

Competitive Comments on Mecklenburg County Acute Care Bed Applications

submitted by

The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System

In accordance with N.C. GEN. STAT. § 131E-185(a1)(1), The Charlotte-Mecklenburg Hospital Authority¹ d/b/a Carolinas HealthCare System and Mercy Hospital, Inc.² (collectively “CHS”) submit the following comments related to competing applications to develop additional acute care beds in Mecklenburg County to meet a need identified in the *2017 State Medical Facilities Plan (SMFP)*. CHS’s comments include “*discussion and argument regarding whether, in light of the material contained in the application and other relevant factual material, the application complies with the relevant review criteria, plans and standards.*” See N.C. GEN. STAT. § 131E-185(a1)(1)(c). In order to facilitate the Agency’s ease in reviewing the comments, CHS has organized its discussion by issue, specifically noting the general CON statutory review criteria and specific regulatory criteria and standards creating the non-conformity relative to each issue, as they relate to the following applications:

- **Novant Health Presbyterian Medical Center (NHPMC), Add 18 Acute Care Beds, Project ID # F-11366-17**
- **NHPMC, Add 21 NICU Beds, Project ID # F-11367-17**

Novant Health (Novant) acute care facilities in Mecklenburg County have experienced declining utilization over the last several years and operate with a substantial surplus of capacity. Contrary to its historical experience, Novant has projected substantial growth in utilization, which is unreasonable and unsupported, in order to suggest that it can effectively utilize the additional beds proposed in its two acute care bed applications. CHS’s detailed comments include general comments on the Novant applications as well as application-specific comments and a comparative analysis related to its applications:

- **Carolinas HealthCare System Pineville (CHS Pineville), Add 15 Acute Care Beds, Project ID # F-11361-17**
- **Carolinas Medical Center (CMC), Add 45 Acute Care Beds, Project ID # F-11362-17**

Based on the following comments, it is clear that Novant’s applications should both be denied.

¹ Carolinas Medical Center (“CMC”) is an operating division of The Charlotte-Mecklenburg Hospital Authority.

² Mercy Hospital, Inc. owns CHS Pineville. As explained in the CHS Pineville 15-Bed Application, Mercy Hospital, Inc. is wholly owned by Mercy Health Services, Inc., which is wholly owned by The Charlotte-Mecklenburg Hospital Authority.

GENERAL COMMENTS

The 2017 SMFP identifies a need for 60 additional acute care beds in Mecklenburg County based on the utilization of CHS facilities, as the Novant Health facilities demonstrated a surplus of beds. The acute care bed capacity of Mecklenburg County consists of eight existing and approved facilities as identified below.

Mecklenburg County Acute Care Beds

	<i>Licensed Acute Care Beds</i>	<i>Adjustments for CONs</i>	<i>Current Bed Inventory</i>
CHS Pineville	206		206
CHS University	100		100
CMC/CMC-Mercy*	976	34	1,010
CHS Total	1,282	34	1,316
Novant Health Huntersville Medical Center (NHHMC)	91	48	139
Novant Health Matthews Medical Center (NHMMC)	143	11	154
NHPMC	578	-59	519
Presbyterian Hospital Mint Hill (Novant Health Mint Hill Medical Center or NHMHMC)	0	50	50
Novant Health Total	812	50	862

Source: 2017 SMFP.

*CMC-Mercy is licensed as part of CMC and its beds are included as part of CMC in the 2017 SMFP.

Of note, the 2017 SMFP identifies 34 beds within the CHS system as “Adjustments for CONs” for a previously approved CON to develop 34 additional acute care beds at CMC-Mercy pursuant to Project ID # F-10215-13. The identified 34 beds became operational after the finalization of the 2017 SMFP. These 34 beds were part of 40 beds in total that were awarded to CHS in October 2014 and were all operational by October 2016 (Project ID # F-10215-13 for 34 beds at CMC-Mercy and Project ID # F-10221-13 for six beds at CHS University). By contrast, Novant Health, the only other provider of acute care beds in Mecklenburg County, has 50 undeveloped beds³ that were originally approved for NHMHMC in July 2007.

³ On July 2, 2007, Novant received a CON to relocate 50 beds from Novant Health Charlotte Orthopaedic Hospital (NHCOH), which is now licensed as part of NHPMC, to develop NHMHMC pursuant to Project ID # F-7648-06. Subsequently, Novant was approved in 2012 to develop 50 additional acute care beds at NHCOH, under Project ID # F-8765-11. As such, the 50 undeveloped beds are assigned to NHMHMC’s inventory in the 2017 SMFP, a facility for which Novant was approved in 2007 to develop with 50 beds.

As shown below, Novant Health’s total days have declined in each of the last four years for a compound annual growth rate (CAGR) of negative 2.9 percent, and it currently operates at 59.0 percent of its total bed capacity in Mecklenburg County. By comparison, CHS’s total days have increased 2.1 percent annually and its beds operate at 78.5 occupancy of its total bed capacity in the county.

Mecklenburg County Acute Care Bed Utilization

	FFY 2011	FFY 2012	FFY 2013	FFY 2014	FFY 2015	11-15 CAGR
Novant Health Days	208,558	200,835	198,782	187,745	185,521	-2.9%
ADC	571	550	545	514	508	
Beds	862	862	862	862	862	
Occupancy	66.3%	63.8%	63.2%	59.7%	59.0%	
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CHS Days	346,410	344,089	352,854	347,252	377,117	2.1%
ADC	949	943	967	951	1,033	
Beds*	1,276	1,276	1,316	1,316	1,316	
Occupancy	74.4%	73.9%	73.5%	72.3%	78.5%	

Source: 2013 to 2017 SMFPs.

*CHS was approved to develop 40 additional acute care beds during this time period.

