

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: July 25, 2014  
PROJECT ANALYST: Gregory F. Yakaboski  
INTERIM CHIEF: Martha J. Frisone

PROJECT I.D. NUMBER: J-10240-14 / Veritas Collaborative, LLC / Develop one new child/adolescent inpatient psychiatric bed for a total of six / Durham 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.

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The 2014 State Medical Facilities Plan (SMFP) includes a need methodology for one (1) additional child/adolescent inpatient psychiatric bed for the Durham County Local Management Entity-Managed Care Organization (LME-MCO) which is Alliance Behavioral Healthcare.

There are two policies in the 2014 SMFP which are applicable to the review of this application: 1) Policy MH-1: LINKAGES BETWEEN TREATMENT SETTINGS, and 2) Policy GEN-3: Basic Principles

Policy MH-1: LINKAGES BETWEEN TREATMENT SETTINGS states:

*“An applicant for a certificate of need for psychiatric, substance abuse, or Intermediate Care Facilities for individuals with intellectual disabilities (ICF/IID) beds shall document that the affected Local Management Entity has been contacted and invited to comment on the proposed services.”*

Policy GEN-3 of the 2014 SMFP is applicable to this review. Policy GEN-3: Basic Principles states:

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

Veritas Collaborative, LLC (Veritas) operates an existing mental health hospital located at 615 Douglas Street in Durham with 5 child/adolescent inpatient psychiatric beds and 21 psychiatric residential treatment facility (PRTF) beds. Veritas proposes to develop one new child/adolescent inpatient psychiatric bed at its existing location.

Need Determination – Veritas does not propose to develop more than one (1) child/adolescent inpatient psychiatric bed in the Durham County LME/MCO. Therefore, the application is conforming to the 2014 need determination for one (1) child/adolescent inpatient psychiatric bed in Durham County.

#### Policy MH-1: Linkages Between Treatment Setting

Exhibit 5 contains a letter dated January 13, 2014 from the President & CEO of Veritas to Alliance Behavioral Healthcare, the Durham County LME/MCO, inviting comment on Veritas’ proposed project to develop one new child/adolescent inpatient psychiatric bed at its existing location. The application is conforming with Policy MH-1.

#### Policy GEN-3: Basic Principles

##### Safety and Quality

Veritas describes how it believes the proposed project would promote safety and quality in Section II.11, pages 27-29, Section III.2, pages 56-57, and Exhibit 9. The information provided by the applicant is reasonable, credible and adequately supports the determination that the applicant’s proposal will promote safety and quality.

##### Promote Equitable Access

Veritas describes how it believes the proposed project would promote equitable access in Section III.2, page 56, and Section VI, pages 77-82. On page 77, the applicant states *“Veritas is committed to treating patients and families from a wide variety of cultural backgrounds and across income brackets. Consistent with its current business practice, Veritas will continue to provide all services (as clinically appropriate, per physician order) to all child/adolescent patients with eating disorders, regardless of income, racial/ethnic origin, gender, physical or mental conditions, ability to pay or any other factor that would classify a patient as underserved.”* The information provided by the applicant is reasonable, credible and adequately supports the determination that the applicant’s proposal will promote equitable access.

### Maximize Healthcare Value

The applicant describes how it believes the proposed project would maximize healthcare value in Section III.2, page 57, Section VIII.1, page 99, and 102, and in Section X.1, page 106. The information provided by the applicant is reasonable, credible and adequately supports the determination that the applicant’s proposal will maximize healthcare value.

Veritas adequately demonstrates how its projected volumes incorporate the concepts of quality, equitable access and maximum value for resources expended in meeting the need identified in the 2014 SMFP. Therefore, the application is consistent with Policy GEN-3.

In summary, the application is conforming with the need determination in the 2014 SMFP for Durham County, Policy MH-1 and Policy GEN-3. Therefore, the application is conforming with this criterion.

- (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.

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The applicant, Veritas, operates an existing mental health hospital located at 615 Douglas Street in Durham with 5 child/adolescent inpatient psychiatric beds and 21 psychiatric residential treatment facility (PRTF) beds. Veritas proposes to develop one new child/adolescent inpatient psychiatric bed at its existing location for a total of 6 child/adolescent inpatient psychiatric beds and 21 PRTF beds upon project completion.

