

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DATE: March 23, 2012

PROJECT ANALYST: Gebrette Miles

ASSISTANT CHIEF: Martha Frisone

PROJECT I.D. NUMBER: F-8764-11 / Mercy Restorative Care Hospital, Inc. d/b/a Carolinas Specialty Hospital, Mercy Hospital, Inc., The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas Rehabilitation and Pineville LTACH/Rehab Hospital, LLC / Relocate 29 inpatient rehabilitation beds from Carolinas Rehabilitation Hospital (10) and the Mercy campus of CMC-Mercy/Pineville (19) to a new building on the Pineville campus of CMC-Mercy/Pineville, which results in a change in scope and cost overrun for Project I.D. #F-8640-11 (relocate Carolinas Specialty Hospital to a new building on the Pineville campus)/ Mecklenburg County

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

G.S. 131E-183(a) The Department shall review all applications utilizing the criteria outlined in this subsection and shall determine that an application is either consistent with or not in conflict with these criteria before a certificate of need for the proposed project shall be issued.

- (1) The proposed project shall be consistent with applicable policies and need determinations in the State Medical Facilities Plan, the need determination of which constitutes a determinative limitation on the provision of any health service, health service facility, health service facility beds, dialysis stations, operating rooms, or home health offices that may be approved.

C

This proposal is for a cost overrun and change of scope for Project I.D. # F-8640-11 (relocate Carolinas Specialty Hospital to a new building on the Pineville campus of CMC-Mercy/Pineville). The applicants for the proposed project are as follows: Mercy Restorative Care Hospital, Inc. d/b/a Carolinas Specialty Hospital, Mercy Hospital, Inc., The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas Rehabilitation, and Pineville LTACH/Rehab Hospital, LLC. The applicants propose to relocate 29 inpatient rehabilitation beds from Carolinas Rehabilitation Hospital (10) and the Mercy campus of CMC-Mercy/Pineville (19) to the Pineville campus in a new building previously approved for the relocation of Carolinas Specialty Hospital. The applicants do not propose to increase the number of licensed beds, add

any new health services, or acquire equipment for which there is a need determination in the 2011 State Medical Facilities Plan (SMFP). There are no need determinations in the 2011 SMFP that are applicable to this review.

However, Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities is applicable to this review. The policy states,

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

In approving a certificate of need proposing an expenditure greater than \$5 million to develop, replace, renovate, or add to a health service facility pursuant to G.S. 131E-178, the Certificate of Need Section shall impose a condition requiring the applicant to develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy GEN 4.

Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan for energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy-GEN 4. The plan shall not adversely affect patient or resident health, safety, or infection control.”

With regard to Policy GEN-4, in Section III.2, pages 53-54, the applicants state,

“CHS and CSH are committed to energy efficiency and sustainability that balances the need for healthcare services and environmental sustainability. In this regard, CHS has several guiding principles:

- 1. Implement environmental sustainability to improve and reduce our environmental impact.*
- 2. Integrate sustainable operational and facility best practices into existing and new facilities.*
- 3. Encourage partners to engage in environmentally responsible practices.*
- 4. Promote environmental sustainability at work, home and community.*
- 5. Deliver improved performance to provide a long-term return on investment that supports our mission and values.*

The applicants work with experienced architects and engineers to develop this proposed project to ensure energy efficient systems are an inherent part of the project. The design team for this project has Energy Star, LEED and GGHC experience. Together, the team seeks to deliver the following:

- *Meet or exceed the requirements of the NC Building Code in effect when construction drawings are submitted for review to the DHSR Construction Section.*
- *Use a Commissioning Agent to verify the facility operates as designed.*
- *Use the EPA Energy Star for Hospitals rating system to compare performance following 12 months of continuous operation.*
- *Refer to USGBC LEED guidelines and Hospitals for a Health Environment Green Guide for Healthcare (GGHC) to identify opportunities to improve efficiency and performance.*
- *Provide natural lighting where possible to augment electrical lighting and reduce electricity usage compared to a traditional hospital.*
- *Design and locate windows to appropriately serve functions of lighting, ventilation and external views for patient rooms, family and staff areas.*
- *Control the solar heat gain into the facility through overhangs, natural buffers, inset windows, interior and exterior sun controls, and selection of glazing systems.*
- *Design for maximum efficiency and life cycle benefits with each mechanical systems: heating, cooling, water, sewer and irrigation.*
- *Provide, where feasible, heat recovery systems to extract heat normally wasted in exhaust air and transfer this energy to upcoming ventilation air to reduce energy usage.”*

The applicants adequately described the project’s plan to assure improved energy efficiency and water conservation. Thus, the application is conforming to Policy GEN-4. Therefore, the application is conforming to this criterion.

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

C

The four applicants are:

- 1) The Charlotte-Mecklenburg Hospital Authority d/b/a **Carolinas Rehabilitation Hospital**;
- 2) Mercy Hospital, Inc., a wholly-owned subsidiary of Mercy Health Services, Inc., a wholly-owned subsidiary of The Charlotte-Mecklenburg Hospital Authority d/b/a **Carolinas Medical Center-Mercy/Pineville**;
- 3) Mercy Restorative Care Hospital, Inc. d/b/a **Carolinas Specialty Hospital**; and
- 4) Pineville LTACH/Rehab Hospital, LLC.

The Charlotte-Mecklenburg Hospital Authority (CMHA) owns and operates, either directly or through a wholly-owned subsidiary, the following acute and inpatient rehabilitation hospitals in Mecklenburg County:

- 1) Carolinas Medical Center/Center for Behavioral Health (**CMC-Main**);
- 2) Carolinas Medical Center-University (**CMC-University**);
- 3) Carolinas Medical Center-Mercy/Pineville (**CMC-Mercy/Pineville**); and
- 4) Carolinas Rehabilitation Hospital (**CR Main**).

CMC-Main is located in downtown Charlotte (1000 Blythe Boulevard), as is CR Main (1100 Blythe Boulevard). CMC-University is located in University. CMC-Mercy/Pineville consists of two separate campuses: the **Mercy campus** in downtown Charlotte and the **Pineville campus**.

The following table illustrates the current location and number of CMHA’s inpatient rehabilitation beds located in Mecklenburg County.

Hospital or Campus	Number of Inpatient Rehabilitation Beds
CR-Main*	90
CMC-Main (Levine Children’s Hospital)	13
CR-Mercy (Mercy Campus of CMC-Mercy/Pineville)**	39
Total	142

*Although physically located on the CR-Main campus, 10 of the 90 beds are supposed to be on the CMC-Mercy/Pineville license pursuant to the certificate of need issued for Project I.D. #F-4791-93 and a declaratory ruling issued May 24, 2010. See Exhibit 10.

**Although physically located on the Mercy campus of CMC-Mercy/Pineville, the 39 beds are on the CR-Main license.

CMHA also owns and operates Carolinas Medical Center-NorthEast (CMC-NorthEast), an acute care hospital located in Concord in Cabarrus County. CMHA is approved to locate a total of 40 inpatient rehabilitation beds to the campus of CMC-NorthEast (Project I.D. #F-8161-08). The beds will be relocated from CR-Main (10), the Mercy campus (20) and Stanly Regional Medical Center (10). The Cabarrus facility will be separately licensed and known as Carolinas Rehabilitation-NorthEast (CR-NorthEast).

In 2011, Mercy Restorative Care Hospital, Inc. d/b/a Carolinas Specialty Hospital and Mercy Hospital, Inc. (CMC-Mercy/Pineville) were approved to relocate a 40-bed long-term acute care hospital (LTACH) from the 7th floor of the Mercy campus to a new building on the Pineville campus (Project I.D. # F-8640-11). The application under review represents a change in scope and cost overrun for Project I.D. # F-8640-11 as follows: ownership of the new building on the Pineville campus will change and the capital cost will increase more than 115 percent of the approved capital expenditure amount for Project I.D. # F-8640-11.

