

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: March 26, 2020

Findings Date: March 26, 2020

Project Analyst: Mike McKillip

Team Leader: Fatimah Wilson

Project ID #: J-11843-20

Facility: Holly Hill Hospital-Child and Adolescent Unit

FID #: 120234

County: Wake

Applicants: Holly Hill Hospital, LLC

Universal Health Services, Inc.

Project: Develop no more than 11 additional child/adolescent inpatient psychiatric beds pursuant to the need determination in the 2020 SMFP for a total of no more than 71 child/adolescent beds upon project completion

### 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

Holly Hill Hospital, LLC (HHH) and Universal Health Services, Inc., hereinafter referred to as HHH or “the applicant,” proposes to develop 11 additional child/adolescent inpatient psychiatric beds pursuant to the need determination in the 2020 SMFP for a total of 71 child/adolescent beds upon project completion.

#### **Need Determination**

The 2020 State Medical Facilities Plan (SMFP) contains a need methodology for determining the number of new child/adolescent psychiatric inpatient beds needed by service area.

Application of the need methodology in the 2020 SMFP identified a need for 11 additional child/adolescent psychiatric inpatient beds in the area served by the Alliance Behavioral Healthcare local management entity-managed care organization (LME-MCO), which includes HSA IV and V and encompasses Cumberland, Durham, Johnston and Wake counties. The applicant does not propose to add more than 11 child/adolescent psychiatric inpatient beds; therefore, the application is conforming to the need determination in the 2020 SMFP.

### **Policies**

There are two policies in the 2020 SMFP which are applicable to this review: Policy MH-1: Linkages between Treatment Settings and Policy GEN-3: Basic Principles.

*Policy MH-1: Linkages between Treatment Settings* on page 24 of the 2020 SMFP, 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 B.3 contains a copy of a letter, dated December 30, 2019, from the Chief Executive Officer of Alliance Health, the LME-MCO, supporting the proposed project. Therefore, application is consistent with Policy MH-1.

*Policy GEN-3: Basic Principles*, on pages 30-31 of the 2020 SMFP, states:

*“A certificate of need applicant applying to develop or offer a new institutional health service for which there is a need determination in the North Carolina State Medical Facilities Plan shall demonstrate how the project will promote safety and quality in the delivery of health care services while promoting equitable access and maximizing healthcare value for resources expended. A certificate of need applicant shall document its plans for providing access to services for patients with limited financial resources and demonstrate the availability of capacity to provide these services. A certificate of need applicant shall also document how its projected volumes incorporate these concepts in meeting the need identified in the State Medical Facilities Plan as well as addressing the needs of all residents in the proposed service area.”*

### **Promote Safety and Quality**

In Section B.5, page 13, Section N.2, page 72, and Section O, pages 74-77, the applicant discusses how the project will promote safety and quality. The applicant adequately demonstrates how the proposal will promote safety and quality in the delivery of child/adolescent inpatient psychiatric services.

### **Promote Equitable Access**

In Section B.5, page 14, Section L, pages 65-69, and Section N.2, pages 72-73, the applicant discusses how the project will promote equitable access to child/adolescent psychiatric

services. The applicant adequately demonstrates that the proposal will promote equitable access for medically underserved populations.

### Maximizing Healthcare Value

In Section B.5, page 14, the applicant states:

*“HHH’s proposed project will alleviate capacity constraints and reduce patient wait times in the community. Additional access to child/adolescent psychiatric inpatient beds will also reduce the strain on local emergency departments. Instead of languishing in an emergency department or observation unit, psychiatric patients can be appropriately admitted to an inpatient bed in a timelier manner. This reduces the total resources expended for each patient. The proposed project is cost effective in that it leverages some of HHH’s existing staff and infrastructure of ancillary and support services to facilitate economies of scale.”*

The information provided by the applicant is reasonable and adequate to support the determination that the applicant’s proposal would maximize healthcare value. The applicant adequately demonstrates how the project will promote safety and quality in the delivery of healthcare services while promoting equitable access and maximizing healthcare value for resources expended. Therefore, the application is consistent with Policy GEN-3.

### Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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

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

### C

The applicant, HHH, proposes to develop 11 additional child/adolescent inpatient psychiatric beds pursuant to the need determination in the 2020 SMFP for a total of 71 child/adolescent beds upon project completion. In Section A.4, page 7, the applicant states that HHH currently operates 60 child/adolescent psychiatric inpatient beds and 197 adult psychiatric inpatient beds which are located on three campuses and operated under one license. The applicant proposes

to develop the 11 additional child/adolescent inpatient psychiatric beds in existing space in the child/adolescent building on the Michael J. Smith Lane campus.

**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.” Page 360 of the 2020 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.” Per Table 14A, page 362, 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 C.2, pages 16-19, and Section C.3, page 23, the applicant provides tables showing its historical (CY2018) and projected patient origin for through the first three full fiscal years (FFY2021-FFY2023) following completion of the proposed project, as summarized in the following table:

<b>HHH Child/Adolescent Psychiatric Inpatient Beds Patient Origin Percent of Total Patients</b>		
<b>County</b>	<b>Historical CY2018</b>	<b>Projected FFY2021-FFY20234</b>
Wake	39.44%	39.44%
Durham	3.69%	3.69%
Johnston	3.15%	3.15%
Cumberland	3.11%	3.11%
Harnett	2.66%	2.66%
Nash	2.16%	2.16%
New Hanover	2.03%	2.03%
Other*	43.76%	43.76%
<b>TOTALS</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Tables on pages 16-19 and page 23 of the application.

\*Includes other NC counties each representing less than 2 percent of total patients, and other states, as listed on pages 16-19 of the application.

The applicant states its projected patient origin is based on the historical patient origin for HHH’s existing child/adolescent psychiatric inpatient beds. The applicant’s assumptions are reasonable and adequately supported.

**Analysis of Need**

In Section C.4, pages 24-35, the applicant explains why it believes the population projected to utilize the proposed child/adolescent psychiatric inpatients beds needs the proposed services, which is summarized below:

- The increasing utilization of child/adolescent psychiatric inpatient services nationally, in North Carolina and at HHH (pages 26-27).
- The projected growth in the population in the LME service area (Wakke, Cumberland, Durham and Johnston counties) for the population under 18 years of age (pages 28-29).
- The lack of access to child/adolescent psychiatric inpatient beds in the state and the LME-MCO service area due to high utilization of the current inventory of beds.
- The lack of access to child/adolescent psychiatric inpatient beds results in patients spending many hours in hospital emergency departments waiting for a bed to open (pages 31-32).
- The proposed project to add child/adolescent psychiatric inpatient beds at HHH is consistent with the State mental health initiative, *Strategic Plan for Improvement of Behavioral Health Services*, which is a roadmap for improving access to behavioral health services in North Carolina (pages 33-34).
- The proposed project to add child/adolescent psychiatric inpatient beds at HHH is consistent with the Patient Protection and Affordable Care Act, which seeks to mandate broader access to mental health services by requiring health insurance providers to coverage for mental health services (pages 34-35).

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

- The applicant provides data and information regarding the utilization of child/adolescent psychiatric inpatient services nationally, in North Carolina and at HHH.
- The applicant provides population projections for the LME-MCO service area to support the projected need for child/adolescent psychiatric inpatient beds.
- The applicant provides documentation of the current problems and issues related to increasing hospital emergency department use for mental health crises and the lack of bed inventory to meet the need for child/adolescent psychiatric inpatient services.

### Projected Utilization

In Section Q, Form C Utilization, the applicant provides the historical and projected utilization for HHH child/adolescent psychiatric inpatient beds through the first three full fiscal years, (FFY2021-FFY2023), as summarized in the following table:

	FFY2019	FFY2020	FFY2021	FFY2022	FFY2023
Number of Beds	60	60	71	71	71
Days of Care	19,183	19,485	19,793	20,105	20,422
Occupancy	87.59%	88.97%	76.37%	77.58%	78.80%

Source: Form C, Section Q

As shown in the table above, the applicant projects an average occupancy rate of 78.8% for the 71 child/adolescent psychiatric inpatient beds at HHH in the third operating year (FFY2023) following completion of the project.