### **Population to be Served**

In Section III, page 60, the applicant provides the historical patient origin (CY2013) for child/adolescent inpatient psychiatric services, as illustrated in the following table.

**CY2013**

<b>County</b>	<b>% of Total</b>
Wake	16.0%
Durham	6.4%
Guilford	4.3%
Mecklenburg	4.3%
New Hanover	4.3%
Onslow	2.1%
Forsyth	1.1%
Nash	1.1%
Orange	1.1%
Pitt	1.1%
Out of State	58.5%
<b>Total</b>	<b>100.0%</b>

In Section III.5, page 61, the applicant provides the projected patient origin for child/adolescent inpatient psychiatric services for the first two operating years (CY2015-CY2016), as illustrated in the table below.

<b>County</b>	<b>CY2015</b>	<b>CY2016</b>
	<b>% of Total</b>	<b>% of Total</b>
Wake	18.0%	20.0%
Durham	7.5%	9.0%
Guilford	4.3%	4.3%
Mecklenburg	4.3%	4.3%
New Hanover	4.3%	4.3%
Onslow	2.1%	2.1%
Forsyth	1.1%	1.1%
Nash	1.1%	1.1%
Orange	1.1%	1.1%
Pitt	1.1%	1.1%
Out of State	55.4%	51.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

In supplemental information, Veritas identifies the primary service area for the proposed project as Wake, Durham and Orange counties, the secondary service area encompasses the remaining counties in North Carolina. In addition, Veritas notes that it draws patients from out of state, and projects to continue to draw out-of-state patients, because there are *“few similar resources nationwide.”*

## Demonstration of Need

In Section III, pages 41 -55, the applicant states that following factors support the need for the proposal:

- *“The need determination in the 2014 SMFP for one additional child/adolescent psychiatric inpatient bed in Durham County.”*
- *“Access to child/adolescent psychiatric inpatient beds.”*

The applicant states that of the total 1,898 licensed inpatient psychiatric beds in North Carolina only 399 are categorized as child/adolescent beds which equates to only 17.9% of the beds. Veritas states

*“Eating disorders are unique mental illnesses, and require specialized services for the best prognosis for recovery... Veritas is the only provider of its kind in the state. Veritas is North Carolina’s first child/adolescent behavioral health hospital and center of excellence for the treatment of eating disorders. ... Veritas remains the only comprehensive treatment program for the treatment of eating disorders diagnoses who require specialized treatment services for the best prognosis of long-term recovery. ... Veritas offers a full spectrum of care, including inpatient, acute residential and partial hospitalization, in an inviting and nurturing environment.”* [See application pages 46-47]

- *“Utilization of existing inpatient beds at Veritas.”*

Veritas is the only provider of child/adolescent inpatient psychiatric services in Durham County. In CY2013, Veritas’s 5 child/adolescent inpatient psychiatric beds operated at 92.0% of capacity with a peak occupancy rate of 127.7% in July 2013.

- *“Service area’s large and growing child/adolescent population.”*

Veritas admission criteria states that patients must be within the ages of 10-19 and that while Veritas treats both males and females, eating disorders most commonly present in females. On page 44, the application documents that the female population age 10-19 is steadily growing in Veritas’ service area. [See application pages 43-44]

- *“North Carolina State Mental Health Initiative.”*

Veritas’ states that its approach and facility works in conjunction with and meets the objective of the Crisis Solutions Initiative announced by North Carolina Department of Health and Human Services (NCDHHS) Secretary Aldona Wos. [See application page 48-49]

- *“Affordable Care Act and Federal Parity Laws.”*

Veritas states access to mental health services and inpatient mental health care (including access to eating disorder care) was significantly increased by The Affordable Care Act (ACA), and Federal and State Parity Laws. [See page 54 of the application.]