The applicants propose to relocate 10 existing inpatient rehabilitation beds from CR-Main and 19 existing beds from the Mercy campus to the Pineville campus where the beds will be on the CMC-Mercy/Pineville license. Pursuant to the certificate of need for Project I.D. #F-4791-93 (Part II), Carolinas HealthCare System and Mercy Hospital, Inc. are authorized to relocate 10 existing inpatient rehabilitation beds from Rowan Regional Medical Center to CMC-Mercy/Pineville because the Management Contract between Rowan Regional Medical Center and Carolinas HealthCare System was terminated when Novant Health, Inc. acquired Rowan Regional Medical Center. In 2010, Carolinas HealthCare System was granted a declaratory ruling to temporarily relocate the 10 inpatient rehabilitation beds from Rowan Regional Medical Center to CR-Main. The applicants state the transfer of the 10 beds occurred in October 2010 and are now reflected on CR-Main's 2012 license renewal application. The 10 inpatient rehabilitation beds that were relocated pursuant to the declaratory ruling are the same beds that the applicants propose to relocate from CR-Main to the Pineville campus of CMC-Mercy/Pineville.

Pineville LTACH/Rehab Hospital, LLC will be the owner of the building and will enter into a ground lease with CMC-Mercy/Pineville. Pineville LTACH/Rehab Hospital, LLC will lease space to Carolinas Specialty Hospital for the previously approved relocated LTACH. Pineville LTACH/Rehab Hospital, LLC will lease space to Mercy Hospital, Inc. d/b/a CMC-Mercy/Pineville for the 29 inpatient rehabilitation beds and related support space. Upon completion of the proposed project, CMC-Mercy/Pineville will be licensed for 29 inpatient rehabilitation beds, but the beds will continue to be operated by CR-Main via a management agreement.

Population to be Served

In Section III.4, page 59, the applicants provide the current patient origin for CR-Main and CR-Mercy (i.e., the Mercy campus), as shown in the tables below:

**CR-Main (90 beds)
 CY2010 Patient Origin**

County	% of Total
<i>Mecklenburg</i>	<i>38.3%</i>
<i>Union</i>	<i>7.8%</i>
<i>York (SC)</i>	<i>6.6%</i>
<i>Gaston</i>	<i>6.1%</i>
<i>Cabarrus</i>	<i>5.4%</i>
<i>Cleveland</i>	<i>3.8%</i>
<i>Iredell</i>	<i>3.6%</i>
<i>Catawba</i>	<i>2.5%</i>
<i>Stanly</i>	<i>2.4%</i>
<i>Unknown</i>	<i>2.3%</i>
<i>Rowan</i>	<i>2.0%</i>
<i>Lincoln</i>	<i>1.7%</i>
<i>Lancaster (SC)</i>	<i>1.6%</i>
<i>Anson</i>	<i>1.5%</i>
<i>Other*</i>	<i>14.6%</i>
Total	100.0%

Totals do not foot due to rounding.

**Other includes <1% patient origin from each of Alexander, Allegheny, Ashe, Bladen, Brunswick, Buncombe, Burke, Caldwell, Carteret, Cherokee, Columbus, Cumberland, Davidson, Durham, Forsyth, Granville, Guildford, Halifax, Harnett, haywood, Henderson, Jackson, Macon, Madison, McDowell, Montgomery, Moore, Onslow, Pender, Polk, Randolph, Richmond, Robeson, Rockingham, Rutherford, Sampson, Scotland, Swain, Transylvania, Wake, Watauga, Wayne and Wilkes counties and other states.*

**CMC-Mercy (29 beds)
 CY2010 Patient Origin**

<i>County</i>	<i>% of Total</i>
<i>Mecklenburg</i>	<i>64.4%</i>
<i>Union</i>	<i>10.3%</i>
<i>Cabarrus</i>	<i>4.7%</i>
<i>York (SC)</i>	<i>3.4%</i>
<i>Iredell</i>	<i>2.2%</i>
<i>Anson</i>	<i>1.8%</i>
<i>Rowan</i>	<i>1.7%</i>
<i>Gaston</i>	<i>1.6%</i>
<i>Cleveland</i>	<i>1.2%</i>
<i>Stanly</i>	<i>1.2%</i>
<i>Lincoln</i>	<i>1.1%</i>
<i>Richmond</i>	<i>1.1%</i>
<i>Other*</i>	<i>4.0%</i>
<i>Total</i>	<i>100.0%</i>

Totals do not foot due to rounding.

**Other includes <1% patient origin from each of Alexander, Ashe, Caldwell, Randolph, Richland (SC), Burke, Cherokee (SC), Chester (SC), Columbus, Davidson, Forsyth, Henderson, Macon, Marlboro (SC), Sampson, Scotland, Spartanburg (SC) and Warren counties.*

In Section III.5(a), pages 60-61, the applicants provide the projected utilization of the 29 relocated inpatient rehabilitation beds, which will be located in the previously approved building on the Pineville campus and on the CMC-Mercy/Pineville license, as shown in the table below:

**CMC-Mercy/Pineville (Pineville Campus)
 Inpatient Rehabilitation Services, CY2014-2015**

County	% of Total
Mecklenburg	71.6%
Union	11.4%
York (SC)	3.4%
Anson	1.8%
Gaston	1.6%
Cleveland	1.2%
Stanly	1.2%
Lincoln	1.1%
Richmond	1.1%
Other*	5.6%
Total	100.0%

Totals do not foot due to rounding.

*Other includes <1% patient origin from the following counties: Lancaster (SC), Chesterfield (SC), Alexander, Ashe, Caldwell, Catawba, Randolph, Richland (SC), Burke, Cherokee (SC), Chester (SC), Columbus, Davidson, Forsyth, Henderson, Macon, Marlboro (SC), Sampson, Scotland, Spartanburg (SC), Warren, and Watauga.

In Section III.5(b), page 61, the applicants state,

“The projected patient origin for the proposed project is based on the historical CY2010 patient origin for the 29 inpatient rehabilitation beds located at CR-Mercy. CR reviewed CY2010 patient origin for inpatient rehabilitation services at both CR-Main (90 beds) and CR-Mercy (29 beds), and determined that patient utilization patterns at CR-Mercy are the most reasonable and effective proxy to project patient origin for the proposed project. Specifically, as CR-main is located adjacent to a trauma center, the CR-Main facility has historically served as the destination for treating the highest acuity patients. Thus, CR-Main’s patient origin includes a broad catchment area. CR-Mercy has historically served patients with lower acuity (compared to CR-main), thus its patient origin is more localized. Additionally, the majority of beds that will be relocated as part of the proposed project will be CR-Mercy beds, thus it is rational to assume projected utilization will be best typified by CR-Mercy’s historical patient origin. The relocated inpatient rehabilitation beds will provide the same services currently provided at CR-Mercy, thus the projected patient origin is not expected to change significantly from its historical percentages for rehabilitation services.”

As illustrated in the tables above, the applicants project to serve the same percentage of patients from York County (SC) as they are currently serving at CR-Mercy on the Mercy campus of CMC-Mercy/Pineville. Thus, the applicants do not project any material change in the patients

from York County (SC) to be served on the Pineville campus than are currently being served at CR-Mercy on the Mercy campus of CMC-Mercy Pineville.

The applicants adequately indentified the population to be served.

Need for the Proposed Project

The applicants propose to relocate 29 existing inpatient rehabilitation beds to a previously approved building on the Pineville campus (Project I.D. #F-8640-11). Ten inpatient rehabilitation beds will be relocated from CR-Main and 19 from the Mercy campus. Upon completion of this project and Project I.D. #F-8161-08 there will be 70 inpatient rehabilitation beds at CR-Main.

In Section III.1, pages 33-41, the applicants discuss the need to relocate inpatient rehabilitation beds to the Pineville campus. The applicants state there are four factors: 1) Synergies of Care; 2) CR-Main Facility Issues; 3) Need to Appropriately Redistribute Beds in HSA III; and 4) Demographic Need for Inpatient Rehabilitation Services. Each is briefly discussed below.

