

# SCA Surgical Care Affiliates

Received by the  
CON Section

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Mike McKillip, Project Analyst  
Certificate of Need Section  
Division of Health Service Regulation  
North Carolina Department of Health and Human Services  
701 Barbour Drive  
Raleigh, North Carolina 27626-0530

RE: Comments on Wake County Operating Room CON Applications

Dear Mr. McKillip:

Enclosed please find comments prepared by Blue Ridge Day Surgery Center, LP d/b/a Blue Ridge Surgery Center (BRSC) regarding the competing CON applications for operating rooms in Wake County, to meet the need identified in the *2010 State Medical Facilities Plan*. We trust that you will take these comments into consideration during your review of the applications.

Sincerely,



Rich Sharff  
EVP & General Counsel  
Surgical Care Affiliates

**COMMENTS ABOUT COMPETING CERTIFICATE OF NEED  
APPLICATIONS  
WAKE COUNTY OPERATING ROOMS NEED DETERMINATION  
SUBMITTED BY BLUE RIDGE SURGERY CENTER  
March 31, 2010**

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Blue Ridge Surgery Center (BRSC) represents a partnership of local surgical providers and Surgical Care Affiliates (SCA), an experienced provider of ambulatory surgical services. With its affiliated physicians and partners, SCA is one of the largest national providers of specialty surgical services, operating 124 ambulatory surgery centers and surgical hospitals across the country, with more than 2,000 physician partners.

BRSC has provided high-quality ambulatory surgical services to residents of Wake County and surrounding communities for over 23 years. BRSC operates six (6) operating rooms at its existing facility on Wesvill Court. Currently, 82 physicians perform surgery at the facility, representing a variety of specialties, including gynecology, neurology, ophthalmology, oral surgery, orthopedics, otolaryngology, podiatry, urology and psychiatry. During 2009, BRSC performed 8,851 surgical procedures. Thus, BRSC is knowledgeable regarding the local need for surgical services in Wake County, and is well positioned to evaluate the CON proposals to expand surgical capacity in Wake County.

Five applicants submitted Certificate of Need (CON) applications in response to the need identified in the *2010 State Medical Facilities Plan (SMFP)* for three Operating Rooms in Wake County. In accordance with N.C.G.S. §131E-185(a.1)(1), this document includes comments relating to the proposal submitted by WakeMed Cary Hospital, and how their proposal represents the most effective alternative, in this batch review, for development of operating rooms in Wake County.

Specifically, the CON Section, in making the decision, should consider several key issues. These include, but are not limited to:

- (1) The extent to which each applicant demonstrates the need for its proposed project;
- (2) The extent to which the proposed project will increase accessibility to surgical services for the residents of Wake County;
- (3) The extent to which the proposed project presents a cost-effective alternative to developing additional operating rooms in Wake County; and,
- (4) The extent to which each applicant is consistent with the Basic Principles of the State Medical Facilities Plan (Policy Gen-3).

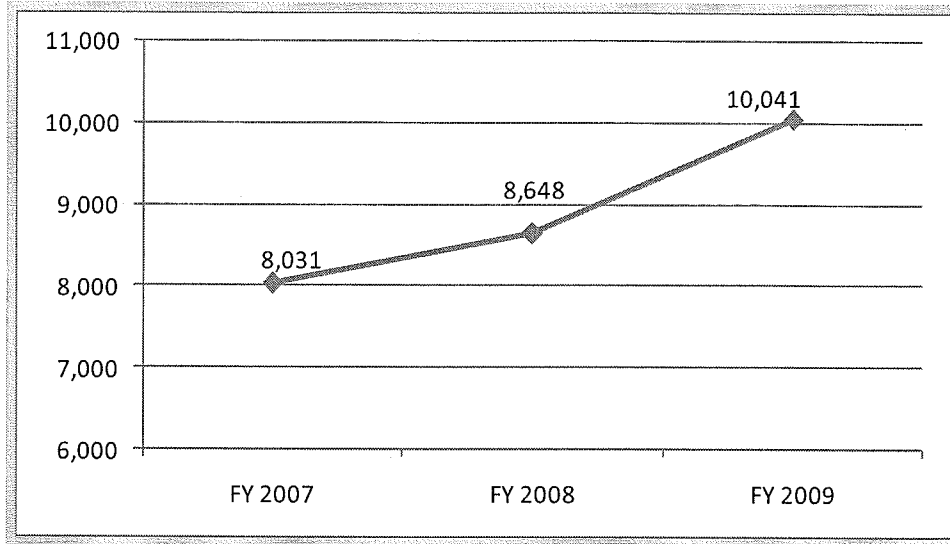
The following provides specific rationale and data that demonstrate WakeMed Cary Hospital's proposal is the most effective alternative of the competing proposals for the three (3) need-determined surgical operating rooms in Wake County.

