ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS
C = Conforming
CA = Conditional
NC = Nonconforming
NA = Not Applicable

DATE: December 17, 2012

PROJECT ANALYST: Kim Randolph
CHIEF: Craig R. Smith

PROJECT I.D. NUMBER: G-10044-12/ Lexington Medical Center/ Renovate and expand the emergency department/ Davidson County

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

G.S. 131E-183(a) The Department 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.

CA

Lexington Medical Center (LMC) proposes to renovate and expand its Emergency Department (ED) to increase the number of treatment rooms from 22 to 31 treatment rooms upon project completion. The proposed project includes renovating 2,605 square feet and adding 7,560 square feet to the existing ED. The applicant does not propose to increase the number of licensed beds in any category, add services, or acquire equipment for which there is a need determination in the 2012 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations in the 2012 SMFP that are applicable to this review.

However, Policy GEN-4 is applicable to this review. Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities states:

> *"Any person proposing a capital expenditure greater than $2 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178 shall include in its certificate of need application a written statement describing the project's plan to assure improved energy efficiency and water conservation.*

In approving a certificate of need proposing an expenditure greater than $5 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178, the Certificate of Need Section shall impose a condition requiring the applicant to develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficient and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4.

Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan for energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4. The plan shall not adversely affect patient or resident health, safety or infection control."

In Section III.2, pages 27-28, the applicant describes the energy efficient construction of the building expansion. The applicant discusses the exterior walls, exterior envelop, windows, roof, insulation, and electrical system that will be used by the facility to maintain efficient energy operation. However, the applicant did not provide a written statement describing the project's plan to assure improved water conservation.

The application is consistent with Policy GEN-4 subject to the condition which appears at the end of this criterion. Therefore, the application is conforming to this criterion subject to the following condition.

Prior to issuance of the Certificate of Need, Lexington Medical Center (LMC) shall provide to the Certificate of Need Section a written statement describing the project's plan to assure improved water conservation.

(2) Repealed effective July 1, 1987.

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

C

Lexington Medical Center (LMC) proposes to renovate and expand the Emergency Department (ED) located at 250 Hospital Drive, Lexington, NC. In January 2012, LMC developed an initial plan to renovate its ED and create a secure Psychiatric Holder area (Phase 1 ED Renovation) to alleviate overcrowding and to address safety concerns, which was not governed by G.S. 131E-176(16)b and did not require a certificate of need (CON). In Section II, page 10, the applicant states the current CON application (Proposed Phase 2 ED Renovation and Expansion), will provide additional space to accommodate continued growth projections. In Section III, page 18, the applicant proposes to renovate 2,605 square feet of existing space near the emergency department and expand the ED by 7,560 square feet. The applicant proposes to increase the number of ED treatment rooms from 22 to 31 total treatment rooms upon completion of the proposed project, as illustrated below.

Phase 1 ED Renovation	**Proposed Phase 2 ED Renovation and Expansion**
22 Treatment Rooms	31 Treatment Rooms
2 Triage Stations	2 Triage Stations
4 Psychiatric Holding Rooms	4 Psychiatric Holding Rooms
28 Total Treatment Rooms	37 Total Treatment Rooms

* Source: Section III, page 18.

In Section III, pages 18-19, the applicant further describes the proposed project as follows:

- Treatment Rooms – the applicant proposes to use 8 of the 31 treatment rooms for Fast Track, and 1 of the 31 treatment rooms for Triage when needed.

- Triage Stations – the applicant proposes to continue to use the Triage Stations for the initial assessment to determine the acuity and patient wait time. The applicant projects that patients will be in triage for approximately 15 minutes.