- *“Prevalence of eating disorders.”*

In pages 50-53 of the application, Veritas documents the prevalence of eating disorders. Statewide, approximately 14,976 patients will be diagnosed with eating disorders in 2014 with that number increasing to over 15,400 by 2017. Veritas, based on its professional experience, estimates that 0.5% of the identified population requires inpatient admission for treatment of eating disorders. Statewide, Veritas estimates the demand for adolescents needing inpatient treatment as follows:

Statewide estimate: Adolescents needing inpatient treatment

	2014	2015	2016	2017
Adolescents needing inpatient treatment	3,256	3,286	3,323	3,359

- *“Expanded clinical definitions for eating disorders.”*

In May 2013, the American Psychiatric Association released the Diagnostic and Statistical Manual of Mental Disorders (DSM-5), identifying new eating disorder diagnoses. The definitions have been expanded and broadened. [See page 54 of the application.]

Projected Utilization

In Section IV.1, pages 66-67, the applicant provides projected utilization of the facility’s child/adolescent inpatient psychiatric beds for the first two full operating years following project completion, as illustrated in the table below:

	PY1 CY 2015	PY2 CY 2016
IP Psych Beds	6	6

Total # of Patients Admitted	130	138
Average Length of Stay (days)	14	14
Total # of Patient Days of Care	1,825	1,935

In Section IV.1(d), pages 68-71, the applicant provides the assumptions and methodology used to project utilization for the proposed project set forth below:

*Step 1: Review Historical Utilization at Veritas*

Veritas’s first full year in operation was calendar year 2013 (CY2013). The 5 existing child/adolescent inpatient psychiatric beds operated at 92 percent of capacity (1,679 days of care / 365 days / 5 beds = 0.92 or 92.0%). On page 68, the applicant states that during CY2013 “there were four separate months when occupancy exceeded 100 percent. The highest occupancy to date was in July 2013 when occupancy reached 127.7 percent.” In supplemental information, the applicant states “...we are aware of at least five (5) individuals whom we were not able to admit due to full capacity, and whom we referred to other inpatient facilities throughout the United States.”

*Step 2: Project Utilization During Interim Project Years*

The interim year is CY2014. Veritas assumes utilization during CY2014 will be consistent with the utilization during CY2013 due to its inpatient bed capacity constraints. [See table on page 69.]

*Step 3: Project Utilization During First Three Project Years.*

The following table illustrates projected utilization.

	<b>CY2015</b>	<b>CY2016</b>	<b>CY2017</b>
IP Days of Care	1,825	1,935	2,008
Average Daily Census	5.0	5.3	5.5
% Occupancy (6 beds)	83.3%	88.3%	91.7%
Admissions	130	138	143
ALOS	14.0	14.0	14.0

Veritas assumes the average daily census will increase to 5.5 by the third project year (CY2017). Moreover, Veritas projects that the readmission rate will remain constant at the CY2013 readmission rate of (<1). On page 70, Veritas states its assumptions are

*“entirely based...on recent experience. As described previously, utilization is already at practical capacity with an ADC of 4.6 out of five inpatient beds. Additionally, during four separate months of CY2013 the inpatient bed utilization exceeded 100 percent occupancy. Therefore, there have already been numerous instances where an additional inpatient bed would have been immediately utilized at Veritas. This recent experience, combined with the demographic,*

*epidemiologic and clinical information described in Section III.1, demonstrates the reasonableness of Veritas’ assumptions and that the additional inpatient bed will be well utilized.”*

The table below illustrates the historical and projected utilization of the child/adolescent inpatient psychiatric beds (5 existing and 1 proposed).

	<b>Historical</b>	<b>Historical</b>	<b>Interim</b>	<b>PY1</b>	<b>PY2</b>	<b>PY3</b>
	<b>CY2012*</b>	<b>CY2013</b>	<b>CY2014</b>	<b>CY2015</b>	<b>CY2016</b>	<b>CY2017</b>
IP Days of Care	568	1,679	1,679	1,825	1,935	2,008
Average Daily Census	3.1	4.6	4.6	5.0	5.3	5.5
% Occupancy (ADC/#Beds)	62.0%	92.0%	92.0%	83.3%	88.3%	91.7%
Admissions	36	120	120	130	138	143
ALOS	15.8	14.0	14.0	14.0	14.0	14.0

\*Veritas did not being offering services until midyear during CY2012 (June-Dec).