Synergies of Care

Long-term acute care hospitals (LTACHs) provide medical and rehabilitative care to patients who need extended hospital-level care for an extended period of time (i.e. up to 30 days). The applicants state that many patients who are admitted to a LTACH following severe illness or injury also typically require rehabilitation therapy as part of their treatment and recovery. The relocated inpatient rehabilitation beds will be located in the same building with Carolinas Specialty Hospital, a 40-bed LTACH. Co-locating the existing inpatient rehabilitation beds with long-term acute care beds will provide opportunities to utilize economies of scale to reduce the cost of care while, at the same time, providing continuous high quality, clinically focused, acute care to patients. Indeed, 19 of the inpatient rehabilitation beds to be relocated to the Pineville campus are currently located just one floor below the 40 long-term acute care beds on the Mercy campus. Thus, currently there is a synergy of care which would be lost without this project since the 40 long-term acute care beds will be relocated to the Pineville campus.

CR Facility Issues

The applicants state that Carolinas Rehabilitation facilities, particularly CR-Main, are in need of physical plant improvements. While the standard of care for inpatient rehabilitation beds is private rooms, CR-Main still has 9 ward beds. The existing space and bed configurations do not allow adequate space for equipment, such as wheelchairs, walkers, bedside commodes, ventilators, chest percussors, in-exsufflators, IV poles, and portable suction. Additionally, the applicants note that private rooms minimize infections and enhance privacy, patient satisfaction, comfort, and enhance family-centered care, which is important in the rehabilitation process. On

page 35, the applicants discuss the impact that the proposed project will have on the number of ward beds at CR-Main. The applicants state,

“The relocation of 30 inpatient beds to CR-NorthEast was intended to reduce the number of ward rooms from CR-Main; however, the recent relocation of 10 inpatient rehabilitation beds from RRMC to CR-Main has effectively increased the number of beds that are in semi-private and ward rooms. Therefore, relocating these same 10 inpatient rehabilitation beds (previously located at RRMC) to Pineville will enable CR-Main to once again increase its complement of private beds and reduce the number of semi-private and ward beds.”

Current CR-Main Bed Configuration

<i>Type</i>	<i>Rooms</i>	<i>Beds</i>
<i>Private</i>	25	25
<i>Semi-Private</i>	28	56
<i>Ward</i>	2	9
<i>Total</i>	55	90

Proposed CR-Main Bed Configuration

<i>Type</i>	<i>Rooms</i>	<i>Beds</i>
<i>Private</i>	39	39
<i>Semi-Private</i>	13	26
<i>Ward</i>	1	5
<i>Total</i>	53	70

Regarding the beds on the Mercy campus, the applicants state that the 19 beds currently located there are in space designed for acute care beds, not inpatient rehabilitation beds, which limits the use of the space. For example, patient bathrooms are not designed for patients who require specialized equipment and the patient rooms are a distance from the rehabilitation gym. There is also limited space for families. Further, the Mercy campus also has some semi-private rooms. The proposed project will have all private rooms.

Need to Appropriately Redistribute Beds in HSA III

On pages 36-37, the applicants state,

“CHS has already begun the process of replacing CR’s existing inpatient rehabilitation beds in a way that will improve geographic access to the community. The first step of this replacement strategy involved relocating 13 beds from CR and placing them in a pediatric setting within Levine Children’s Hospital. The second step involved relocation of 40 inpatient rehabilitation beds from CR-Main to Gaston County (CR-Mt. Holly). Both of these actions have occurred, and have been very successful in achieving their desired objectives. The third step involved the approval of a separately licensed 40-bed

inpatient rehabilitation hospital in Cabarrus County (CR-NorthEast). As previously stated, this project is currently under development, and will also increase access to rehabilitation services for residents in HSA III.

The proposed project now represents the next phase of bed decentralization for CR's facilities in Mecklenburg County. ...

...

Relocating a total of 29 beds from CR-Main and CR-Mercy brings inpatient rehabilitation services into the local community to better serve patients and their families. Patients will no longer have to travel into a busy center city Charlotte to receive needed rehabilitative care. It is important that families also have convenient access to their loved one's rehabilitation process. The proposed facility will increase family support via improved ease of access to the campus and expanded family areas within the facility, including larger patient rooms."

On pages 39-40, the applicants list some of the advantages of relocating inpatient rehabilitation beds to the building which will house the relocated LTACH:

- *"Improved efficiencies via shared services with LTACH hospital.*
- *Increased family support via improved ease of access to the campus and expanded family areas within the facility, including larger patient rooms.*
- *Development of a 100 percent ADA accessible building.*
- *Increased patient and family accessibility through a modern facility and facility configuration. The facility will be structured to reduce the number of curbs and provide signage at eye level for vehicles, pedestrians, chare/walker-bound traffic and ambulating patients.*
- *Increased staff efficiencies by reducing travel distance from staff to patients and patients to therapy, dining and outdoor areas thereby freeing up staff time for bedside and therapy needs.*
- *Improved evidence-based design features such as large windows to improve daylight and provide views of nature, which has been proven to reduce lengths of stay, pain medication and staff turnover.*
- *Increased patient access to outdoors through the layout of the facility and use of courtyards.*
- *Improving patient outcomes by increasing family involvement and encouraging patient initiative.*
- *Continued concentration of patient populations for promoting existing and future clinical research and trial initiatives with CR."*

Demographic Need for Inpatient Rehabilitation Services

The applicants state that Mecklenburg County, the most populous county in North Carolina, is the primary service area for the proposed project. On page 41, the applicants provide data from the North Carolina Office of State Budget and Management illustrating the projected population growth in Mecklenburg County, which is 1.8 percent over the next five years. Thus, the applicants state the demand for rehabilitation services will continue to increase.

Projected Utilization

In Section IV.1(c), pages 69-71, the applicants provide utilization projections by patient category for the proposed project. As previously stated, the 29 relocated inpatient rehabilitation beds will be located in the building which will house the relocated LTACH on the Pineville campus. The inpatient rehabilitation beds will be licensed to CMC-Mercy/Pineville. The following table summarizes the projected utilization for the first three operating years:

**CMC-Mercy/Pineville (Pineville Campus)
 Inpatient Rehabilitation Beds
 Projected Utilization – CY 2014 – CY 2016**

	Project Year 1 (CY 2014)	Project Year 2 (CY 2015)	Project Year 3 (CY 2016)
Total # of licensed inpatient rehabilitation beds	29	29	29
Total # of rehabilitation patients admitted	512	530	536
Total # of rehabilitation days of care	7,589	7,867	7,944
Average length of stay for all rehabilitation patients	14.83	14.83	14.83

In Section III.1, pages 42-52, the applicants provide the methodology and assumptions used to project utilization through the third year of operation. The applicants state that CR-Main currently holds the license for the 29 existing inpatient rehabilitation beds being relocated, and will also manage the beds upon project completion. (The beds themselves, however, will be licensed to CMC-Mercy/Pineville.) Because the applicants are relocating existing inpatient rehabilitation beds, projected utilization is based on the historical experience of CR-Main.

Step 1: Review Historical CR Utilization

On page 42, the applicants provide the historical days of care for CR-Main’s inpatient rehabilitation beds, as shown below.

**Carolinas Rehabilitation
 Days of Care CY2009-CY2011***

	CY2009	CY2010	CY2011*	2-Yr CAGR	CY2011 Occupancy
<i>CR-Main (90 beds)</i>	21,283	20,693	21,435	0.4%	65.3%
<i>CR-Mercy (39 beds)</i>	11,183	11,545	11,726	2.4%	82.4%
Total	32,466	32,238	33,161	1.1%	70.4%

**Annualized based on eight months data (Jan-Aug)
 Source: Carolinas Rehabilitation internal data*

The applicants state,

“CR notes that CR-Main has historically operated at a comparatively lower occupancy level than CR-Mercy. This is because CR-Main is located adjacent to a trauma center, and, thus, services high-acuity patients. CR-Main must maintain a sufficient amount of available capacity to accommodate the unpredictable nature of high-acuity trauma patients.”