As noted in the CHS Pineville and CMC applications, these CHS facilities operate today well above target occupancy rates, which demonstrates the need for the proposed additional acute care beds. As shown below, assuming CHS Pineville’s and CMC’s bed inventory increased by the proposed 15 and 45 beds, respectively, each facility’s occupancy rate in each of the last two years would have exceeded the target occupancy rates (71.4 and 75.2 percent, respectively) in the performance standards for acute care beds. In fact, in the case of CMC, its occupancy rate would have exceeded the target occupancy rate of 75.2 percent in each of the last four years as well as the 2017 SMFP’s target occupancy rate of 78 percent for facilities with an ADC of greater than 400 patients.

**CHS Pineville and CMC Acute Care Bed Utilization
Assuming Proposed Beds**

	CY13	CY14	CY15	CY16
CHS Pineville Days	51,572	55,981	57,815	61,095
ADC	141	153	158	167
Current Beds + 15 Proposed	221	221	221	221
Occupancy with Additional 15 Beds	63.9%	69.4%	71.7%	75.7%
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CMC Days	243,813	250,881	265,408	264,900
ADC	668	687	727	726
Current Beds + 45 Proposed	852	852	852	852
Occupancy with Additional 45 Beds	78.4%	80.7%	85.3%	85.2%

Source: CHS internal data used to prepare HLRA. See CHS Pineville page 43 and CMC page 47.

Said another way, CHS Pineville and CMC need the proposed additional beds today in order to operate at more reasonable occupancy rates.

By contrast, NHPMC has historically operated well below target occupancy rates and fails to demonstrate the need for its proposed additional capacity. As shown below, assuming NHPMC’s bed inventory increased by the proposed 39 beds, its occupancy rate in the last four years⁴ would never have exceeded the target occupancy rate of 75.2 percent as defined in the performance standards for acute care beds. Its highest occupancy rates occurred three years ago; in fact, it was only during the April 2013 to March 2014 time period that NHPMC would have even exceeded the 66.7 percent target occupancy rate for the smallest acute care hospitals (ADC 1-99).

**NHPMC Acute Care Bed Utilization
Assuming Proposed Beds**

	<i>April 2013 to March 2014</i>	<i>April 2014 to March 2015</i>	<i>April 2015 to March 2016</i>	<i>April 2016 to March 2017</i>
NHPMC Days	129,191	121,218	115,648	123,216
ADC	354	332	317	338
Current Beds – Beds to be Transferred + 39 Proposed	524	524	524	524
Occupancy with Additional 39 Beds	67.5%	63.4%	60.5%	64.4%

Source: NHPMC 18 Bed Application. See page 115 for Exhibit C-4, Table 14.

Of note, this low utilization at NHPMC contradicts its claims that its NICU project is needed in order to provide additional capacity for NICU patients. As discussed in detail in the specific comments below on the 21 bed NICU application, NHPMC could add NICU capacity at any time and at any cost, via a CON-exempt project to construct additional NICU space and redesignate currently underutilized beds elsewhere in its facility.

Despite its undeveloped capacity, its surplus of capacity across the system, and the low occupancy rates at NHPMC, Novant argues, unreasonably, that it needs additional capacity. In order to justify its projects, Novant provides unsupported growth assumptions to project future utilization. While the application-specific comments below provide detailed discussions of the unreasonableness of Novant Health’s assumptions, the table below provides an overall comparison of the historical and projected utilization provided by Novant and CHS. As the table demonstrates and as previously noted, while Novant’s total days have declined in each of the last four years for a CAGR of negative 2.9 percent (or a decline of 11 percent overall), it projects utilization to grow 4.4 percent annually over the seven years until 2021 (or a total of 30 percent in six years). Even based on that unsupported assumed growth, Novant’s total beds are projected to operate at only 73.2 percent, below the target occupancy rate of 75.2 percent as defined in the performance standards for acute care beds and well below CHS’s current occupancy rates.

⁴ Per the baseline 12 month period used in the Novant Health applications, April 2016 to March 2017.

Mecklenburg County Acute Care Bed Utilization

	FFY 2011	FFY 2012	FFY 2013	FFY 2014	FFY 2015	11-15 CAGR	CY 2021 Projected	15-21 CAGR
Novant Days	208,558	200,835	198,782	187,745	185,521	-2.9%	240,651	4.4%
ADC	571	550	545	514	508		659	
Beds	862	862	862	862	862		901	
Occupancy	66.3%	63.8%	63.2%	59.7%	59.0%		73.2%	
CHS Days	346,410	344,089	352,854	347,252	377,117	2.1%	410,431	1.4%
ADC	949	943	967	951	1,033		1,124	
Beds	1,276	1,276	1,316	1,316	1,316		1,376	
Occupancy	74.4%	73.9%	73.5%	72.3%	78.5%		81.7%	

Source: 2013 to 2017 SMFPs.

By contrast, CHS's total days have increased 2.1 percent annually and are conservatively projected to grow only 1.4 percent annually through 2021, resulting in 81.7 percent occupancy. Simply put, whereas CHS's utilization projections are reasonable and conservative relative to its historic experience, Novant's are unreasonable and unsupported.

Finally, Novant's projects should have been submitted as one CON application as they involve a single institutional health service: a change in bed capacity at the same licensed health facility. Novant has artificially separated the projects and submitted two applications. Regardless of the artificial separation, the Agency must consider the need for any additional acute care capacity at NHPMC given the substantial capacity surplus at the facility.

As a result of this artificial separation of its applications, Novant avoided responding to the performance standards for acute care beds in its 21 bed NICU application. As noted below in the specific comments on the 21 bed NICU application, any additional capacity historically needed for NHPMC's NICU patients could have been achieved by redesignating existing surplus capacity. Just as it is unreasonable for Novant to cite the historical need for NICU beds without consideration of the historic surplus of capacity at NHPMC, it is unreasonable to project a need for additional NICU capacity without consideration of the total projected need for acute care beds at NHPMC.