In its first full calendar year of operation (CY2013) the Veritas facility operated at 92.0% of capacity, had several months where the occupancy rate exceeded 100% and had to refer at least 5 patients to other facilities around the country. In CY2013, 58.5% of Veritas’ patients originated from out of state and Veritas is projecting over 50% of its patients will continue to originate from out of state for the first two project years demonstrating the lack of equivalent services nationwide. The proposed project meets the need for one additional child/adolescent inpatient psychiatric bed in Durham County identified in the 2014 SMFP. The performance standard to establish new psychiatric beds is a 75% occupancy rate for the total number of licensed psychiatric beds proposed to be operated in the facility no later than the fourth quarter of the second operating year following completion of the project. See 10A NCAC 14C .2603. Veritas operated at 92.0% of capacity in CY2013 and projects to operate at 88.3% of capacity at the end of CY2016 (the second operating year following completion of the proposed project) which is consistent with 10A NCAC 14C .2603.

Projected utilization is based on reasonable, credible and adequately supported assumptions. Therefore, the applicant adequately demonstrates the need to develop one additional child/adolescent inpatient psychiatric bed at Veritas’ facility in Durham.

Access

The historical indigent and charity care provided by Veritas is detailed in supplemental information. On page 81 of the application and in the supplemental information, Veritas



states that, in CY2013, charity care totaled 3.42% of gross revenue or \$332,084. In Form B, Veritas assumes charity care will equal 3.4% of gross revenues during the first two project years which results in \$420,182 and \$443,957 in charity care for PY1 and PY2, respectively. Veritas states:

*“This charity care projection could consist of several categories of medically underserved patients, including:*

- *Patients without insurance,*
- *Patients whose insurance providers deny or limit coverage,*
- *Medicaid-eligible children/adolescents, and*
- *Other medically indigent children/adolescents.”*

The applicant adequately demonstrates the extent to which all residents of the area, including medically underserved populations, will have access to the child/adolescent inpatient psychiatric services offered at Veritas.

In summary, the applicant adequately identifies the population to be served, adequately demonstrates the need the population to be served has for the proposed project and adequately demonstrates the extent to which all residents of the area, including medically underserved populations, will have access to its services. Therefore, the application is conforming with 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.

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In Section III.3, pages 58-59, Veritas describes the alternatives it considered, which include:

Maintain the Status Quo. Veritas states that maintaining the status quo would not be the least costly or most effective alternative to meet the identified need. The applicant states that adolescent eating disorder patients are under-served and under-treated, often unable to receive the individualized attention required. Veritas states that utilization of its

existing child/adolescent psychiatric inpatient beds routinely exceeds 100%. Therefore, maintaining the status quo was not determined to be the least costly or most effective alternative.

Develop the proposed psychiatric bed in a different location. Veritas states that this would not be a viable option due lack of financial viability, inefficiencies in operating only one inpatient bed and the prohibitive cost of developing a facility at a different location. For these reasons this alternative was not considered the least costly or most effective alternative.

Utilize outpatient services for the treatment of eating disorders. The applicant states that, due to the needs of patients with severe eating disorders, adequate care cannot be provided in a home setting. Thus, increasing outpatient services was not considered the least costly or most effective alternative.

The applicant adequately demonstrates that the proposal is its least costly or most effective alternative to meet the need for the proposed inpatient psychiatric services. Furthermore, the application is conforming to all applicable statutory and regulatory review criteria, and thus, the application is approvable. An application that cannot be approved is not an effective alternative. Therefore, the application is conforming to this criterion and approved subject to the following conditions.

- 1. Veritas Collaborative, LLC shall materially comply with all representations made in the certificate of need application and in the supplemental information materials submitted during the review. In those instances where representations conflict, Veritas Collaborative, LLC shall materially comply with the last made representation.**
- 2. Veritas Collaborative, LLC shall develop no more than one new inpatient psychiatric bed for a total licensed bed complement of no more than 6 inpatient psychiatric beds for children and adolescents.**
- 3. Veritas Collaborative, LLC shall accept patients requiring involuntary admission for inpatient psychiatric services.**
- 4. Veritas Collaborative, LLC shall submit to the Certificate of Need Section an annual report for each of the three full calendar years following the issuance of the certificate of need to document that at least 3.42% of annual gross revenue amounts to charity / indigent care as that term was defined by Veritas Collaborative, LLC in the supplemental information. The report shall be submitted to the Certificate of Need Section no later than April 15<sup>th</sup> of the following year and shall contain at least the following information:**
  - a) The total number of patient days of care by level (i.e., inpatient psychiatric, psychiatric residential treatment, outpatient).**
  - b) The total number of patients served by level.**

- c) **Total gross revenue.**
- d) **The total dollar amount of charity care.**
- e) **The total dollar amount of indigent care.**

- 5. Veritas Collaborative, LLC 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.