In Section Q, Form C Utilization, the applicant describes its assumptions and methodology for projecting utilization of the child/adolescent psychiatric inpatient beds at HHH, which is summarized below:

Step 1 – The applicant reviewed the historical utilization of child/adolescent psychiatric inpatient beds at HHH from FFY2016 through FFY2019 and determined the average annual growth rate of 3.77 percent in total child/adolescent psychiatric inpatient days for the time period.

Step 2 - The applicant projected the utilization of child/adolescent psychiatric inpatient beds at HHH through the first three full fiscal years of operation based on the assumption that total child/adolescent psychiatric inpatient days of care would increase by an average of 1.58 percent per year, which is less than half of the historical growth rate in patient days calculated in Step 1 above.

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

- The projected utilization is based on the historical utilization of the applicant’s existing child/adolescent psychiatric inpatient beds.
- The facility’s current occupancy rate and the projected growth in population supports the projected utilization.

**Access**

In Section C.7, page 36, the applicant states HHH provides services to all patients regardless of factors such as age, race, sex, creed, religion, disability, or the patient’s ability to pay. In Section L.3, page 68, the applicant projects the following payor mix for child/adolescent psychiatric inpatient beds at HHH during the third full fiscal year of operation (FFY2023) following completion of the project, as summarized in the following table.

Payment Source	Percent of Total Patients
Self-Pay	2.3%
Insurance*	54.3%
Medicare*	0.0%
Medicaid*	43.0%
Other (3-way Beds and Other Govt.)	0.5%
<b>Total</b>	<b>100.0%</b>

Source: Table on page 68 of the application.

\*Including any managed care plans

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

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 (payer 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

The applicant does not propose to reduce or eliminate a service, nor does it propose the relocation of 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

The applicant, HHH, proposes to develop 11 additional child/adolescent inpatient psychiatric beds pursuant to the need determination in the 2020 SMFP for a total of 71 child/adolescent beds upon project completion.

In Section E.2, pages 43-45, 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 that maintaining the status quo is not an effective alternative because it would not address the lack of capacity and access to child/adolescent psychiatric inpatient bed services that exists today, nor would it meet the needs for growing utilization in the future.

- Develop the beds in a different location - The applicant determined that developing the beds in a different location would be costly and operationally inefficient.
- Utilize the beds at another facility – The applicant determined this alternative was not effective because there is only one other provider of child/adolescent psychiatric inpatient bed services in the LME-MCO service area, and that provider does not have the capacity or the programming to meet the need identified by the applicant.

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 alternative addresses the capacity constraints at HHH with regard to child/adolescent psychiatric inpatient beds.
- The proposed alternative will address the growing need for additional access to child/adolescent psychiatric inpatient services in the applicant's LME service area.
- The application is conforming with all statutory and regulatory review criteria.

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application

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. Holly Hill Hospital, LLC and Universal Health Services, Inc. shall materially comply with all representations made in the certificate of need application.**
- 2. Holly Hill Hospital, LLC and Universal Health Services, Inc. shall develop no more than eleven additional child/adolescent psychiatric inpatient beds for a total of no more than 71 child/adolescent psychiatric inpatient beds, and no more than 197 adult psychiatric inpatient beds, at Holly Hill Hospital.**
- 3. Holly Hill Hospital, LLC and Universal Health Services, Inc. shall accept patients requiring involuntary admission for psychiatric inpatient services.**
- 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, Holly Hill Hospital, LLC and Universal Health Services, 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. Holly Hill Hospital, LLC and Universal Health Services, 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

The applicant, HHH, proposes to develop 11 additional child/adolescent inpatient psychiatric beds pursuant to the need determination in the 2020 SMFP for a total of 71 child/adolescent beds upon project completion. The applicant proposes to develop the 11 additional child/adolescent inpatient psychiatric beds in existing space in the child/adolescent building on the Michael J. Smith Lane campus.

