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DELIVERED VIA EMAIL 8/10/2017

August 10, 2017

Christopher Ullrich, M.D., SHCC Chair
Sandra Greene, Dr.P.H., Acute Care Service Committee Chair
North Carolina State Health Coordinating Council and Acute Care Service Committee
c/o Medical Facilities Planning Section
Division of Health Service Regulation
2714 Mail Service Center
Raleigh, NC 27699-2714

Re: Onslow Memorial Hospital Comments Regarding the Wilmington Health Petition for Two Additional Operating Rooms in Onslow County in the 2018 State Medical Facilities Plan

Dear Dr. Ulrich and Ms. Greene:

On behalf of Onslow Memorial Hospital, thank you for the opportunity to comment on the Petition submitted by Wilmington Health to add a need for two additional operating rooms in Onslow County in the *2018 State Medical Facilities Plan*. Onslow Memorial Hospital objects to the proposed adjusted need determination and finds the Petition misleading.

During your review, I urge you to consider the long-term viability of our rural health care delivery system. In the attached document, I have provided technical reasons to deny the Petition. I urge that you consider these and the letters from our Onslow community in opposition to the Petition.

Sincerely,

Penney Burlingame Deal, DHA
Chief Executive Officer

Attachment(s)

HPCON - received - 8/10/2017

Request to Deny Petition from Wilmington Health for Two Additional Operating Rooms in Onslow County in the 2018 State Medical Facilities Plan

Approval of the Wilmington Health (WH) Petition will, without a doubt, negatively impact Onslow Memorial Hospital (OMH), the county's sole community hospital. There are several reasons why this Petition should be denied, including, the inevitable erosion of OMH revenue, WH's conflicting forecasts, and unsupported WH claims.

Impact on OMH Revenue

WH's Petition states:

> *"Wilmington Health recognizes that numerous factors contribute to the hospital's thin operating margins and has no desire to contribute to an additional erosion of revenue. The need to ensure the ongoing viability of Onslow Memorial Hospital is the basis for the request that the need determination, if approved, be limited to those who can demonstrate improved access to patients currently leaving the county for care."*

OMH is actively studying options for using its operating room inventory to develop a freestanding ambulatory surgery facility with physicians. This proposal is premature and potentially harmful to OMH.

A new, non-hospital affiliated ASC in Onslow County will inevitably draw surgical cases from the hospital. Over time this will lead to erosion of revenue for OMH. OMH has OR capacity; good planning would use that capacity first. To think that a surgery center across the street from OMH would not hurt OMH underestimates free market behavior. Even though WH claims no desire to contribute to additional erosion of revenue, there is no way to guarantee this claim. WH asserts the hospital is operating with thin margins. If vital revenue leaves OMH, it would severely impact its ability to serve as a safety-net provider for the county. This is a reality that cannot be ignored.

A similar situation is taking place in Brunswick County right now. A need determination for one additional OR in Brunswick County in the *2016 SMFP* generated applications for new ASCs with capacity of three to four ORs. Propelled by the need in the *Plan*, the Agency decided in favor of a new freestanding ASC, acknowledging that it would compete with a critical access hospital, J. Arthur Dosher Memorial Hospital (Dosher). The CON decision is currently under appeal. If the proposed ASC in Brunswick County is approved, it will eventually draw vital revenue from Dosher. In fact, a representative for one group filing for the one OR in Brunswick County stood up in a public hearing and admitted that if the project is approved, it will eventually hurt the financial stability of Dosher. The SHCC recognized this in spring 2017 and eliminated a need for more ORs in Brunswick County.

Unfortunately, Dosher was late in its response. The State Health Coordinating Council (SHCC) along with Department of Health Service Regulation (DHSR) staff recommended that safety-net hospitals take a more proactive approach when faced with such a potentially harmful situation with regard to a need in a *Proposed SMFP*. The change proposed by WH would present a harmful situation in Onslow County.

Thus, as recommended by the SHCC, OMH is making this proactive response to WH's Petition and requesting that the Petition be denied to prevent that harmful situation.

HPCON - received - 8/10/2017

The SHCC has a public hearing process for vetting proposed *SMFP* changes, yet WH elected not to appear at any of the six summer public hearings on the *Proposed 2018 SMFP* to present this petition, thus effectively shortening the response time for public reaction.

Conflicting Forecasts

In a recently approved CON (Project ID # 0-11275-16), WH forecasts to serve the same Onslow County patients it argues should stay in-county in its Petition. WH points to the approval of this project:

> *"Earlier this month (July 2017), Wilmington Health, as part of a joint venture with EmergeOrtho and New Hanover Regional Medical Center (NHRMC) known as Cape Fear Surgical Center, received a certificate of need to relocate the existing multi-specialty procedure rooms to a new ASC in Wilmington, along with three existing operating rooms currently owned by NHRMC."*

While the Cape Fear Surgical Center application was denied permission to develop the three additional ORs in the *2017 SMFP* for New Hanover County, it was approved to develop a new ASC with six ORs, three ORs relocated from NHRMC and three multispecialty GI/endoscopy rooms relocated from WH. The "semi-approval" of Project ID #O-11275-16 did not require WH and its partners to adjust their utilization forecast, nor did it require them to submit a new pro forma. Thus, the utilization forecast in the application remains as is. The table below is from that CON application.