Step 2: Projected Utilization for Inpatient Rehabilitation Beds

To project utilization during the interim years, the applicants applied the two-year compound annual growth rate (CAGR) for the beds at CR-Main to project utilization on that campus and the 1-year growth rate (CY2010 to CY2011) for the beds on the Mercy campus to project utilization on that campus, as shown in the table below:

**Carolinas Rehabilitation
 Inpatient Rehabilitation Days of Care
 Historical & Interim Project Years**

	Historical			Interim Project Years		
	CY2009	CY2010	CY2011*	Growth Rate	CY2012	CY2013
<i>CR-Main (90 beds)</i>	21,283	20,693	21,435	0.4%	21,511	21,588
<i>CR-Mercy (39 beds)</i>	11,183	11,545	11,726	1.6%	11,910	12,096
Total (129 beds)	32,466	32,238	33,161		33,421	33,685

**Annualized based on eight months data (Jan-Aug)
 Totals may not foot due to rounding.*

To project utilization for the first three operating years, the applicants applied the weighted average projected population growth rate to the last interim project year from *Step 1*. On page 44, the applicants provided a chart illustrating the projected population growth rate, which resulted in a 1.6% weighted growth rate. The projected utilization, provided on page 45, is shown in the following table:

***Carolinas Rehabilitation
 Projected Days of Care***

	<i>Interim Project Years</i>			<i>Project Year 1</i>	<i>Project Year 2</i>	<i>Project Year 3</i>
	<i>CY2012</i>	<i>CY2013</i>	<i>Growth Rate</i>	<i>CY2014</i>	<i>CY2015</i>	<i>CY2016</i>
<i>CR-Main (90 beds)</i>	<i>21,511</i>	<i>21,588</i>	<i>1.6%</i>	<i>21,927</i>	<i>22,271</i>	<i>22,621</i>
<i>CR-Mercy (39 beds)</i>	<i>11,910</i>	<i>12,096</i>	<i>1.6%</i>	<i>12,286</i>	<i>12,479</i>	<i>12,675</i>
<i>Total (129 beds)</i>	<i>33,421</i>	<i>33,685</i>		<i>34,213</i>	<i>34,750</i>	<i>35,296</i>

Totals may not foot due to rounding.

The applicant states,

“CR’s projected utilization during the initial three project years is reasonable and conservative. As stated previously, the projected growth rate at CR-Mercy (1.6 percent) is less than the two-year CAGR for CR-Mercy’s historical days of care (2.4 percent) and is also equivalent to CR-Mercy’s most recent annual increase.

The projected growth rate in CR-Main is lower compared to CR-Main’s most recent annual increase (3.6 percent).”

Step 3: Project Utilization for Relocated Beds

Impact of Approved CR-NorthEast Project

On pages 45-46, the applicants discuss the impact that the proposed project will have on the approved CR-NorthEast project (Project ID# F-8161-08—relocate 10 inpatient rehabilitation beds from CR-Main, 20 inpatient rehabilitation beds from the Mercy campus and 10 inpatient rehabilitation beds from Stanly Regional Medical Center to a new, separately licensed inpatient rehabilitation hospital in Cabarrus County). The applicants state the CR-NorthEast project will be operational by the completion of this project (July 1, 2013). Upon completion of the CR-NorthEast project, CR-Main and the Mercy campus will have the following inpatient rehabilitation bed count:

CR-Main: 90 beds at CR-Main – 10 beds to CR-NorthEast = 80 beds at CR-Main

Mercy Campus: 39 beds on the Mercy campus – 20 beds to CR-NorthEast = 19 beds on the Mercy campus

On page 46, the applicants state,

“The need for CR-NorthEast has not changed since the CON Section approved the project in 2008. Therefore, CR utilized the approved utilization projections for the CR-NorthEast project and updated the project years based on the revised project timetable. Please refer to the following table.

**CR-NorthEast
 Approved Utilization Projections**

	PY1	PY2	PY3
	7/13-6/14	7/14-6/15	7/15-6/16
<i>Days of Care</i>	11,031	11,879	12,161

**Source: CON Project ID# F-8161-08, updated per revised project timetable”*

The applicants then applied the CR-NorthEast projections to the project years for this project. The CR-NorthEast project years (July-June) were converted to calendar years, and extended one additional year through CY2016 to coincide with the third year of this project, as shown in the following table:

**CR-NorthEast
 Approved Utilization Projections—Converted to Calendar Years**

	7/13-12/13	CY2014	CY2015	CY2016
<i>Days of Care</i>	5,516*	11,455	12,020	12,290

**5,516 = 11,031 / 2*

On page 47, the applicants considered the facility source from which the CR-NorthEast beds will be relocated, and the projected impact the relocations will have on CR-Main and the Mercy campus.

Source of CR-NorthEast Licensed Beds

Facility	# of Beds Relocated to CR-NorthEast	% of CR-NorthEast Beds
<i>CR-Main</i>	10	<i>10 ÷ 40 = 25%</i>
<i>CR-Mercy</i>	20	<i>20 ÷ 40 = 50%</i>
<i>SRMC</i>	10	<i>10 ÷ 40 = 25%</i>
Total	40	

[Emphasis in original.]

On pages 47-48, the applicants state,

“Fifty percent of CR-NorthEast’s beds will be relocated from CR-Mercy, and 25 percent will be relocated from CR-Main. Therefore, CR projects that the same proportion of CR-NorthEast projected days of care will be reduced, respectively, from the projected days of care at CR-Main and CR-Mercy. However, during FY2010, SRMC’s 10 inpatient rehabilitation beds (which are managed by CR) provided 1,909 days of care. This is only 17 percent of projected utilization at CR-NorthEast during its first project year (1,909 ÷

11,031 = .71). Therefore, CR increased the percent of CR-NorhtEast’s days that will be reduced from CR-Main and CR-Mercy’s projected days of care.

Projected Impact – Percent of CR-NorthEast Days Reduced from CR Facilities

	Interim (7/13 – 12/13)	PY1 (CY2014)	PY2 (CY2015)	PY3 (CY2016)
CR-NorthEast	5,516	11,455	12,020	12,290
<i>Projected Impact - % of CR-NorthEast Days Reduced from CR Facilities</i>				
CR-Mercy	54.0%	2,978	6,186	6,491
CR-Main	29.0%	1,599	3,322	3,486
SRMC	17.0%	938	1,947	2,043

CR Projected Days of Care Minus CR-NorthEast Projections

	CY2012	CY2013		CY2014	CY2015	CY2016
		1/13 – 6/13	Interim 7/13 – 12/13			
CR-Main (80 beds)	21,511	10,794	9,195	18,605	18,785	19,056
CR-Mercy (19 beds)	11,910	6,048	3,070	6,101	5,988	6,038
Total (99 beds)	33,421	16,842	12,264	24,706	24,774	25,095”

On pages 48-49, the applicants state,

“To project utilization for the 29 inpatient rehabilitation beds that will be relocated to Pineville, CR considered the number of beds that will be relocated from both CR-Main and CR-Mercy. The proposed project will relocate all 19 CR-Mercy beds (total remaining after the relocation of 20 beds to CR-NorthEast; 30-20=19) to CMC-Pineville. Therefore, CR projects that CR-Mercy’s projected days of care for its remaining 19 beds will shift to CMC-Pineville for the proposed project. It is reasonable to assume that all remaining CR-Mercy projected days of care will shift to CMC-Pineville because the relocated beds will continue to provide the same services currently offered at CR-Mercy. CR reviewed patient origin and acuity for CR-Mercy’s CY2010 patient utilization and determined it was reasonable to project the relocated beds will continue to serve the same patient base currently served by CR-Mercy. ...

CR-Main will relocate approximately 12.5 percent of its licensed bed capacity to CMC-Pineville (after the relocation of 10 beds to CR-NorthEast; 90-10=80; 10÷80=12.5 percent). CR conservatively projects that approximately eight percent of CR-Main’s projected days of care will shift to CMC-Pineville for the proposed project during Project Year 1. Note: CHS anticipates the project will be operational July 1, 2013. The first full project year will be CY2014 (Jan-Dec). The calendar year is also the fiscal year for CR and most CHS facilities. CR’s need methodology is based on the calendar to remain consistent with historical utilization data and to remain consistent with the CR and CMC-Pineville fiscal years. Therefore, the projected utilization tables indicate an interim term during 7/1/2013 – 12/31/2013. The first full project year is CY2014.

