

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: August 29, 2018

Findings Date: August 31, 2018

Project Analyst: Mike McKillip

Team Leader: Gloria Hale

Project ID #: J-11509-18

Facility: Duke Regional Hospital

FID #: 923142

County: Durham

Applicant: Duke University Health System, Inc.

Project: Relocate 19 psychiatric inpatient beds from Duke University Hospital to Duke Regional Hospital for a total of 42 psychiatric inpatient beds at Duke Regional Hospital

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

N.C. Gen. Stat. §131E-183(a) The Agency 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

Duke University Health System, Inc. [DUHS] proposes to relocate 19 psychiatric inpatient beds from Duke University Hospital (DUH) to Duke Regional Hospital (DRH) for a total of 42 psychiatric inpatient beds at DRH upon project completion.

Need Determinations

There are no need determinations in the 2018 State Medical Facilities Plan (SMFP) applicable to the proposed project.

Policies

There are two policies in the 2018 SMFP which are applicable to this review: Policy MH-1: Linkages between Treatment Settings and Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities.

Policy MH-1

Policy MH-1 states:

“An applicant for a certificate of need for psychiatric, substance use disorder, or intermediate care facilities for individuals with intellectual disabilities (ICF/IID) beds shall document that the affected local management entity-managed care organization has been contacted and invited to comment on the proposed services.”

Exhibit 6 contains a copy of a letter dated April 11, 2018, from the Chief Executive Officer of Alliance Behavioral Healthcare, the LME-MCO, supporting the proposed project. Therefore, application is conforming to Policy MH-1.

Policy GEN-4

Policy GEN-4 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, Certificate of Need 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.”

The proposed capital expenditure for this project is greater than \$2 million but less than \$5 million. In Section III.2, pages 16-17, and Exhibit 5, the applicant provides documentation

that it will implement techniques and policies to address energy efficiency and water conservation. The applicant adequately demonstrates conformance with the requirements of Policy GEN-4.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately demonstrates that the proposal is consistent with Policy MH-1 and Policy GEN-4 for the following reasons:
 - The applicant provides documentation that the affected local management entity-managed care organization has been contacted and invited to comment on the proposed services; and
 - The applicant demonstrates that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation.

(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

DUHS proposes to relocate 19 psychiatric inpatient beds from Duke University Hospital (DUH) to Duke Regional Hospital (DRH) for a total of 42 psychiatric inpatient beds at DRH upon project completion. DUHS owns DUH, and subleases DRH for Durham County Hospital Corporation (DCHC), which leases DRH from the County of Durham. In Section III.1, pages 13-14, the applicant describes the project as follows:

“In conjunction with plans already underway to expand the emergency department services, create dedicated emergency space for psychiatric patients, and relocate and expand space for existing inpatient and outpatient psychiatric services at Duke Regional Hospital, DUHS is undertaking a project to consolidate and modernize all

of its inpatient psychiatric services. Accordingly, 19 existing inpatient psychiatric beds will be relocated from nearby Duke University Hospital to Duke Regional Hospital, to create more efficient operations, benefits to patients, and greater practical capacity.

DUHS operates two separate inpatient behavioral health units in Durham County. The Duke University Hospital Williams Unit located in Duke South is licensed for 19 beds, but only regularly operates 18 beds due to the availability of space and challenges that would arise as a result of renovating the existing space to staff an additional bed. This unit was originally constructed in 1966, and is physically separate from the remainder of the hospital's inpatient services. Current facility limitations include inadequate ADA accessibility, insufficient room size and wayfinding, no direct access to outdoor courtyards, lack of group space, lack of an exercise room, limited exposure to natural light, and the inability to segment patients. Only two of the 18 rooms have bathrooms that are large enough to accommodate an assistive mobility device or a second person. This limits the number of patients that can be admitted that require assistance, a restriction that becomes even more challenging as the population ages.

...

In contrast, after completion of the campus renovation project at Duke Regional Hospital described in the DUHS exemption notice filed on February 5, 2018, Duke Regional Hospital's behavioral health unit will have right-sized private rooms, as well as group spaces that maximize both patient and provider exposure to natural light, dedicated family visitation areas, multiple exercise areas, two secure outdoor spaces for treatment, and large meeting areas to allow for coordination with NAMI, AA, and other community groups....

