

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: September 27, 2018

Findings Date: September 27, 2018

Project Analyst: Gregory F. Yakaboski

Team Leader: Fatimah Wilson

Project ID #: E-11501-18

Facility: Carolinas HealthCare System Blue Ridge

FID #: 943191

County: Burke

Applicant: Blue Ridge HealthCare Hospitals, Inc.

Project: Construct new space on the Valdese hospital campus for existing outpatient hospital services

### 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

Blue Ridge HealthCare Hospitals, Inc. d/b/a Carolinas HealthCare System Blue Ridge (CHS Blue Ridge and/or the applicant) is one hospital system, with one hospital license and two separate hospital campuses in Burke County. One in the city of Valdese, CHS Blue Ridge-Valdese, and one in the city of Morganton, CHS Blue Ridge-Morganton (or Grace Hospital). In 2014, CHS Blue Ridge organized CHS Blue Ridge-Valdese to focus solely on outpatient care and CHS Blue Ridge-Morganton to focus solely on inpatient care.

CHS Blue Ridge proposes to construct new space on the CHS Blue Ridge-Valdese hospital campus to reconfigure certain existing outpatient services that are currently located on the CHS Blue Ridge-Valdese campus. The emergency department, outpatient imaging, oncology and therapy services (physical, occupational and cardiac rehab services) will be housed in the new

building. Not included in this proposed project are the existing outpatient surgical services and all inpatient beds and related support spaces currently located at the existing CHS Blue Ridge-Valdese campus. Outpatient surgical services and all inpatient beds and related support spaces will remain in their existing locations on the CHS Blue Ridge-Valdese campus and are not part of the proposed project. In Project ID#E-11298-17, CHS Blue Ridge applied, and was approved, to reorganize its outpatient surgical services located at CHS Blue Ridge-Valdese into a separately licensed freestanding ambulatory surgery center (ASC). The new ASC, to be known as Blue Ridge Surgery Center, will be a separately licensed facility with four operating rooms (ORs), two gastrointestinal endoscopy rooms (GI endoscopy rooms) and one procedure room on the Valdese campus. The proposed project does not involve the construction of a new facility or movement to a new location. The four OR's, two GI endoscopy rooms and the one procedure room will still be on the same property and in the same location. That approval is currently under appeal.

### **Need Determination**

The proposed project does not involve the addition of any new health service facility beds, services or equipment for which there is a need determination in the 2018 State Medical Facilities Plan (2018 SMFP). Therefore, there are no need determinations applicable to this review.

### **Policies**

The following policy is applicable to this review:

- **Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities**

#### **Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities**

*“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 is 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 \$2.0 million dollars; therefore, Policy GEN-4 is applicable to this review.

In Section B, pages 28-29, the applicant states the proposed project will: *“meet or exceed the requirements of the NC Building Code in effect when line drawings are submitted for review to the DHSR Construction Section; Upgrade any impacted plumbing fixtures to increase efficiency and life cycle benefits; Use EPA Energy Star for Hospitals rating system to compare performance across CHS Blue Ridge, North Carolina, and the United States for benchmarking performance following 12 months of operation; and use United States Green Building Council (USGBC) LEED guidelines and Green Guide for Health Care (GGHC) as appropriate to identify opportunities to improve efficiency and performance.”* The applicant adequately demonstrates that the application includes a written statement describing the projects plan to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4, subject to Condition #4 found in Criterion (4).

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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 does not propose the addition of any new health service beds, services or equipment for which there is a need determination in the 2018 SMFP.
- The applicant adequately demonstrates that the proposal is consistent with Policy GEN-4 in the 2018 SMFP.