### **Need Justification**

WakeMed Cary Hospital (WMCH) developed an application that is conforming to Review Criteria 3 and 4. WMCH adequately demonstrated that projected utilization of the existing, approved and proposed operating rooms is based on reasonable and supported assumptions. Therefore, WMCH adequately demonstrated the need the population it projects to serve has for the proposed additional shared operating rooms.

Based on recent historical utilization, surgical utilization - in multiple specialties -- has increased dramatically at WMCH. Specifically, the two-year compound annual growth rate (CAGR) for surgical cases at WMCH increased 11.8% during FY2007-FY2009. Therefore, WMCH has a great need for additional surgical capacity at its facility.

**WakeMed Cary Hospital  
Total Surgical Cases  
FY2007-FY2009**



Source: WakeMed CON Application, 2009 and 2010 State Medical Facilities Plans

Comparatively, total surgical cases in Wake County increased by a two-year CAGR of only 4.1% during the most recent years for which data is currently publicly available, i.e. FY2006-FY2008. Please refer to the following table.

**Total Wake County Surgical Cases  
FY2006-FY2008\***

|                                  | FY2006 | FY2007 | FY2008 | 06-08<br>CAGR |
|----------------------------------|--------|--------|--------|---------------|
| Total Wake County Surgical Cases | 76,818 | 76,855 | 83,200 | 4.1%          |

\*FY2008 data is most recent data available. FY2009 data will be available at the April 14, 2010 Acute Care Service Committee Meeting of the State Health Coordinating Council (which is after the submission of these comments).

Source: State Medical Facility Plans

Overall surgical utilization has increased substantially at WMCH. It is also important to note that this growth is attributed to an increase in both inpatient and outpatient surgical procedures. The following provides recent historical surgical utilization by type at WMCH.

**WakeMed Cary Hospital  
Total Surgical Cases  
FY2007-FY2009**

|                    | 2007         | 2008         | 2009          | 07-09 CAGR   |
|--------------------|--------------|--------------|---------------|--------------|
| Inpatient          | 1,611        | 1,686        | 2,768         | 31.1%        |
| Ambulatory         | 6,420        | 6,962        | 7,273         | 6.4%         |
| <b>Total Cases</b> | <b>8,031</b> | <b>8,648</b> | <b>10,041</b> | <b>11.8%</b> |

Source: WakeMed CON Application, 2009 and 2010 State Medical Facilities Plans

Inpatient surgical procedures at WMCH experienced a dramatic two-year CAGR of 31.1% during FY2007 to FY2009. This far exceeds the historical growth rate for inpatient surgical procedures in Wake County during the most recent two years for which data is publicly available. Additionally, historical growth rates for ambulatory surgical procedures at WakeMed Cary Hospital also exceed ambulatory surgery growth rates for Wake County overall. Please refer to the following table for recent historical surgical utilization by type performed in Wake County operating rooms.

**Wake County  
Total Surgical Cases  
FY2006-FY2008\***

|                    | 2006          | 2007          | 2008          | 06-08 CAGR  |
|--------------------|---------------|---------------|---------------|-------------|
| Inpatient          | 21,029        | 21,082        | 21,840        | 1.9%        |
| Ambulatory         | 55,789        | 55,773        | 61,360        | 4.9%        |
| <b>Total Cases</b> | <b>76,818</b> | <b>76,855</b> | <b>83,200</b> | <b>4.1%</b> |

\*FY2008 data is most recent data available. FY2009 data will be available at the April 14, 2010 Acute Care Service Committee Meeting of the State Health Coordinating Council (which is after the submission of these comments).