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In Section VIII, page 100, the applicant projects the total capital cost for the project will be \$34,751, including \$4,051 for equipment/furniture and \$30,700 in consultant fees.

In Section IX, page 104, the applicant projects no initial start-up costs or initial operating expenses.

In Section VIII, pages 41-42, the applicant states it will fund the capital needs of the proposed project from the accumulated cash reserves of Veritas Collaborative, LLC. Exhibit 15 contains a letter, dated February 5, 2014, from the Chief Financial Officer of Veritas, which states:

*“As shown on our financial statements, Veritas Collaborative, LLC (Veritas), has sufficient reserves to fund the modest project costs associated with the certificate of need application to add one child/adolescent inpatient psychiatric bed to our facility in Durham County. The total capital costs of the project is estimated to at less than \$35,000. Veritas will fund the proposed project through accumulated cash reserves. Upon approval of this project, the available funds will be used for the proposed project.*

*As Chief Financial Officer of Veritas Collaborative, I am authorized to commit all funds necessary for the development and operation of this CON project.”*

In Exhibit 16, the applicant provided a copy of the audited balance sheet as of December 31, 2012 for Veritas Collaborative, LLC. As of December 31, 2012, Veritas had \$133,118 in cash and cash equivalents, \$5,575,832 in total assets and \$1,644,841 in net assets. (See page 3 of Exhibit 16) The applicant adequately demonstrates the availability of sufficient funds for the capital needs of the project.

In the proformas, the applicant provides the projected charges and costs for the project, in addition to the assumptions used to calculate the proformas. Form C, Statement of

Revenues and Expenses, shows revenues in excess of costs for inpatient psychiatric services in each of the first three full years of operation following project completion. The assumptions used by the applicant in preparation of the proformas are reasonable, including the projected number of patient days of care. See the Financials Section of the application for the proformas and assumptions. See Criterion (3) for discussion of utilization projections which is incorporated hereby as if set forth fully herein.

The applicant adequately demonstrates that the financial feasibility of the proposal is based upon reasonable projections of costs and revenues, and therefore, the application is conforming with 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.

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Veritas proposes to develop one child/adolescent inpatient psychiatric bed at its existing facility in Durham.

The 2014 SMFP, Table 15C(1): *Child/Adolescent Psychiatric Inpatient Bed Need Determinations*, page 374, identifies a need for one additional child/adolescent inpatient psychiatric bed in Durham County. Furthermore, Table 15C(1) identifies a need for 72 additional child and adolescent inpatient psychiatric beds statewide. This identified need is an increase of 30 child and adolescent inpatient psychiatric beds over the 42 additional such beds identified as needed statewide in the previous SMFP (2013). As of the date of these findings, the application due date for 38 of the 72 child and adolescent inpatient psychiatric beds has passed by and the Certificate of Need Section has only received this application to develop 1 of those 38 beds. The applicant's discussion, summarized in Criterion (3), regarding the need for the 12 inpatient psychiatric beds to serve children and adolescents is incorporated hereby by reference as if set forth fully herein.

The applicant adequately demonstrates that the proposed project will not result in unnecessary duplication of existing or approved inpatient psychiatric beds for children and adolescents. Consequently, the application is conforming with 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.

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The following table illustrates the current full-time equivalent (FTE) staffing and proposed FTE staffing for Year 2 of the project, as shown in Section VII, pages 89 and 91.

