

Viewmont Surgery Center, LLC
Comments in Opposition to the Applications Submitted
by Caldwell Memorial Hospital, Inc. and SCSV, LLC
for A New Ambulatory Surgical Facility in Caldwell County
April 30, 2014

Received by
the CON Section
APR 30 2014

In accordance with N.C.G.S. 131E-185 (1), the following are comments submitted by Viewmont Surgery Center, LLC (“Viewmont”). Viewmont is an existing ambulatory surgical center (“ASC”) located in Catawba County, 25 miles from the proposed Caldwell Surgery Center. Viewmont is filing comments in opposition to the following application:

- Project I.D. #E-10261-14 Caldwell Surgery Center (“CSC”)

I. Overview

Caldwell Memorial Hospital, Inc. and SCSV, LLC (together hereby referred to as “the Applicants”) have submitted an application that proposes to establish a new ASC in Granite Falls, NC in the southernmost part of Caldwell County. Throughout the proposal, the Applicants explain that the proposed Caldwell Surgery Center will fill the void that Caldwell County has in absence of an ASC in the County and will prevent the outmigration of Caldwell County residents to outpatient surgery providers in other counties. However, the Applicants’ presentation of this project is misleading. Caldwell Memorial Hospital currently operates a freestanding outpatient surgery center, the Hancock Surgery Center, with three dedicated outpatient operating rooms located in the center of Caldwell County, only 0.6 miles from the hospital in Lenoir, NC. Applicants’ current project proposes to close these underutilized operating rooms and relocate them to a newly constructed ASC in the southernmost part of the County. While the Hancock Surgery Center is licensed under Caldwell Memorial Hospital, it in every way serves the function of an ASC.

The proposed ASC does not bring new services or increased access to the residents of Caldwell County. Rather, it relocates an existing ASC from the middle of the County where it is accessible to all areas of Caldwell County and places it in southern Caldwell County, just minutes from a number of existing outpatient surgery providers in neighboring counties. The underlying basis of the application is flawed and its assumptions are questionable. It represents a costly and unnecessary duplication of existing services and an ineffective alternative in terms of cost, accessibility, and quality.

The application should be denied based on the following:

- The Applicants claim to expand access with this proposal but instead relocate the only freestanding outpatient surgery center from the middle of the County to the southern part of the County within several miles of four other existing outpatient surgery providers;
- Based on the current outmigration trends, the Applicants’ assumptions regarding the reverse of the migration are questionable and as a result the Applicants will have a difficult time meeting their projections, making it likely that the proposed surgery center will not be financially feasible;

- If Caldwell Surgery Center does meet these improbable projections, this project will undoubtedly impact existing providers; and
- The application fails to conform with multiple review criteria based on the reasons above and others outlined in this analysis.

II. Review Criteria for New Institutional Health Services

(1) Consistency with the State Medical Facilities Plan and Policy GEN-4

This project does not directly conflict with a need determination, or lack thereof, outlined by the SMFP, since it does not propose to add operating rooms to Caldwell County. However, this project represents an unnecessary duplication of existing services and is a wasteful use of resources in constructing a new ASC minutes away from five (5) existing ambulatory surgical providers, several of which are already underutilized. The proposed center thus duplicates both the existing Hancock Surgery Center and other existing ASCs in adjacent counties. As outlined in detail below, should it achieve its projected utilization, it will only be achieved at the expense of existing providers. This project fails to meet many of the review criteria and as a result is not consistent with Criterion (1).

