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PETITION

Petition to the North Carolina State Health Coordinating Council to Adjust the Need Determination for Hospice Inpatient Beds in Wake County from 14 Beds to 6 Beds in the Proposed 2018 State Medical Facilities Plan

Submitted by:

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Requested Change

Transitions LifeCare (TL) requests the need determination for an additional 14 hospice inpatient beds in Wake County in the Proposed 2018 State Medical Facilities Plan (SMFP) be reduced to six (6) hospice inpatient beds.

Background

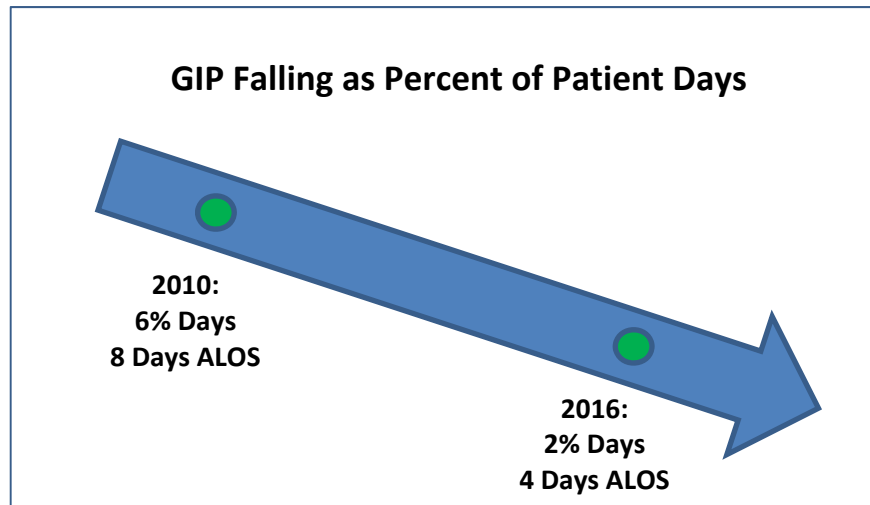
The current hospice inpatient bed methodology was included in the 2016 SMFP after extensive effort by the hospice inpatient bed methodology work group and Division of Health Service Regulation (DHSR) staff. The change from the prior methodology was the modification of Step 7 to reflect a two-year trailing average statewide inpatient utilization rate.

The recent modification to the hospice inpatient bed methodology was appropriate to reflect the most current North Carolina statewide hospice inpatient utilization. However, as this petition will describe, TL notes there are specific circumstances that justify the request to reduce the Wake County need determination for 14 hospice inpatient beds in the 2018 SMFP to six hospice inpatient beds.

Reasons for the Requested Change

National Trend in Hospice Inpatient Utilization

Nationwide, inpatient utilization as a percent of total hospice patient days is falling. According to National Hospice and Palliative Care Organization (NHPCO), in 2010 inpatient days accounted for approximately 6% of all hospice days of care. In 2016, inpatient days accounted for approximately 2% of all hospice days of care. Declining hospice inpatient utilization is also being driven by higher federal regulatory scrutiny, including the Office of Inspector General’s 2016 report, “Hospices Inappropriately Billed Medicare Over \$250 Million for General Inpatient Care”¹, which has driven hospices to be much more careful about when they put patients on GIP-level care, and how long they remain at that level. Shorter average lengths of stay on GIP-level care have further compounded the issue.



Source: NHPCO Edge, LLC

Similar decreasing inpatient utilization rates are observed for North Carolina and Wake County.

¹ <https://oig.hhs.gov/oei/reports/oei-02-10-00491.asp>

Hospice Inpatient Utilization Rate

A two-year trailing average inpatient utilization rate is used in Step 7 of the hospice inpatient bed methodology. Wake County has historically exhibited a comparatively lower hospice inpatient utilization rate compare to the statewide average. The following tables compare the FY2015-FY2016 two-year trailing average inpatient utilization rates for Wake County and North Carolina.