- Psychiatric Holding Rooms – the applicant proposes to continue to use the Psychiatric holding rooms to *"…treat a very specialized patient population and patients often remain in these holding rooms for several days before a psychiatric bed is available in another facility."*

- Ancillary and Support Services – the applicant states in Section II, page 11, that *"Ancillary and support services such as lab and pharmacy will continue to be offered through the existing emergency department infrastructure to ensure the provision of comprehensive and high quality patient care services."*

In Section III, page 23, the applicant describes the goals of the project as follows:

"The expanded ED allows LMC to meet the following institutional goals:

- *Increase access for patients and families to specialized, comprehensive emergency care*
- *Support utilization of state of the art emergency care technologies*
- *Address growing community need which will improve patient satisfaction*
- *Provide amenities that makes the patient stay more pleasant"*

Population to be Served

In Section III.5, page 34, the applicant states,

> *"The geographic boundaries of the proposed project are the same as those historically served by LMC, which includes Davidson County and more specifically the primary zip codes noted below.*

27292	*Lexington, NC*	*Davidson County, NC*
27295	*Lexington, NC*	*Davidson County, NC*
27299	*Linwood, NC*	*Davidson County, NC*
27293	*Lexington, NC*	*Davidson County, NC*
27351	*Southmont, NC*	*Davidson County, NC*

> *This service area has remained constant for several years and LMC does not anticipate any changes as a result of this project."*

In Sections III.4, pages 30-33, and III.5, pages 34-37, the applicant provides the current and projected patient origin data for ED visits at LMC, as illustrated below.

County Service Areas	FY 2012 07/01/11 - 06/30/12		Project Year 1 07/01/15 - 06/30/16		Project Year 2 07/01/16 - 06/30/17	
	# of Patients	% of Patients	# of Patients	% of Patients	# of Patients	% of Patients
Davidson County	32,780	91.82%	39,721	91.82%	41,423	91.82%
Forsyth County	756	2.12%	916	2.12%	955	2.12%
Rowan County	511	1.43%	619	1.43%	646	1.43%
Guilford County	319	0.89%	387	0.89%	403	0.89%
All other NC Counties	854	2.40%	1,034	2.40%	1080	2.40%
Out of State	480	1.34%	580	1.34%	604	1.34%
Total	35,700	100.00%	43,257	100.00%	45,111	100.00%

The applicant adequately identified the population to be served by the proposed project.

Demonstration of Need

Regarding the need for the proposed project, in Section III, page 17, the applicant states that the unmet need served by the proposed project results from the following factors:

- Demand for emergency care is growing more rapidly than the population growth. National annual emergency room visits increased 23.1 percent from 1997 to 2007, while the population growth during that same period reflected a 12.5 percent increase.
- LMC's ED volume increased annually, for a total growth of 24 percent from FY 2008 to FY 2012. On pages 17-18, the applicant states that according to Truven Healthcare (formerly Thomson-Reuter Healthcare*)*, the population growth rate for Davidson County and the LMC service area, from 2011 to 2016, is expected to increase 2.5 percent, except for the 65+ age group, which is expected to increase 18 percent in LMC's service area. On page 22, the applicant states that Sg2, a healthcare consulting group, reports that the 65+ age group accounts for up to a quarter of all ED visits.
- LMC's ED volumes consistently exceed 1,500 visits per treatment room, causing overcrowding and long wait times for patients, as illustrated below.

LMC Historical ED Volumes					
	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Volume	29,516	29,767	31,028	33,340	36,574
Annual Growth	---	0.9%	4.2%	7.5%	9.7%
Visits/Treatment Rooms	1,845	1,860	1,939	2,084	2,286

On page 17, the applicant states that in FY 2012, LMC's ED treated 36,574 patients, *"... well above optimal capacity (according to the generally accepted threshold of 1,500 visits per room or 24,000 annual visits)"* as recommended by American College of Emergency Physicians. On page 18, the applicant states,

> *"In fact, within Davidson County, Truven Health (formerly Thomson-Reuter Healthcare) is reporting a 28% increase in emergency medicine procedures over the next decade. The main contributing factors for this increase are population growth, the aging of the baby boomers, recent closing of the MedChoice Urgent Care Clinic, the lack of access to primary care doctors, and the uninsured's continued use of the ED as their medical home. LMC's ability to currently accommodate the growing demand is increasingly challenged. In order to develop and offer adequate capacity, both for the current level of demand and for the anticipated higher levels to come, LMC has determined that this project is a priority for LMC. "*

In Section III, page 19, the applicant states an expanded ED is needed based on actual utilization at LMC. The applicant states, "*…the need for the expanded ED in the proposed project is the direct result of increased demand, current design limitations, as well as the recent closing of the MedChoice Urgent Care Clinic in Davidson County."*