(3) Populations to be Served and Need for the Project

Populations To Be Served

Primary and Secondary Service Area does not align with location for the project

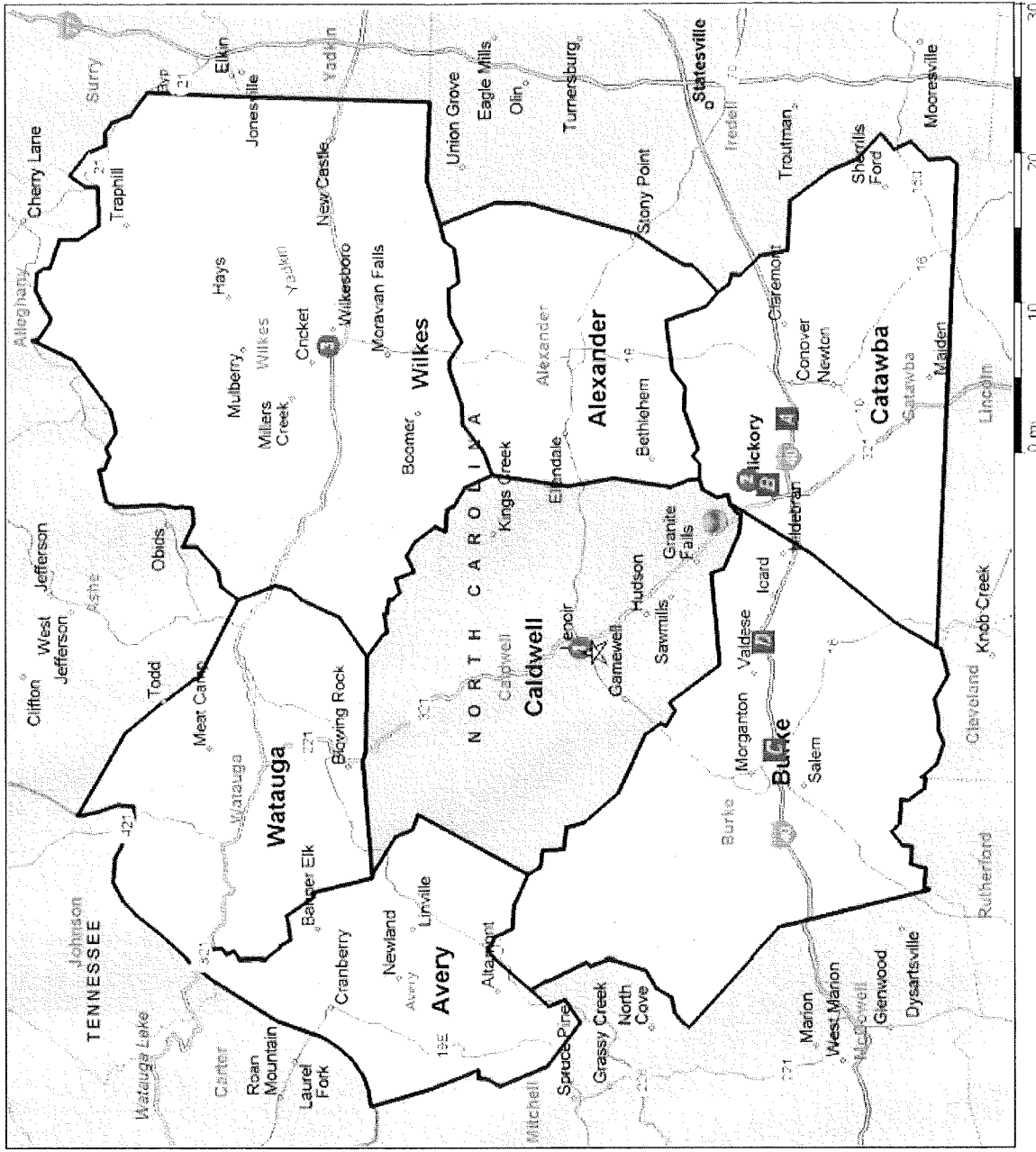
The Applicants identify Caldwell County as the primary service area for this project and project that 89.29 percent of patients will originate from Caldwell County. As shown in the map below, Hancock Surgery Center, the current site for the proposed relocated operating rooms, is centrally located in Lenoir, approximately 0.6 miles from Caldwell Memorial Hospital. It is accessible from all parts of Caldwell County. The proposed ASC location is 13.68 miles away from CMH and 13.65 miles away from the Hancock Surgery Center. This significant distance for relocation will radically change the patient draw to the center, which has not been realistically represented by the Applicants. The proposed site for Caldwell Surgery Center in Granite Falls is more accessible to the southern part of the County and sits at the intersection of the Caldwell, Catawba, and Burke County lines. However, this area of Caldwell County has five existing providers of outpatient surgery in bordering Burke and Catawba Counties, including one freestanding ASC, within minutes of the proposed surgery center. Currently, both CMH and Hancock Surgery Center are 18.5 miles from Viewmont Surgery Center. The proposed ASC is 5.23 miles and 11 minutes from Viewmont Surgery Center. While the proposed location may increase access for this area of Caldwell County and for residents of Burke and Catawba Counties, it decreases access to the underserved central and northern areas of Caldwell County and will take away the option of accessing a freestanding ASC in

the central part of the county. If the intent of this project is to increase access to Caldwell County residents, as stated on page 13 of the application, this proposed location does not achieve that goal.

The Applicants' assumption that 89.29 percent of patients will come from Caldwell County is unrealistic given the proposed location on the border of Burke and Catawba County. CMH and Hancock Surgery Center are 14-25 miles away from the six local outpatient surgery providers discussed in this section. Caldwell Surgery Center will be located just minutes away from some of these providers. Therefore, it is far more realistic to assume that a greater percentage of patients will come from these adjacent counties. In addition, the physicians that the Applicants state will use the facility include numerous physicians that are currently aligned with hospitals and ASCs in neighboring counties. Thus, it is more than likely that these physicians will draw patients from neighboring counties. For these reasons, the Applicants has not adequately defined the population to be served. As a result, the service area definition and patient origin projections are unrealistic and inconsistent with the facts involved in the project.