CR projects that approximately 10 percent of CR-Main’s projected days of care will shift to CMC-Pineville for the proposed project during Project Years 2 and 3. Again, this is conservative considering the 10 beds that will be relocated to CMC-Pineville account for 12.5 percent of CR-Main’s bed capacity. CR reviewed patient origin and acuity for CR-Main’s CY2012 patient utilization and determined it was appropriate to assume that some utilization will shift to CMC-Pineville because the relocated beds will continue to provide the same rehabilitation services currently offered at CR-Main. However, CR determined it was prudent to reduce the percent of patient days that will shift to CMC-Pineville from 12.5 percent to eight percent in Project Year 1 and 10 percent in Project Years 2 and 3 because CR-Main serves some patients with slightly higher acuity compared to CR-Mercy. The following tables provide projected utilization for the inpatient rehabilitation beds that will be relocated to CMC-Pineville, and the projected days of care for CR’s remaining beds.

**CMC-Pineville
 Inpatient Rehabilitation Days of Care**

	<i>Interim 7/13-12/13</i>	<i>CY2014</i>	<i>CY2015</i>	<i>CY2016</i>
<i>Days Shifted from CR-Main</i>	736	1,488	1,879	1,906
<i>Days Shifted from CR-Mercy</i>	3,070	6,101	5,988	6,038
Total	3,805	7,589	7,867	7,944

Totals may not foot due to rounding.

**Carolinas Rehabilitation
 Inpatient Rehabilitation Days of Care**

	<i>CY2012</i>	<i>CY2013</i>		<i>CY2014</i>	<i>CY2015</i>	<i>CY2016</i>
		<i>1/13 – 6/13</i>	<i>Interim 7/13 – 12/13</i>			
<i>CR-Main (70 beds)</i>	21,511	10,794	8,459	17,117	16,907	17,151
<i>CR-Mercy (0 beds)</i>	11,910	6,048	N/A	N/A	N/A	N/A
Total (70 beds)	33,421	16,842	8,459	17,117	16,907	17,151

Totals may not foot due to rounding.

Discharges & Average Length of Stay

On pages 50-51, the applicants use historical average lengths of stay (ALOS) to project the number of discharges for the proposed project. In CY2010 the ALOS was 18.67 days at CR-Main and 14.83 days on the Mercy campus. On page 51, the applicants applied the Mercy campus ALOS of 14.83 days to the projected days of care on the Pineville campus, as shown in the following table:

	<i>CY2014</i>	<i>CY2015</i>	<i>CY2016</i>
<i>Days of Care</i>	7,589	7,867	7,944
<i>Discharges</i>	512	530	536
<i>ALOS</i>	14.83	14.83	14.83
<i>Occupancy</i>	71.7%	74.3%	75.0%

Totals may not foot due to rounding.

On page 51, the applicants state,

“The purpose of the proposed project is to facilitate more efficient utilization of CR’s inpatient rehabilitation bed capacity. Relocating a total of 29 beds from CR-Main and CR-Mercy brings inpatient rehabilitation services into the local community to better serve patients and their families. Patients will no longer have to travel into a busy center city Charlotte to receive needed rehabilitative care.”

Need Analysis

The proposed project involves the relocation of existing inpatient rehabilitation beds within Mecklenburg County. The applicants propose to relocate 29 inpatient rehabilitation beds—10 beds from CR-Main and 19 beds from the Mercy campus—to the building on the Pineville campus which will house Carolinas Specialty Hospital, a 40-bed LTACH which was recently approved to be relocated from the Mercy campus to the Pineville campus (Project I.D. # F-8640-11). There will be no change in the inventory of rehabilitation beds in Mecklenburg County, nor will there be a change in the level of inpatient rehabilitation services provided by Carolinas Rehabilitation as a result of the proposed project. The applicants’ objective is to geographically decentralize inpatient rehabilitation beds within Mecklenburg County, improve access for patients, and increase patient satisfaction by increasing the number of private rooms at CR-Main. In addition, the proposed project will allow for more appropriate use of the 19 beds currently located on the Mercy campus, which are located in space designed for acute care beds, not inpatient rehabilitation beds.

Upon completion of the proposed project, Carolinas Rehabilitation will no longer operate any inpatient rehabilitation beds on the Mercy campus. CR-Mercy (which operates on the Mercy campus), is located in center city Charlotte (in close proximity to CR-Main) and is also approximately nine miles from the Pineville campus. Regarding CR-Mercy, the applicant states that the 19 beds currently located there are in space designed for acute care beds, not inpatient rehabilitation beds, which limits the use of the space. For example, patient bathrooms are not designed for patients who require specialized equipment and the patient rooms are a distance from the rehabilitation gym. There is also limited space for families. Further, CR-Mercy also has some semi-private rooms. The proposed project will have all private rooms.

Both CR-Main and CR-Mercy are located in center city Charlotte, which can be busy and challenging for patients and families to navigate. The proposed relocation of 29 inpatient

rehabilitation beds will decentralize inpatient rehabilitation services and provide better geographic access to care for patients and families. In Section III.1, page 38, the applicants state,

“The existing inpatient rehabilitation beds in Mecklenburg County are all located in the center of the county, in busy and congested center city Charlotte. Relocating inpatient rehabilitation beds to Pineville will improve geographic access for residents of HSA III by locating the services in a community-based setting that is easier to access compared to the congested center city. Additionally, residents from throughout Mecklenburg County can easily access Pineville as it is located along the Interstate 485 corridor. When fully completed, I-485 will create a true loop around greater Charlotte. As seen in the map below, the current outer belt traverses the towns of Mint Hill, Matthews, Pineville, and Huntersville, and thus provides convenient road access for county residents.”

Further, the co-location of long-term acute care beds and inpatient rehabilitation beds will facilitate economies of scale, as patients who are admitted to an LTACH can also require rehabilitation therapy as part of their treatment.

The applicants’ projected days of care are based on historical days of care at CR-Main and the Mercy campus. In the interim project years (CY2012 and CY2013), the applicants’ projected growth rate is 1.6%, which is equivalent to the most recent annual increase on the Mercy campus and is less than the 2-year CAGR of 2.4%. For CR-Main, the applicants used a projected growth rate of only 0.4%, which is lower than its most recent annual increase of 3.6%. In projecting utilization during the project years, the applicants reasonably projected a growth rate of 1.6% for both locations, which is less than the 2-year CAGR on the Mercy campus and the most recent annual increase at CR-Main.

In addition, Carolinas Rehabilitation, received approval to relocate 40 inpatient rehabilitation beds (10 beds from CR-Main, 20 beds from the Mercy campus and 10 beds from Stanley Regional Medical Center) to CR-NorthEast (Project I.D. # F-8161-08), which will be operational by July 1, 2013. The applicants reasonably adjusted for the relocation of these beds in projecting days of care for the proposed project. (See “Projected Utilization” section above.) Further, the applicants adequately demonstrate that sufficient capacity for inpatient rehabilitative services will continue to be provided at CR-Main in the central Charlotte area. See Criterion 3(a) for additional discussion.

In summary, the applicants adequately identified the population to be served and demonstrated the need that the population has for the proposal. Therefore, the application is conforming to this criterion.

- (3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be

met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

C

The applicants propose to relocate 29 existing inpatient rehabilitation beds—10 beds from CR-Main and 19 beds from the Mercy campus—to the previously approved building on the Pineville campus where Carolinas Specialty Hospital, an LTACH, will be located (Project I.D. # F-8640-11). There will be no change in the inventory of inpatient rehabilitation beds in Mecklenburg County, nor will there be a change in the level of rehabilitation services provided by Carolinas Rehabilitation as a result of the proposed project. CR-Main is located in center city Charlotte and is approximately nine miles from the Pineville campus. The tables below show the existing and proposed inpatient rehabilitation bed configuration at CR-Main upon completion of the proposed project.