The 19 relocated inpatient behavioral health beds from Duke University Hospital addressed in this project will be joined with existing 23 Duke Regional beds to allow for the operation of all existing DUHS psychiatric beds in modern private rooms with much better access to exercise, group therapy, and outdoor space. This consolidation of Duke's inpatient, outpatient, and emergency behavioral health services at a single modernized facility in Durham County will aid in streamlining access to those services for referring providers, patient, and caregivers."

Patient Origin

N.C. Gen. Stat. §131E-176(24a) states, "Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility." The 2018 SMFP defines the service area for psychiatric inpatient beds as "the catchment area for the LME-MCO for mental health, developmental disabilities and substance use disorder services in which the bed is located." The LME-MCO for this project is Alliance Behavioral Healthcare which includes

Cumberland, Durham, Johnston and Wake counties. Facilities may also serve residents of counties not included in their service area.

In Section III.4 and Section III.5, pages 18-21, the applicant provides tables showing its historical and projected patient origin through the first two operating years (FY2022-FY2023) of the proposed project, as summarized in the following table:

DUHS Psychiatric Inpatient Beds		
	Historical Patient Origin* FY2017	Projected Patient Origin FY2022-23
County	Percent of Total Patient Days	Percent of Total Patient Days
Durham	50%	50%
Wake	17%	17%
Orange	6%	6%
Out of State	5%	5%
Granville	3%	3%
Person	2%	2%
Cumberland	2%	2%
Alamance	1%	1%
Guilford	1%	1%
Vance	1%	1%
Edgecombe	1%	1%
Franklin	1%	1%
Wilson	1%	1%
Mecklenburg	1%	1%
Nash	1%	1%
Johnston	1%	1%
New Hanover	1%	1%
Brunswick	1%	1%
Other**	4%	4%
TOTALS	100%	100%

Source: Tables on pages 18-21 of the application.

*Includes psychiatric inpatient days of care for the beds located at both Duke University Hospital and Duke Regional Hospital.

**The applicant provides a list of the counties included in the “Other” category (<1% patient origin) on pages 18-21 of the application.

The applicant’s patient origin is based on the historical patient origin for DUHS’s existing psychiatric inpatient beds at DUH and DRH. The applicant’s assumptions are reasonable and adequately supported.

Analysis of Need

In Section III.1, pages 13-16, the applicant explains why it believes the population projected to utilize the proposed psychiatric inpatients beds needs the proposed services, including:

- The population growth projections for the service area (p. 15-16).
- Utilization projections provided by Sg2, which is “*nationally recognized for its expertise in analytics; business intelligence; and strategic, operational, and technological analysis, to provide a tailored market forecast tool to assist market projections.*” (p. 15)
- The historical utilization of the psychiatric inpatient beds at DUH and DRH (p. 16).

The information referenced above is reasonable and adequately supported for the following reasons:

- The applicant’s projections are based on the projected population growth in the service area.
- The applicant’s projections are supported by the historical utilization of its existing psychiatric inpatient beds.

Projected Utilization

In Section IV.1, page 24, the applicant provides the historical and projected utilization for DUHS’ 42 psychiatric inpatient beds through the first three full fiscal years (FFY2022-FFY2024) as summarized in the following table:

Fiscal Year	Licensed Psychiatric Inpatient Beds*	Psychiatric Inpatient Days of Care	Average Daily Census	Percent Change	Average Occupancy Rate
2017 Actual	42	11,893	32.6	---	78%
2018 Actual	42	12,426	34.0	4%	81%
2019 Projected	42	12,426	34.0	0%	81%
2020 Projected	42	12,460	34.0	0%	81%
2021 Projected	42	12,763	35.0	2%	83%
2022 Year 1	42	13,433	36.8	5%	88%
2023 Year 2	42	13,702	37.5	2%	89%
2024 Year 3	42	13,976	38.2	2%	91%

Source: Table on pages 24-25 of the application.

*For the period from FY2017 to FY2021, the 42 licensed beds include 23 psychiatric inpatient beds at DRH and 19 psychiatric inpatient beds at DUH. Effective March 1, 2021, the applicant assumes all 42 beds will be located at DRH.

As shown in the table above, DUHS projects an average occupancy rate of 91% in the 42 psychiatric inpatient beds at DRH in the third operating year (FY2024) following completion of the project.