Source: State Medical Facilities Plans

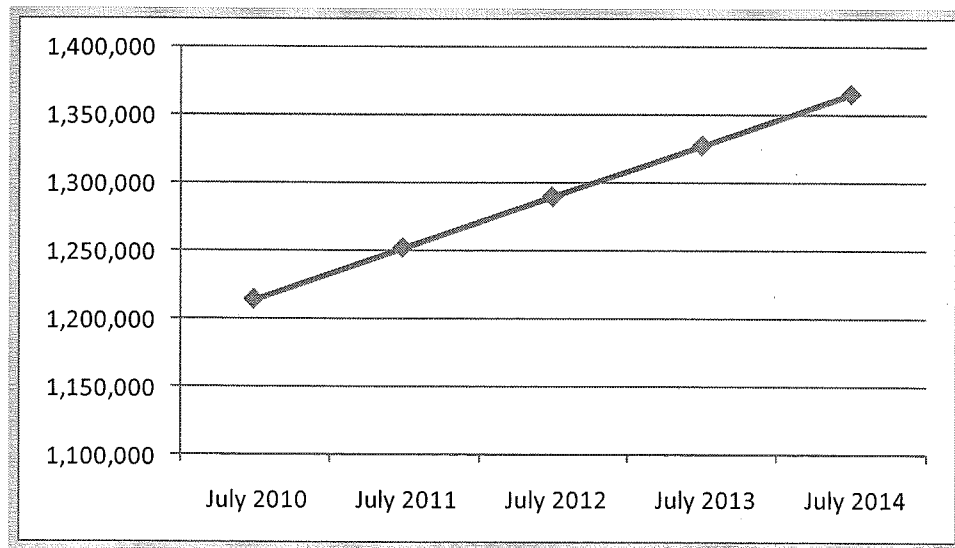
Thus, in order to meet the needs of outpatient *and* inpatient surgical services, WMCH's proposal is the most effective alternative for the three need-determined operating rooms.

According to the 2010 SMFP's criterion for OR capacity, the nine existing shared operating rooms at WMCH operated at 99% of maximum capacity during FY2009.

This level of utilization of operating rooms is not practical over the long term. This, in addition to recent growth, is indicative of the high patient demand for surgical services at this facility. Based on current utilization alone, WMCH clearly justifies the need for the three need-determined surgical operating rooms identified in the 2010 SMFP.

Additionally, WMCH is a well-established provider that serves patients from high population growth areas. WMCH's primary and secondary service areas include Wake, Johnston, and Harnett counties. These counties are growing at rates that are higher compared to North Carolina overall. According to population estimates provided by the North Carolina Office of State Budget and Management (NCOSBM), Wake and Johnston counties rank third and fifth, respectively, as the fastest growing counties in North Carolina. Additionally, Wake County is the second most populous county in the State, and is expected to become the most populous by 2013 with over one million residents. This population growth, combined with aging, is expected to continue to drive demand for both inpatient and ambulatory surgical procedures. The following graph illustrates the projected population growth for WMCH's service area.

**WakeMed Cary Hospital: Primary and Secondary Service Area  
Projected Population Growth  
2010-2014**



Source: North Carolina Office of State Budget and Management

In summary, WMCH's proposal is an effective alternative to increase Wake County's surgical capacity in order to adequately support such rapid and consistent population growth. WMCH's current high utilization and capacity

levels also ensure that the OR's developed through the WMCH project will be well utilized.

**Access**

Medically Underserved

A key factor in measuring the accessibility of alternative proposals is the extent to which the applicants have historically served the medically underserved, particularly the uninsured and recipients of government insurance. In FY2009, WakeMed provided the highest payor mix percentage of care to Medicaid and self-pay/indigent care patients among competing applicants. Please refer to the following table.