It is also unrealistic to continue to include Wilkes, Avery, and Watauga Counties in the service area. As shown in the map below, the projected ASC is moving significantly further away from these counties and residents would have to drive past CMH in many instances to reach the proposed new surgery center. The Applicants have not accurately or appropriately defined its service area, patient origin and the population to be served. As a result, the Applicants should be found non-conforming with Criterion (3).

Map of the Service Area, Existing and Proposed Surgery Providers



- Other ASCs**
- Hancock Surgery Center
- Area Hospitals**
- Catawba Valley Medical Center
- Frye Regional Medical Center
- Grace Hospital
- Valdese General Hospital
- Providers**
- Caldwell Memorial Hospital
- Proposed Caldwell ASC
- Viewmont Surgery Center
- Wilkes Regional Medical Center ASC
- Service Area**
- Alexander
- Avery
- Burke
- Caldwell
- Catawba
- Watauga
- Wilkes

Need for the Project

More Efficient Utilization of Operating Rooms in Central Caldwell County is Needed

Caldwell Memorial Hospital (CMH) is serving the residents of Caldwell County most appropriately from its Lenoir location. In fact, as shown in Exhibit 1, the hospital operating rooms are highly utilized at 99.8% of capacity. However, as demonstrated in Exhibit 2, the existing Hancock Surgery Center in Lenoir is severely under-utilized at 15.88% of capacity and could be used to relieve capacity constraints at the hospital. Outpatient surgery cases would be more appropriately shifted from the hospital to the existing surgery center in Lenoir than to the southern area of the County, which is proximal to five other outpatient surgery providers. Moving the ORs to the extreme southern part of the County will make it even more difficult to use the outpatient capacity at Hancock Surgery Center to relieve capacity constraints at CMH.

Exhibit 1
Caldwell Memorial Hospital is Operating Above Optimal Capacity

Total Shared ORs	4
Hours per Year Scheduled	2,080
Total OR hours available	8,320
2012-2013 Total Inpatient Cases	1,332
Average Time per case (in minutes)	149
Total Inpatient Minutes	198,468
Total Inpatient Hours	3,307.8
2012-2013 Total Outpatient Cases	2,272
Average Time per case (in minutes)	132
Total Outpatient Minutes	299,904
Total Outpatient Hours	4,998.4
Total Surgical Hours	8,306.2
<i>Percent of Capacity</i>	<i>99.83%</i>

Source: 2014 License Renewal Application

Exhibit 2
Hancock Surgery Center is Underutilized

Total ORs	3
Hours per Year Scheduled	1,950
Total OR hours available	5,850
2012-2013 Outpatient Surgical Cases	774
Average Time per case (in minutes)	72
Total Outpatient Minutes	55,728
Total Outpatient Hours	928.8
Percent of Capacity	15.88%

Source: 2014 License Renewal Application

The Applicants' Assumed Reduction of Outmigration is Unrealistic

Stated on page 36 of the application, "The proposed project will reduce outmigration and provide improved access to high quality and more cost effective ambulatory surgery procedures." As shown in the Applicants' table on page 36 of the application, Caldwell Memorial Hospital captured 50.2 percent of all Caldwell County residents having outpatient surgical procedures performed in hospitals in 2012. Of the remaining ambulatory cases performed in hospitals, 2,157, or 83 percent, were performed at the four hospitals in neighboring Burke and Catawba counties just minutes from the proposed site of Caldwell Surgery Center.

According to the chart on page 36 of the application, of the 1,774 Caldwell County residents who traveled outside of the County for outpatient surgery in an ASC setting in 2012, 1,319 or 74 percent of these patients sought care at an Eye Surgery Center. Because Caldwell Surgery Center does not plan to offer eye surgery, these patients are not even relevant to the discussion. The only relevant ASC on the Applicants' list that serves a significant portion of Caldwell County ambulatory surgery patients is Viewmont Surgery Center, located eleven minutes from the Applicants' proposed site. It is clear that the intent of this project is not to provide increased access to a freestanding surgery center, but to gain market share from existing providers in Burke and Catawba Counties. Given the ASC's proposed location on the border of Burke and Catawba Counties, the anticipated market shares for these counties, 4.1 percent and 2.4 percent in Year 3, respectively, is understated. This is discussed in more detail below.

The Existing Freestanding ASCs in Burke and Catawba Counties are Underutilized and Capacity is Available.

The utilization of freestanding ambulatory surgery operating rooms in Catawba Counties mirrors the utilization of those in Caldwell County. As shown in Exhibit 3 below, the shared operating rooms at Frye and Catawba Valley Medical Centers are performing well below optimum capacity at 57.8

percent and 66.5 percent, respectively. In addition, the dedicated outpatient operating rooms at Frye Medical Center – Tate Campus (licensed under Frye Medical Center) and those at Viewmont Surgery Center are performing well below capacity at 46.9 percent and 29.3 percent of capacity, respectively. The Applicants have not and cannot justify adding three more dedicated outpatient operating rooms just a few miles away. The affect of these additional operating rooms could be extremely detrimental to the struggling surgery departments in neighboring Burke County.