Increased Demand
On pages 19-20, the applicant states, LMC's ED is operating at 159 percent of its design capacity. The ED was constructed in 1979 and was a 10,717 square foot building designed to accommodate 23,000 annual ED visits. The applicant states the LMC ED treated over 36,500 patients in FY 2012, and

> "*As ED crowding increases, evidence shows negative outcomes such as public safety risks, prolonged pain and suffering, dissatisfied patients, and miscommunication are more likely to occur. In addition, overcrowding leads to an increased number of patients who elect to leave without being seen (LWBS) as a result of extended wait times. LMC is not immune to this phenomenon; on average, 2.0% of all LMC ED visits result in patients leaving before seeing either the triage nurse and/or physician."*

On page 20, the applicant states that according to Truven, (formerly Thomson Healthcare), an emergency department with similar characteristics should experience a LWBS rate of 1.14 percent of total visits. Lexington Medical Center's LWBS rate is nearly two times that benchmark. The applicant states that longer wait times can create a negative perception or have an impact on the actual quality of care received in the ED.

The applicant states, "*ED overcrowding is a major problem for LMC. …Over 87% of the time all of the core treatment spaces are full during times of very high census; full capacity equates to an average of 10 patients waiting to be seen."* The applicant states that too often there is standing room only in the waiting room and patients waiting in their vehicles to be seen by the triage nurse.

The applicant states ED visits at LMC are projected to increase annually over the next decade. The applicant explains that the LMC ED has experienced increased patient volume as a result of the economic downturn, population growth, increased demand for 24 hour per day service for non-urgent conditions, and the recent closing of the MedChoice Urgent Care Clinic in Davidson County.

Design Limitations of the Current ED
The applicant states the current LMC ED must respond to the expectations and demands from patients and families for privacy and comfort, which are not available in the current ED. The applicant states the expanded ED will include additional features designed to: assist the ED staff treat patients in a timely and efficient manner; provide a more comfortable and pleasant stay for patients and families; and facilitate functional improvements for increased patient privacy and access to the facility.

The applicant adequately demonstrates the need to renovate and expand the existing ED.

<u>Projected Utilization</u>

In Section IV.1, page 41, the applicant projects utilization, by service component, for the first three interim years as well as the first three project years, as illustrated in the table below.

	Last Full Year	Interim Years			Project Years		
	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Emergency Department (ED)							
# of Treatment Rooms	22	22	22	22	31	31	31
# of Visits	36,574	38,141	39,775	41,480	43,257	45,111	47,044
Triage Stations	1	2	2	2	2	2	2
Psychiatric Hold Rooms	1	4	4	4	4	4	4

In Section III.1, pages 23-25, the applicant provides the assumptions and methodology used to project utilization of the ED at LMC as follows.

ED Utilization Methodology	
Step	**Description**
1	Define LMC's patient population for the last five fiscal years (July 1, 2007 – June 30, 2012).
2	Calculate the compound annual growth rate (CAGR) for the last five fiscal years (July 1, 2007 – June 30, 2012) and reduce the CAGR to project future demand in LMC's service area.
3	Apply the reduced CAGR of 4.3 percent to the last full year (FY 2012) of ED visits to project future demand for ED services.

Step 1: Define LMC's patient population.

On pages 23-24, the applicant identified all LMC patients with a general ledger charge for emergency department services for the last five fiscal years, from July 1, 2007 to June 30, 2012, as illustrated below.

LMC Historical ED Visits						
	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**5- Year CAGR**
ED Visits	29,516	29,767	31,028	33,340	36,574	5.5%

Step 2: Calculate and reduce the compound annual growth rate (CAGR).

On page 24, the applicant calculated the CAGR of 5.5 percent for last five fiscal years, from July 1, 2007 to June 30, 2012, as illustrated above.

The applicant states that to be conservative, instead of using the calculated CAGR of 5.5 percent, the applicant reduced the calculated CAGR of 5.5 percent to 4.3 percent annual growth for the following reasons:

- Population growth projections for LMC's service area, which are expected to be only 0.5 percent per year, accounted for a 0.5 percent reduction in the calculated CAGR.
- Potential election outcomes in 2012 and the effectiveness of the Patient Protection and Affordability Act on reducing ED visits in 2014, accounted for a 0.2 percent reduction in the calculated CAGR.
- LMC's strategic plan to develop an urgent care in the LMC service area by 2015, accounted for a 0.5 percent reduction in the calculated CAGR.