**FY2009 Payor Mix - Surgical Services  
Medicaid & Self-Pay/Indigent Care**

|                    | WakeMed - Cary | Novant | Duke - Raleigh | Rex Hospital | Rex - Holly Springs |
|--------------------|----------------|--------|----------------|--------------|---------------------|
| Medicaid           | 4.92%          | N.A.   | 4.1%           | 3.3%         | N.A.                |
| Self -pay/indigent | 2.91%          | N.A.   | 1.2%           | 1.4%         | N.A.                |

Source: CON Applications

In terms of expanding access for the medically underserved, WMCH's proposal represents the most effective alternative by serving the highest percentage of uninsured patients and Medicaid patients.

Another important issue to consider when evaluating the degree to which competing proposals expand access to the medically underserved is their proposed amount of charity care. WMCH's proposal projects to provide \$4,765,294 and \$5,303,324 of charity care, respectively, in the first two years of the project. This is the highest among all the competing applicants. Please refer to the following table.

**Projected Charity Care  
Initial Two Project Years FY2013/FY2014**

|                | WakeMed - Cary | Novant    | Duke - Raleigh | Rex Hospital | Rex - Holly Springs |
|----------------|----------------|-----------|----------------|--------------|---------------------|
| Project Year 1 | \$4,765,294    | \$429,840 | *              | \$4,090,417  | \$181,899           |
| Project Year 2 | \$5,303,324    | \$503,966 | *              | \$3,948,085  | \$263,537           |

Source: CON Applications

\* Duke provides charity care information for all of Duke Health Raleigh Hospital and not for the project surgery component.

WMCH proposes to provide the greatest amount of charity care during the initial two project years. This makes WMCH's an effective proposal in terms of increasing access to surgical services for the medically underserved.

Additionally, WMCH is committed to continuing its long history of partnering with Project Access, and other organizations, to provide the most vulnerable low-income individuals with healthcare services. WMCH's proposal will enable it to remain well-positioned to respond to the needs of the medically underserved in Wake County. WMCH demonstrates that medically underserved populations will have adequate access to the proposed services.

In conclusion, WakeMed carries the highest indigent and uninsured burden of any acute care hospital in Wake County. WMCH has most effectively demonstrated its availability of capacity to provide surgical services to the medically underserved. The WMCH project provides much needed charity care and reinforces a commitment to serving the medically-needy. This is consistent with Review Criterion 13, and with Policy GEN-3, in the 2010 State Medical Facilities Plan, to provide access for patients with limited financial resources.

## **Value**

### Capital Costs

In its application, WMCH demonstrates 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, or the costs and charges to the public of providing health services. WMCH



demonstrates that applicable energy saving features have been incorporated into the construction plans.

In the current economic climate, effective initiatives to contain unnecessary costs and expenditures are especially important to promote value in healthcare. Declining reimbursement rates and increased government regulations are increasingly placing downward pressure on healthcare providers, particularly hospitals, to effectively do more with less. Thus, efficient management of project capital costs is crucial to providing value.

WMCH's projected capital costs of \$5,867,854 is reasonable, and is the lowest of all competing applicants. WakeMed is efficiently renovating its existing Cary facility in order to maximize the benefit per project dollar. A direct comparison of the applicants total capital costs' demonstrates the cost-effectiveness of WMCH's proposal. Please refer to the following table.

**Projected Total Capital Costs**

|               | WakeMed - Cary | Novant      | Duke - Raleigh | Rex Hospital |
|---------------|----------------|-------------|----------------|--------------|
| Capital Costs | \$5,867,854    | \$8,204,090 | \$8,700,000    | \$8,730,169* |

Source: CON Applications

\*Rex Hospital proposes to develop the three operating rooms split between two facilities, and thus the table reflects the combined cost of developing the three operating rooms, which is comparable to WMCH's 3-OR proposal.