As discussed in detail below in the specific comments on the 18 bed application, even if Novant were to achieve its unreasonable projections, the total projected utilization for all of its Mecklenburg County facilities does not meet the required performance standard for acute care beds of 75.2 percent occupancy in the third project year. As shown on page 51 of its application, Novant states that its Mecklenburg County facilities project to provide 245,681 patient days in 2022, the third project year, or an average daily census of 673 patients and an occupancy rate of 74.7 percent of its existing and proposed beds, as shown below.

Novant Acute Care Beds

	<i>Project Year 3 CY 2022</i>
NHPMC	148,209
NHCOH	11,873
NHMHMC	9,902
NHHMC	35,227
NHMMC	40,470
Novant Total	245,681
ADC	673
Beds	901
Occupancy	74.7%

Source: NHPMC 18 Bed Application page 51.

Notwithstanding its artificial separation from the 18 bed application, the 21 bed NICU application must demonstrate the need for the project. Given that Novant has failed to demonstrate the need for additional acute care beds, neither the 18 bed project nor the 21 bed NICU project are needed as proposed.

NHPMC, ADD 18 ACUTE CARE BEDS

NHPMC's application to add 18 acute care beds should not be approved as proposed. CHS identified the following specific issues, each of which contributes to NHPMC's non-conformity:

- (1) Failure to meet performance standard**
- (2) Unreasonable utilization projections for NHPMC**
- (3) Unreasonable utilization projections for NHHMC**
- (4) Inconsistency with prior bed transfers**

Each of the issues listed above is discussed in turn below. Please note that relative to each issue, CHS has identified the statutory review criteria and specific regulatory criteria and standards creating the non-conformity.

Failure to meet performance standard

The performance standards for acute care beds at 10A NCAC 14C .3803 state that "[a]n applicant proposing to develop new acute care beds shall demonstrate that the projected average daily census (ADC) of the total number of licensed acute care beds proposed to be licensed within the service area, under common ownership with the applicant, divided by the total number of those licensed acute care beds is reasonably projected to be at least 66.7 percent when the projected ADC is less than 100 patients, 71.4 percent when the projected ADC is 100 to 200 patients, and 75.2 percent when the projected ADC is greater than 200 patients, in the third operating year following completion of the proposed project or in the year for which the need determination is identified in the State Medical Facilities Plan, whichever is later" (emphasis added).

As such, the occupancy rate of Novant's total acute care beds in Mecklenburg County in the third project year must exceed 75.2 percent in order to be conforming with this standard as its projected total ADC is greater than 200 patients. However, Novant's applications clearly state that the occupancy rate of Novant's total acute care beds in Mecklenburg County in the third project year will be only 74.7 percent.

As shown on page 51 of its application, Novant states that its Mecklenburg County facilities project to provide 245,681 patient days in 2022, the third project year, or an average daily census of 673 patients and an occupancy rate of 74.7 percent of its existing and proposed beds, as shown in the previous table (shown on page 6).

The project year three utilization summarized for each facility in the previous table is consistent throughout NHPMC's applications and appears many times (see Form C, Exhibit C-4 Tables 2, 3, 5, 6, 9, and 10). It is clear that Novant fails to meet this performance standard and that this is not the result of a typographical error.

Novant states in its response to the performance standard that "projected utilization for the existing and one new acute care facilities owned by Novant Health in Mecklenburg County is expected to exceed target occupancy in the third project year of operation of [sic] additional 18 beds at NHPMC" and the table provided appears designed to indicate that each Novant facility exceeds the target occupancy rate independently. As shown in the first excerpted table below from page 50, Novant shows "Required Occupancy Target" for each facility. Please note that the first excerpted table below erroneously reports NHHMC's utilization as identical to NHHMC's utilization in an apparent typographical error. NHHMC's

utilization is projected to be 40,470 patient days in 2022, as shown in the second excerpted table below from page 51, which is consistent with all other references in the NHPMC applications.

Novant Health Inpatient Facilities	PY 1 CY 2020	PY 2 CY 2021	PY 3 CY 2022	Required Occupancy Target
NHPMC (10/19)	142,009	145,357	148,209	
ADC	389.1	398.2	406.1	
Bed Capacity with 18 New General Acute	503	503	503	
Utilization with 18 New General Acute	77.3%	79.2%	80.7%	
Bed Capacity with 18 New General Acute + 21 New NICU Beds	524	524	524	
Utilization with 18 New General Acute + 21 New NICU Beds	74.2%	76.0%	77.5%	75.20%
NHCOH (Replacement facility operational 10/17)	10,962	11,393	11,873	
ADC	30.0	31.2	32.5	
Bed Capacity	48	48	48	
Utilization	62.6%	65.0%	67.8%	66.70%
NHMHMC (New Hospital Operational 10/18)	7,427	9,902	9,902	
ADC	20.3	27.1	27.1	
Bed Capacity	36	36	36	
Utilization	56.5%	75.4%	75.4%	66.70%
NHHMC (Expanded facility, 48 additional beds, operational 2019)	31,913	33,529	35,227	
ADC	87.4	91.9	96.5	
Bed Capacity	139	139	139	
Utilization	62.9%	66.1%	69.4%	66.70%
NHMMC	31,913	33,529	35,227	
ADC	87.4	91.9	96.5	
Bed Capacity	139	139	139	
Utilization	62.9%	66.1%	69.4%	66.7%

See page 50.