In Section IV.1, page 25, the applicant describes its assumptions and methodology for projecting utilization of the psychiatric inpatient beds at DUHS as follows:

“Utilization at the existing units will remain constant through the interim years of the project, as both units are limited in their ability to admit additional patients due to

facility constraints. DUHS anticipates that when all 42 beds are in operation in single rooms, there will be growth in utilization reflecting the easing of capacity constraints and resulting pent-up demand. ... For example, in FY 17 patients waited on average 30 hours in the emergency department for admission to inpatient psychiatric services at Duke University Hospital, reflecting capacity constraints....

Growth in FY2021 is anticipated to occur after the opening of the relocated beds at Duke Regional Hospital on March 1, 2021. ... Continued high growth is expected in FY 2022 as the unit is ramped up to full utilization. In FY 2023 and 2024, continued growth is anticipated, but at a slower rate. Average length of stay is anticipated to continue at current rates at each facility, as the specific therapeutic services that are offered at each facility will be continued pending the consolidation of services in FY 2021. Average length of stay for the 42 bed unit beginning in FY 2021 is presumed to be the average of both facilities.”

Projected utilization is reasonable and adequately supported for the following reasons:

- The applicant’s utilization projections are supported by the projected population growth in the service area.
- The historical utilization of the applicant’s existing psychiatric inpatient beds supports the applicant’s utilization projections.

Access

In Section VI.2, page 32, the applicant states DUHS will continue provide services to all patients regardless of income, racial/ethnic origin, gender, physical or mental condition, age, ability to pay, or any other factor. In Section VI.12, page 36, the applicant projects the following payor mix for psychiatric inpatient beds at DRH during the second full fiscal year of operation (FY2023) following completion of the project, as shown in the following table.

Payment Source	Percent of Total Psychiatric Patient Days
Self Pay/Indigent/Charity	14%
Medicare/Medicare Managed Care	28%
Medicaid	32%
Commercial Insurance	1%
Managed Care	23%
Other	1%
Total*	100%

Source: Table on page 36 of the application.

*Total may not foot due to rounding.

The projected payor mix is reasonable and adequately supported.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately identifies the population to be served.
- The applicant adequately explains why the population to be served needs the services proposed in this application.
- Projected utilization is reasonable and adequately supported.
- The applicant projects the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately supports its assumptions.

- (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

DUHS proposes to relocate 19 psychiatric inpatient beds from Duke University Hospital (DUH) to Duke Regional Hospital (DRH) for a total of 42 psychiatric inpatient beds at DRH upon project completion. Following the proposed relocation of psychiatric inpatient beds, DUH will no longer have any licensed psychiatric inpatient beds.

In Section III.6 and Section III.7, pages 21-22, the applicant explains why it believes the needs of the population presently utilizing the services to be reduced, eliminated or relocated will be adequately met following completion of the project. In Section III.6, pages 21-22, the applicant states,

“Duke Regional Hospital is only 5 miles from Duke University Hospital and is similarly accessible in terms of geographic location and transportation. By combining the beds at a single location where all beds can be put into operation in private rooms, Duke anticipates that its practical capacity will increase.”

In Section IV.1, page 24, the applicant provides the historical and projected utilization for DUHS’ 42 psychiatric inpatient beds through first three full fiscal years (FFY2022-FFY2024) as summarized in the following table:

Fiscal Year	Licensed Psychiatric Inpatient Beds*	Psychiatric Inpatient Days of Care	Average Daily Census	Percent Change	Average Occupancy Rate
2017 Actual	42	11,893	32.6	---	78%
2018 Actual	42	12,426	34.0	4%	81%
2019 Projected	42	12,426	34.0	0%	81%
2020 Projected	42	12,460	34.0	0%	81%
2021 Projected	42	12,763	35.0	2%	83%
2022 Year 1	42	13,433	36.8	5%	88%
2023 Year 2	42	13,702	37.5	2%	89%
2024 Year 3	42	13,976	38.2	2%	91%

Source: Table on pages 24-25 of the application.

*For the period from FY2017 to FY2021, the 42 licensed beds includes 23 psychiatric inpatient beds at DRH and 19 psychiatric inpatient beds at DUH. Effective March 1, 2021, the applicant assumes all 42 beds will be located at DRH.

