-10 surgical cases per week. Graystone expects his surgical volume to increase as his practice continues builds.
- Graystone is recruiting an additional comprehensive ophthalmologist for 2018 and an additional oculoplastic subspecialist for 2018. Each of these physicians would utilize the surgery center initially at approximately 8-10 surgical cases per week and would increase as their practice grows. Thus, these physicians will certainly contribute to the ongoing need for additional OR capacity at Graystone.

Ophthalmic ambulatory surgery represents the largest volume of all outpatient surgical cases by specialty in Catawba County. As seen in Table 10, ophthalmic surgery makes up over 58% of all outpatient surgical cases in Catawba County.

Table 10
Catawba County
Ambulatory Surgery Case Volume by Specialty, FY2016

Specialty Area	Total OP Cases	% of Total
Ophthalmology	6,897	36.1%
Orthopedics	3,076	16.1%
General	2,743	14.4%
Otolaryngology	2,625	13.7%
Urology	1,298	6.8%
Gynecology	1,106	5.8%
Oral Surgery	418	2.2%
Neurosurgery	323	1.7%
Other	240	1.3%
Plastic Surgery	227	1.2%
Vascular	69	0.4%
Podiatry	56	0.3%
Cardiothoracic	25	0.1%
Total	19,103	100.0%

Source: 2017 License Renewal Applications

Clearly, an additional surgical OR in the Catawba County service area will be well utilized by residents, and will help relieve strains on medical resources by creating more accessible services.

In summary, Graystone believes one additional operating room is needed in Catawba County to accommodate the current and future demand for ambulatory surgical services. Furthermore, ambulatory surgical patient origin and local demographics support the need for an additional OR in Catawba County.

In-Migration

Catawba County is the medical hub for the western Piedmont region, and exhibits a high percentage of ambulatory surgery in-migration.

Catawba County is the medical hub for the western Piedmont region. According to patient origin data provided by Healthcare Planning, Catawba County serves many ambulatory surgery patients from the adjacent counties of Alexander, Burke, Caldwell, and Lincoln. Indeed, Graystone serves patients from a broad catchment area, as reflected in the attached letters of support from optometrists from several North Carolina counties.

Tables 11 and 12 summarize the number and percent of patients from each county who travelled to Catawba County for ambulatory surgery, respectively. Please note FY2015 patient origin data is provided because the FY2016 patient origin reports were not available at the time this petition was submitted.

**Table 11 – Catawba County Ambulatory Surgery In-Migration
Number of County Patients Served in Catawba County**

Patient County of Residence	Amb Surg Patients Served in Catawba County, FY2015
Alexander	1,620
Caldwell	2,929
Lincoln	1,488
Burke	1,143
Total	7,180

Source: 2015 Ambulatory Surgery Patient Origin Reports provided by DHSR Healthcare Planning and Certificate of Need Section

**Table 12 – Catawba County Ambulatory Surgery In-Migration
% of County Patients Served in Catawba County**

Patient County of Residence	% of County Amb Surg Patients Served in Catawba County, FY2015
Alexander	57.4%
Caldwell	41.0%
Lincoln	25.8%
Burke	21.8%

Source: 2015 Ambulatory Surgery Patient Origin Reports provided by DHSR Healthcare Planning and Certificate of Need Section

A growing number of patients are leaving their county of residence to seek ambulatory surgical services in Catawba County. In fact, according to the 2015 patient origin report, more Caldwell County patients were served in Catawba County than were served in Caldwell County. This is likely because there is no ASC located in Caldwell County. These patient utilization patterns exemplify the vital role that ASCs serve in the continuum of healthcare services. Moreover, this patient origin data supports Graystone's request for an adjusted need determination to include one additional OR in Catawba County. In doing so, access may be expanded for not only Catawba County residents, but also residents of adjacent counties with a demonstrated use of Catawba County resources.