Exhibit 3
Utilization Capacity for Existing Operating Rooms in Burke and Catawba Counties

	CMC Blue Ridge (Grace and Valdese Combined)	Frye (Main Campus)	Frye (Tate Campus)	Catawba Valley	Viewmont Surgery Center
Total ORs	9	15	4	12	3
Hours per Year Scheduled	2,016	2,080	2,080	2,125	2,080
Total OR hours available	18,144	31,200	8,320	25,500	6240
2012-2013 Total Inpatient Cases	1,519	2,819	N/A	3,412	N/A
Average Time per case (in minutes)	120	238	N/A	210	N/A
Total Inpatient Minutes	182,280	670,922	N/A	716,520	N/A
Total Inpatient Hours	3,038	11,182	N/A	11,942	N/A
2012-2013 Total Outpatient Cases	3,551	3,026	1,722	5,021	2,614
Average Time per case (in minutes)	85	136	136	60	42
Total Outpatient Minutes	301,835	411,536	234,192	301,260	109,788
Total Outpatient Hours	5,031	6,859	3,903	5,021	1,830
Total Surgical Hours	8,069	18,041	3,903	16,963	1,830
Percent of Capacity	44.5%	57.8%	46.9%	66.5%	29.3%

Source: 2014 License Renewal Applications

CMC-Blue Ridge, comprised of Grace and Valdese Hospitals, has nine shared operating rooms in Burke County and operated at 44.5 percent of capacity in 2013. According to the 2014 License Renewal Application, 542, or 15.3 percent of the ambulatory surgery patients served by these facilities were Caldwell County residents. This number of patients is significant both from the

standpoint that it is not large enough to be a major factor in the lofty utilization projections submitted for Caldwell Surgery Center, but it is large enough that any loss will be significant to CMC-Blue Ridge. Caldwell Surgery Center's utilization projections are discussed in more detail below.

The Applicants' Utilization and Market Share Projections are Unrealistic and Unachievable

For the Applicants' utilization projections to be achieved, it will have to take a significant share of patients from Burke and Catawba County providers. On pages 52 and 53, the Applicants demonstrate that they will achieve their projections from redirecting the outmigration of Caldwell County patients seeking outpatient surgery at ASCs and hospitals outside of the County. It is also likely that the Applicant will take Burke and Catawba County residents from these same facilities. The Applicants' intention to redirect these patients is clear based on the hospital affiliations of the supporting physicians and by the Applicants' own statements.

Viewmont Surgery Center is the only freestanding ambulatory surgery center that is not under a hospital license that will be affected by this project. Based on the Applicants' exhibit on page 36 of its application, in FYE 2012, Viewmont served 392 Caldwell County patients, five times more than all of the other general/multi-specialty ASCs combined. Viewmont, along with Catawba Valley Medical Center, Frye Medical Center (Main and Tate Campuses), and CMC-Blue Ridge (which is made up of Grace and Valdese Hospitals) will each be affected if the CSC achieves its unrealistic projections.

Exhibit 4 below shows the total projected redirection of Caldwell County ambulatory surgery cases from existing providers in Burke and Catawba Counties. Based on the Applicants' own projections, in Project Year 3 existing providers will lose 1,776 patients and 25 percent market share to the proposed ASC. Assuming that the Applicants can meet the projected utilization, this loss is conservative and the actual impact is likely to be larger. The Applicants' projections also assume that half of CMH's outpatient volume will shift to the proposed ASC. This is unrealistic given that the ORs are moving further away from the hospital. It would be much more realistic for CMH to shift volume from the busy hospital ORs to the outpatient setting in the current Hancock Surgery Center location which is in close proximity to CMH. In reality, the proposed project is a carefully disguised ploy to capture patients from Caldwell, Catawba, and Burke Counties that use the hospital and ASC providers located in Catawba and Burke Counties.

**Exhibit 4
Caldwell County Patient Impact**

	Actual		Projected Interim			Project Years		
	FYE 9/30/2012	FYE 9/30/2013	FYE 9/30/2014	FYE 9/30/2015	FYE 9/30/2016	FYE 9/30/2017	FYE 9/30/2018	FYE 9/30/2019
Ambulatory Cases	6,995	7,007	7,019	7,032	7,048	7,066	7,085	7,106
CMH Market Share	37.5%	37.3%	37.3%	37.3%	37.3%	37.3%	40.0%	42.0%
CMH Cases Status Quo	2,623	2,613	2,617	2,622	2,628	2,635	2,834	2,985
Patients Staying at CMH						1,318	1,417	1,492
Patients Going to CSC						1,317	1,417	1,493
Incremental Cases Captured by CSC						1,368	1,559	1,776
Total Patients at CSC						2,685	2,976	3,269
Total CMH & CSC Cases						4,003	4,393	4,761
Total CMH & CSC Market Share						56.7%	62.0%	67.0%
Incremental Market Capture for CMH & CSC						19.4%	22.0%	25.0%
Cases Lost by Existing Providers						(1,368)	(1,559)	(1,776)