In Section III.6, page 22, the applicant states,

“Both facilities follow the same financial assistance policies. ... Contractual reimbursement for services at both existing locations are materially the same and therefore this project will not have a negative impact on cost to patients or payors.”

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicant adequately demonstrates that:

- The needs of the population currently using the services to be reduced, eliminated or relocated will be adequately met following project completion.
- The project will not adversely impact the ability of underserved groups to access these services following project completion.

- (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.

CA

DUHS proposes to relocate 19 psychiatric inpatient beds from Duke University Hospital (DUH) to Duke Regional Hospital (DRH) for a total of 42 psychiatric inpatient beds at DRH upon project completion.

In Section III.3, pages 17-18, the applicant describes the alternatives it considered and explains why each alternative is either more costly or less effective than the alternative proposed in this application to meet the need. The alternatives considered were:

- Maintain the status quo – The applicant states this was not an effective alternative due to the fact that it would not meet the growing demand for psychiatric inpatient services or address the problems associated with an outdated facility.
- Renovate the existing psychiatric inpatient unit at DUH – The applicant considered renovating the existing 19-bed psychiatric inpatient unit at DUH, but determined that the alternative was inefficient because it would perpetuate the inefficiencies of operating two small units only 5 miles apart, and it would require the DUH unit to be closed during the renovation process, which would lead to additional difficulties with regard to delays in access to psychiatric inpatient services.

On page 18, the applicant states that its proposal is the most effective alternative because *“Duke has committed to renovating Duke Regional Hospital to accommodate behavioral health services including specialized emergency department services; relocating beds to this construction is more cost-effective than pursuing two separate renovation projects on different campuses to modernize both facilities.”*

The applicant adequately demonstrates that the alternative proposed in this application is the most effective alternative to meet the need for the following reasons:

- The alternative will address the growing need for psychiatric inpatient services in Durham County by updating outdated facilities with capacity constraints.
- By consolidating two small units, the alternative meets the need in a cost-efficient manner.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above. Therefore, the application is approved subject to the following conditions:

- 1. Duke University Health System, Inc. shall materially comply with all representations made in the certificate of need application.**
- 2. Duke University Health System, Inc. shall relocate no more than 19 psychiatric inpatient beds from Duke University Hospital to Duke Regional Hospital for a**

total of no more than 42 psychiatric inpatient beds at Duke Regional Hospital and no psychiatric inpatient beds at Duke University Hospital upon completion of the project.

- 3. Duke University Health System, Inc. shall accept patients requiring involuntary admission for psychiatric inpatient services at Duke Regional Hospital.**
 - 4. No later than three months after the last day of each of the first three full years of operation following initiation of the services authorized by this certificate of need, Duke University Health System, Inc. shall submit, on the form provided by the Healthcare Planning and Certificate of Need Section, an annual report containing the:**
 - a. Payor mix for the services authorized in this certificate of need.**
 - b. Utilization of the services authorized in this certificate of need.**
 - c. Revenues and operating costs for the services authorized in this certificate of need.**
 - d. Average gross revenue per unit of service.**
 - e. Average net revenue per unit of service.**
 - f. Average operating cost per unit of service.**
 - 5. Duke University Health System, Inc. shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency in writing prior to insurance 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

DUHS proposes to relocate 19 psychiatric inpatient beds from Duke University Hospital (DUH) to Duke Regional Hospital (DRH) for a total of 42 psychiatric inpatient beds at DRH upon project completion.

Capital and Working Capital Costs

In Section VIII.1, page 44, the applicant projects the total capital cost of \$4,895,000 for the proposed project, as shown in the table below:

Site Costs	\$96,442
Construction Costs	\$2,819,463
Miscellaneous Costs	\$1,979,095
Total	\$4,895,000

In Section VIII.1, page 44, and Exhibit 5, the applicant provides the assumptions used to project the capital cost. In Section IX, page 48, the applicant projects that there will be no start-up costs or initial operating expenses associated with the proposed project.

Availability of Funds

In Section VIII.2, the applicant states the capital cost will be funded with the accumulated reserves of DUHS. Exhibit 14 contains a letter dated May 4, 2018 from the Chief Financial Officer for DUHS documenting its intention to provide accumulated reserves for the capital of the proposed project.