(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

CHS Blue Ridge proposes to construct new space on the CHS Blue Ridge-Valdese hospital campus to reconfigure certain existing outpatient services that are currently located on the CHS Blue Ridge-Valdese campus. The emergency department, outpatient imaging, oncology and therapy services (physical, occupational and cardiac rehab services) will be housed in the new building. Not included in this proposed project are the existing outpatient surgical services and all inpatient beds and related support spaces currently located at the existing CHS Blue Ridge-Valdese campus. Outpatient surgical services and all inpatient beds and related support spaces will remain in their existing locations on the CHS Blue Ridge-Valdese campus and are not part of the proposed project. In Project ID#E-11298-17, CHS Blue Ridge applied, and was approved, to reorganize its outpatient surgical services located at CHS Blue Ridge-Valdese into a separately licensed freestanding ambulatory surgery center (ASC). The new ASC, to be known as Blue Ridge Surgery Center, will be a separately licensed facility with four operating rooms (ORs), two gastrointestinal endoscopy rooms (GI endoscopy rooms) and one procedure room on the Valdese campus. The proposed project does not involve the construction of a new facility or movement to a new location. The four OR's, two GI endoscopy rooms and the one procedure room will still be on the same property and in the same location. That approval is currently under appeal.

In Section Q, Form C, pages 3-10, the applicant discusses the addition, reduction and replacement of certain pieces of diagnostic equipment as part of the proposed project. The applicant states that as part of the proposed project both of the existing CT scanners will be replaced, one fixed MRI scanner will be replaced, the number of X-ray units will be reduced from four units to two units, the number of ultrasound units will be reduced from three units to two units, the number of nuclear medicine equipment from two units to one unit and one of the two linear accelerators will be replaced. The applicant is not proposing any new equipment for which there is a need determination in the 2018 SMFP or to acquire any equipment that would increase the inventory of diagnostic equipment in the service area that would require addressing performance standards for those pieces of equipment.

### **Patient Origin**

N.C. Gen. Statute §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 does not define a service area for hospital-based outpatient services nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient services. Thus, the service area in this review is as defined by the applicant. Facilities may also serve residents of counties not included in their service area.

In Section C, pages 35-39, and pages 41-46, the applicant provides current and projected patient origin for the following services: emergency department (ED), infusion therapy, CT, MRI, X-ray, bone density, mammography, ultrasound, nuclear medicine, linear accelerator and outpatient therapy to include physical therapy (PT), occupational therapy (OC), and cardiac rehab therapy.

In Section C, page 40, the applicant provides current and projected patient origin for CHS Blue Ridge-Valdese as shown in the table below.

County	Current (1/1/17 - 12/31/17)		Third Full FY of Operation following Project Completion (1/1/25-12/31/25)	
	Number of Visits/Scans/Procedures*	% of Total	Number of Visits/Scans/Procedures*	% of Total
Burke	69,457	54.5%	76,357	54.5%
Caldwell	41,692	32.7%	45,834	32.7%
Catawba	10,441	8.2%	11,478	8.2%
Other**	5,890	4.6%	6,475	4.6%
Total	127,480***	100.0%	140,144	100.0%

Source: Tables on pages 40 and 46 of the application.

\*Includes all services identified in response to Section C.2.

\*\*See page 40 of the application for complete list of “Other” which includes both other counties in North Carolina and other states.

\*\*\*The overall total of 127,480 visits/scans/procedures in the current year is less than the total of 134,488 visits/scans/procedures derived when the individual totals per service, found on pages 35-39 of the application, are totaled.

In Section C, page 47, the applicant provides the assumptions and methodology used to project its patient origin. The applicant’s assumptions are reasonable and adequately supported.

**Analysis of Need**

In Section C, pages 47-52, the applicant explains why it believes the population projected to utilize the proposed services needs the proposed services. On pages 47 and 52, the applicant states:

*“The proposed project is part of a larger, comprehensive plan to reorganize CHS Blue Ridge’s services to provide quality care, improve access, and lower costs. ... The proposed project to reconfigure certain existing hospital outpatient services at CHS Blue Ridge-Valdese will address the age- [sic] and design-related deficiencies of the existing building. The proposed building will be optimized to care for CHS Blue Ridge-Valdese’s existing ambulatory patients and provide convenient access and an exceptional patient and staff experience. Moreover, the proposed project will result in lower operational costs for the facility, generating a substantial cost-savings over the long-term.”*

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

- CHS Blue Ridge-Valdese focuses solely on outpatient care.
- Outpatient care has replaced a significant amount of inpatient care.
- There are existing facility deficiencies with the CHS Blue Ridge-Valdese facility:
  - The existing building was constructed in the 1950’s with additional spaces added in the 1980’s, thus it is outdated with today’s standards.
  - The water, sewer and power infrastructure is difficult and expensive to maintain.
  - Existing spaces are inappropriately configured or sized for outpatient use.