### **Capital and Working Capital Costs**

In Section Q, Form F.1a Capital Cost, the applicant projects the total capital cost of \$100,000 for the proposed project, which is for consultant fees and contingency costs. The applicant states the additional 11 beds can be accommodated in the existing space without any renovation or construction costs. In Section F, page 34, 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 F.2, the applicant states the capital cost will be funded with the accumulated reserves of Universal Health Services (UHS). Exhibit F.2 (Tab 6) contains a letter dated January 13, 2020 from the Senior Vice President and Treasurer for UHS documenting its intention to provide accumulated cash reserves for the proposed project.

### **Financial Feasibility**

In Section Q of the application, the applicant provides pro forma financial statements for the first three full fiscal years of operation (FFY2021-FFY2023) following completion of the project. In Form F.2, the applicant projects that operating revenue will exceed operating expenses for total (adult and child/adolescent) psychiatric services at HHH, as summarized below.

	FFY2021	FFY2022	FFY2023
Total Days of Care	83,132	84,443	85,774
Gross Patient Revenue	\$133,502,153	\$135,606,680	\$137,744,383
Total Net Revenue	\$63,596,739	\$64,599,277	\$65,617,620
Average Net Revenue per Day	\$765	\$765	\$765
Operating Expense	\$50,151,429	\$52,055,336	\$53,808,937
Average Operating Expense per Day	\$603	\$616	\$627
Net Income (Loss)	\$13,445,310	\$12,543,941	\$11,808,683

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
- Exhibits to the application

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

The applicant, HHH, proposes to develop 11 additional child/adolescent inpatient psychiatric beds pursuant to the need determination in the 2020 SMFP for a total of 71 child/adolescent beds upon project completion. In Section A.4, page 7, the applicant states that HHH currently operates 60 child/adolescent psychiatric inpatient beds and 197 adult psychiatric inpatient beds which are located on three campuses and operated under one license.

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.” Page 360 of the 2020 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.” Per Table 14A, page 362, 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 14A of the 2020 SMFP (page 362), in the applicant’s LME-MCO, Alliance Behavioral Healthcare, there are two hospitals with a total of 92 existing licensed child/adolescent psychiatric inpatient beds, as illustrated below:

<b>ALLIANCE BEHAVIORAL HEALTHCARE LME-MCO CHILD/ADOLESCENT PSYCHIATRIC INPATIENT BEDS</b>				
<b>Name of Facility</b>	<b>County</b>	<b>Licensed Beds</b>	<b>License Pending</b>	<b>Total Child/Adolescent Inventory</b>
Holly Hill Hospital	Wake	60	0	60
Strategic Behavioral Center-Garner*	Wake	32	0	24
<b>Totals</b>		<b>92</b>	<b>0</b>	<b>92</b>

Source: 2020 SMFP, Table 14A, page 362.

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

As shown in the table above, there are 92 licensed child/adolescent psychiatric inpatient beds in the Alliance Health LME-MCO service area.

In Section G.2, pages 52-54, the applicant explains why it believes the proposal would not result in the unnecessary duplication of existing or approved child/adolescent psychiatric inpatient beds in the service area. The applicant states:

*“The Alliance Health LME service area hosts only 92 general purpose child/adolescent inpatient psychiatric beds. ... In the Alliance Health LME, this represents an average child/adolescent bed occupancy rate of 82% in 2018, which is well above the CON performance standard of 75% occupancy. ... In summary, there is limited access to child/adolescent psychiatric beds in Wake County, the Alliance Health LME service area, and across the state of North Carolina. HHH’s proposal to add child/adolescent beds at its Raleigh facility will improve access to these services and does not represent any unnecessary duplication of services.”*

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 the need for the 11 additional child/adolescent psychiatric inpatient beds at HHH.
- The applicant adequately demonstrates that the additional child/adolescent psychiatric inpatient beds are needed in addition to the existing child/adolescent psychiatric inpatient beds located in the Alliance Health LME-MCO service area.

**Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application

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 the current and projected staffing for the proposed psychiatric inpatient services at HHH in full-time equivalent (FTE) positions, as summarized in the following table.

Position	Existing	Projected
	December 2019	FFY2023
Psychologists	5.0	5.0
Nurses	87.0	90.0
Social Services	25.0	26.5
Activities	6.0	7.0
Administration	110.0	111.0
Mental Health Technicians	165.0	167.0
Intake	40.5	41.5
<b>TOTAL</b>	<b>438.5</b>	<b>448.0</b>

Source: Section Q Form H

The assumptions and methodology used to project staffing are provided in Section Q, Form H Assumptions. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in Section Q, Form F.3 of the pro forma financial statements. In Section H, pages 55-57, the applicant describes the methods to be used to recruit or fill new positions and its proposed training and continuing education programs.

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

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 I.1, page 58, the applicant describes the ancillary and support services that are currently provided and will continue to be provided by the hospital for the proposed services, including patient scheduling, accounting and billing, medical records, human resources, staff education,, infection control, quality and performance improvement, and housekeeping. Exhibit I.1 contains a letter from the CEO of HHH documenting the intent to provide the above services.

In Section I.2, page 58, the applicant describes its existing and proposed relationships with other local health care and social service providers. Exhibit I.2 (Tab 9) contains letters from physicians across the LME/MCO expressing their support and intent to refer patients.

On page 59, the applicant identifies the medical director for HHH psychiatric services. Exhibit I.3 (Tab 10) contains a letter from the physician expressing his support for the project and his intention to continue to serve as medical director for HHH.

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

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 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

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

NA

The applicant does not propose any construction or renovation with this project. Therefore, Criterion (12) is not applicable to this review.

- (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.1, page 66, the applicant reports the following payor mix for the child/adolescent psychiatric inpatient beds at HHH for FFY2019:

Payment Source	Percent of Total Patients
Self-Pay	2.3%
Insurance*	54.3%
Medicare*	0.0%
Medicaid*	43.0%
Other (3-way Beds and Other Govt.)	0.5%
<b>Total</b>	<b>100.0%</b>

Source: Table on page 66 of the application.

\*Including any managed care plans

Total may not foot due to rounding.

In Section L.1, page 66, the applicant provides the following comparison.

	% of Total Patients Served at HHH during Last Full FY	% of the Population of Alliance Health LME/MCO
Female	47.9%	51.3%
Male	52.1%	48.7%
Unknown	0.0%	0.0%
64 and Younger	96.4%	87.9%
65 and Older	3.6%	12.1%
American Indian	0.5%	1.0%
Asian	1.4%	5.7%
Black or African-American	31.8%	26.3%
Native Hawaiian or Pacific Islander	0.0%	0.2%
White or Caucasian	58.0%	55.4%
Other Race	8.3%	11.5%

Source: Table on page 66 of the application.

The Agency reviewed the:

- Application
- Exhibits to the application

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 L.2, page 67, the applicant states that HHH has no obligation under any applicable federal regulations to provide uncompensated care, community service or access by minorities and handicapped persons.

In Section L.2, page 67, the applicant states that during the last five years, no patient civil rights access complaints have been filed against HHH facilities.

The Agency reviewed the:

- Application
- Exhibits to the application

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.3, page 68, the applicant projects the following payor mix for child/adolescent psychiatric inpatient beds at HHH during the third full fiscal year of operation (FFY2023) following completion of the project, as summarized in the following table.

Payment Source	Percent of Total Patients
Self-Pay	2.3%
Insurance*	54.3%
Medicare*	0.0%
Medicaid*	43.0%
Other (3-way Beds and Other Govt.)	0.5%
<b>Total</b>	<b>100.0%</b>

Source: Table on page 68 of the application.

\*Including any managed care plans

Total may not foot due to rounding.

As shown in the table above, during the third full fiscal year of operation, the applicant projects that 2.3% of total services will be provided to self-pay patients and 43% to Medicaid patients.