Financial Feasibility

The applicant provided pro forma financial statements for DUHS for the first three full fiscal years of operation following completion of the project. In Form B, the applicant projects that revenues will exceed operating expenses for the entire healthcare system in the each of the first three operating years of the project, as shown in the table below.

REVENUES/EXPENSE (IN 000'S)	YEAR 1 FY2022	YEAR 2 FY2023	YEAR 3 FY2024
Gross Patient Revenue	\$11,338,831	\$11,683,477	\$11,965,713
Total Net Revenue	\$3,643,850	\$3,756,322	\$3,849,942
Operating Expenses (Costs)	\$3,495,110	\$3,603,083	\$3,692,960
Net Income (Loss)	\$148,740	\$153,249	\$156,982

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See the Pro Forma Section of the application for the assumptions used regarding costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately demonstrates that the capital needs are based on reasonable and adequately supported assumptions.
- The applicant adequately demonstrates availability of sufficient funds for the capital needs of the proposal.

- The applicant adequately demonstrates sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.
- (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

DUHS proposes to relocate 19 psychiatric inpatient beds from Duke University Hospital (DUH) to Duke Regional Hospital (DRH) for a total of 42 psychiatric inpatient beds at DRH upon project completion.

N.C. Gen. Stat. §131E-176(24a) states, “Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility.” On page 372, the 2018 SMFP defines the service area for psychiatric inpatient beds as “the catchment area for the LME-MCO for mental health, developmental disabilities and substance use disorder services in which the bed is located.” The LME-MCO for this project is Alliance Behavioral Healthcare which includes Cumberland, Durham, Johnston and Wake counties. Facilities may also serve residents of counties not included in their service area.

According to the inventory of adult psychiatric beds in Table 15A of the 2018 SMFP (page 374), in the applicant’s LME-MCO, Alliance Behavioral Healthcare, there are nine hospitals with a total of 258 existing licensed adult psychiatric beds and 124 CON-approved, but not yet operational, adult psychiatric beds for a total of 382 adult inpatient beds, as illustrated below:

ALLIANCE BEHAVIORAL HEALTHCARE LME-MCO ADULT PSYCHIATRIC INPATIENT BEDS				
Name of Facility	County	Licensed Beds	License Pending	Total Adult Inventory
Cape Fear Valley Medical Center	Cumberland	28	0	28
Duke Regional Hospital	Durham	23	0	23
Duke University Hospital	Durham	19	0	19
Veritas Collaborative*	Durham	0	0	0
Johnston Health	Johnston	20	0	20
Holly Hill Hospital	Wake	140	57	197
Strategic Behavioral Center-Garner**	Wake	0	24	24
Triangle Springs	Wake	0	43	43
UNC Hospitals at WakeBrook**	Wake	28	0	28
Totals		258	124	382

Source: 2018 SMFP, Table 15A, page 374.

*Excludes 25 adult CON-approved beds for eating disorders. These beds are not in the inventory used to project need for adult psychiatric inpatient beds.

** CON - approved beds which are Policy PSY-1 bed transfers from State Psychiatric Hospitals.

The applicant proposes to relocate 19 existing beds from DUH to DRH. The applicant does not propose any new or additional psychiatric inpatient beds, therefore there will be no change in the inventory of adult psychiatric inpatient beds in the service area. In Section III.1, pages 13-16, the applicant provides its assumptions and methodology used to project utilization of the 42 adult psychiatric inpatient beds at DRH.

The applicant adequately demonstrates that the proposal would not result in an unnecessary duplication of existing or approved services in the service area for the following reasons:

- The applicant adequately demonstrates that the 42 adult psychiatric inpatient beds are needed at DRH in addition to the existing and approved psychiatric beds.
- The proposal would not result in an increase in the inventory of psychiatric inpatient beds in the service area.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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.1 and Section VII.2, page 38-39, the applicant provides the current and projected staffing for the proposed psychiatric inpatient services at DRH as shown in the following table.

Position	Existing	Projected
	FY2018	FY2023
Psychiatric Social Workers	2.8	6.2
Psychiatric Registered Nurses	19.2	42.9
Qualified Mental Health Prof.	1.1	2.3
Nursing Assistants	13.1	29.3
Clerical Support	0.3	0.6
Administration	1.0	2.2
Other	2.4	5.4
TOTAL	39.8	88.8

Source: Tables on pages 38-39 of the application.