Novant Health Projected Inpatient Day Growth Rate 2017 – 2022

	FFY 2017 (Oct-Mar Annualized)	PY 1 CY 2020	PY 2 CY 2021	PY 3 CY 2022	Average Annual Growth Rate 2017-2022
NHPMC		142,009	145,357	148,209	
NHCOH		10,962	11,393	11,873	
NHMHMC		7,427	9,902	9,902	
NHHMC		31,913	33,529	35,227	
NHMMC		40,359	40,470	40,470	
Total Novant Health Inpatient Volume Mecklenburg County	198,920			245,681	4.7%

Source: Trendstar; Exhibit C-4, Part 1, Table 3

See page 51.

The performance standard clearly states that the total occupancy rate for all the beds combined must exceed the standard. Moreover, past Agency Findings are consistent in evaluating conformity with the acute care bed performance standard based on the occupancy rate of total beds and not by facility (see Agency Findings for 2013 Mecklenburg County Acute Care Beds, 2011 CMC/CMC-Mercy/NHCOH Acute Care Beds, 2008 and 2011 Wake County Acute Care Beds). In fact, Novant’s 2013 application CON for additional acute care beds at NHHMC, Project ID # F-10214-13, which was denied, provided its total occupancy rate in response to the performance standard, as shown below:

As reflected in the following table, total utilization of all Novant Health licensed, CON-approved and proposed acute care beds in Mecklenburg County is projected to be 75.4% in the third year of the proposed NHHMC project, as required by this performance standard.

See page 25 of Project ID # F-10214-13.

Based on its projected utilization, NHPMC’s application is non-conforming with performance standards in the acute care bed rules (10A NCAC 14C .3803). As a result, NHPMC’s fails to demonstrate the need for the project and is non-conforming with Criteria 3, 4, 5, and 6.

Unreasonable Utilization Projections for NHPMC

On page 42 of its 18 bed application, NHPMC states that:

NHPMC projected future general acute care patient days using the total inpatient day growth rate of 6.5%, rather than the general acute care growth rate of 8.3% in the next year. Annual growth was decreased one percent annually to further project general patient days in the future.

However, it is entirely unreasonable for this 6.5 percent growth rate to continue in the future for several reasons.

First, NHPMC’s assumed 6.5 percent growth rate is based on the single year growth from the 12 month period of April 2015-March 2016 to April 2016-March 2017 as shown on page 42 of its 18 bed application:

General Acute Care Day at NHPMC Historical Utilization – April to March Timeframe

	Apr-Mar2015	Apr-Mar2016	Apr-Mar2017
Total Days	121,218	115,648	123,216
Annual Growth Rate			6.5%
NICU and Other ICU Days	24,387	27,556	27,832
General Acute Care Patient Days	96,831	88,092	95,384
Annual Growth Rate			8.3%

Source: Exhibit C-4, Part 1, Table 12

Notably, NHPMC’s utilization from April 2015-March 2016 (115,648) is the lowest 12-month period of utilization at NHPMC since January 2013. On page 115 of its 18 bed application, NHPMC provides total

acute care utilization for each month from January 2013 to March 2017. There is no other stretch of 12 months across that entire period of time that had as few total acute care days at NHPMC as from April 2015 to March 2016. As such, NHPMC’s assumed growth rate is based on the lowest possible starting point.

Any other analysis of NHPMC’s historical utilization trend demonstrates that its projected growth rates are unreasonable. As shown below, NHPMC’s historical CAGRs and annual growth rates across Calendar Years, Federal Fiscal Years, or April to March 12-month periods do not support its projected growth rates.

NHPMC Acute Care Bed Utilization on April to March Basis

	<i>April 2013 to March 2014</i>	<i>April 2014 to March 2015</i>	<i>April 2015 to March 2016</i>	<i>April 2016 to March 2017</i>	<i>Two Year CAGR</i>	<i>Three Year CAGR</i>
NHPMC Days	129,191	121,218	115,648	123,216	0.8%	-1.6%
Annual Growth	NA	-6.2%	-4.6%	6.5%		

Source: NHPMC 18 Bed Application. See page 115 for Exhibit C-4, Table 14.

NHPMC Acute Care Bed Utilization on Calendar Year Basis

	<i>CY13</i>	<i>CY14</i>	<i>CY15</i>	<i>CY16</i>	<i>Two Year CAGR</i>	<i>Three Year CAGR</i>
NHPMC Days	130,646	121,216	118,834	120,163	-0.4%	-2.7%
Annual Growth	NA	-7.2%	-2.0%	1.1%		

Source: NHPMC 18 Bed Application. See page 115 for Exhibit C-4, Table 14.

NHPMC Acute Care Bed Utilization on Federal Fiscal Year Basis

	<i>FFY14</i>	<i>FFY15</i>	<i>FFY16</i>	<i>FFY17 (6 Months Annualized)</i>	<i>Two Year CAGR</i>	<i>Three Year CAGR</i>
NHPMC Days	122,484	117,722	119,480	126,510	3.7%	1.1%
Annual Growth	NA	-3.9%	1.5%	5.9%		

Source: NHPMC 18 Bed Application. See page 115 for Exhibit C-4, Table 14.

Given this data, it appears that NHPMC has cherry-picked its historical baseline growth in order to support the highest possible future growth rate, which is not reasonable given the broader trend at the facility.

Novant argues that “physician recruitment and program development at NHPMC and in the GCM since 2015 has resulted in significant increases in service line utilization at NHPMC” (page 42 of 18 bed application). Despite Novant’s statements, it is clear from NHPMC’s utilization data that its increased physician recruitment has not resulted in increased utilization. As stated in its application, its increased physician recruitment began in January 2014. As shown on page 115 of its 18 bed application, total patient days at NHPMC declined 7.2 percent from Calendar Year (CY) 2013 to 2014 and then another 2.0 percent from CY 2015 to 2016.