No Unnecessary Duplication of Services

The adjusted need determination proposed in this petition will not result in unnecessary duplication of health resources in the area. Graystone has quantitatively established that Catawba County residents will benefit from an additional ambulatory surgical operating room. Chronically underutilized operating rooms at Frye Regional Medical Center are excluded from the need methodology. Further, approval of an additional OR in Catawba County in no way harms any area hospital because ophthalmic surgery is 99% outpatient, and North Carolina patients are price sensitive when considering outpatient surgery options. North Carolina patients simply will not obtain the majority of their outpatient surgical care at an inpatient facility because it is too expensive. Demand for ambulatory surgical services is increasing among Catawba County residents. In addition, as demonstrated in the letters of support accompanying this petition, Catawba County physicians and referring providers recognize the need for expanded access to dedicated outpatient operating rooms, and are supportive of this petition. Thus, an additional operating room will be well supported by the Catawba County service area.

Adverse Effects of No Adjustment to the Need Determination

Maintaining the status quo would adversely affect access, cost and quality of care for residents of Catawba County who need ambulatory surgical services. If this petition is not approved, the need for additional ambulatory surgical operating rooms in Catawba County will remain unmet. Our county's large aging population, coupled with an already existing high ambulatory use rate, is

resulting in well-utilized facilities being limited in our ability to respond to the demand for care from local residents.

Our ambulatory surgery center in Catawba County continues to operate above practical capacity, as demand for ambulatory surgical services continues to increase. Without an adjusted need determination, Graystone Eye Surgery Center would not have an opportunity to seek CON approval for an OR expansion, and would continue to be limited in its ability to provide local access for outpatient surgical services. The growing demand for outpatient surgical services in Catawba County is being unmet, and currently, one of every four Catawba County residents leaves the county to obtain ambulatory surgical services.

Non-approval of this petition would also have an adverse impact on quality of care. ASCs in general are rated highly by both patients and providers. Patient's benefit from the convenience of on-time appointments, onsite parking, and complaint rates of less than two per thousand cases are not uncommon.⁷ Providers are similarly pleased with the control over staff and scheduling, and the potential to leverage this control to create organized processes to improve the quality and efficiency of care.⁸

A third adverse impact would be to value, because patient and total healthcare costs are often lower for care provided in ambulatory surgery centers when compared to other healthcare settings. In this era of increased transparency, patients will demand a "pay for performance" system. Consumers of healthcare services should be provided with quality and cost information to facilitate informed decision making. A recent Medicare Payment Advisory Commission report states Medicare payment rates for most surgical services are 79% higher in Hospital Outpatient Departments (HOPDs) than in ASCs.

Alternatives Considered

Maintaining the status quo is not an option because the lack of a need determination for an additional operating room in Catawba County limits needed local access to cost-effective outpatient surgery services. As previously stated, Graystone continues to operate above practical capacity, having exceeded 6,000 cases for the second consecutive year.

⁷ Outcomes Monitoring Project Report, ASC Association, 2009.

⁸ GAO Report to Congressional Committees. "Medicare: Payment for Ambulatory Surgical Centers Should Be Based on the Hospital Outpatient Payment System." GAO-07-86, Nov 2006.

The only practical alternative is to submit this petition for an adjusted need determination for one additional operating room in Catawba County. Graystone Eye continues to pursue this course because it is the most direct and appropriate solution for the need at hand in Catawba County. Approval of an additional OR in Catawba County in no way harms any area hospital because ophthalmic surgery is 99% outpatient, and North Carolina patients are price sensitive when considering outpatient surgery options.

Safety and Quality, Access & Value

The requested adjustment is consistent with the SMFP's three Basic Principles, which are:

Safety & Quality

Health care facilities in the United States, including ambulatory surgery centers, are highly regulated by federal and state entities. The safety and quality of care offered in ASCs is evaluated by independent observers through three processes: state licensure, Medicare certification and voluntary accreditation.

Graystone Eye Surgery Center is licensed annually by the State of North Carolina, and because it serves Medicare beneficiaries, GESC is also certified by the Medicare program. In order to maintain licensure and certification, GESC complies with governmental safety and quality standards, and GESC must demonstrate compliance with these state and federal standards on an ongoing basis.

In addition to state and federal inspections, Graystone voluntarily seeks accreditation by an independent accrediting organization, the Accreditation Association for Ambulatory Health Care (AAAHC). Our facility must meet specific standards during on-site inspections by AAAHC in order to be accredited. AAAHC requires us to engage in external benchmarking, which enables our facility to compare its performance to the performance of other ASCs.