Current CR-Main Bed Configuration

<i>Type</i>	<i>Rooms</i>	<i>Beds</i>
<i>Private</i>	25	25
<i>Semi-Private</i>	28	56
<i>Ward</i>	2	9
<i>Total</i>	55	90

Proposed CR-Main Bed Configuration

<i>Type</i>	<i>Rooms</i>	<i>Beds</i>
<i>Private</i>	39	39
<i>Semi-Private</i>	13	26
<i>Ward</i>	1	5
<i>Total</i>	53	70

The following table shows the current and project occupancy rate at CR-Main:

**CR-Main
 Current and Projected Occupancy Rate**

Year	# of Beds	Days of Care	% Occupancy**
CY 2011	90	21,435	65.3%
CY 2016 (Project Year 3)	70*	17,151	67.1%

Source: Section III, pages 43 and 49

*90 beds – 10 beds (to CR-NorthEast) – 10 beds (to the Pineville campus) = 70 beds

** Occupancy rate = Days of care / 365 days / # of beds

As illustrated in the table above, CR-Main currently has an occupancy rate of 65.3%. Upon completion of the proposed project, CR-Main is projected to have an occupancy rate of 67.1%. The projected occupancy rate is based on reasonable and supported assumptions and demonstrates that there will be adequate capacity at CR-Main following completion of the proposed project.

Note: Only 10 beds will be relocated from CR-Main as a result of this project. The other 10 beds were previously approved to be relocated to Cabarrus County (Project I.D. # F-8161-08).

Upon completion of the proposed project, Carolinas Rehabilitation will no longer operate any inpatient rehabilitation beds on the Mercy campus. However, the Mercy campus is located only about nine miles from the Pineville campus. The applicants project that all of Mercy’s projected days of care will shift to the Pineville campus and that the 19 relocated beds will continue to provide the same services currently being provided on the Mercy campus. Thus, the applicants project to serve the same patients that are currently being served on the Mercy campus, but at the Pineville campus instead. The applicants adequately demonstrate the need to relocate the 19 beds from the Mercy campus. See Criterion (3) for additional discussion.

Therefore, patients requiring inpatient rehabilitation services in Mecklenburg County will continue to have adequate access to care after the relocation of 29 inpatient rehabilitation beds to the Pineville campus. Consequently, the application is conforming to this criterion.

- (4) Where alternative methods of meeting the needs for the proposed project exist, the applicant shall demonstrate that the least costly or most effective alternative has been proposed.

C

In Section III.3, pages 54-58, the applicants describe the alternatives considered, which included: 1) maintaining the status quo; 2) replacing all 119 Carolinas Rehabilitation beds on or near the Carolinas Medical Center campus; and 3) decentralizing inpatient rehabilitation beds within Mecklenburg County. The applicants concluded that the latter option was the most effective alternative. Furthermore, the application is conforming to all other applicable statutory review criteria. See Criteria (1), (3), (3a), (5), (6), (7), (8), (12), (13), (14), (18a), and (20). Therefore,

the applicants adequately demonstrated that the proposal is their least costly or most effective alternative to meet the need and the application is conforming to this criterion and approved subject to the following conditions.

1. **Mercy Restorative Care Hospital, Inc. d/b/a Carolinas Specialty Hospital, Mercy Hospital, Inc., The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas Rehabilitation and Pineville LTACH/Rehab Hospital, LLC shall materially comply with all representations made in Project I.D. # F-8640-11 and this application (Project I.D. # F-8764-11). In those instances in which representations conflict, the applicants shall materially comply with the last-made representation.**
 2. **Mercy Restorative Care Hospital, Inc. d/b/a Carolinas Specialty Hospital, Mercy Hospital, Inc., The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas Rehabilitation and Pineville LTACH/Rehab Hospital, LLC shall relocate no more than 29 rehabilitation beds (10 from CR-Main and 19 from the Mercy campus) to the Pineville campus of Carolinas Medical Center-Mercy/Pineville for a total of 29 rehabilitation beds upon completion of this project.**
 3. **Mercy Restorative Care Hospital, Inc. d/b/a Carolinas Specialty Hospital, Mercy Hospital, Inc., The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas Rehabilitation and Pineville LTACH/Rehab Hospital, LLC shall not acquire, as part of this project, any equipment that is not included in the project's proposed capital expenditure in Section VIII of the application and which would otherwise require a certificate of need.**
 4. **Mercy Restorative Care Hospital, Inc. d/b/a Carolinas Specialty Hospital, Mercy Hospital, Inc., The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas Rehabilitation and Pineville LTACH/Rehab Hospital, LLC shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to the issuance of the certificate of need.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

In Section VIII, page 102, the applicants state that the total capital cost for the proposed project and the previously approved relocation of Carolinas Specialty Hospital (Project I.D. #F-8640-11) is projected be \$39,999,853. In Section XI, page 112, the applicants state the proposed project does not involve any startup or initial operating expenses. Project I.D. # F-8640-11 was approved for a capital cost of \$22,251,124. Thus, the incremental capital cost associated with

the proposed project is \$17,748,729 (\$39,999,853 – 22,251,124 = \$17,748,729), which consists of \$1,251,973 for site costs, \$9,982,976 for construction costs, and \$6,513,780 for miscellaneous costs. The applicants propose to finance the total capital cost as follows:

Applicant	Funding Source	Amount
Mercy Hospital, Inc.	Accumulated Reserves	\$2,227,761
Pineville LTACH/Rehab Hospital, LLC	Investment by Carolinas HealthCare System	\$4,668,470
	Investment by Carolinas Specialty Hospital	\$4,668,469
Carolinas Specialty Hospital (CSH)	Conventional Loan	\$10,177,331
	Accumulated Reserves	\$3,863,447
Carolinas HealthCare System (CMHA or CHS)	Accumulated Reserves	\$14,394,375
Total		\$39,999,853

In Section VIII.2, page 103, the applicants state,

“Mercy Hospital, Inc. will fund the site preparation costs. Pineville LTACH/Rehab Hospital, LLC will fund the shell of the building and the up fit for the common spaces. CHS will fund the up fit and FFE [furniture, fixtures, and equipment] for the rehabilitation spaces, and CSH will fund the up fit and FFE for the LTACH spaces.”

Exhibit 17 contains a letter from the two members of Pineville LTACH/Rehab Hospital, LLC (Carolinas HealthCare System and Carolinas Specialty Hospital) stating their commitment to fund the proposed project. The letter states,

“The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System (CHS) and Mercy Restorative Care Hospital, Inc., d/b/a Carolinas Specialty Hospital (CSH), which are the two members of the Pineville LTACH/Rehab Hospital, LLC, are planning to invest \$9,336,939 million in Pineville LTACH/Rehab Hospital, LLC to enable the LLC to fund its portion of the proposed project capital costs.

Upon the Division of Health Service Regulation approval of the Pineville LTACH/Rehab Hospital, LLC certificate of need project, CHS and CSH will transfer the necessary funds to the Pineville LTACH/Rehab Hospital, LLC.”

Exhibit 17 contains a letter from the Chief Financial Officer at Carolinas Specialty Hospital stating the hospital’s commitment to fund the proposed project from accumulated reserves. The letter states,

“This letter represents the commitment of CSH funds, \$18,709,247, which will be utilized for development of the new building on the CMC-Pineville campus. CSH will obtain a commercial bank loan and will also use internal funds to fund its part of the project cost. CSH plans to use \$3,863,447 from investments and operating cash, with a bank loan representing the balance of CSH project funding. The combined funds will be transferred to Pineville LTACH/Rehab Hospital, LLC, which will then use the funds,

combined with the investment from Carolinas HealthCare System, to develop the new hospital facility.”

Carolinas Specialty Hospital will fund a portion of its contribution to the proposed project with a commercial bank loan. A letter and financing proposal from RBC Bank is included in Exhibit 17, which states,

“Please accept this letter as confirmation of RBC Bank’s interest in providing financing to Carolinas Specialty Hospital...”

Additionally, Exhibit 16 contains the audited financial statements for Mercy Restorative Care Hospital, Inc. d/b/a Carolinas Specialty Hospital (CSH). As of July 31, 2010, CSH had \$6,830,551 in current assets, \$17,246,276 in total assets, and \$13,141,588 in net assets (total assets less total liabilities).

Exhibit 17 contains a letter from the Executive Vice President/Chief Financial Officer of Carolinas HealthCare System stating the system’s commitment to fund the proposed project from accumulated reserves. The letter states,

“I can and will commit CHS’s reserves to cover the CHS portion of the capital costs associated with the project, which is estimated at approximately \$21,290,606. CHS will fund directly the up fit and FFE for the rehabilitation spaces, as well as directly the Mercy Hospital, Inc. site preparation costs. For funding of the Pineville LTACH/Rehab Hospital, LLC spaces, CHS will transfer these funds to Pineville LTACH/Rehab Hospital, LLC, which will then use the funds combined with the investment form CSH, to develop its portion of the new inpatient facility.