NHPMC Acute Care Bed Utilization

	CY 2013	CY 2014	CY 2015	CY 2016
NHPMC Days	130,646	121,216	118,834	120,163
Annual Growth		-7.2%	-2.0%	1.1%

Source: NHPMC 18 Bed Application. See page 115 for Exhibit C-4, Table 14.

Clearly, Novant’s physician recruitment did not result in increased utilization in 2014 or 2015, and the modest increase in CY 2016 did little to recover prior losses. This casts doubt on Novant’s assumption that this recruitment resulted in the recent utilization increases and certainly does not support future increases at 6.5 percent annually. Moreover, Novant announced in February 2017 that physicians of Carolina Neurosurgery & Spine Associates (CNSA), one of the largest neurosurgery groups in the country, will no longer be allowed to perform surgery at NHPMC. Novant’s application does not address the potential loss in inpatient volume that may result from this change.

Based on the discussion above, it is clear that NHPMC’s projected growth is unreasonable and unsupported. As such, NHPMC’s application is non-conforming with Criteria 3, 4, 5, 6, and the performance standards in the acute care bed rules (10A NCAC 14C .3803).

Unreasonable Utilization Projections for NHHMC

On page 42 of its 18 bed application, NHPMC states:

In 2015, the CON Agency approved an expansion of 48 additional acute care beds at Novant Health Huntersville Medical Center (NHHMC) in the CON Application, Project I.D. # F-11110-15. While actual utilization in FFY 2016 was less than projected in the CON application as a result of the changes in Medicare regulations, NHHMC has rebounded in the first six months of FFY 2017 with an increase in patient days of 9.6% and is firmly committed to the development and full utilization of the additional 48 acute care beds. As discussed throughout this application, new physicians and surgeons have been recruited at the community level in the GCM, and new programs are being developed regionwide, which will have a positive impact on NHHMC as well as NHPMC. Projected utilization from CON Project I.D. # F-11110-15 for NHHMC is included in Exhibit C-4, Table 5. Even though, actual utilization in 2016 is less than projected, NHPMC believes utilization has rebounded in 2017 and these projections remain relevant. The projected growth is reasonable in the Huntersville area, which remains one of the fastest growing regions of the State.

An analysis of the decline in utilization at NHHMC clearly indicates that it is entirely unreasonable to assume that it will achieve the projected utilization from Project ID # F-11110-15. The table below compares actual NHHMC utilization with projected utilization from Project ID # F-11110-15. As shown below, NHHMC’s actual 2016 utilization was 4,200 days, or 16.0 percent, below what it was projected to be. While NHHMC’s actual utilization did increase in 2017, it remains more than 3,000 days or 11.1 percent below projected levels.

NHHMC Acute Care Bed Utilization Comparison to Projected

	2016	2017
NHHMC Actual Days*	21,988	24,458
NHHMC Projected Days^	26,188	27,514
Difference	-4,200	-3,056
% Difference	-16.0%	-11.1%

*Page 51 of NHPMC 18 Bed Application. 2017 based on six months annualized.

^Page 117, Section IV of NHHMC 2015 CON, Project ID # F-11110-15.

Given that NHHMC’s actual utilization has been 11 to 16 percent below projected utilization for that facility, it is simply unreasonable for Novant to utilize the projected utilization from Project ID # F-11110-15 without any revision. In Project ID # F-11110-15, NHHMC projected its total acute care utilization would increase 5.06 percent annually from 2015 to 2022. As NHHMC’s actual utilization is now 11 to 16 percent below its historical projections, future growth at NHHMC must far exceed 5.06 percent annually in order for the facility to meet the projected utilization levels. No justification for utilization growth well in excess of NHHMC’s projected rate from Project ID # F-11110-15 is provided.

Based on the discussion above, it is clear that the projected utilization for NHHMC is unreasonable and unsupported. As such, NHPMC’s application is non-conforming with performance standards in the acute care bed rules (10A NCAC 14C .3803).

Inconsistency with prior bed transfers

As detailed above, NHPMC’s overall utilization has declined substantially since 2013. On October 15, 2013, Novant submitted an application to relocate 20 beds from NHPMC to NHHMC citing the need for additional capacity at NHHMC and surplus capacity at NHPMC (Project ID # F-10213-13). In the 2013 bed relocation application, Novant stated that:

The relocation of 20 acute care beds to NHHMC will not negatively impact the patients served at NHPMC in terms of any changes in services, costs to the patient or level of access by medically underserved populations. No services will change at NHPMC and sufficient acute care bed capacity remains to meet all existing needs of the underserved populations.

See page 76 of Project ID # F-10213-13.

In the year that had just ended, FFY 2013, NHPMC had provided 136,972 total acute care days for an ADC of 375 patients according to its 2014 Hospital License Renewal Application. In contrast, NHPMC provided 126,510 patient days in FFY 2017 based on March year-to-date data, or over 10,000 fewer days than in 2013 (see page 26 for FFY 2017 October to March data). In other words, at 136,972 days, Novant argued in 2013 that it had excess capacity, but at 126,510 days Novant argues not that it needs more capacity.

After further declines in utilization, Novant submitted another application on October 15, 2015 to relocate 48 beds from NHPMC to NHHMC citing the need for additional capacity at that facility and the growing surplus at NHPMC (Project ID # F-11110-15). In its 2015 bed relocation application, Novant stated that:

The relocation of 48 acute care beds and one operating rooms to NHHMC will not negatively impact inpatient utilization or surgical utilization at NHPMC as discussed in response to Section III.7.(a) above. See also the letter (Exhibit 19) from Paula Vincent, President and Chief Operating Officer for Novant Health Presbyterian Medical Center, authorizing and supporting the relocation of the 48 beds and one operating room from NHPMC to NHHMC.