Source: CON Application Pages 52 and 53

What is more concerning with these figures is that the Applicants base their projections on an overstated number of Caldwell County patients than they can realistically capture. The Applicants' methodology fails to account for patients that they will not be able to serve with this project. This methodology assumes that one hundred percent of Caldwell County outpatient surgery patients could be best served by the hospital or the proposed Caldwell Surgery Center. In fact, there is a significant portion of patients that will not be served by either even with the option of the proposed ASC. This includes patients seeking care in higher level specialty and/or tertiary hospitals as well as eye surgery patients seeking care in an ASC. Because Caldwell Surgery Center does not propose to offer eye surgery, this is a significant portion of patients that the Applicants will not capture under any scenario. The same market share analysis is presented above is reproduced in Exhibit 5; however Exhibit 5 removes the Caldwell patients who travel to eye surgery centers and tertiary/specialty hospitals and would not be affected by this project. This exhibit demonstrates that by Project Year 3, there are realistically 5,439 Caldwell County ambulatory surgery cases that the Applicants could possibly capture and the Applicants project to capture an astounding 87.5 percent of those cases.

Removing the eye surgery center patients and high level/specialty providers, the Applicants and CMH combined would have to capture 30 percent incremental market share and over 80 percent of Caldwell County market share to meet the projections for both the hospital ORs and the proposed ASC. Both the incremental capture rate and the total market share are unrealistic.

Exhibit 5

Revised Market Capture Projections - No Eye Center or Tertiary/Specialty Cases

		Percent of Total	Project Years		
			FYE 9/30/2017	FYE 9/30/2018	FYE 9/30/2019
Total 2012 Caldwell County Amb. Surg. Cases	6,997		7,066	7,085	7,106
2012 Cases Performed in Eye Surgery Centers	1,319	18.9%	1,332	1,336	1,340
2012 Cases Performed in Tertiary/Specialty Hospitals	322	4.6%	325	326	327
Cases Relevant to ASC Market Share	5,356	76.5%	5,409	5,423	5,439
Total CMH and CSC Cases Projected for Caldwell County Patients			4,003	4,393	4,761
Percent of Total Available Patients Projected to be Attained by CMH and CSC			74.0%	81.0%	87.5%

Source: Applicant's pages 36, 43 2012 LRAs

In addition, the secondary service area market share is likely understated. The Applicants use the 2014 market share for Burke and Catawba counties from the hospital and Hancock Surgery Center locations in making their patient origin and resulting utilization projections for the Caldwell Surgery Center. The patient origin projections for Burke and Catawba County patients, 4.10 percent and 2.4 percent respectively, presented on page 45 of the application are the CMH ambulatory surgery market shares for these two counties from FYE 2013. It is not realistic in this case to use historical data without some allowance for increased proximity to these areas. In reality, with the proposed location of Caldwell Surgery Center sitting at the borders of these two counties, the market share projections for Burke and Catawba County patients should be higher than those for a provider located in central Caldwell County. CMH and Hancock Surgery Center are 14-25 miles away from the six local outpatient surgery providers discussed in this section. Caldwell Surgery Center will be located just minutes away from some of these providers. Given this factor, the impact to existing providers could be even greater.

Physician Recruitment

The Applicants attempt to document physician recruitment in order to make these large leaps in utilization feasible. However, this does not flow through the projections. Page 64 of the application presents utilization projections for Caldwell Memorial Hospital outpatient surgery for the three year interim period prior to the opening of Caldwell Surgery Center. These projections show a gain of eight to nine ambulatory surgery patients per year during the interim period. This extended period of flat utilization demonstrates that there is little impact of physician recruitment expected for at least the next two years. These interim projections conflict with the narrative of page 41 which discusses the active recruitment of a podiatrist and the priority for recruiting a general surgeon, vascular surgeon, Otolaryngologist, and Urologist.

The Applicants also provide letters of support from a number of physicians indicating the number of cases they intend to perform once the surgery center is operational. However, what is not included in the information provided is whether these physicians are already performing surgeries at CMH and whether the projected surgeries exceed what they are already performing. Therefore, it is difficult to gauge the impact these physicians will make in achieving the utilization projections provided by the Applicants. If these letters simply represent a number of outpatient surgeries currently performed at the hospital and Hancock Surgery Center that will be diverted to CSC, it still leaves a significant level of incremental market share and projected case volume that must be accounted for to achieve the projections. Furthermore, almost 20 percent of the cases per year documented by these letters come from one provider who projects to perform 800 to 1,000 cases at the surgery center in its first year of operation. For an ambulatory surgery center that operates 250 days per year, a surgeon would have to perform three to four cases per day every day of the year to achieve this projection. It is highly unlikely that one provider can feasibly perform this number of cases in one year.