<u>Step 3: Apply the reduced CAGR of 4.3 percent to project future demand for ED services.</u>

On page 25, the applicant projects the demand for ED services through project year three (FY 2018). The applicant applies the reduced 4.3 percent annual projected growth rate to the 36,574 ED visits in the applicant's base year (FY 2012) as shown below.

		Interim Years			**Project Years**		
	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Annual Visits	36,574	38,141	39,775	41,480	43,257	45,111	47,044
Projected Treatment Rooms (based on 1,500 visits/treatment room)	24	25	27	28	29	30	31

The applicant projects a total of 47,044 ED visits in the third project year (FY 2018) as shown above. The applicant adequately demonstrates projected utilization of the LMC ED is based on reasonable, credible, and supported assumptions.

The applicant adequately demonstrates the need to develop nine additional treatments rooms.

In summary, the applicant adequately identified the population to be served and demonstrated the need that the proposed population to be served has for the proposed project. Therefore, the application is conforming to this criterion.

(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

(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.

C

In Section III, pages 28-30, the applicant discusses the alternatives considered prior to the submission of this application, which include:

1) Maintain the Status Quo – the applicant states that maintaining the status quo does not respond to the present and future ED overcrowding at LMC. The applicant states the ED at LMC is currently operating at over 156 percent capacity and the applicant projects a CAGR of 4.3 percent.

2) Postpone the Proposed Project – the applicant states that postponing the project was not selected as an alternative because postponing the project would not respond to the following:
   - Provide space to meet the current and projected demand for ED services.
   - Provide work environment improvements for clinical staff.
   - Reduce capital costs.
   - Provide state of the art technologies and amenities to improve patient outcomes and experiences.
   - Decrease the LWBS rate.

3) Pursue the Proposed Project – the applicant states that renovation and expansion of the LMC ED is the most effective option to address overcrowding, long wait times for patients, and outdated technologies and amenities. On page 30, the applicant states,
   - Adding clinical treatment space increases access and provides for long term growth.
   - Renovating existing space maximizes existing campus space and resources and provides the most cost effective option.

Furthermore, the application is conforming or conditionally conforming to all other statutory review criteria. Therefore, the application is approvable. An application that cannot be approved is not an effective alternative.

The applicant adequately demonstrates that its proposal is the least costly or most effective alternative to meet the need. Therefore, the application is conforming to this criterion and approved subject to the following conditions:

1. **Lexington Medical Center shall materially comply with all representations made in the certificate of need application, Project I.D. #G-10044-12.**

2. **Lexington Medical Center shall not acquire, as part of this project, any equipment that is not included in the project's proposed capital expenditure in Section VIII of the application and that would otherwise require a certificate of need.**

3. **Lexington Medical Center shall develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant's representations in the written statement as described in paragraph one of Policy GEN-4.**

4. **Lexington Medical Center shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to issuance of the certificate of need.**

(5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

In Section VIII, page 69, the applicant projects that the total capital cost for this project will be $10,000,553 as shown below.

LMC Capital Costs

	Proposed Capital Costs
Subtotal Site Costs	$547,538
Subtotal Construction Costs	$6,648,193
Subtotal Miscellaneous Project Costs	$2,804,822
Total Capital Cost of the Project	$10,000,553

In Section IX, page 74, the applicant projects that there will be no start up or initial operating expenses. In Section VIII.3, page 70, the applicant states that the capital cost will be funded with LMC's internal accumulated reserves. Exhibit 14 contains a letter signed by Lexington Medical Center's CFO, which states,

> "*Lexington Medical Center agrees to make available from its accumulated reserves a total of* ***$10,000,553*** *for the capital costs incurred in the development of the aforementioned project.*
>
> *As Chief Financial Officer for Lexington Medical Center, I can attest to the availability of funds for this purpose. These funds will be made available from the accumulated reserves of Lexington Medical Center and supplemented with additional amounts as needed in the form of a note to Wake Forest Baptist Medical Center. Please reference our audited financial statements, particularly our balance sheet, for evidence that funds are available for this purpose."*

Exhibit 15 includes the audited financial statements for Lexington Medical Center and Subsidiary. As of June 30, 2012, the applicant had $13,745,591 in cash and cash equivalents, $49,238,786 in total assets, and $25,280,064 in net assets (total assets less total liabilities). The applicant adequately demonstrates the availability of sufficient funds for the capital needs of the project.