...

I confirm to you that Carolinas HealthCare System has now and will have available the funds from accumulated reserves for the inpatient rehabilitation bed relocation project.”

Additionally, Exhibit 16 contains the audited financial statements for The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System (CHS). As of December 31, 2010, CHS had \$673,446,000 in current assets, \$4,939,582,000 in total assets, and \$2,745,237,000 in net assets (total assets less total liabilities).

The applicants adequately demonstrated the availability of sufficient funds for the capital needs of the project.

Note: The applicants in Project I.D. # F-8640-11 adequately demonstrated the availability of \$22,251,124. In this application, the applicants are only required to demonstrate the availability of the incremental capital cost (\$17,748,729).

In the Pro Forma Section, the applicants provide pro forma projections for the 29 inpatient rehabilitation beds to be relocated to the Pineville campus as well as the parent company, the Charlotte Mecklenburg Hospital Authority (CMHA). The applicants project that operating costs will exceed revenues for the 29 inpatient rehabilitation beds on the Pineville campus by \$884,644 in Project Year 1 (CY 2014) and \$79,250 in Project Year 2 (CY 2015). The applicants project that revenues will exceed operating costs in Project Year 3 (CY 2016). More importantly, the applicants project that revenues will exceed operating costs for CMHA in Project Year 1 (\$319,159,000), Project Year 2 (\$314,811,000) and Project Year 3 (\$322,701,000). Thus, CMHA will have adequate funds to cover the operating losses for the inpatient rehabilitation beds in Project Years 1 and 2. The assumptions used by the applicants in preparation of the pro formas are reasonable, including projected utilization. See Criterion (3) for discussion of projected utilization.

In summary, the applicants adequately demonstrated the availability of funds for the capital needs of the project and that the financial feasibility of the proposal is based upon reasonable assumptions regarding projected revenues and operating costs. Therefore, the application is conforming to this criterion.

- (6) The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

C

The proposed project involves the relocation of existing inpatient rehabilitation beds within Mecklenburg County. The applicants propose to relocate 29 inpatient rehabilitation beds—10 beds from CR-Main and 19 beds from the Mercy campus of CMC-Mercy/Pineville—to the previously approved building on the Pineville campus where Carolinas Specialty Hospital, an LTACH, will be located (Project I.D. # F-8640-11). The applicants propose to decrease the number of number of beds at CR-Main and CR-Mercy, which are both located in close proximity to one another in busy, center city Charlotte, thereby making inpatient rehabilitation services more geographically accessible to patients and their families in Mecklenburg County. There will be no change in the inventory of rehabilitation beds in Mecklenburg County, nor will there be a change in the level of rehabilitation services provided by Carolinas Rehabilitation as a result of the proposed project. In addition, the applicants' projected patient origin for the Pineville campus is reasonably based on the current patient origin at CR-Mercy with adjustments for beds and patients to be relocated to Cabarrus County (Project I.D. # F-8161-08). See Criterion (3) for additional discussion. The applicants project to serve the same patients on the Pineville campus currently served at CR-Mercy, with adjustments made for the inpatient rehabilitation beds that will be relocated to Cabarrus County. They do not assume any increase in the number of patients to be served on the Pineville campus from other North Carolina counties or other states. The applicants propose to serve the same Mecklenburg County patients currently being served, but at a different location within the county. Moreover, projected utilization, which is based on reasonable, credible and supported assumptions, demonstrates that the existing inpatient

rehabilitation beds are still needed. See Criterion (3) for additional discussion regarding projected utilization. Therefore, the applicants adequately demonstrated the proposed project would not result in unnecessary duplication of existing or approved health service capabilities or facilities, and the application is conforming to this criterion.

- (7) The applicant shall show evidence of the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided.

C

In Section VII, pages 92-94, the applicants provide the current staffing for Carolinas Rehabilitation (129 total rehabilitation beds), which is 346.22 full-time equivalent positions (FTEs). On pages 95-97, the applicants provide the projected staffing for the second year of the proposed project (29 relocated rehabilitation beds), which is 102.6 FTEs, as shown in the following table:

**Carolinas Rehabilitation
Pineville Campus (29 beds)
CY2015**

Routine Services	Full-Time Equivalents (FTEs)
Medical Director	1.0
Physician	2.0
Registered Nurses	29.5
Nurse Manager	1.0
Assistant Nurse Manager	2.0
Nurses Aides	16.8
Ward Secretary	2.6
Medical Records	1.0
Staff Development Coord.	1.0
Pharmacy Tech	1.4
Patient Escort	1.4
Nursing Supervisor	0.3
Other (Staff Assistant)	0.8
Social Workers	2.0
Social Worker Staff Assist.	1.0
Therapeutic Recreation Specialists	1.0
Physical Therapist	9.5
Occupational Therapist	9.5
Speech Therapist	3.0
Psychologist	0.3
Clinical Manager-Rehab	1.0
Rehab Aides	4.0
Respiratory Therapist	3.5
Therapy-Clerical	1.5
Therapy-Patient Transport	1.5
Administrator	1.0
Administrative Secretary	1.0
Case Manger	1.0
Pastor	1.0
Total	102.6

In Section VII.3(a), page 98, the applicants state that none of these positions are new positions. In Section VII.6, page 100, the applicants identify William L. Bockenek, M.D., Chairman of the Department of Physical Medicine & Rehabilitation for Carolinas HealthCare System, as having expressed a willingness to serve as Medical Director of the Pineville campus inpatient rehabilitation beds. The applicants demonstrate the availability of adequate health manpower and management personnel to provide the proposed services and the application is conforming with this criterion.

- (8) The applicant shall demonstrate that the provider of the proposed services will make available, or otherwise make arrangements for, the provision of the necessary ancillary and support services. The applicant shall also demonstrate that the proposed service will be coordinated with the existing health care system.

C

In Section II.2, pages 21-23, and Section II.4, pages 24-25, the applicants list all of the necessary ancillary and support services that will be provided at Carolinas Rehabilitation on the Pineville campus. In Exhibit 20, the applicants provide letters from physicians at Carolinas Rehabilitation, as well as the presidents of Carolinas Medical Center and CMC-Mercy/Pineville, indicating their support for the proposed project. Exhibit 14 contains sample transfer agreements between Carolinas Rehabilitation and other area providers. The applicants adequately demonstrate that the proposed project will be coordinated with the existing health care system, and that the necessary ancillary and support services will be available. Therefore, the application is conforming with this criterion.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

- (10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates:
- (a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and

NA

- (b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers:
- (i) would be available under a contract of at least 5 years duration;

- (ii) would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
- (iii) would cost no more than if the services were provided by the HMO; and
- (iv) would be available in a manner which is administratively feasible to the HMO.

NA

- (11) Repealed effective July 1, 1987.
- (12) Applications involving construction shall demonstrate that the cost, design, and means of construction proposed represent the most reasonable alternative, and that the construction project will not unduly increase the costs of providing health services by the person proposing the construction project or the costs and charges to the public of providing health services by other persons, and that applicable energy saving features have been incorporated into the construction plans.

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The applicants were previously approved to relocate Carolinas Specialty Hospital, an existing 40-bed LTACH, to a new building on the Pineville campus of CMC-Mercy/Pineville (Project I.D. # F-8640-11). The building as originally proposed was to consist of 56,916 square feet. In Section XI.2, page 121 of this application, the applicants propose to increase the square footage of the previously approved building to accommodate the relocation of 29 existing inpatient habilitation beds. The total square footage for the redesigned building on the Pineville campus is 86,492 heated square feet. The certified estimate of construction costs from the architect, included in Exhibit 15, is consistent with the construction costs reported by the applicants in Section VIII, page 102. In Section XI.5, pages 123-124, the applicants describe the methods to be used to maintain efficient energy operations. The applicants adequately demonstrated that the cost, design, and means of construction represent the most reasonable alternative for the proposed project and that the construction project will not unduly increase the costs and charges of providing health services. See Criterion (5) for discussion of costs and charges. Therefore, the application is conforming to this criterion.