	Total # of FTE Positions- Current	Total # of FTE Positions- Year Two
Designated Director	5.0	5.5
Psychiatrists licensed to practice in NC	1.0	1.0
Psychotherapists	7.0	8.0
Psychiatric Registered Nurses	2.0	3.0
Qualified Mental Health Professionals	1.5	2.5
Utilization Review and Medical Records	1.5	2.0
Registered Nurses	10.0	11.0
Licensed Practical Nurses	6.0	7.0
Nursing Assistants/Aides/Orderlies	1.0	1.5
Clerical Support/ Unit Secretaries	1.5	1.5
Dietary	3.5	4.5
Art Therapist	1.0	1.5
Administration	4.0	5.0
Finance/Business Office	5.0	6.0
Therapeutic Assistant	5.0	7.0
Culinary	4.0	5.0
Total	59.0	72.0

In Section VII, pages 92 and 98, the applicant describes Veritas' recruitment and retention policies and procedures. On page 92, the applicant states *"This area has a superfluity of clinicians and technicians seeking healthcare jobs/careers locally. In fact, Veritas regularly receives an abundance of applications for clinical and other positions at the mental health hospital."* In Section VII.8, page 98, the applicant identifies the Medical Director for Veritas and states that the Medical Director is board-certified by the American Board of Psychiatry and Neurology. Exhibit 2 contains a copy of the medical director's current board certification and a signed letter which states she is a board-certified psychiatrist and will continue to serve as medical director for Veritas. The applicant adequately demonstrates the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided. Therefore, the application is conforming with 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.

In Section II.8, page 26, the applicant identifies the necessary ancillary and support services that will be made available for the facility. Exhibit 18 contains letters of support from area healthcare providers. Exhibit 19 contains a copies of clinical consulting contracts with service providers. The applicant adequately demonstrates that the necessary ancillary and support services will be made available and that the proposed services will be coordinated with the existing health care system. Therefore, the application is conforming 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.

NA

- 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;

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In Section VI.11, page 85, the applicant provides the historical payor mix for the child/adolescent inpatient psychiatric beds during CY 2013 which is shown in the following table.

Payor	Projected Patient Days as % of Total
Self Pay/ Indigent/ Charity	4.3%
Commercial Insurance	38.1%
Blue Cross	57.6%
Total	100.0%

In supplemental information, the applicant states that during CY2013 it provided 1,679 days of inpatient care, 51 days of which were indigent or charity days of care. The 51 days of indigent/charity care equates to 3.0% of total inpatient days of care [51 / 1,679 = 0.0303 or 3.0%]. Furthermore, in CY2013, Veritas provided indigent/charity care to 3 of the 120 inpatient admissions or 2.5% of admissions. The applicant states

*“In terms of charity care provision, our charity care patients were served longer than our average commercial care patients. In our CON application, we state that the inpatient ALOS is 14 days (page 65). 14 days x 3 patients = 42 total inpatient days of care. For these three specific charity care patients, we exceeded this projection, as our total inpatient days of care for them was 51 days. In other words, we are as committed to our charity care patients as we are to third-party payor-covered patients.”*

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 Wake, Durham, Guilford, Mecklenburg, and New Hanover counties and statewide.

County	2010 Total # of Medicaid Eligibles as % of Total Population *	2010 Total # of Medicaid Eligibles Age 21 and older as % of Total Population *	2009 % Uninsured (Estimate by Cecil G. Sheps Center) *
Wake	10.0%	3.4%	18.4%
Durham	16.0%	5.8%	20.1%
Guilford	15.0%	5.9%	19.5%
Mecklenburg	15.0%	5.1%	20.1%
New Hanover	13.0%	5.7%	20.4%
Statewide	17.0%	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.

The DMA website also contains the *Medicaid Annual Report, for State Fiscal Year (SFY) 2008*, the most recent fiscal year for which this data are available. According to this report, the elderly and disabled Medicaid recipients in North Carolina comprised 29% of total Medicaid recipients. Additionally, there were 145,898 Medicaid recipients age 65+ in SFY 2008, which comprised 8.5% of the total Medicaid eligibles in North Carolina [145,898 / 1,726,412 total eligibles = 0.0845].