Operating Rooms

County	***Year 1 Projected # Patients***	***Year 1 % of Total Patients***	***Year 2 Projected # of Patients***	***Year 2 % of Total Patients***
New Hanover	3,381	49.3%	3,472	49.3%
Onslow	1,056	15.4%	1,084	15.4%
Pender	887	12.9%	911	12.9%
Brunswick	353	5.1%	362	5.1%
Other	1,183	17.2%	1,215	17.2%
Total	**6,860**	**100.0%**	**7,045**	**100.0%**

Source: Project ID # 0-11275-16, application page 120

In the CON application, WH and partners forecast to serve <u>1,084 Onslow County cases</u> by project year 2.

WH's Petition shows 6,219 Onslow County ambulatory surgical cases were performed outside Onslow County in 2016. The Petition presentation is misleading.

The Petition fails to demonstrate how the out-migrated OMH outpatient surgical cases in 2016 decompose to hospital outpatient department (HOPD) and ASC cases. It also fails to show the counties where these cases were performed, or if WH physicians can reasonably redirect out-migrated cases. According to the Healthcare Planning and Certificate of Need Section Database, most – 4,710 of the 6,219-out-migrated Onslow cases – were performed in a HOPD, leaving only 1,509 cases performed in

HPCON - received - 8/10/2017

ASCs. Tables 1 and 2 show where Onslow County residents went for OP surgery. Only half of the outmigration went to New Hanover County.

Table 1: 2016 Top Two Onslow County Out-migrated HOPD Case Destinations

County	***HOPD Cases***	***Percent of Total Out-migrated Cases***
New Hanover	2,362	50%
Craven	1,156	24%
Carteret	368	8%
Orange	222	5%
Others	602	13%

Source: 2017 License Renewal Applications

Table 2: 2016 Top Two Onslow County Out-migrated ASC Case Destinations

County	***ASC Cases***	***Percent of Total Out-migrated Cases***
New Hanover	767	51%
Carteret	465	31%
Pitt	225	15%
Wake	19	1%
Others	33	2%

Source: 2017 License Renewal Applications

As shown in Tables 1 and 2, in 2016, 3,129 (2,362 + 767) Onslow County residents travelled to New Hanover County for OP surgery. According to WH's website, the group has surgeon coverage only in New Hanover and no other county included in Tables 1 and 2. Therefore, it is reasonable to assume WH could likely redirect a maximum of 2,045 OP surgery cases (3,129 New Hanover OP Cases less 1,084 cases committed to Project ID # 0-11275-16). This assumes that all HOPD cases that left Onslow County would be appropriate for an ASC, which is unlikely. This also assumes WH can capture 100 percent of all OP surgical cases that migrate to New Hanover County, which is just false. WH provided no detail on the number of cases it could redirect.

Without understanding the current case mix of surgical procedures performed by WH on Onslow County residents, it is difficult to estimate the total number of cases WH could realistically keep in Onslow County.

WH's ultimate conclusion is that 2.3 more ORs are needed in Onslow County (page 6). This conclusion is based on a completely flawed assumption. WH notes that Union County has three ASC ORs, and 13,778 patients who received OP surgery, and WH further notes that, if all those outpatients were treated in the three ASC ORs, each OR would perform 4,593 procedures. This assumption ignores the six-shared

HPCON - received - 8/10/2017

operating rooms in Union County, which also do outpatient surgery. Based on the ratios related to the Union data, WH concludes that the total 2016 Onslow County resident OP procedures (10,368)[1], means Onslow County can support 2.3 ORs (10,368/4,593). This is a meaningless calculation-not derived from any reasonable or standard health planning methodology.

Unsupported Claims

Along with failing to provide any substantial evidence that WH has ability to justify an ASC in Onslow County, WH also made several other unsupported claims in its Petition.

WH asserts:

> *"the hospital does not have a whole operating room to contribute, particularly if additional growth in the future is considered."*

OMH completely disagrees with this unfounded assertion. The Proposed Plan shows that Onslow County has 3.3 surplus ORs. It is completely reasonable that OMH could contribute two ORs to an ASC. Such an ASC is a better option for the County because it would not add ORs to the County.

WH asserts:

> *"While some of Wilmington Health's surgeons have applied for privileges at Onslow Memorial Hospital, these efforts have been rejected."*

The only reason privileges would be denied is if the physician did not meet the standards OMH imposes on all like applicants or if the physician would not agree to the requirements that OMH imposes on all like applicants, such as the call coverage requirements. OMH has granted privileges to one WH surgeon and he subsequently resigned them.

WH also states:

> *"Even if the hospital were able to use some of its existing operating rooms to develop an ASC, physicians would be required to pay fair market value, which is based on the revenue associated with those operating rooms, not just the capital Received-Healthcare Planning 7/26/2017 Petition: Onslow County Operating Rooms Wilmington Health Page 8 of 11 cost associated with building an ASC. As the SHCC is aware, operating room revenue is substantial for most hospitals; thus, the valuation of existing operating rooms in such a transaction often results in a cost that is out of reach to many potential partners"*

WH itself has said it is willing to invest in such an ASC with OMH (Petition page 9), and given the explosion of jointly owned ASC in North Carolina and the rest of the country, WH's remarks are unfounded.

In light of all the information provided above, OMH is strongly recommending denial of this Petition.

[1] WH Petition page 4