Wake County 2-Yr Trailing Average Inpatient Utilization Rate

Year	General Inpatient Days of Care ²	County Total Days of Care	2-Year Trailing Average IP Utilization Rate
FY2015	4,908	206,567	
FY2016	5,368	258,542	
Total	10,276	465,109	2.21%

Source: FY2015 & FY2016 Data from Hospice License Renewal Data Supplements

North Carolina 2-Yr Trailing Average Inpatient Utilization Rate

Year	General Inpatient Days of Care	Statewide Total Days of Care	2-Year Trailing Average IP Utilization Rate
FY2015	123,992	3,231,700	
FY2016	117,499	3,380,346	
Total	241,491	6,612,046	3.65%

Source: FY2015 & FY2016 Data from Hospice License Renewal Data Supplements

Wake County’s FY2015-FY2016 two-year trailing average inpatient utilization rate is 39% lower compared to the statewide inpatient utilization rate during the same time period. Additionally, both North Carolina and Wake County’s hospice inpatient utilization rate have decreased in recent years, as shown in the following tables.

² Source: Annual License Renewal Applications (Section I).

History of Wake County 2-Yr Trailing Average Inpatient Utilization Rate

Year	General Inpatient Days of Care	County Total Days of Care	2-Year Trailing Average IP Utilization Rate		
FY2013	4,946	181,054	2.86%		
FY2014	5,487	183,765			
FY2015	4,908	206,567		2.66%	
FY2016	5,368	258,542			2.21%

Source: FY2013-FY2016 Data from Hospice License Renewal Data Supplements

History of Statewide 2-Yr Trailing Average Inpatient Utilization Rate

Year	General Inpatient Days of Care	County Total Days of Care	2-Year Trailing Average IP Utilization Rate		
FY2013	123,876	2,972,471	3.97%		
FY2014	115,438	3,056,017			
FY2015	123,992	3,231,700		3.81%	
FY2016	117,499	3,380,346			3.65%

Source: FY2013-FY2016 Data from Hospice License Renewal Data Supplements

Wake County’s comparatively lower hospice inpatient utilization rate can be partially attributed to local access to high acuity acute care providers. Local residents have access to three major hospital systems with five acute care hospitals in Wake County. In addition, Wake County residents have access to two academic medical centers in adjacent Durham and Orange counties, respectively. Many high acuity patients are too fragile to be transferred from local hospitals to TL’s hospice inpatient facility.

Application of the statewide two-year trailing average inpatient utilization rate results in unrealistic projected hospice inpatient days of care during 2020. For example, the Proposed 2018 SMFP standard hospice inpatient bed methodology projects 11,805 hospice inpatient days of care in Wake County during FY2021 (see Table 13C, Column I, page 365 of Proposed 2018 SMFP). This represents a compound annual growth rate of 17.1% each year between 2016 and 2021, which is much greater compared to the compound annual growth rate for statewide hospice inpatient days of care.

**Hospice Inpatient Days of Care
FY2016 Actual vs. FY2021 Projected in Proposed 2018 SMFP**

Wake County	Actual	Projected Via Proposed 2018 SMFP	5-YR CAGR
	FY2016	FY2021	
Wake County Hospice IP Days of Care	5,368	11,805	17.1%
Statewide Hospice IP Days of Care	117,499	145,847	4.4%

Source: FY2016 Data from Hospice License Renewal Data Supplements, Proposed 2018 SMFP

A projected annual growth rate of 17.1% is unrealistic for a county that has historically experienced a comparatively lower hospice inpatient utilization than the statewide average. Given the decreasing inpatient utilization rate and local access to high acuity acute care services in Wake County, it is unlikely that hospice inpatient utilization patterns and levels will change substantially in the near term. Therefore, it is unrealistic to assume such a high growth of hospice inpatient days of care in Wake County during the next five years.