The assumptions and methodology used to project staffing are provided in Section VII. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in Form B of the pro forma financial statements. In Section VII.3, page 40, and Section VII.6, page 41, the applicant describes the methods to be used to recruit or fill new positions and its proposed training and continuing education programs. In Exhibit 13, the applicant identifies the medical directors.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to 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.3, page 6, the applicant describes the ancillary and support services that will be provided by the hospital for the proposed services, including administration, business office, medical records, pharmacy, medical supplies, imaging, laboratory, pathology, social services, dietary, housekeeping, and facility maintenance.

In Section V.2, pages 29-30, the applicant describes its efforts to develop relationships with other local health care and social service providers.

The applicant adequately demonstrates that the proposed services will be coordinated with the existing health care system.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to 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

The applicant does not project to provide the proposed services to a substantial number of persons residing in Health Service Areas (HSAs) that are not adjacent to HSA VI where the services will be offered. Furthermore, the applicant does not project to provide the proposed services to a substantial number of persons residing in other states that are not adjacent to the North Carolina county in which the services will be offered. Therefore, Criterion (9) is not applicable to this review.

- (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 (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

The applicant is not an HMO. Therefore, Criterion (10) is not applicable to this review.

- (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.

C

In Section XI.4, page 52, the applicant states that the project involves renovating 13,850 square feet of existing space at DRH. Line drawings are provided in Exhibit 15.

In Section XI.7, page 53, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans and provides supporting documentation in Exhibit 5.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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;

C

In Section VI.11, page 36, the applicant provides the historical payor mix during FY2017 for the proposed services, as summarized in the table below.

Payment Source	Percent of Total Psychiatric Patient Days
Self Pay/Indigent/Charity	16.3%
Medicare/Medicare Managed Care	25.9%
Medicaid	30.4%
Commercial Insurance	1.0%
Managed Care	24.8%
Other (workers comp, other govt)	1.4%
Total*	100.0%

Source: Table on page 36 of the application.

*Total may not foot due to rounding.

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicant adequately documents the extent to which medically underserved populations currently use the applicant's existing services. Therefore, 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;

C

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section VI.10, pages 35-36, the applicant states DUHS has satisfied the requirements of applicable federal regulations to provide a certain amount of uncompensated care, and that DUHS complies with all the relevant regulatory requirements with regard to uncompensated care, community service and access by minorities and handicapped persons.

In Section VI.9, page 35, the applicant states that during the last five years, three patient civil rights access complaints regarding failures to provide effective communication have been filed against DUHS facilities, none of which occurred at DRH. The applicant reports that two cases have been closed and one is still pending.

The Agency reviewed the:

- Application
- Exhibits to the application

- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that 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

C

In Section VI.12, page 36, the applicant projects the following payor mix for the proposed services during the third full fiscal year (FFY2023) of operation following completion of the project, as shown in the table below.

Payment Source	Percent of Total Psychiatric Patient Days
Self Pay/Indigent/Charity	14%
Medicare/Medicare Managed Care	28%
Medicaid	32%
Commercial Insurance	1%
Managed Care	23%
Other (workers comp, other govt)	1%
Total	100.0%

Source: Table on page 36 of the application.

As shown in the table above, during the third full fiscal year of operation, the applicant projects that 14% of total services will be provided to self-pay, indigent, and charity patients, 28% to Medicare patients and 32% to Medicaid patients.

In Section VI.12, pages 36-37, the applicant provides the assumptions and methodology used to project payor mix during the second full fiscal year of operation following completion of the project. The projected payor mix is reasonable and adequately supported because it is based on the combined experience of the existing psychiatric inpatient services at DUH and DRH.

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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.

C

In Section VI.8, pages 34-35, the applicant adequately describes the range of means by which patients will have access to the proposed services.

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to 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.

C

In Section V.1, pages 26-29, the applicant describes the extent to which health professional training programs in the area will have access to the facility for training purposes and provides supporting documentation in Exhibit 8.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information which was publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicant adequately demonstrates that the proposed services will accommodate the clinical needs of area health professional training programs, and therefore, the application is conforming to 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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DUHS proposes to relocate 19 psychiatric inpatient beds from Duke University Hospital (DUH) to Duke Regional Hospital (DRH) for a total of 42 psychiatric inpatient beds at DRH upon project completion.