The applicant provided pro forma financial statements for the first three years of the project. The applicant projects that revenues will exceed operating expenses in each of the first three operating years of the project as illustrated in the table below.

LMC ED Services*	**FY 2016 Project Year 1** 7/1/15 - 6/30/16	**FY 2017 Project Year 2** 7/1/16 - 6/30/17	**FY 2018 Project Year 3** 7/1/17 – 6/30/18
Projected # of Patients	43,257	45,111	47,044
Projected Average Charge	$637.05	$662.23	$688.37

(Gross Patient Revenue/Projected # of Patients)			
Gross Patient Revenue	$27,556,943	$29,873,863	$32,383,516
Deductions from Gross Patient Revenue	$20,716,050	$22,691,348	$24,846,566
Net Patient Revenue	$6,840,893	$7,182,515	$7,536,950
Total Expenses	$6,614,026	$6,865,014	$7,128,294
Net Income	$226,867	$317,501	$408,656

* Source: Section XIII, Forms C, D, & E.

LMC Entire Facility*	**FY 2016 Project Year 1** 7/1/15 - 6/30/16	**FY 2017 Project Year 2** 7/1/16 - 6/30/17	**FY 2018 Project Year 3** 7/1/17 – 6/30/18
Gross Patient Revenue	$212,115,278	$219,668,262	$225,942,828
Deductions from Gross Patient Revenue	$137,822,333	$143,393,368	$148,182,525
Net Patient Revenue	$74,292,945	$76,274,894	$77,760,303
Other Revenue	$7,195,162	$7,303,089	$7,412,636
Total Revenue	$81,488,107	$83,577,983	$85,172,938
Total Expenses	$74,753,236	$76,210,102	$77,698,586
Net Income	$6,734,871	$7,367,881	$7,474,352

* Source: Section XIII, Forms A & B.

The assumptions used by the applicant in preparation of the pro formas are reasonable, including projected utilization, costs, and charges. See Section XIII for the pro formas and assumptions. See Criterion (3) for discussion of projected utilization which is incorporated hereby as if fully set forth herein. The applicant adequately demonstrates that the financial feasibility of the project is based on reasonable projections of costs and revenues.

The application is conforming to this criterion.

(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

In Section III, page 38, the applicant states LMC is the only emergency services provider located in its primary service area, which is central Davidson County. The other provider of ED services, Thomasville Medical Center, is located in eastern Davidson County. The applicant states LMC does not propose to serve patients currently served by Thomasville Medical Center.

The applicant proposes to expand its ED to increase the number of treatment rooms from 22 to a total of 31 treatment rooms upon project completion, to accommodate the current and projected demand for ED services at LMC. In Section III, page 17, the applicant states, ED visits at LMC increased by 24 percent, a CAGR of 5.5 percent, from FY 2008 to FY 2012. The applicant states ED visits consistently exceeded 1500 visits per treatment room and the applicant projects that ED visits will continue to increase, but at a reduced CAGR of 4.3 percent, rather than the historical five-year CAGR of 5.5 percent. See Criteria (3) for discussion of historical and projected utilization which is incorporated hereby as if fully set forth herein.

The applicant states in Section III, pages 37-38, that according to Thomasville Medical Center's 2012 License Renew Application, Thomasville reported 34,791 ED visits for 22 ED treatment rooms. The applicant stated, *"Applying the industry standard of 1,500 ED visits per treatment room as defined by the American College of Emergency Physicians, the calculation of 34,971/1500 visits would equal a need for 23 ED exam rooms."* On page 38, the applicant states *"…this calculation would suggest that the Thomasville ED is at full capacity."*

The applicant adequately demonstrates the proposed project would not result in the unnecessary duplication of existing or approved health service capabilities or facilities in Davidson County. Therefore, the application is conforming to this criterion.