An addition of one surgical operating room in an ambulatory care setting will enhance the quality and safety of surgical services in Catawba County. Providers in a single-specialty ASC can achieve higher quality and safety because of the specialization in performing specific medical procedures. Ambulatory surgery centers enhance the quality of patient care by enabling physicians to focus exclusively on a small number of processes in a single setting, and by

intensifying quality control processes on the smaller spaces and smaller number of operating rooms. In an ASC setting, services are managed around the experience of the particular patient or disease and result in high quality patient outcomes. A freestanding ASC enables more consistent staffing, to build a surgical team dedicated to a particular specialty and its procedures and protocols, thereby creating maximum staff efficiency and productivity.⁹ Thus, a freestanding ASC provides coordinated, efficient treatments that offer high quality of care.

Access

If this petition is approved, access will be improved, as a new surgical operating room will be available to patients in Catawba County. Surgical procedures will be more readily accessible, thereby increasing convenience and for patients. Also, the patient's level of satisfaction will increase when OR capacity increases, which reduces the frequency of scheduling surgical procedures during later hours of the day, which are much less appealing to patients.

Value

The superior cost effectiveness of ambulatory surgery centers also supports this petition for an additional OR in Catawba County. CMS, OIG, HHS and others have published reports highlighting the fact that the cost associated with care for Medicare beneficiaries is less in an ASC compared to hospital-based care. Due to the cost efficiencies of ASCs, the Medicare facility reimbursement rates for ASCs are lower than hospital reimbursement rates. Without the emergence of ASCs as an option for care, health care expenditures would have been tens of billions of dollars higher over the past four decades. On average, the Medicare program and its beneficiaries share in more than \$2.6 billion in savings each year because the program pays significantly less for procedures performed in ASCs when compared to the rates paid to hospitals for the same procedures. Accordingly, patient co-pays are also significantly lower when care is received in an ASC.

If just half of the eligible surgical procedures moved from hospital outpatient departments to ASCs, Medicare would save an additional \$2.5 billion a year or \$25 billion over the next 10 years. Likewise, Medicaid and other insurers benefit from lower prices for services performed in the ASC setting.

⁹ Specialty Hospitals, Ambulatory Surgery Centers, And General Hospitals: Charting A Wise Public Policy Course. *Health Affairs*, 24, No. 3 (2005): 868-873

Medicare payment rates for most surgical services are 79% higher in HOPDs than in ASCs.¹⁰ For example, Medicare pays hospitals \$1,766 for performing an outpatient cataract surgery with intraocular lens insertion (the most frequently performed Medicare surgical service in 2014), while paying ASCs only \$976 for performing the same surgery.

In addition, patients typically pay less coinsurance for procedures performed in an ASC than for comparable procedures in the hospital setting. For example, a Medicare beneficiary could pay as much as \$490 in coinsurance for a cataract extraction procedure performed in a HOPD, whereas that same beneficiary's co-payment in the ASC would be only \$193¹¹.

Private insurance companies tend to save similarly, which means employers also incur lower health care costs when employees utilize ASC services. For this reason, both employers and insurers have recently been exploring ways to incentivize the movement of patients and procedures to the ASC setting.

The Proposed 2018 State Medical Facilities Plan (SMFP) specifically encourages providers to substitute less expensive services for more expensive services. The second page of Chapter 5 of the Proposed SMFP states:

“The State supports continued and expanded use of programs which have demonstrated their capacity to reduce both the number and length of hospital admissions, including...b. Increased use of ambulatory surgery.”

Thus, this project is consistent with the SMFP's basic principles for healthcare planning.

Conclusion

Graystone Eye Surgery Center supports the SHCC and the SMFP planning process. GESC appreciates the SHCC's consideration of this petition, and respectfully requests an adjusted need determination in the 2018 SMFP, to include one additional operating room for Catawba County. Approval of the petition will ensure adequate local access to ambulatory surgical services, and will enhance quality of care and cost effectiveness for local residents in need of outpatient surgery.

¹⁰ Medicare Payment Advisory Commission: Report to the Congress: Medicare Payment Policy, March 2016.

¹¹ Ambulatory Surgery Center Association. Ambulatory Surgery Centers: A Positive Trend in Healthcare. 2012