- Certain spaces are inactive but must be maintained because they adjoin active space.
- Departments are inappropriately situated and sized in locations that are inconvenient for both patients and staff.
- Departments are split between the existing building and a small “annex” building across the parking lot making for inefficiencies in patient transport and internal flow.
- The existing building and use of the annex building have redirected staff time in an inefficient manner.

#### Facility Benefits of the Proposed Project

- The proposed building will be designed to specifically address the needs of ambulatory patients resulting in a convenient and modern facility with lower operational costs.
- The proposed project will result in:
  - A consolidation of department for which less space will be needed
  - Efficient layout for the flow of staff, materials and patients
  - Reduction in medical equipment
  - Lower maintenance costs
  - Lower operational costs
  - No to minimal disruption of services as no construction will occur in the existing buildings

#### *Projected Utilization*

In Section Q, the applicant provides historical and projected utilization as illustrated in the following tables.

**Historical Visits/Scans/Procedures- CHS Blue Ridge-Valdese**

	<b>CY15 (Historical)</b>	<b>CY16 (Historical)</b>	<b>CY17 (Historical)</b>
ED Visits	20,738	20,086	19,400
Infusion Therapy Patients	4,811	5,033	5,064
CT Scans	2,562	3,590	3,711
MRI Scans	1,183	1,163	1,098
X-Ray Scans	13,332	12,785	13,155
Mammography Scans	2,166	2,063	2,099
Ultrasound Scans	3,188	3,274	3,064
Nuclear Medicine Scans	1,058	1,072	429*
Bone Density Scans	345	293	544
Linear Accelerator Procedures	6,504	5,916	5,423
Linear Accelerator Patients	317	285	266
Lab Utilization	75,719	67,316	61,047
PT Utilization (incl. Cardiac Rehab)	9,173	8,762	8,784
ST Utilization	176	167	153
OT Utilization	959	776	872
Respiratory Therapy Utilization	10,642	13,105	14,772

\*Please note that the reduction in nuclear medicine scans in 2017 was the result of the consolidation of CHS Blue Ridge's nuclear cardiology on its Morganton campus.

**Projected Visits/Scans/Procedures- CHS Blue Ridge-Valdese**

	<b>CY18 (Interim)</b>	<b>CY19 (Interim)</b>	<b>CY20 (Interim)</b>	<b>CY21 (Interim)</b>	<b>CY22 (Interim)</b>	<b>CY23 (OY1)</b>	<b>CY24 (OY2)</b>	<b>CY25 (OY3)</b>
ED Visits	19,488	19,577	19,665	19,755	19,844	19,934	20,025	20,116
Infusion Therapy Patients	5,087	5,110	5,133	5,157	5,180	5,204	5,227	5,251
CT Scans	3,728	3,745	3,762	3,779	3,796	3,813	3,831	3,848
MRI Scans	1,103	1,108	1,113	1,118	1,123	1,128	1,133	1,139
X-Ray Scans	13,215	13,275	13,335	13,396	13,456	13,517	13,579	13,640
Mammography Scans	2,109	2,118	2,128	2,137	2,147	2,157	2,167	2,176
Ultrasound Scans	3,078	3,092	3,106	3,120	3,134	3,148	3,163	3,177
Nuclear Medicine Scans	431	433	435	437	439	441	443	445
Bone Density Scans	546	549	551	554	556	559	562	564
Linear Accelerator Procedures	5,448	5,472	5,497	5,522	5,547	5,572	5,598	5,623
Linear Accelerator Patients	267	268	270	271	272	273	275	276
Lab Utilization	61,324	61,603	61,882	62,163	62,445	62,729	63,014	63,300
PT Utilization (incl. Cardiac Rehab)	8,824	8,864	8,904	8,945	8,985	9,026	9,067	9,108
ST Utilization	154	154	155	156	157	157	158	159
OT Utilization	876	880	884	888	892	896	900	904
Respiratory Therapy Utilization	14,839	14,906	14,974	15,042	15,110	15,179	15,248	15,317
CAGR	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

Note: Projected growth of 0.5% per year is based on the projected annual population growth of Burke County from 2017 to 2025 per the North Carolina Office of Budget and Management. See Section Q “Form C Utilization-Assumptions and Methodology”.