Utilization projections included in this Section for both NHHMC and NHPMC are based upon actual inpatient volume at NHPMC for the time period August 2014 through July 2015 projected forward using a reasonable and documented growth rate methodologies. Those projections show that with the relocation of 48 acute care beds and one operating room to NHHMC capacity at NHPMC is sufficient to meet the projected needs of the population served by NHPMC. The projections also were adjusted to reflect the impact of opening NHHMC. Additional detail and assumptions are included in Exhibit 3.

See pages 114-11 of Project ID # F-11110-15.

Given its utilization trends, the relocation of surplus capacity from NHPMC to its community facilities was reasonable. By contrast, the currently proposed projects to add capacity at NHPMC are unreasonable. In 2013 and 2015, Novant argued that NHPMC needed less capacity and that its remaining capacity was sufficient to meet the projected needs of its patients. Now, Novant argues that NHPMC needs more capacity despite its lower utilization. While Novant argues in its applications that significant physician recruitment since January 2014 has resulted in projected need at NHPMC in the future, this recruitment effort would have been well underway at the time of the 2015 application to transfer beds from NHPMC. As such, NHPMC's current statements on the need for capacity at NHPMC are contradictory to Novant's prior demonstration of need for the transfer of NHPMC beds to NHHMC and NHHMC.

Based on this discussion, it is clear that NHPMC does not need additional acute care capacity. As such, NHPMC's application is non-conforming with Criteria 3, 4, 5, 6, and the performance standards in the acute care bed rules (10A NCAC 14C .3803).

NHPMC, ADD 21 NICU BEDS

NHPMC’s application to add 21 NICU beds should not be approved as proposed. CHS identified the following specific issues, each of which contributes to NHPMC’s non-conformity:

- (1) Failure to demonstrate that project will not result in unnecessary duplication and is the most effective alternative**
- (2) Unreasonable utilization projections**

Each of the issues listed above is discussed in turn below. Please note that relative to each issue, CHS has identified the statutory review criteria and specific regulatory criteria and standards creating the non-conformity.

Failure to demonstrate that the proposed project will not result in unnecessary duplication

As noted in the comments above, NHPMC has historically operated at low utilization levels. In fact, since April 2013, NHPMC has not even exceeded the 66.7 percent target occupancy rate for the smallest acute care hospitals (ADC 1-99).

NHPMC Acute Care Bed Utilization

	<i>April 2013 to March 2014</i>	<i>April 2014 to March 2015</i>	<i>April 2015 to March 2016</i>	<i>April 2016 to March 2017</i>
NHPMC Days	129,191	121,218	115,648	123,216
ADC	354	332	317	338
Beds	533	533	533	533
Occupancy	66.4%	62.3%	59.4%	63.3%

Source: NHPMC 18 Bed Application. See page 115 for Exhibit C-4, Table 14.

This utilization indicates that NHPMC has surplus acute care capacity. In fact, using the *SMFP* acute care bed methodology’s approach for determining bed need (as used by NHPMC in its 21 bed NICU application on page 31), NHPMC has operated with a surplus of 62 to 112 beds during this time period, as shown below.

NHPMC Acute Care Bed Surplus

	<i>April 2013 to March 2014</i>	<i>April 2014 to March 2015</i>	<i>April 2015 to March 2016</i>	<i>April 2016 to March 2017</i>
NHPMC Days	129,191	121,218	115,648	123,216
ADC	354	332	317	338
Bed Need at 75.2%	471	442	421	449
Beds	533	533	533	533
Surplus	62	91	112	84

Source: NHPMC 18 Bed Application. See page 115 for Exhibit C-4, Table 14.

Over this same time period, Novant has sought and received approval for two separate projects to transfer a total of 68 acute care beds from NHPMC to NHHMC and NHMMC. Yet, during this same time period where NHPMC operated with a substantial surplus of beds and sought to transfer beds from NHPMC, Novant states that its NICU unit has needed additional capacity, as shown on page 26 of its 21 bed NICU application:

Although the unit is licensed presently for 38 NICU beds, average daily census (ADC) has exceeded 38 for many years. Neonatologists and staff have managed this excess number of babies by overcrowding in the existing space (putting more than 38 babies in a 38-bed unit when necessary) until the past few years when admissions and ADC became so high that the “overcrowding” technique was failing. At that time NHPMC created emergency space for NICU expansion in other unoccupied areas of the hospital.³

In the referenced footnote #3, NHPMC states:

³ Note that total ADC at NHPMC has never exceeded total licensed bed capacity during this timeframe; and DHRS Licensure has been notified and is aware of the actions undertaken by the NHPMC NICU to meet the needs of very sick infants.

Based on the above discussion, NHPMC has historically had more than sufficient total acute care bed licenses to address the need for capacity on its NICU bed unit. Given the availability of bed licenses, NHPMC has been able to address its NICU patient needs via overcrowding and emergency space and the temporary redesignation of bed licenses. As such, it is clear that NHPMC could address the need it identifies for NICU space by developing permanent space for these redesignated beds. As such a project would be developed on its main campus and would not involve a new institutional health service, NHPMC could now develop, or at any time since 2013 have developed, new permanent space for NICU beds as a CON-exempt project.

Given NHPMC’s historical surplus of acute care beds as well as the comments above regarding its failure to demonstrate the need for additional acute care beds, NHPMC’s 21 bed NICU project fails to demonstrate that it will not unnecessarily duplicate existing capacity at NHPMC. Further, NHPMC’s 21 bed NICU application fails to demonstrate that it is the most effective alternative for developing additional acute care beds in Mecklenburg County. The *2017 SMFP* indicates that additional beds are needed in Mecklenburg County based on deficits of acute care capacity at CHS facilities. Based on the discussion above, it is clear that NHPMC does not need to develop additional acute care beds pursuant to the need determination in *2017 SMFP*, and thereby reducing the number of beds available to address existing and proposed capacity needs at other facilities, in order to address its stated need for NICU beds.