If the county-based two-year trailing average hospice inpatient utilization rate is applied to the hospice inpatient bed methodology for Wake County, there is a dramatic reduction in the need for additional hospice inpatient beds. The following table applies the county-based two-year trailing average hospice inpatient utilization rate in Table 13C of the Proposed 2018 SMFP for Wake County.

**Table 13C Scenario:
Hospice Inpatient Bed Need Methodology for Wake County Using County-Based
Two-year Trailing Average Hospice Inpatient Utilization Rate**

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Columns K -L	Column M
County	Total Admission (2016 Data)	Total Days of Care (2016 Data)	ALOS per Admission	Total 2021 Admissions	2021 DOC at County ALOS	2021 DOC at Statewide ALOS	Projected 2021 DOC for Inpatient Estimates	Projected IP Days: Wake Co. 2-Yr Trailing Avg (2.21%)	Total Projected IP Beds	Currently Licensed + Approved	Adjusted Projected Beds [Col J – (Col K + Col L)]
Wake	3,410	258,542	75.82	4,333	328,525	323,224	323,224	7,141	23	24	-1

Approved Hospice Inpatient Beds

It is imperative to consider that Wake County will soon have expanded access to hospice inpatient services. TL is in the final stages of development for its facility expansion project, which will increase the GIP bed total at TL's hospice inpatient facility from 14 inpatient beds to 24 inpatient beds (CON Project I.D. #J-8452-09). TL anticipates the 10 additional hospice inpatient beds will be operational in September 2017. In just two months, TL's hospice inpatient bed capacity will increase by 71%, to 24 inpatient beds. Hospice inpatient facilities are expensive to construct and to operate. Therefore, it is essential to demonstrate that all hospice inpatient beds approved for development are fully utilized before a significant number of additional inpatient beds are determined to be needed by the standard methodology.

When the additional 10 hospice inpatient beds come online in September 2017, TL's inpatient occupancy rate will effectively drop well below the standard methodology threshold of 85%. Thus, the existing and soon-to-be-operational inventory provides sufficient access in the near term for Wake County residents. For example, TL's inpatient occupancy rate based on the initial eight months of FY2017 (Oct 16-May 17) is 84.9%³. TL's annualized occupancy rate will be reduced to 49.5% in September 2017 when the 10 additional inpatient beds become operational.⁴

Recommendation to Adjust Hospice Inpatient Need Determination

Based on the previously described rationale, TL believes the need determination for 14 hospice inpatient beds in Wake County is overstated.

Acknowledging that the standard hospice inpatient methodology has identified a need for additional inpatient beds in both the Proposed 2017 SMFP and Proposed 2018 SMFP, TL is aware that hospice utilization has increased in Wake County. For example, based on data obtained from the DHSR hospice databases, hospice admissions in Wake County increased 10%, from 3,091 in FY2015 to 3,410 in FY2016. During FY2016, TL's market share for Wake County hospice admissions was 73.14% ($2,494 \text{ TL Wake County hospice admissions} \div 3,410 \text{ total Wake County hospice admissions} = .7314$). Therefore, TL is responsible for nearly three out of four hospice admissions in Wake County.

In just two months, TL's hospice inpatient bed capacity will increase by 71%, to 24 inpatient beds. At this time, TL's FY17 annualized inpatient occupancy rate will drop to 49.5%. Given the substantial increase in additional hospice inpatient bed capacity (i.e., 14 to 24) and based on its experience operating a hospice inpatient facility, TL anticipates it may take two to three years before the additional 10 inpatient beds are fully utilized. The SMFP planning horizon for hospice inpatient beds is five years. Therefore, TL recommends reducing the Wake County hospice inpatient bed need to a more conservative number of inpatient beds, and also a

³ During October 1, 2016 through May 31, 2017, the William M Dunlap Center of Caring provided 2,893 inpatient days of care, for an annualized occupancy rate of 84.9% [$(2,893 \text{ inpatient days of care} \div 8 \text{ months}) \times 12 = 4,340 \text{ FY17 annualized inpatient days of care} \div 365 \text{ days} \div 14 \text{ hospice inpatient beds} = .849$]

⁴ $4,340 \text{ FY17 annualized inpatient days of care} \div 365 \text{ days} \div 24 \text{ hospice inpatient beds} = .495$

complement that could be developed in a cost-effective manner.