(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

The following table illustrates the current and projected staffing at LMC during the second project year (FY 2017), as reported by the applicant in Section VII, pages 59-63.

LMC Current and Projected Staffing

	Current Staff Base Year FY 2012	**Projected Staff Project Year 2 FY 2017**
Functional Area and Position	**Total # of Full Time Equivalent (FTE) Positions**	**Total # of Full Time Equivalent (FTE) Positions**

Nursing		
Registered Nurse (RN)	26.05	34.72
Aides and Attendants	8.90	10.62
Director	1.00	1.00
Medical Records		
Clerical	3.59	7.88
Total Staff	39.54	54.22

In Section VII, page 64, the applicant states *"Future enrollment during the project years is expected to outpace the number of vacancies even with the proposed project and LMC does not anticipate any challenges recruiting the personnel for the proposed project."* The applicant states that none of the FTEs represent the addition of new positions. In Section VII, page 66, the applicant states the name of the Chief Medical Officer and includes his Curriculum Vitae in Exhibit 13.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services. Therefore, the application is conforming to this criterion.

(8) The applicant shall demonstrate that the provider of the proposed services will make available, or otherwise make arrangements for, the provision of the necessary ancillary and support services. The applicant shall also demonstrate that the proposed service will be coordinated with the existing health care system.

C

In Section II.2, page 12, the applicant identifies the necessary ancillary and support services required and states that *"LMC currently provides all ancillary services that would be required by adult patients with a variety of health care conditions."* The applicant states it will continue to provide ancillary services through existing organization and reporting structures. The applicant discusses coordination with the existing health care system in Sections V.1 – V.6, pages 43-48. The applicant provides supporting documentation in Exhibits 8 and 9. The information in these sections is reasonable and credible and supports a finding of conformity with 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

(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) Repealed effective July 1, 1987.

(12) Applications involving construction shall demonstrate that the cost, design, and means of construction proposed represent the most reasonable alternative, and that the construction project will not unduly increase the costs of providing health services by the person proposing the construction project or the costs and charges to the public of providing health services by other persons, and that applicable energy saving features have been incorporated into the construction plans.

C

In Section XI.4, page 81, the applicant proposed to construct a 7,560 square foot addition and renovate 2,605 square feet of the existing LMC building located at 250 Hospital Drive, Lexington, NC, for a total of 177,041 square feet after completion, as shown in the table below.

LMC Current and Proposed Square Footage

Existing Building Square Feet	**New Addition Square Feet**	**Renovated Square Feet**	**Project Completion Square Feet**
169,481	7,560	2,605	177,041

Exhibit 19 contains the proposed line drawing and Exhibit 20 contains the proposed site map for the LMC ED expansion.

Exhibit 18 contains a September 5, 2012 letter from Wilkerson Associates Architects, Inc., certifying that the estimated construction cost is $7,195,731, which includes site work of $547,538.00, building construction costs of $5,621,876 and a construction estimate contingency of $1,026,317. This estimate is consistent with Section VIII, page 69.

In Section XI.4, page 83, the applicant estimates the following construction costs per square foot.

LMC Estimated Construction Cost per Square Foot

	Estimated Square Feet*	Construction Cost per Square Foot	Total Cost Per Square Foot
Emergency Department	7340	$906	$1,362
Support Services	1939	$2,552	$5,158
Ancillary Areas	886	$17,776	$11,287
Total	10,165	$654	$984

* Includes 7,560 square feet of new construction and 2,605 square feet of renovation.

In Section III.2, pages 27-28, the applicant summarizes the energy efficient construction of the building expansion. The applicant discusses the exterior walls, exterior envelop, windows, roof, insulation, and electrical system that will be used to by the facility to maintain efficient energy operation. The applicant adequately describes the project's plan to assure improved energy efficiency.

The applicant adequately demonstrates that the cost, design and means of construction represent the most reasonable alternative for the project as proposed and that the construction project will not unduly increase the costs and charges of providing health services. See Criterion (5) for discussion of costs and charges, which is incorporated hereby as if set forth fully herein. Therefore, the application is conforming to this criterion.