In Section Q, the applicant provides the assumptions and methodology used to project utilization, which is summarized below.

*“CHS Blue Ridge-Valdese’s goal [for the proposed project] is to develop a modern, more convenient and patient-friendly facility with lower operational costs. As such, the need for the project is primarily qualitative in nature, not quantitative (i.e. driven by volume of services). Further, the project is not expected to result in significant changes in utilization. Rather, CHS Blue Ridge-Valdese expects that the proposed project will enable it to better serve its existing patient population as it grows over time.*”



*...the first three full fiscal years for the project are CY2023, CY2024, and CY2025; CHS Blue Ridge-Valdese has provided utilization projections for the service components involved in the proposed reconfiguration through this time period.*

*The methodologies for each service component are described below and include assumptions related to the projected population growth in CHS Blue Ridge-Valdese's home county, Burke County. ... Burke County is projected to experience 0.5 percent annual population growth from 2017 to 2025, which is expected to lead to increased utilization. Moreover, the population age 65 and older is expected to grow 2.3 percent annually. These data are significant because, typically, older residents utilize healthcare services at a higher rate than those how are younger. For these residents, the improvement in access to services at CHS Blue Ridge-Valdese will support the expected higher utilization of this population group.” (See Form C Utilization, Section Q of the application.)*

In Section Q, page 10 of Form C Utilization-Assumptions and Methodology, the applicant identifies speech therapy, respiratory therapy, occupational therapy, physical therapy and lab as important ancillary services not driven by utilization, but by the need to offer these services in support of other services being provided at CHS Blue Ridge-Valdese.

Questions were raised in comments regarding utilization of the existing services. The project analyst notes that the need for the proposed project is based on qualitative needs not quantitative needs, as the applicant states in both its application and response to comments. The project analyst finds both the stated need for the project and utilization (interim and projected) to be reasonable and adequately supported. Furthermore, the project analyst notes that there are no applicable rules or performance standards for the proposed project. In addition, the project analyst notes if CHS Blue Ridge consisted of one main campus instead of having the unique characteristic of two separate campuses this proposed project would have been exempt from Certificate of Need review.

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

- The applicant bases projected utilization upon its historical data with a growth rate based on the projected population growth rate for Burke County, the county in which CHS Blue Ridge-Valdese is located.
- The applicant is the only provider of acute care services in Burke County.

### Access

In Section C.11, page 56, the applicant states,

*“CHS Blue Ridge provides access to care for all patients regardless of race, color, religion, natural origin, sex, age, disability, or source of payment.”*

In Section L, page 94, the applicant projects the following payor mix during the second full fiscal year of operation following completion of the project, as illustrated in the following table.

**CHS Blue Ridge-Valdese: Projected Payor Source for OY2 (CY2024)**

<b>Payor Category</b>	<b>Services as Percent of Total</b>
Medicaid	44.4%
Medicare	14.3%
Self Pay	8.7%
Commercial/ Managed Care	18.8%
Other (Other Gov't, Workers Comp)	1.8%
<b>Total</b>	<b>100.0%</b>

Source: Table page 92 of the application.

The projected payor mix is reasonable and adequately supported.

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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.

NA

CHS Blue Ridge proposes to construct new space on the CHS Blue Ridge-Valdese hospital campus to reconfigure certain existing outpatient services that are currently located on the CHS Blue Ridge-Valdese campus.

The applicant does not propose to reduce, eliminate or relocate a facility or a service. Therefore, Criterion (3a) is not applicable to this review.