TL recommends reducing the Wake County hospice inpatient bed need from 14 hospice inpatient beds to six hospice inpatient beds. A complement of six inpatient beds is consistent with the deficit threshold described in Step 12 of the hospice inpatient bed methodology.

Impact of Request/Implications if Petition is Not Approved

As outlined above, approval of this petition as proposed will result in an adjusted need for six hospice inpatient beds in Wake County.

If this petition is not approved, the development of 14 additional hospice inpatient beds in Wake County would result in unnecessary duplication of services and potentially underutilized inpatient beds. It would be extremely unfortunate for a provider to go through the CON process, raise capital, construct a facility, and hire staff for 14 new hospice inpatient beds only to have them shutter due to unrealistic growth rate expectations.

Adverse Effects on Population

For the reasons discussed previously, with the current GIP beds, upcoming GIP beds, and the six-bed need for which TL is petitioning, Wake County GIP access will be more than enough based on the prior calculations shown in this petition. The proposed reduction of a need determination to six additional hospice inpatient beds in Wake County will therefore not result in any adverse effects on either providers or consumers of health services in Wake County.

However, if the need determination is not reduced for the 2018 SMFP, the result will be unnecessary and costly duplication of hospice inpatient bed capacity in Wake County in the near-term. Such development would be contrary to the Basic Principles of the State Medical Facilities Plan, specifically the Value Basic Principle. Construction of any inpatient health care venue, including hospice inpatient beds, is expensive, and should only be pursued and permitted when the need for additional inpatient capacity is clear. Such is not the case for hospice inpatient beds in Wake County. Addition of 14 inpatient beds, beyond the 14 existing and 10 soon-to-be licensed inpatient beds, would result in underutilization of all the inpatient beds, which would have significant negative financial implications for the bed operators. Therefore, TL believes the proposed adjustment represents a prudent approach to expanding hospice inpatient bed capacity in Wake County and represents wise healthcare planning.

Alternatives Considered

Only two alternatives exist. The first is the status quo, with TL not commenting on the Proposed 2018 SMFP need determination for additional hospice inpatient beds in Wake County. This alternative is not optimal, given the significant concerns about unnecessary and costly duplication of services, as expressed in this petition.

The second alternative is to submit a petition to provide relevant and current information to the attention and consideration of the Long-term and Behavioral Health Committee, and ultimately the SHCC. TL chose this second alternative based on the unique circumstances in Wake County that warrant a closer and detailed analysis of the need determination for additional hospice inpatient beds in Wake County. The fact that 10 hospice inpatient beds will soon be developed and added to the Wake County inventory makes addition of 14 GIP beds excessive in the near term.

Impact of Proposed Changes on Unnecessary Duplication

The proposed changes will prevent unnecessary duplication of services by avoiding the addition of 14 additional hospice inpatient beds to Wake County. The Proposed 2018 SMFP need determination would unnecessarily result in an excess hospice inpatient bed inventory in the community. As described previously, TL will soon complete construction of its 10-inpatient bed facility addition. Therefore, Wake County residents will have access to additional hospice inpatient beds during the next year. The Proposed 2018 SMFP would determine a need for 14 more hospice inpatient beds, increasing by 58% the number of new hospice inpatient beds in Wake County (14 operational + 10 approved + 14 in Proposed 2018 SMFP). Additional time is needed to digest the soon-to-be-operational inpatient beds and observe their utilization before a significant number of additional inpatient beds are developed. Therefore, it is prudent to reduce the need determination to six additional inpatient beds from the Proposed 2018 SMFP.