(13) The applicant shall demonstrate the contribution of the proposed service in meeting the health-related needs of the elderly and of members of medically underserved groups, such as medically indigent or low income persons, Medicaid and Medicare recipients, racial and ethnic minorities, women, and handicapped persons, which have traditionally experienced difficulties in obtaining equal access to the proposed services, particularly those needs identified in the State Health Plan as deserving of priority. For the purpose of determining the extent to which the proposed service will be accessible, the applicant shall show:

(a) The extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved;

C

The following table illustrates the current payor mix for LMC, FY 2012, as reported by the applicant in Sections VI.12 – VI.13, pages 56-57.

Payor Category	Emergency Department Patient Days / Procedures as Percent of Total Utilization	Entire Facility Patient Days / Procedures as Percent of Total Utilization
Self Pay / Indigent / Charity	26.00%	9.49%
Medicare / Medicare Managed Care	22.00%	44.46%
Medicaid	31.00%	19.19%
Commercial Insurance	1.80%	0.27%
Managed Care	15.00%	22.96%
Other	1.70%	3.63%
Total	100.00%	100.00%

In Section VI.4, page 51, the applicant states *"...patients in urgent or emergent need of any services at LMC would not be denied access regardless of ability to pay."* In Section VI.2, page 50, the applicant states *"LMC does not discriminate based on age, race, national or ethnic origin, disability, sex, income or ability to pay."* The applicant provides supporting documentation in Exhibit 10. The applicant states a patient's access to service will not change as a result of the proposed project. The applicant states, on page 52, that LMC provided 9.44 percent of gross revenue in bad debt and 2.95 percent of gross revenue in charity care.

The Division of Medical Assistance (DMA) maintains a website which offers information regarding the number of persons eligible for Medicaid assistance and estimates of the percentage of uninsured for each county in North Carolina. The following table illustrates those percentages for Davidson county and statewide.

	Total # of Medicaid Eligibles as % of Total Population *	Total # of Medicaid Eligibles Age 21 and older as % of Total Population *	% Uninsured CY 2008-2009 (Estimate by Cecil G. Sheps Center) *
Davidson County	17%	6.9%	18.3%
Statewide	17%	6.7%	19.7%

* More current data, particularly with regard to the estimated uninsured percentages, was not available.

The majority of Medicaid eligibles are children under the age of 21.

Moreover, the number of persons eligible for Medicaid assistance may be greater than the number of Medicaid eligibles who actually utilize health services. The DMA website includes information regarding dental services which illustrates this point. For dental services only, DMA provides a comparison of the number of persons eligible for dental services with the number actually receiving services. The statewide percentage of persons eligible to receive dental services who actually received dental services was 48.6 percent for those age 20 and younger and 31.6 percent for those age 21 and older. Similar information is not provided on the website for other types of services covered by Medicaid. However, it is reasonable to assume that the percentage of those actually receiving other types of health services covered by Medicaid is less than the percentage that is eligible for those services.

The Office of State Budget & Management (OSBM) maintains a website which provides historical and projected population data for each county in North Carolina. In addition, data is available by age, race or gender. However, a direct comparison to the applicants' current payor mix would be of little value. The population data by age, race or gender does not include information on the number of elderly, minorities or women utilizing health services. Furthermore, OSBM's website does not include information on the number of handicapped persons.

The applicant demonstrates that medically underserved populations currently have adequate access to services at LMC. 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;

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In Section VI.11, page 55, the applicant states, *"LMC has not had any obligation to provide uncompensated care during the last three years."* In Section VI.10, page 55, the applicant states there have been no civil rights access complaints filed against LMC or Wake Forest University Baptist Medical Center (the parent) in the last five years. 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

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The following table illustrates the projected payor mix during the second project year (FY 2017) as reported by the applicant in Sections VI.14 – VI.15, pages 57-58.