- (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

CHS Blue Ridge proposes to construct new space on the CHS Blue Ridge-Valdese hospital campus to reconfigure certain existing outpatient services that are currently located on the CHS Blue Ridge-Valdese campus.

In Section E, pages 65-66, 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- Under the status quo, CHS Blue Ridge-Valdese would continue to operate exclusively in its existing building. The existing building has design and age related deficiencies resulting in high operational costs and inefficient and inconvenient operations in transporting patients and staff time. Therefore, the status quo was not considered the least costly or most effective alternative to meet the need.
- Renovate Existing CHS Blue Ridge-Valdese Building- The applicant considered renovating its existing building, however, significant renovation would have been required to address the water, power and sewer systems built in the 1950s, This renovation would have required significant disruption in CHS Blue-Ridge Valdese's serving of patients, and based on a cost analysis, the long-term operational costs would exceed the projected capital costs of the proposed project. Thus, renovating the existing CHS Blue Ridge-Valdese building would not be the least costly or most effective alternative.
- Consolidate Services at CHS Blue Ridge-Morganton- The applicant states that CHS Blue Ridge-Morganton does not have the physical capacity nor all of the existing equipment to accommodate moving all of the patient volume from CHS Blue Ridge-Valdese to CHS Blue Ridge-Morganton. In addition, consolidating services at CHS Blue Ridge-Morganton would result in a reduction of geographic access for healthcare services for patients closer to the Valdese campus. Therefore, consolidating services at CHS Blue Ridge-Morganton was determined not to be the most effective alternative.

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 proposed project will, without any disruption in patient services:
  - result in lower operational costs,
  - substantial cost savings over the long-term, and
  - optimize care for CHS Blue Ridge-Valdese's ambulatory patients and staff in terms of access and convenience.

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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. Therefore, the application is approved subject to the following conditions:

- 1. Blue Ridge HealthCare Hospitals, Inc. shall materially comply with all representations made in the certificate of need application.**
- 2. Blue Ridge HealthCare Hospitals, Inc. shall construct new space on the Valdese hospital campus for existing outpatient hospital services.**
- 3. Blue Ridge HealthCare Hospitals, Inc. shall not acquire as part of this project any equipment that is not included in the project's proposed capital expenditures in Section Q of the application and that would otherwise require a certificate of need.**
- 4. Blue Ridge HealthCare Hospitals, Inc. shall 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.**
- 5. 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, Blue Ridge HealthCare Hospitals, 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.

6. Blue Ridge HealthCare Hospitals, Inc. shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency in writing prior to 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

CHS Blue Ridge proposes to construct new space on the CHS Blue Ridge-Valdese hospital campus to reconfigure certain existing outpatient services that are currently located on the CHS Blue Ridge-Valdese campus.

**Capital and Working Capital Costs**

In Section F, page 68, and in Section Q, Form F.1a, the applicant projects the total capital cost of the project as shown in the table below.

Site Costs	\$4,455,140
Construction Costs	\$41,670,000
Architect/Engineering Fees	\$5,227,200
Medical Equipment	\$18,400,000
Non Medical Equipment	\$7,332,880
Other (Additional Expenses*)	\$1,797,900
Other (Construction Contingency)	\$5,560,000
Other (Program Contingency)	\$1,290,780
<b>Total</b>	<b>\$85,733,900</b>

\*Additional Expenses include permits/bonding, commissioning, moving/relocation costs, material testing, and other miscellaneous costs.

In Section Q, the applicant provides the assumptions used to project the capital cost.

In Section F, pages 70-71, the applicant projects that the proposed project will not involve any start-up expenses or initial operating expenses since CHS Blue Ridge is already providing this type of service.

**Availability of Funds**

In Section F, page 68, the applicant states that the capital cost will be funded as shown in the table below.