WMCH's proposal promotes cost-effective healthcare delivery by utilizing economies of scale. Instead of constructing a new facility, WakeMed proposes to expand its current facility, building upon its established positive community reputation for high quality surgical services with reasonable costs. As surgery volume continues to increase at the facility, average costs per case will decrease. The result is an even more cost-effective provider of surgical services that is able to offer very competitive charges to third-party payors and patients. WMCH's proposal is ultimately the most effective alternative to expanding value in the North Carolina healthcare market. This is consistent with Policy GEN-3 of the 2010 SMFP to provide to maximize healthcare value for resources expended.

Funding

WMCH is conforming with Review Criterion 5, as it adequately demonstrates the availability of funds for the projected capital costs described in the application.

WMCH will fund the project with accumulated reserves, and thus incur no interest expense. Also, the project involves no working capital requirements, because the project is a proposed expansion of the existing hospital facility.

### Revenues and Operating Costs

WMCH serves both inpatients and outpatients, while some of the other applications would serve only outpatients. WMCH also serves patients with a higher acuity than the dedicated outpatient facilities proposed to be developed by other applicants. Thus, higher average charges are to be expected, and therefore a comparison of revenues and operating costs per case is not relevant or useful.

### **Coordination Programs**

In its application, WMCH describes the ancillary and support services to be provided. WMCH provides 77 letters from physicians indicating their intent to use the proposed operating rooms. WMCH adequately demonstrated that the necessary ancillary and support services will be available and that the proposed service will be coordinated with the existing health care system, and thus is conforming with Review Criterion 8.

### **Training Programs**

The WMCH application describes how WakeMed - including the Surgery Department at WMCH -- supports many health professional training programs located in the Triangle area, and throughout North Carolina. Therefore, WMCH demonstrates that the proposed health services accommodate the clinical needs of health professional training programs in the area, and thus is conforming with Review Criterion 14.

### **Staffing**

WMCH provides current and proposed staffing for the entire Surgery Department, which shows that administrative and support personnel will be available to support the proposed additional operating rooms. WMCH describes its standard recruitment processes which will be used to recruit the nurses, surgical techs, and

other staff necessary. WMCH indentifies the medical director for the surgery department, and includes a letter expressing his intention to serve as medical director for the proposed project. The application contains a copy of the curriculum vitae documenting that the physician has the required education, training and experience. Therefore, WMCH demonstrates the availability of adequate health manpower and management personnel for the provision of the proposed services, and thus is conforming with Review Criterion 7.

## **Quality Care**

WMCH is accredited by the Joint Commission and certified for Medicare and Medicaid participation. No regulatory or administrative penalties or sanctions have occurred within the eighteen months immediately preceding the date of the application. No WakeMed Medicare or Medicaid provider numbers have ever been terminated. Therefore, WMCH provided evidence that quality care has been provided in the past, and thus is conforming with Review Criterion 20.

## **Physician & Community Support**

Another important factor to consider when evaluating competing proposals is the extent to which the community supports each proposed project; particularly the extent to which referring physicians will sustain the project. WMCH received 77 physician letters of support, which is more than any other competing applicant.

In addition to physician support, WMCH's proposal has also received strong community support, including letters of support from legislators of the North Carolina General Assembly and the Apex and Cary Chambers of Commerce. WMCH's proposal received 19 additional community letters of support from a broad range of organizations in Wake County.

## CONCLUSION

In summary, the approved applicant should demonstrate a plan and ability to meet the following key objectives:

- (1) The extent to which each applicant demonstrates the need for its proposed project;
- (2) The extent to which the proposed project will increase accessibility to surgical services for the residents of Wake County;
- (3) The extent to which the proposed project presents a cost-effective alternative to developing additional operating rooms in Wake County; and,
- (4) The extent to which the applicant is consistent with the Basic Principles of the State Medical Facilities Plan (Policy Gen-3).

SCA believes that WMCH's proposal meets all of the above objectives. WMCH adequately demonstrates that the proposed services will have a positive impact on the cost effectiveness, quality, and access to the proposed services. SCA considers their application as satisfying all the CON Review criteria, and that it represents the most effective alternative for development of additional operating rooms in Wake County.