In Section L.3, page 68, the applicant provides the assumptions and methodology used to project payor mix during the third 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 experience of the existing child/adolescent psychiatric inpatient services at HHH.

The Agency reviewed the:

- Application
- Exhibits to the application

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.5, page 69, 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

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.1, page 70, the applicant describes the extent to which health professional training programs in the area have access to the facility for training purposes, and provides supporting documentation in Exhibit M.2 of the application.

**Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application

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

The applicant, HHH, proposes to develop 11 additional child/adolescent inpatient psychiatric beds pursuant to the need determination in the 2020 SMFP for a total of 71 child/adolescent beds upon project completion. In Section A.4, page 7, the applicant states that HHH currently operates 60 child/adolescent psychiatric inpatient beds and 197 adult psychiatric inpatient beds which are located on three campuses and operated under one license.

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.*” Page 360 of the 2020 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.*” Per Table 14A, page 362, 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 14A of the 2020 SMFP (page 362), in the applicant’s LME-MCO, Alliance Behavioral Healthcare, there are two hospitals with a total of 92 existing licensed child/adolescent psychiatric inpatient beds, as illustrated below:

<b>ALLIANCE BEHAVIORAL HEALTHCARE LME-MCO CHILD/ADOLESCENT PSYCHIATRIC INPATIENT BEDS</b>				
<b>Name of Facility</b>	<b>County</b>	<b>Licensed Beds</b>	<b>License Pending</b>	<b>Total Child/Adolescent Inventory</b>
Holly Hill Hospital	Wake	60	0	60
Strategic Behavioral Center-Garner*	Wake	32	0	24
<b>Totals</b>		<b>92</b>	<b>0</b>	<b>92</b>

Source: 2020 SMFP, Table 14A, page 362.

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

As shown in the table above, there are 92 licensed child/adolescent psychiatric inpatient beds in the Alliance Health LME-MCO service area.

In Section N, pages 71-72, 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. The applicant states:

*“With development of the additional beds, HHH will continue to have a positive effect on competition in the service area. The proposed additional beds will increase the capacity of cost effective, high quality inpatient services that will be even more accessible by local residents, as described in Section N.2 below.”*

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
- 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.

C

In Section Q, Form A, the applicant states that in addition to HHH in Wake County, it owns two other psychiatric hospitals in North Carolina: Brynn Marr Hospital in Onslow County and Old Vineyard Behavioral Health in Forsyth County.

In Section O.3, pages 76-77, the applicant states that, during the 18 months immediately preceding submission of the application, no incidents related to quality of care leading to determinations of immediate jeopardy occurred at any of its three psychiatric hospitals. After reviewing and considering information provided by the applicant and considering the quality of care provided, 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.

C

The application is conforming to all applicable Criteria and Standards for Psychiatric Beds promulgated in 10A NCAC 14C .2600. The specific criteria are discussed below.

**.2603 PERFORMANCE STANDARDS**

- (a) *An applicant proposing to add psychiatric beds in an existing facility shall not be approved unless the average occupancy over the six months immediately preceding the submittal of the application of the total number of licensed psychiatric beds within the facility in which the beds are to be operated was at least 75 percent.*
- C- In Section C.8, page 38, the applicant provides historical utilization for the last six months immediately preceding submittal of the application (June-November 2019). HHH reports it had a six-month average occupancy rate of 92.7% for child/adolescent psychiatric beds and 83.3% for total licensed psychiatric beds, which exceeds the 75% average occupancy required by this Rule.
- (b) *An applicant proposing to establish new psychiatric beds shall not be approved unless occupancy is projected to be 75% for the total number of licensed psychiatric beds*

*proposed to be operated in the facility no later than the fourth quarter of the second operating year following completion of the project.*

- C- In Section Q, Form C, the applicant projects utilization of the total number of licensed psychiatric beds at HHH will be 86.32% in the second year of operation following completion of the project, which exceeds the 75% average occupancy required by this Rule.