**Sources of Capital Cost Financing**

Type	CHS Blue Ridge	Total
Accumulated reserves or OE *	\$85,733,900	\$85,733,900
<b>Total Financing **</b>	<b>\$85,733,900</b>	<b>\$85,733,900</b>

\* OE = Owner's Equity

In Exhibit F.2-1, the applicant provides a letter dated April 16, 2018 from Robert Fritts, the chief financial officer for CHS Blue Ridge and Blue Ridge HealthCare System which states,

*“The total capital cost of the project is estimated to be \$85,733,900. ... CHS Blue Ridge will finance the costs from existing accumulated reserves and operating income. ... For verification of the availability of these funds and our ability to finance the proposed project internally, please refer to the Line Item ‘Board-Designated as Funded Depreciation’ in the audited financial statements included with this CON application.”*

Exhibit F.2-2 contains a copy of the audited consolidated financial statements for Blue Ridge Healthcare System, Inc. DBA: Blue Ridge Healthcare as of December 31, 2016 and 2015. On page 3 of the consolidated financial statements the line item “Board-Designated as Funded Depreciation” has \$120,495,886 as of December 31, 2016

**Financial Feasibility**

The applicant provided pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.3, the applicant projects that revenues will exceed operating expenses in the first three operating years of the project, as shown in the table below.

	1 <sup>st</sup> Full Fiscal Year	2 <sup>nd</sup> Full Fiscal Year	3 <sup>rd</sup> Full Fiscal Year
Total Visits/Scans/Procedures*	139,112	139,627	140,144
Total Gross Revenues (Charges)	\$1,213,101,878	\$1,261,625,953	\$1,312,090,991
Total Net Revenue**	\$336,890,213	\$350,365,822	\$364,380,455
Average Net Revenue per Visit/Scan/Procedure	\$2,421.72	\$2,509.30	\$2,600.04
Total Operating Expenses (Costs)	\$324,710,269	\$336,302,665	\$348,328,152
Average Operating Expense per Visit/Scan/Procedure	\$2,334.16	\$2,408.58	\$2,485.50
Net Income	\$12,179,944	\$14,063,157	\$16,052,303

\*Source: Table on page 46 of the application.

\*\*Includes “Other Operating Revenue.”

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See Section Q 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
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- Remarks made at the public hearing
- Responses to comments
- 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 and working capital costs 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

CHS Blue Ridge proposes to construct new space on the CHS Blue Ridge-Valdese hospital campus to reconfigure certain existing outpatient services that are currently located on the CHS Blue Ridge-Valdese campus.

N.C. Gen. Statute §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 does not define a service area for hospital-based outpatient services nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient services. Thus, the service area in this review is as defined by the applicant. Facilities may also serve residents of counties not included in their service area.

CHS Blue Ridge is the only acute care hospital in Burke County. In Section G, page 76, the applicants state: “*Other non-hospital providers do not report utilization.*”

The patients to be served will be the same as the patients currently served on the existing hospital campus. No new services will be offered.

In Section G, page 76, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved hospital outpatient services in the service area. The applicant states:

*“There are no other existing or approved facilities that provide the same services as CHS Blue Ridge located in Burke County. ... The need for the proposed project is based on an internal need for CHS Blue Ridge-Valdese to address the age and design-related deficiencies of the existing building. ... No other provider can meet this internal need at CHS Blue Ridge-Valdese.”*

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 proposal would not result in an increase in hospital outpatient services in Burke County.
- The applicant adequately demonstrates that the proposed new building on the CHS Blue Ridge-Valdese campus is needed in addition to the existing buildings on the CHS Blue Ridge-Valdes campus.

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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.

- (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 Q, Form H, the applicant provides current and projected staffing for the proposed services. The applicant projects no change in the number of Full-Time Equivalent (FTE) positions upon project completion.

The assumptions and methodology used to project staffing are provided in Section Q. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in Form F.3, which is found in Section Q. In Section H, pages 78-79, the applicant describes the methods used to recruit or fill new positions and its existing training



and continuing education programs. In Section H, page 79, the applicant identifies the current medical director. In Exhibit H.4, the applicant provides a letter from the current medical director indicating an interest in continuing to serve as medical director for the services. In Section H, page 79, the applicant describes its physician recruitment plans.

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
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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.