Proposal's Consistency with the Basic Principles of the SMFP

The requested change is consistent with the three Basic Principles governing the development of the SMFP, which are:

1. Safety and Quality

TL fully supports the State's recognition of "the importance of systematic and ongoing improvement in the quality of health services", as stated in the Proposed 2018 SMFP. The requested reduction of a need determination to six additional hospice inpatient beds in Wake County is consistent with this foundational principle. Improvements in quality of services are furthered when healthcare providers can focus and expend funds prudently for safety and quality of existing inventory. TL has a focused quality/performance improvement program dedicated to ongoing quality assessment and improvement in order to provide high quality, cost-effective healthcare that enhances clinical effectiveness and meets the needs of all hospice patients. TL's quality plan identifies important aspects of care and clinical processes, which are then measured on a continuous basis. Approval of this petition will promote safety and quality because it will enable TL's existing and approved hospice inpatient resources to be fully developed and utilized before additional hospice inpatient beds are developed. The

financial stability associated with well utilized inpatient beds enables the rigorous quality plan that TL has in place.

2. Access

TL also fully supports the State's foundational principle of "equitable access to timely, clinically appropriate and high-quality health care for all the people of North Carolina". TL has a policy to provide all services to all patients regardless of income, racial/ethnic origin, gender, physical or mental conditions, age, ability to pay or any other factor that would classify a patient as underserved. TL does not discriminate based on race, ethnicity, creed, color, age, religion, national origin, handicap, or ability to pay. As previously stated, TL will soon complete development of the 10-bed expansion of its hospice inpatient facility in Cary. Although our existing 14 inpatient beds are utilized at a high level of occupancy, this facility expansion of 71% more inpatient beds will provide in the near term the appropriate access to inpatient services, for all persons in need of hospice inpatient care in the local community. The petition is consistent with this principle of access because the existing and previously approved 24 hospice inpatient beds in Wake County are sufficient to meet the near-term needs of the population of Wake County. Approval of this petition will not result in a reduction of hospice inpatient beds or services at TL, which are in the process of being expanded. All existing and planned bed inventory and services in Wake County will remain intact.

3. Value

TL fully supports the State's definition of "health care value" as "the maximum health care benefit per dollar expended". If the SHCC approves this petition, TL would anticipate submitting a CON application to expand its licensed inpatient bed capacity by converting its six residential beds to hospice inpatient beds, which would require no capital expenditure. TL's residential beds are built to inpatient standards; therefore, no construction or renovation would be needed to convert the residential beds to inpatient beds. As described previously, hospice inpatient facilities are costly to construct. Facility construction projects rely on charitable fundraising campaigns. By converting its residential beds to hospice inpatient beds, TL could expand its inpatient capacity in a cost-effective manner and have greater flexibility managing potential census peaks in the future. For information purposes, conversion of TL's residential beds to inpatient beds will not limit its capacity to serve residential patients because hospice inpatient beds can serve both inpatients and residential patients.

In the case of this petition to reduce the need determination for additional hospice inpatient beds, health care value means recognizing the importance of not expending dollars when health care benefits are maximized through efficient use of the existing and previously approved hospice inpatient bed inventory in Wake County. Addition of 14 inpatient beds, beyond the 14 existing and 10 previously approved and developing inpatient beds, would result in underutilization of all the GIP beds. Health care value will not be maximized by permitting a costly additional hospice inpatient facility to be developed when it is not justified and when it will have negative financial implications on existing operations. Using existing and approved resources will maximize value and help control costs.

Conclusion

Transitions LifeCare supports the State Health Coordinating Council, the State Medical Facilities Plan hospice inpatient bed methodology, and the SHCC and DHSR planning objectives. However, TL believes there are unique circumstances in Wake County that warrant a closer and detailed analysis of the need determination for additional hospice inpatient beds in Wake County. As a result, as outlined by the reasons included in this petition, Transitions requests that the need determination for 14 additional hospice inpatient beds in Wake County be reduced, resulting in a need determination of six additional hospice inpatient beds in Wake County in the 2018 SMFP.