For the Applicants to achieve its projections, they must rely exclusively on new physicians redirecting significant case volume from other existing providers. The Applicants themselves project minimal levels of growth in demand for services, so it is clear that the project volumes will come at the expense of other existing providers. The physician support is tenuous as a basis for projected utilization given the expectation of dramatic shifts in volumes that is expected to occur several years in the future with no significant incremental demand for surgical services in the foreseeable future. Based on unreliable physician support and unrealistic market share projections, the Applicants have not demonstrated a reasonable level of utilization and need for the project. For this reason, the Applicants should be found non-conforming with Criterion (3).

The Proposed Project will Adversely Impact Existing Surgical Providers

While the Applicants' projected utilization is unrealistic at best, if the ASC were to achieve its projected utilization, its impact on existing providers in Burke and Catawba County including Viewmont Surgery Center would be significant. As shown below in Exhibit 6, the five existing providers in Burke and Catawba Counties served 2,319 Caldwell County ambulatory surgical patients in FYE 2013. Utilizing the 0.05% growth rate used by the applicant on page 43 of the application, it can be estimated that these providers would serve approximately 2,326 Caldwell County cases in Year 3 of operation for CSC. Based on the impact projected above, CSC would divert 76 percent of the existing Caldwell County patients from these facilities. While a change this great in utilization trends is highly unrealistic, in the event that it happened, it would have a material adverse impact on existing providers.

Exhibit 6
Impact on Existing Burke and Catawba County Providers

<i>Caldwell County Patients Under Status Quo</i>	Actual FYE 2013	Projected FYE 2014	Projected FYE 2015	Projected FYE 2016	Projected FYE 2017	Projected FYE 2018	Projected FYE 2019
Frye Hospital - Combined	857	857	858	858	859	859	860
Catawba Valley	528	528	529	529	529	529	530
CMC-Blue Ridge	542	542	543	543	543	543	544
Viewmont Surgery Center	392	392	392	393	393	393	393
Total	2,319	2,320	2,321	2,322	2,324	2,325	2,326
Cases Lost by Existing Providers (See Exhibit 4)					1,368	1,559	1,776
Total Remaining Caldwell Cases					956	766	550
<i>Cases Taken From Existing Providers</i>					59%	67%	76%
<i>Remaining Caldwell Patients After Impact</i>	Actual FYE 2013	Projected FYE 2014	Projected FYE 2015	Projected FYE 2016	Projected FYE 2017	Projected FYE 2018	Projected FYE 2019
Frye Hospital - Combined	857	857	858	858	353	283	203
Catawba Valley	528	528	529	529	218	174	125
CMC-Blue Ridge	542	542	543	543	223	179	129
Viewmont Surgery Center	392	392	392	393	162	129	93
<i>Loss of Caldwell County Patient Volume</i>	Actual FYE 2013	Projected FYE 2014	Projected FYE 2015	Projected FYE 2016	Projected FYE 2017	Projected FYE 2018	Projected FYE 2019
Frye Hospital - Combined	857	857	858	858	-506	-576	-657
Catawba Valley	528	528	529	529	-311	-355	-405
CMC-Blue Ridge	542	542	543	543	-320	-364	-415
Viewmont Surgery Center	392	392	392	393	-231	-264	-300

Source: 2014 License Renewal Application

Utilizes 0.5% Growth in Use Rate Used by Applicant on Page 43 of Application

Exhibit 7 demonstrates that just considering the loss of Caldwell County patients alone (not including the reasonable expectation that the new ASC will draw significant additional patient volume from Burke and Catawba Counties), the proposed project will result in more than a 10 percent loss of case volume or adverse impact to Viewmont Surgery Center. This is further confirmed by the fact that at least 8 of the surgeons signing “form” letters supporting the project currently perform procedures at Viewmont Surgery Center.

Exhibit 7
Adverse Impact on Viewmont Surgery Center

FYE 2013 Actual Case Volume	2,614
Loss of Caldwell County Volume	-300
Percent Adverse Impact	-11.5%

If the proposed ASC meets its projected utilization, it will only do so at the expense of existing underutilized providers such as Viewmont Surgery Center and Frye Regional Hospital. As such the Applicants have not demonstrated a need for the project. For this reason, the Applicants should be found non-conforming with Criterion (3).

(3a) The needs of the population will be adequately met by the proposed relocation

The Applicants clearly did not factor the needs of the population into the proposed location. As demonstrated in Exhibit 1, Caldwell Memorial Hospital's operating rooms are over-utilized. There is a clear need to divert ambulatory surgical cases to its three existing dedicated ambulatory operating rooms, which are currently underutilized to relieve hospital capacity constraints. However, it makes much more sense to license the existing freestanding ambulatory surgical facility as a separate ASC than it does to bear the expense of relocating these operating rooms to a newly constructed facility minutes away from six (6) other ambulatory surgery providers. The southern part of the County has abundant access to freestanding surgical providers in Catawba County and has several hospital based options in Catawba and Burke Counties. The relocation of these rooms to the proposed location will take away any access to a freestanding ASC by the residents of central and northern Caldwell County. Because this project actually decreases access to health services, the Applicants should be found non-conforming with Criterion (3a).