The following table compares SFY 2008 North Carolina Medicaid recipients grouped by age with the general population of the entire state:

MEDICAID RECIPIENTS BY ELIGIBILITY CATEGORIES VS. GENERAL POPULATION SFY 2008		
ELIGIBILITY CATEGORY	MEDICAID RECIPIENT	GENERAL POPULATION
Children (aged 5 – 20 years)	38%	24%
Adults (aged 21-64 years)	31%	57%
Children (aged birth-4 years)	21%	7%
Elderly (aged 65 and older)	10%	12%

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% for those age 20 and younger and 31.6% 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 are available by age, race or gender. However, a direct comparison to the applicant's current payor mix would be of little value. The population data by age, race or gender do 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 it provides adequate access to inpatient psychiatric eating disorder services to medically underserved populations. 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 applicants;

C

In Section VI.9, page 84, the applicant states "*Veritas has had no civil rights complaints filed against it since opening in 2012.*" In Section VI.10, page 84, the applicant further states "*Veritas has no public obligations to provide uncompensated care, community service, or access to care by medically underserved, minorities and handicapped persons.*" 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

CA

In Section VI.12, page 87, the applicant provides the projected payor mix for the child/adolescent inpatient psychiatric beds during Project Year 2, which is shown in the following table.

<b>Payor</b>	<b>Projected Patient Days as % of Total</b>
Self Pay/ Indigent/ Charity	4.3%
Commercial Insurance	38.1%

Blue Cross	57.6%
Total	100.0%

On page 87 the applicant states the projected payor mix is based on the facility's current admission data. The applicant states *"Because it already offers these services at the existing facility, Veritas projects the payor mix for child/adolescent inpatient psychiatric and residential beds to be similar to the most recent payor mix for each service at Veritas."*

On page 81 of the application and in supplemental information, Veritas states that, in CY2013, charity care totaled 3.42% of gross revenue or \$332,084. In Form B of the proformas for PY1 and PY2, Veritas utilized the 3.42% to project charity care which results in \$420,182 and \$443,957 in charity care for PY1 and PY2, respectively. Veritas states

*"This charity care projection could consist of several categories of medically underserved patients, including:*

- *Patients without insurance,*
- *Patients whose insurance providers deny or limit coverage*
- *Medicaid-eligible children/adolescents, and*
- *Other medically indigent children/adolescents."*

The applicant demonstrates that medically underserved populations will have adequate access to the child/adolescent inpatient psychiatric services offered at Veritas. The application is conforming with this criterion subject to Condition #4 in Criterion (4).

- (d) That the applicant offers a range of means by which a person will have access to its services. Examples of a range of means are outpatient services, admission by house staff, and admission by personal physicians.

### C

In Section VI.8(a), pages 82-83, the applicant states: *"Most child/adolescent patient access to Veritas is by physician referral. Other access to Veritas' inpatient services include via: 1) other clinical referral sources (psychotherapist, registered dietician, or nurse practitioner, 2) self-referral, 3) referral from a school or a school mental health staff, 4) referral from hospitals and other treatment centers, and 5) referral by law enforcement."* The applicant adequately demonstrates that the facility will offer a range of means by which patients will have access to child/adolescent inpatient psychiatric services. The information provided in Section VI.8 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.

C

In Section V.1, page 72, the applicant states that Veritas has an existing training relationship with both the Duke University School of Medicine and the Duke University School of Nursing through which medical and nursing students participate in a clerkship at Veritas. Exhibit 13 contains documentation of these clinical training relationships. On page 72, the applicant states “*Veritas will continue to be available to accommodate the clinical needs on any applicable health professional training program in the area.*” The application is conforming 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.

C

Pursuant to a need determination in the 2014 SMFP, Veritas proposes to develop one new child/adolescent inpatient psychiatric bed at its existing facility in Durham.

Veritas is located in Durham. In addition to Veritas’s existing facility, Table 15A: *Inventory of Psychiatric Beds, Excluding State Hospitals by Local Management Entity-Management Care Organization (LME-MCO)* identifies two other facilities in Durham, Duke Regional Hospital and Duke University Medical Center, that have inpatient psychiatric beds. However, both facilities have adult psychiatric inpatient beds. Neither of the other facilities have child/adolescent inpatient psychiatric beds. Veritas has five existing child/adolescent inpatient psychiatric beds.