- (13) The applicant shall demonstrate the contribution of the proposed service in meeting the health-related needs of the elderly and of members of medically underserved groups, such as medically indigent or low income persons, Medicaid and Medicare recipients, racial and ethnic minorities, women, and handicapped persons, which have traditionally experienced difficulties in obtaining equal access to the proposed services, particularly those needs identified in the State Health Plan as deserving of priority. For the purpose of determining the extent to which the proposed service will be accessible, the applicant shall show:

- (a) The extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved;

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The following table illustrates the current payor mix for Carolinas Rehabilitation, as reported by the applicants in Section VI.13, page 90.

***Carolinas Rehabilitation – Licensed Inpatient Rehabilitation Beds
 CY2010 Payor Mix (January – December 2010)***

<i>EXISTING LICENSED BEDS LAST FULL OPERATING YEAR PATIENT DAYS AS A PERCENT OF TOTAL PATIENT DAYS</i>	
<i>Self Pay</i>	1.24%
<i>Medicare</i>	50.74%
<i>Medicaid</i>	18.73%
<i>Commercial</i>	1.35%
<i>Managed Care</i>	24.66%
<i>Other*</i>	3.22%
<i>TOTAL</i>	<i>100.00%</i>

**Includes other government.
 Totals may not foot due to rounding.*

The Division of Medical Assistance (DMA) maintains a website which offers information regarding the number of persons eligible for Medicaid assistance and estimates of the percentage of uninsured for each county in North Carolina. The following table illustrates those percentages as of June 2010 and CY 2009, respectively. The data in the table were obtained on March 20, 2012. More current data, particularly with regard to the estimated uninsured percentages, were not available.

	Total # of Medicaid Eligible as % of Total Population	Total # of Medicaid Eligibles Age 21 and older as % of Total Population	% Uninsured CY 2009 (Estimate by Cecil G. Sheps Center)
Mecklenburg	15%	5.1%	20.1%
Statewide	17%	6.7%	19.7%

Source: DMA Website: <http://www.ncdhhs.gov/dma/pub/index.htm>

The majority of Medicaid eligibles are children under the age of 21. This age group does not utilize the same health services at the same rate as older segments of the population, particularly the services offered by Carolinas Rehabilitation.

Moreover, the number of persons eligible for Medicaid assistance may be greater than the number of Medicaid eligibles who actually utilize health services. The DMA website includes information regarding dental services which illustrates this point. For dental services only, DMA provides a comparison of the number of persons eligible for dental services with the number actually receiving services. The statewide percentage was 48.6% for those age 20 and younger and 31.6% for those age 21 and older. Similar information is not provided on the website for other types of services covered by Medicaid. However, it is reasonable to assume that the percentage of those actually receiving other types of health services covered by Medicaid is less than the percentage that is eligible for those services.

The Office of State Budget & Management (OSBM) maintains a website which provides historical and projected population data for each county in North Carolina. In addition, data is available by age, race or gender. However, a direct comparison to the applicants' current payor mix would be of little value. The population data by age, race or gender does not include information on the number of elderly, minorities or women utilizing health services. Furthermore, OSBM's website does not include information on the number of handicapped persons.

The application is conforming to this criterion.

- (b) Its past performance in meeting its obligation, if any, under any applicable regulations requiring provision of uncompensated care, community service, or access by minorities and handicapped persons to programs receiving federal assistance, including the existence of any civil rights access complaints against the applicant;

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Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section VI.2, page 82, the applicants state, "*As part of CHS, CR, CR-Mercy, and CMC-Pineville have 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. Inpatient rehabilitation services in Pineville will be available to and accessible by any patient having a need for those services.*" In Section VI.10, page 89, the applicants state that there have been no civil rights equal access complaints or violations filed against Carolinas Rehabilitation, or any facility owned by Carolinas HealthCare System or Carolinas Specialty Hospital. The application is conforming to this criterion.

- (c) That the elderly and the medically underserved groups identified in this subdivision will be served by the applicant's proposed services and the extent to which each of these groups is expected to utilize the proposed services; and

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The following table illustrates the projected payor mix for the 29 inpatient rehabilitation beds on the Pineville campus during the second operating year of the proposed project, as reported by the applicants in Section VI.1(a), page 91.

**Pineville Licensed Inpatient Rehabilitation Beds
 Projected CY2015 Payor Mix (January – December 2015)**

<i>PROPOSED LICENSED BEDS SECOND FULL OPERATING YEAR PATIENT DAYS AS A PERCENT OF TOTAL PATIENT DAYS</i>	
<i>Self Pay</i>	<i>1.24%</i>
<i>Medicare</i>	<i>50.74%</i>
<i>Medicaid</i>	<i>18.73%</i>
<i>Commercial</i>	<i>1.35%</i>
<i>Managed Care</i>	<i>24.66%</i>
<i>Other*</i>	<i>3.22%</i>
TOTAL	100.00%

**Includes other government.
 Totals may not foot due to rounding.*

In Section VI.12(b), pages 87-88, the applicants state,

“CR projects the near-term payor mix for inpatient rehabilitation services to be comparable to the current CR payor mix for its Mecklenburg County-based beds. CR does not anticipate any significant change in payor mix for the proposed service for the second year of operation (CY2015) following completion of the project.”

The applicants demonstrate that medically underserved populations will have adequate access to the proposed services and the application is conforming to this criterion.

- (d) That the applicant offers a range of means by which a person will have access to its services. Examples of a range of means are outpatient services, admission by house staff, and admission by personal physicians.

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In Section VI.8(a), page 88, the applicants state, *“Persons will have access to services at CR through admissions from physicians who have admitting privileges at the hospital. Patients of CR will also be admitted through referrals from other physicians and acute care hospitals in the region.”* In Section V, the applicants discuss physician relationships. Exhibit 20 contains letters of support from Carolinas Rehabilitation and Carolinas HealthCare System physicians expressing support for the proposed project. In Section VI.8(b), the applicants provide a list of acute care hospitals in the region from which Carolinas Rehabilitation expects to receive referrals. The information provided is reasonable and credible and supports a finding of conformity with this criterion.

- (14) The applicant shall demonstrate that the proposed health services accommodate the clinical needs of health professional training programs in the area, as applicable.

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In Section V.1, page 76, the applicants provide a list of several area training programs with which Carolinas HealthCare System has clinical training agreements. The applicants state, “As with all CHS facilities, CR and CMC-Pineville will continue to accommodate the clinical needs of health professional training programs in the area.” Exhibit 11 contains copies of some of CHS’ existing clinical training agreements. The information provided is reasonable and credible and supports a finding of conformity with this criterion.

- (15) Repealed effective July 1, 1987.
(16) Repealed effective July 1, 1987.
(17) Repealed effective July 1, 1987.
(18) Repealed effective July 1, 1987.
- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

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See Sections II.6, II.7, III.1, III.2, III.3, III.6, III.7, V.7, VI, VII, and XI.7. The information provided by the applicants in those sections is reasonable and credible and adequately demonstrates that relocation of 29 inpatient rehabilitation beds from CR-Main and CR-Mercy to the previously approved building on the Pineville campus (Project I.D. # F-8640-11) would have a positive impact on cost-effectiveness, quality and access to the proposed services because:

- The applicants adequately demonstrate that relocation of 29 inpatient rehabilitation beds from the center city Charlotte area to Pineville is needed and the proposal is a cost-effective alternative to meet the need to redistribute inpatient rehabilitation services in Mecklenburg County [see Criteria (1), (3), (4) (5) and (12) for additional discussion];
- The applicants have and will continue to provide quality services [see Criteria (7), (8) and (20) for additional discussion]; and
- The applicants have and will continue to provide adequate access to medically underserved populations [see Criterion (13) for additional discussion].

Therefore, the application is conforming to this criterion.

- (19) Repealed effective July 1, 1987.
- (20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

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According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents occurred at Carolinas Rehabilitation or CMC-Mercy/Pineville within the eighteen months immediately preceding the date of this decision, for which any sanctions or penalties related to quality of care were imposed by the State. Therefore, the application is conforming with this criterion.

- (21) Repealed effective July 1, 1987.
- (b) The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

NA