Payor Category	**Emergency Department Projected Patient Days / Procedures as Percent of Total Utilization**	**Entire Facility Projected Patient Days / Procedures as Percent of Total Utilization**
Self Pay / Indigent / Charity	28.00%	10.56%
Medicare / Medicare Managed Care	22.00%	43.62%
Medicaid	33.00%	21.34%
Commercial Insurance	2.00%	0.22%
Managed Care	13.00%	21.13%
Other	2.00%	3.13%
Total	100.00%	100.00%

In Section VI.2, page 50, the applicant describes the policies for providing access to the proposed facility. The applicant states that LMC provides access to care to all patients including low-income persons, racial or ethnic minorities, women, handicapped persons, the elderly or other undeserved persons, including the medically indigent.

> *"LMC does not discriminate based on age, race, national or ethnic origin, disability, sex, income, or immediate ability to pay. Patients are admitted and services are rendered in compliance with:*
>
> 1. *Title VI of Civil Rights Act of 1963*
> 2. *Section 504 of Rehabilitation Act of 1973*
> 3. *The Age Discrimination Act of 1975*
> 4. *Americans with Disabilities Act"*

The applicant demonstrates that medically underserved populations will continue to have adequate access to the facility's services. Therefore, 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.

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In Section VI.9, page 53, the applicant documents the range of means by which patients have access to the services provided at LMC. The applicant states patients access inpatient services primarily through admission by physicians with privileges at the hospital. The

applicant states LMC accepts referral from area physician offices and skilled nursing facilities. The information provided is reasonable and credible and supports a finding of conformity with 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.

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In Section V.1, pages 43-44, and Exhibit 9, LMC documents that it accommodates the clinical needs of health professional training programs in the area and that it will continue to do so. The applicant lists established relationships with approximately 11 universities, including Wake Forest, Appalachian State, East Carolina and the University of North Carolina; 11 community colleges; and 4 high schools. The applicant states:

> *"As an acute care facility that has been providing services for more than 90 years, LMC has established relationships with many clinical training programs and continues to provide teaching opportunities for these schools. With the expansion of the ED, LMC will be able to continue to provide training support to the numerous clinical programs utilizing educational opportunities at the hospital by providing more space to accommodate students and new opportunities for learning experiences."*

The information provided is reasonable and credible and supports a finding of conformity with this criterion.

(15) Repealed effective July 1, 1987.
(16) Repealed effective July 1, 1987.
(17) Repealed effective July 1, 1987.
(18) Repealed effective July 1, 1987.

(18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

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In Section III, page 38, the applicant states LMC is the only emergency services provider located in its primary service area. The other provider of ED services in Davidson County is Thomasville Medical Center. The applicant states LMC does not propose to serve patients currently served by Thomasville Medical Center.

The applicant proposes to expand its ED to increase the number of treatment rooms from 22 to a total of 31 treatment rooms upon project completion, to accommodate the current and projected demand for ED services at LMC. The applicant states Thomasville Medical Center is currently at capacity and the only Urgent Care in the area, MedChoice Urgent Care Clinic, closed. The applicant is not proposing to add any additional beds, equipment, or new services in Davidson County.

In Section V.7, pages 48, the applicant specifically discusses the impact of the proposed project on competition in the service area as it relates to promoting cost-effectiveness, quality, and access. See also Sections II, III, V, VI and VII. The information provided by the applicant in each of these sections is reasonable, credible, and adequately demonstrates that the expected effects of the proposal on competition include a positive impact on cost-effectiveness, quality, and access to acute care services in Davidson County.

This determination is based on a review of the information in the sections of the application referenced above and the following analysis:

- The applicant adequately demonstrates the need to add nine additional ED treatment rooms for a total of 31 ED treatment rooms based on current and projected utilization at LMC (see Section III of the application);
- The applicant adequately demonstrates that the proposal is a cost-effective alternative to meet the need (see Section III of the application);
- The applicant has and will continue to provide quality services (see Section II and VII of the application);
- The applicant has and will continue to provide adequate access to medically underserved populations (see Section III and VI of the application); and
- The proposal will have a positive impact on competition by providing patients with increased access to quality services (see Section II and VI of the application).

Therefore, the application is conforming to this criterion.

(19) Repealed effective July 1, 1987.

(20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

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LMC is accredited by the Joint Commission and certified by CMS for Medicare and Medicaid participation. According to the records in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents have occurred at LMC within the eighteen months immediately preceding the date of this decision for which any sanctions or penalties related to quality of care were imposed by the State. 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.

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