(4) Least Costly or Most Effective Alternative

This project does not represent the least costly or most effective alternative. On page 60 of the application, CSC identifies the alternative of licensing the existing freestanding Hancock Surgery Center as a separately licensed ASC. This option is without a doubt the least costly and the most effective alternative, eliminating all capital costs associated with this project and leaving the location of the facility where it is centrally accessible to all areas of Caldwell County. CSC's current proposal is costly and inefficient as it relocates the operating rooms near a number of other providers. Because financial and efficiency factors do not support this location, it is reasonable to assume that the location on the county line has been chosen as part of a strategic effort to gain market share at the expense of existing providers.

CSC explains that the Hancock Surgery Center building is not a viable option because it is twelve years old and approaching half of the life of the building. In other words, this building has at least thirteen useful years left. It would be much more cost efficient to renovate the existing building to address any dated, worn, or inefficient areas than to purchase land for the construction of an entirely new building. It was also not mentioned if alternative sites or existing medical office space were considered instead of buying land and entering into the contract for the development of a new building. Costs are discussed in more detail under Criterion (5) below.

(5) Immediate and Long-term Financial Feasibility

Immediate Financial Feasibility – Project Costs

This project is significantly more costly than it is presented. Caldwell Memorial Hospital and SCSV will enter into a contract with Brackett Flagship Enterprises to develop the ASC and will lease the building from an affiliated entity of the developer. By partnering with a developer, CSC avoids including the construction costs in the capital cost total, though Caldwell Memorial Hospital will purchase and own the land on which CSC is situated. Though the entities forming CSC will not be incurring the bulk of the capital costs associated with constructing the facility, they will incur some costs associated with construction that are not included in the capital cost worksheet. Specifically, the lease term sheet included in Exhibit 3 of the application states, “Tenant is responsible for design and construction of its up-fit including but not limited to the following: interior architectural and engineering fees exceeding \$5.00 per square foot, interior permitting fees, all interior partitions including perimeter drywall and insulation, ceiling, concrete slab if applicable, flooring, electrical, lighting, plumbing, telephone, and HVAC systems.” Notably, these costs were not documented and were not included in the Capital Cost worksheet on page 112 of the application.

In addition, through the lease arrangement, CSC will incur additional operating costs. Just because the entities forming CSC do not directly incur the capital costs at the time of construction does not mean that they do not incur the expense of a large, newly constructed facility over the long term. The lease payment for year one totals \$561,000 and will grow by two percent each year of operation. Given the fifteen year lease term, CSC is guaranteed to incur more than \$8.5 million in lease costs alone during this time. For these reasons, the Applicants have not adequately documented the immediate financial feasibility of the project and should be found non-conforming with Criterion (5).

Long Term Financial Feasibility

As demonstrated above, the utilization and market growth that the Applicants plan to achieve to meet their utilization projections for the Hospital and the proposed ASC by year 3 of operation is significantly large and unrealistic. Given the low net revenue projections for years 1-3 of Caldwell Surgery Center, the possibility that the Center will not be profitable in any of the first three years is not only significant, but likely. As demonstrated in Exhibit 8 below, if CSC falls short of a relatively minimal number of cases in any of the first three years, CSC will not be profitable. CSC’s profitability hinges on its revenues since most of its expenses appear to be fixed regardless of cases. Exhibit 8 demonstrates that if the project falls 655 cases below its projected utilization in Year 3 of operation, it would not break even.

Exhibit 8

	First Full FY	Second Full FY	Third Full FY
Net Income	\$ 389,477	\$ 954,476	\$ 1,559,290
Total Cases (Including Procedures)	4,091	4,516	4,945
Net Revenue Per Case	\$ 2,280	\$ 2,331	\$ 2,381
Cases Above Breakeven	171	409	655

Source: CSC Application pages 101-102

In fact, the number of cases presented above probably gives the Applicants more cushion than they realistically have. The total cases include procedures and the net revenue per case based on both surgical cases and procedures. The average net revenue for a surgical case is likely higher than the average net revenue for a procedure. As a result, the use of net revenue per case in the table above understates the impact of a loss of a surgical case. Therefore, the loss of a smaller amount of surgical cases would be as impactful to profitability as the cases calculated above, since these cases account for procedures as well as surgeries.