- (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 I, page 81, the applicant states,

*“As an existing acute care facility that currently provides each of the service components proposed in this application, all ancillary support services are already in place.... Please see Exhibit I.1 for a letter from Kathy C. Bailey, President and Chief Executive Officer of CHS Blue Ridge, verifying the availability of ancillary and support services for this project.”*

Exhibit I.1 states,

*“CHS Blue Ridge is currently licensed by the North Carolina Department of Health and Human Services, Division of Health Service Regulation, Acute and Home Care Licensure and Certification Section as a general acute care hospital. .... CHS Blue Ridge meets all relevant licensure requirements... CHS Blue Ridge meets all requirements for certification and participation in the Medicare and Medicaid programs and operates in compliance with all Medicare Conditions of Participation. ... CHS Blue Ridge holds a current accreditation from The Joint Commission.”*

In Section I, page 81, the applicant describes its existing and proposed relationships with other local health care and social service providers and provides supporting documentation in Exhibit I.2.

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
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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.

- (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 the HSA in which 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 a 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 K, page 85, the applicant states that the project involves constructing 142,000 square feet of new space. Line drawings are provided in Exhibit C.1.

On page 86, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal and why the proposal will not unduly increase the costs to the applicant of providing the proposed services or the costs and charges to the public for the proposed services and provides supporting documentation in Exhibit C.4.

On page 87, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans.

During the written comment period, a comment was received stating, the following issues with the proposed application under review as it relates to this criteria:

- Facility costs and operational problems associated with having the proposed ASC and the existing acute care beds in an existing outdated building with deficient building systems;
- Costs for repairs to firewalls, walls, floors and ceilings were not included in the project scope of work;
- Possible demolition costs of the existing building are not addressed; and
- Energy efficiency and water conservation features that are not addressed in full.

In response to the comment received, the applicant stated, *“As stated throughout these responses, the older parts of the existing building will not continue to be maintained on a daily basis as an operating hospital facility following completion of the project and the proposed ASC can be developed as proposed as a physically distinct and separate building. As such, there are no operational problems and facility costs as alleged by CHM. Further, the proposed*

*project does not include any repair or demolition of the existing building. CHS Blue Ridge will seek required regulatory approval for future projects.”*

The application and the response to written comments reasonably address the issues regarding the projected construction costs of the proposed project.

**Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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.

(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 L, page 92, the applicant provides the historical payor mix during Calendar Year 2017 for the services to be moved to the new building during the last Full FY, as shown in the table below.

<b>Payor Category</b>	<b>Services as Percent of Total</b>
Medicaid	44.4%
Medicare	14.3%
Self Pay	8.7%
Commercial/ Managed Care	18.8%
Other (Other Gov't, Workers Comp)	1.8%
<b>Total</b>	<b>100.0%</b>

Source: Table page 92 of the application.

In Section L, pages 91-92, the applicant provides the following comparison.

	Percentage of Total Patients Served by CHS Blue Ridge-Valdese during CY2017	Percentage of the Population of the Service Area
Female	59.5%	50.5%
Male	40.5%	49.5%
Unknown	0.0%	0.0%
64 and Younger	69.5%	80.5%
65 and Older	30.5%	19.5%
American Indian	0.0%	0.0%
Asian	0.4%	4.5%
Black or African-American	4.8%	6.6%
Native Hawaiian or Pacific Islander	0.0%	0.0%
White or Caucasian	92.1%	85.8%
Other Race	2.7%	2.0%
Declined / Unavailable	0.0%	0.0%

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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 in comparison to the percentage of the population in the applicant's service area which is medically underserved. 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 L, page 93, the applicant states:

*“While CHS Blue Ridge is not obligated under any federal regulations such as the Hill-Burton Act, as a tax exempt hospital, CHS Blue Ridge has a responsibility for providing community benefit, including uncompensated care. ... In 2014, CHS Blue Ridge’s*

*Community Benefit was more than \$68 million, the actual cost of healthcare services provided with partial or no payments from any source.”*

In Section L, page 93, the applicant states that during the last five years no patient civil rights access complaints have been filed against the facility or any similar facilities owned by the applicant or a related entity and located in North Carolina.

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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 L, page 94, the applicant projects the following payor mix for the proposed services during the second full fiscal year of operation following completion of the project, as shown in the table below.