As such, NHPMC’s application is non-conforming with Criteria 4 and 6.

Unreasonable utilization projections

As noted above, in its 18 bed application, NHPMC appears to have cherry-picked its historical baseline period in order to support the highest possible future growth rate for its general acute care beds, a growth rate which is not reasonable given the broader trend at the facility. Contradicting itself, NHPMC ignores its most recent decline in utilization of its NICU beds and projects future growth without addressing that decline. In its 18 bed application, NHPMC’s assumed 6.5 percent growth rate for general acute care beds is based on the single year growth from the 12 month period of April 2015-

March 2016 to April 2016-March 2017. NHPMC uses the growth that occurred over this single year period as the foundation for the projected utilization of its general acute care beds as well as its non-NICU ICU beds. During this same time period, NHPMC’s NICU bed utilization declined, as shown below.

NHPMC NICU Bed Utilization

	<i>April 2015 to March 2016</i>	<i>April 2016 to March 2017</i>	<i>Growth</i>
NICU Days	17,434	16,909	-3.0%

Source: NHPMC 21 Bed NICU Application. Exhibit C-4, Table 18.

It is unreasonable for Novant to argue that its general acute care growth in this single year period is evidence that its utilization will grow substantially in the future, while at the same time arguing that its NICU utilization will also grow despite a decline in that same period. Novant does not address this decline in NICU utilization at all in its application. And despite this decline, Novant projects that its NICU bed utilization will grow nearly three percent annually through the third project year.

Based on the discussion above, the projected utilization for NHPMC’s NICU beds is unsupported. As such, NHPMC’s application is non-conforming with Criteria 3, 4, 5, 6, and the performance standards in the neonatal services rules (10A NCAC 14C .1403).

COMPARATIVE ANALYSIS

The NHHMC 21 bed NICU, NHHMC 18 bed, CHS Pineville, and CMC applications each propose to develop acute care beds in response to the 2017 SMFP need determination for Mecklenburg County. CHS acknowledges that each review is different and, therefore, that the comparative review factors employed by the Project Analyst in any given review may be different depending upon the relevant factors at issue. Given the nature of the review, the Analyst must decide which comparative factors are most appropriate in assessing the applications.

In order to determine the most effective alternative to meet the identified need for 60 additional acute care beds in Mecklenburg County, CHS reviewed and compared the following factors in each application:

- Geographic Accessibility
- Access by Underserved Groups
- Meeting the Need for Additional Acute Care Beds
- Revenue
- Operating Expenses

CHS believes that the factors presented above and discussed in turn below should be used by the Analyst in reviewing the competing applications. The factors are appropriate and/or have been used in previous competitive acute care bed review findings including the most recent review of acute care beds in Mecklenburg County (2013 Mecklenburg Acute Care Bed Review).

Geographic Access

The 2017 SMFP identifies a need for 60 additional acute care beds in Mecklenburg County. The following table demonstrates that the need identified in the 2017 SMFP is located at CMC, a downtown or Center City facility, and at CHS Pineville, a south Mecklenburg County facility.

Mecklenburg County Acute Care Bed Need/Surplus

	<i>2019 Projected ADC</i>	<i>2019 Beds Adjusted for Target Occupancy</i>	<i>Current Bed Inventory</i>	<i>Projected 2019 Deficit/ (Surplus)</i>
CHS Pineville	159	223	206	17
CHS University	63	95	100	(5)
CMC/CMC-Mercy	827	1,058	1,010	48
CHS Total	1,049	1,376	1,316	60
NHHMC	64	96	139	(43)
NHMMC	104	146	154	(8)
NHPMC	348	462	519	(57)
NHMHMC	0	0	50	(50)
Novant Health Total	516	705	862	(157)

Source: 2017 SMFP.

All four applications propose to add acute care beds to an existing facility. Of the applicants, both NHPMC and CMC proposed to develop beds in a downtown facility. CHS Pineville is the only applicant that proposes to develop the beds at a south Mecklenburg County facility. Therefore, with regard to geographic access, CMC and CHS Pineville together are comparatively superior because they address the need in both Center City and south Mecklenburg County while NHPMC only addresses Center City.

Access by Underserved Groups

The following table illustrates each applicant’s projected percentage of acute care days by service component to be provided to Medicaid and Medicare recipients in the second year of operation following completion of the project.

Access by Underserved Groups

	<i>NHPMC 18 General Beds</i>	<i>NHPMC 21 bed NICUs</i>	<i>CMC Adult Beds</i>	<i>CMC Pediatric Beds</i>	<i>CHS Pineville General Beds</i>
Medicaid	17.90%	49.85%	13.50%	61.40%	5.90%
Medicare	43.50%	0.00%	49.30%	0.30%	57.60%
Total	61.40%	49.85%	62.80%	61.70%	63.50%

Source: Section L.1.(b) for each applicant.

As shown in the table above, CMC’s Pediatric Beds project the highest percentage of Medicaid days as a percent of total while CHS Pineville’s General Beds project the highest percentage of Medicare days as a percent of total. Each of CHS’s service components projects a higher percentage of combined Medicaid/Medicare days as a percent of total than the Novant projects. Therefore, with regard to access to the underserved, CMC and CHS Pineville are more effective alternatives than NHPMC’s applications.