The Applicants use the letters of support in Exhibit 10 of its application to validate their projections. Comparing the loss of cases needed to impact profitability in Exhibit 8 to the physician support chart on page 40 of the application, it is evident that the loss of just one of these physicians could make the proposed surgery center not profitable in any or all of the first three years of operation. Form letters from physicians serve as the sole meaningful basis for the Applicants' projections, given that the market share projections are unrealistic and misrepresentative of where patients will actually come from. Given the unrealistic and tenuous nature of these form letters to project where a physician will practice several years in the future, the financial feasibility of this project is tenuous and speculative at best. The project should thus be found non-conforming with Criterion 5.

(6) Unnecessary Duplication

The proposed project is absolutely non-conforming with this Criterion and represents a blatant unnecessary duplication of existing services. The Applicants propose to add outpatient operating rooms to an area of the County with abundant access to existing providers of outpatient surgery. As described in detail above, the project specifically represents an unnecessary duplication of a perfectly usable ASC facility (Hancock Surgery Center), which by the Applicants' own admissions has more than 12 years of useful life. The proposed project also unnecessarily duplicates the existing ASCs and hospital-based surgical providers in Burke and Catawba Counties, which will be in very close proximity following the proposed relocation. As shown in the map and Exhibit 9 below, the southern part of Caldwell County currently has accessibility to 42 operating rooms where outpatient surgery is provided.

Exhibit 9
Summary of Available ORs Proximate to the Project

County	Facility	Shared ORs	Dedicated ORs
Burke	Valdese Hospital	9	
Burke	Grace Hospital (included with Valdese)		
Catawba	Frye Regional Medical Center	15	
Catawba	Frye - Tate Campus		4
Catawba	Catawba Valley Medical Center	12	
Catawba	Viewmont Surgery Center		3
Total		36	7

In addition, as detailed under Criteria 3, of these 42 available operating rooms, the seven dedicated outpatient operating rooms are significantly underutilized. This project proposes to place three more dedicated outpatient ORs in close proximity to the seven underutilized outpatient ORs shown above. This is particularly unnecessary given the Applicants could achieve a separately licensed freestanding imaging center simply by relicensing the existing Hancock Surgery Center in Lenoir. For all of these reasons, the Applicants should be found non-conforming with Criterion (6).

(13) Meeting the Needs of the Underserved

This project fails to meet the needs of the underserved. In fact, it takes away access currently available to underserved areas of Caldwell County. Hancock Surgery Center's current location meets the needs of the central and northern Caldwell County residents by providing the only access to freestanding outpatient surgery in the area. By moving these operating rooms to the southern part of the County which already has access to an ASC and a number of hospital-based or affiliated outpatient surgery options, the Applicants take away access to a freestanding center from those who live in the central and northern part of the County.

More importantly, on page 13 of the application, the Applicants use decreased cost of care and increased financial access to justify this project stating, "Caldwell Surgery Center will expand access in terms of hours of service and access by all categories of payors, including charity care patients. The Center will serve high percentages of Medicare, Medicaid and Charity Care/Self Pay patients." However, the Applicants never demonstrate how this will be achieved in the application. In fact, on page 70 of the application, the Applicants fail to answer item VI.2 which requires the Applicants to describe the availability of the existing and proposed service to low income persons, racial and ethnic minorities, women, handicapped persons, elderly, and other underserved persons including the medically indigent, the uninsured, and the underinsured. Instead, the Applicants refer to their business office policies and charity care policies. On page

75 of the application, the Applicants provide the payor percentages for all categories of payors for Caldwell Memorial Hospital inpatient surgery for the last operating year. On page 76, the Applicants provide the same chart for CSC in the second year of operation. The two charts are identical. Therefore, the proposed surgery center will not increase financial access to outpatient surgery as the Applicants demonstrate that CSC will have the identical payor mix to the hospital for outpatient surgery services. Nor is it reasonable to assume that the proposed ASC will serve exactly the same mix of patients that is currently served by the hospital. As a result, the proposed project does not conform with Criterion 13.

(18a) Positive Competitive Impact Cost Effectiveness, Quality, and Access

As detailed throughout this analysis, the proposed project will not result in a positive competitive impact of any kind. The Applicants openly admit to achieving their proposed utilization at the expense of the existing providers. The impact of this project will not improve cost effectiveness, quality or access. In fact, it will hinder it. The loss of cases will affect the quality achieved by the operation of high volume facilities and will further dilute the dedicated outpatient surgery providers that are already underutilized. The Applicants do not substantiate their claims to improve access from both a payor mix and a geographic standpoint. Finally, the tenuous financial feasibility of this project does not demonstrate that this project is a cost effective proposal from a short and a long term perspective. As with the other Criteria detailed above which underscore the significant departure from this Criterion, the proposed project does not conform with Criterion 18a.

* * * * Conclusion * * * *

For the foregoing reasons, the proposed project does not conform to multiple review criteria and should be denied. **Viewmont Surgery Center respectfully requests that a public hearing be held** so the Agency has the opportunity to hear additional comments regarding the proposed Caldwell Surgery Center.