N.C. Gen. Stat. §131E-176(24a) states, “Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility.” On page 372, the 2018 SMFP defines the service area for psychiatric inpatient beds as “the catchment area for the LME-MCO for mental health, developmental disabilities and substance use disorder services in which the bed is located.” The LME-MCO for this project is Alliance Behavioral Healthcare which includes Cumberland, Durham, Johnston and Wake counties. Facilities may also serve residents of counties not included in their service area.

According to the inventory of adult psychiatric beds in Table 15A of the 2018 SMFP (page 374), in the applicant’s LME-MCO, Alliance Behavioral Healthcare, there are nine hospitals with a total of 258 existing licensed adult psychiatric beds and 124 CON-approved, but not yet operational, adult psychiatric beds for a total of 382 adult inpatient beds, as illustrated below:

ALLIANCE BEHAVIORAL HEALTHCARE LME-MCO ADULT PSYCHIATRIC INPATIENT BEDS				
Name of Facility	County	Licensed Beds	License Pending	Total Adult Inventory
Cape Fear Valley Medical Center	Cumberland	28	0	28
Duke Regional Hospital	Durham	23	0	23
Duke University Hospital	Durham	19	0	19
Veritas Collaborative*	Durham	0	0	0
Johnston Health	Johnston	20	0	20
Holly Hill Hospital	Wake	140	57	197
Strategic Behavioral Center-Garner**	Wake	0	24	24
Triangle Springs	Wake	0	43	43
UNC Hospitals at WakeBrook**	Wake	28	0	28
Totals		258	124	382

Source: 2018 SMFP, Table 15A, page 374.

*Excludes 25 adult CON-approved beds for eating disorders. These beds are not in the inventory used to project need for adult psychiatric inpatient beds.

** CON - approved beds which are Policy PSY-1 bed transfers from State Psychiatric Hospitals.

The applicant proposes to relocate 19 existing beds from DUH to DRH, therefore, the applicant does not propose any new or additional psychiatric inpatient beds, therefore there will be no change in the inventory of adult psychiatric inpatient beds in the service area.

In Section V.6, page 31, the applicant describes the expected effects of the proposed services on competition in the service area and discusses how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed services. On page 31, the applicant states,

“This project entails only the relocation of existing psychiatric beds with a single provider’s system. As a result, this relocation should not have a significant effect on competition. ... However, this project will have a positive impact on the quality of and access to the proposed services. ... The costs to patients and payors is not expected to change as result of this project. However, DUHS will be able to achieve operational efficiencies by consolidating two smaller units into a single larger unit which may have long term benefits for the cost effectiveness of the services.”

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates:

- The cost-effectiveness of the proposal (see Sections VIII, X, and the Pro Forma Section of the application and any exhibits)
- Quality services will be provided (see Section II.11 of the application and any exhibits)
- Access will be provided to underserved groups (see Section VI of the application and any exhibits)

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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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In Section I, the applicant states DUHS owns DUH, and subleases DRH for Durham County Hospital Corporation (DCHC), which leases DRH from the County of Durham. In addition

to DUH and DRH in Durham County, DUHS owns and operates Duke Raleigh Hospital in Wake County.

In Section II.11, page 11, the applicant states that, during the five years immediately preceding the submittal of the application, no incidents related to quality of care occurred in any of these facilities that resulted in a “*revocation of license or termination of provider agreements in connection with its inpatient psychiatric services.*” According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, during the 18 months immediately preceding submission of the application through the date of this decision, no incidents related to quality of care occurred in any of these facilities. After reviewing and considering information provided by the applicant and by the Acute and Home Care Licensure and Certification Section and considering the quality of care provided at all nine facilities, the applicant provided sufficient evidence that quality care has been provided in the past. Therefore, the application is conforming to 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

The Criteria and Standards for Inpatient Psychiatric Beds, 10A NCAC 14C .2600, are not applicable to this review because the applicant is proposing to relocate existing beds within the same healthcare system, and does not propose to add new beds or increase the inventory of adult psychiatric inpatient beds in the service area.