Meeting the Need for Additional Acute Care Beds

As shown in the 2017 SMFP, of the three hospitals that propose to add beds, NHPMC is the only one projected to have a surplus of beds (57) in 2019. In fact, NHPMC is projected to have the largest surplus of beds in the county. Further, CMC and CHS Pineville are the only two facilities to have a projected deficit of beds in 2019.

Mecklenburg County Acute Care Bed Need/Surplus

	<i>2019 Projected ADC</i>	<i>2019 Beds Adjusted for Target Occupancy</i>	<i>Current Bed Inventory</i>	<i>Projected 2019 Deficit/ (Surplus)</i>
CHS Pineville	159	223	206	17
CHS University	63	95	100	(5)
CMC/CMC-Mercy	827	1,058	1,010	48
CHS Total	1,049	1,376	1,316	60
NHHMC	64	96	139	(43)
NHMMC	104	146	154	(8)
NHPMC	348	462	519	(57)
NHMHMC	0	0	50	(50)
Novant Health Total	516	705	862	(157)

Source: 2017 SMFP.

All four projects propose to develop the proposed beds in existing space. NHHMC projects that its 18 bed project will be complete in January 2020 and that its 21 bed NICU project will be complete in October 2019. By comparison, CMC and CHS Pineville project that both of their respective projects will be complete in April 2018, a full 18 months before the NHPMC NICU project and 21 months before 18 bed project.

Further, NHPMC’s two projects combined only propose to develop 39 additional acute care beds which does not meet the identified need for 60 additional acute care beds in Mecklenburg County. By comparison, CMC and CHS Pineville propose to develop a total of 60 beds, equal to the identified need.

With regard to meeting the need for additional beds, CMC and CHS Pineville are more effective alternatives than NHPMC’s applications.

Revenue

The following tables show projected gross revenue per patient day in 2021 based on the information provided in the applicants’ pro forma financial statements.

Gross Revenue per Patient Day - 2021

	<i>NHPMC 18 General Beds</i>	<i>NHPMC 21 bed NICUs</i>	<i>CMC Adult Beds</i>	<i>CMC Pediatric Beds</i>	<i>CHS Pineville General Beds</i>
Patient Days	126,592	18,535	97,400	24,801	51,811
Total Gross Revenue	\$1,154,153,216	\$71,301,677	\$262,538,727	\$69,914,761	\$155,851,819
Gross Revenue Per Patient Day	\$9,117	\$3,847	\$2,695	\$2,819	\$3,008

Source: Pro Forma Financial Statements for each applicant.

Net Revenue per Patient Day - 2021

	<i>NHPMC 18 Beds</i>	<i>NHPMC 21 Bed NICU</i>	<i>CMC Adult Beds</i>	<i>CMC Pediatric Beds</i>	<i>CHS Pineville Beds</i>
Patient Days	126,592	18,535	97,400	24,801	51,811
Total Net Revenue	\$364,446,188	\$28,167,095	\$58,867,179	\$22,239,416	\$29,389,506
Net Revenue Per Patient Day	\$2,879	\$1,520	\$604	\$897	\$567

Source: Pro Forma Financial Statements for each applicant.

As shown in the table above, CMC Adult Beds project the lowest gross revenue per patient day. In fact, each of CHS's service components projects lower gross revenue per patient day than the Novant projects. CHS Pineville projects the lowest net revenue per patient day. Further, each of CHS's service components projects lower net revenue per patient day than the Novant projects.

NHPMC states in the financial assumptions for its applications that "Gross Charges includes all inpatient, outpatient, and emergency department charges, including room & board, surgery, pharmacy, respiratory, lab, radiology, EKG, and other patient charges incurred at NHPMC." By contrast, CHS states in the financial assumptions for its applications that "Form F.4 only includes direct med/surg service charges and expenses and does not include ICU bed services or ancillary services such as lab or radiology which generate additional revenue and expenses." As such, it may not be possible to make conclusive comparisons with regard to gross and net revenues per patient day.

Expenses

The following table shows projected total expense per patient day in 2021 based on the information provided in the applicant's pro forma financial statements.

Total Expense per Patient Day - 2021

	<i>NHPMC 18 Beds</i>	<i>NHPMC 21 Bed NICU</i>	<i>CMC Adult Beds</i>	<i>CMC Pediatric Beds</i>	<i>CHS Pineville Beds</i>
Patient Days	126,592	18,535	97,400	24,801	51,811
Total Expense	\$350,562,560	\$17,534,728	\$89,146,616	\$27,119,704	\$40,512,862
Total Expense Per Patient Day	\$2,769	\$946	\$915	\$1,093	\$782

Source: Pro Forma Financial Statements for each applicant.

As shown in the table above, CHS Pineville projects the lowest total expense per patient day and CMC Adult Beds projects the next lowest total expense per patient day.

NHPMC states in the financial assumptions for its applications that "For purposes of this application and to be consistent with the revenue indicated which includes all patient charges (room & board & ancillary) associated with [patients], costs for those ancillary services were allocated based on internal cost accounting data." By contrast, CHS states in the financial assumptions for its applications that "Form F.4 only includes direct med/surg service charges and expenses and does not include ICU bed services or ancillary services such as lab or radiology which generate additional revenue and expenses."

As such, it may not be possible to make conclusive comparisons with regard to total expenses per patient day.

SUMMARY

As noted previously, CHS maintains that the NHPMC applications cannot be approved as proposed. As such, CHS maintains that it has the only approvable applications based on its comments. Based on both its comparative analysis and the comments on competing applications, CHS believes that its applications represent the most effective alternatives for meeting the need identified in the 2017 SMFP for 60 additional acute care beds in Mecklenburg County. As such, the CON Section can and should approve both CHS applications.

Please note that in no way does CHS intend for these comments to change or amend its applications as filed on June 15, 2017. If the Agency considers any statements to be amending CHS's applications, those comments should not be considered.