<b>Payor Category</b>	<b>Services as Percent of Total</b>
Medicaid	44.4%
Medicare	14.3%
Self Pay	8.7%
Commercial/ Managed Care	18.8%
Other (Other Gov't, Workers Comp)	1.8%
<b>Total</b>	<b>100.0%</b>

Source: Table page 92 of the application.

Note: Charity care provided is documented in Section Q, proformas.

As shown in the table above, during the second full fiscal year of operation, the applicant projects that 8.7% of total services will be provided to self-pay patients, 44.4% to Medicare patients and 14.3% to Medicaid patients.

During the written comment period, a comment was received stating that Charity Care and Tricare were not specifically included in the payor mix tables on pages 92 and 94 of the application. In response, the applicant stated, “*Charity care is not a single payor*

*source for patients at CHS Blue Ridge. Patients in any payor category can and do receive charity care. CHS Blue Ridge's charity care projections are included on Forms F.3 & F.4. TRICARE patients are classified as Other Government in CHS Blue Ridge's historical and projected payor mix tables as TRICARE is a government payor. Thus, CMH's comment is in error. CHS Blue Ridge does demonstrate historical and projected charity care, as well as service to TRICARE patients."* The applicant's response to the comment is reasonable in regards to Charity Care and Tricare.

On page 94, 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 projected payor mix is based on historical payor mix.

In Section L, page 93, the applicant states that during the last five years no patient civil rights access complaints have been filed against the facility or any similar facilities owned by the applicant or a related entity and located in North Carolina.

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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 L, page 95 the applicant adequately describes the range of means by which patients will have access to the proposed services.

In Section L, page 93, the applicant states that during the last five years no patient civil rights access complaints have been filed against the facility or any similar facilities owned by the applicant or a related entity and located in North Carolina.

The Agency reviewed the:

- Application

- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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 M, page 97, the applicant describes the extent to which health professional training programs in the area have access to the facility for training purposes.

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing
- Responses to comments
- 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.



## C

CHS Blue Ridge proposes to construct new space on the CHS Blue Ridge-Valdese hospital campus to reconfigure certain existing outpatient services that are currently located on the CHS Blue Ridge-Valdese campus.

N.C. Gen. Statute §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 does not define a service area for hospital-based outpatient services nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient services. Thus, the service area in this review is as defined by the applicant. Facilities may also serve residents of counties not included in their service area.

CHS Blue Ridge is the only acute care hospital in Burke County. The patients to be served will be the same as the patients currently served on the existing hospital campus. No new services will be offered. In Section G, page 76, the applicants state: “*Other non-hospital providers do not report utilization.*”

In Section N, page 99-100, 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 pages 99-100, the applicant states “*modern building infrastructure will contribute to lower operational costs for the building leading to substantial long-term savings. ... CHS Blue Ridge-Valdese...facility is simply not suited to its current healthcare needs. ... the proposed building will be optimized to care for CHS Blue Ridge-Valdese’s existing ambulatory patients and provide convenient access and an exceptional patient and staff experience. ... The proposed project will improve access to CHS Blue Ridge-Valdese’s services for all patients in need.*”

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 F and Q of the application and any exhibits)
- Quality services will be provided (see Section O of the application and any exhibits)
- Access will be provided to underserved groups (see Section L of the application and any exhibits)

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Remarks made at the public hearing

- Responses to comments
- 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.

- (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.

### C

In Section O, pages 102-103, the applicant identifies the hospitals located in North Carolina owned, operated or managed by the applicant or a related entity. The applicant identifies a total of one of this type of facility, with two campuses, located in North Carolina.

In Section O, page 103, the applicant states that, during the 18 months immediately preceding the submittal of the application, incidents related to quality of care occurred in none of these facilities. 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, incidents related to quality of care occurred in none 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 the facility, 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

There are no rules applicable to this review. CHS Blue Ridge proposes to construct new space on the CHS Blue Ridge-Valdese hospital campus to reconfigure certain existing outpatient services that are currently located on the CHS Blue Ridge-Valdese campus.