In Section V, pages 75-76, the applicant discusses how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed eating disorder services for children and adolescents. The applicant states

*“Veritas is the only provider of child/adolescent inpatient behavioral health services in Durham County, and has earned a reputation of being a high-quality health care*

*provider. Additionally, Veritas will continue to provide behavioral health services to patients with limited or no financial resources. Clearly, local residents will be well served by the proposed project.*

...

*Veritas' prudent financial management enables case-by-case discounts for families with limited financial resources. Further, Veritas is committed to connecting potential patients and their families with not-for-profit agencies and other national and local resources that offer treatments scholarship funds to ease the financial burden of this specialized care.*

...

*In an increasingly competitive health care climate with limited resources, it is imperative that providers demonstrate excellence in their practices. Behavioral health patients demand and deserve high-quality care. Veritas constantly reviews its data and processes to determine how it can improve the services it provides."*

See also Sections II, III, V, VI, VII and supplemental information where the applicant discusses the impact of the project on cost-effectiveness, quality and access.

The applicant adequately demonstrates that any enhanced competition will have a positive impact on the cost-effectiveness, quality and access to the proposed services based on the information in the application and the following analysis:

- The applicant adequately demonstrates the need for one additional child/adolescent inpatient psychiatric bed at the existing facility. The applicant also demonstrates that the proposed project is a cost-effective alternative to meet the need to provide additional access to child/adolescent psychiatric services. See Criterion (3) for discussion of utilization which is hereby incorporated by reference as if set forth fully herein.
- The applicant adequately demonstrates it will continue to provide quality services.
- The applicant adequately demonstrates it will continue to provide adequate access to medically underserved populations

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.

C

The applicant currently provides inpatient psychiatric services. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, Veritas Collaborative, LLC has had no quality of care issues within the eighteen months immediately preceding the date of this decision. Therefore, the application is conforming to this criterion.

- (21) Repealed effective July 1, 1987.
- (b) The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

C

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

**10A NCAC 14C .2602 INFORMATION REQUIRED OF APPLICANT**

- (a) *An applicant proposing to establish new psychiatric beds shall project resident origin by percentage by county of residence. All assumptions and the methodology for projecting occupancy shall be stated.*
- C- In Section III.5, pages 61-62, and supplemental information, the applicant provides projected patient origin by percentage by county of residence as well as all assumptions and the methodology for projecting occupancy of the 5 existing and one proposed psychiatric bed.
- (b) *An applicant proposing to establish new psychiatric beds shall project an occupancy level for the entire facility for the first eight calendar quarters following the completion of the proposed project, including average length of stay. All assumptions and the methodology for projecting occupancy shall be stated.*
- C- In Section IV, pages 64-71, the applicant provides the projected utilization and the occupancy level for 6 [5 existing and 1 proposed] child/adolescent inpatient psychiatric beds for each of the first eight calendar quarters following project completion, including

- the average length of stay, for the entire facility. The assumptions and methodology used are stated.
- (c) *The applicant shall provide documentation of the percentage of patients discharged from the facility that are readmitted to the facility at a later date.*
  - C- In Section II, page 31, the applicant states “*During CY2013, one patient was readmitted to Veritas at a later date. This is a readmission rate of <1 percent.*”
  - (d) *An applicant proposing to establish new psychiatric beds shall describe the general treatment plan that is anticipated to be used by the facility and the support services to be provided, including provisions that will be made to obtain services for patients with a dual diagnosis of psychiatric and chemical dependency problems.*
  - C- In Section II, page 31, the applicant describes the general treatment plan that is anticipated to be used by the facility and the support services to be provided. In Section II, page 23, the applicant states “*Whereas Veritas’ inpatient facility does not focus on dual-diagnosis treatment, many patients have sub-clinical concerns with alcohol and other drugs. Supported access to age-appropriate groups is made available to patients with these needs.*”
  - (e) *The applicant shall document the attempts made to establish working relationships with the health care providers and others that are anticipated to refer clients to the proposed psychiatric beds.*
  - C- In Section II, page 32, the applicant states that it has achieved working relationships with local health care providers and others who refer patients for treatment of eating disorders as exemplified by the utilization and high occupancy of Veritas’ existing child/adolescent inpatient psychiatric beds. The applicant further states “*Veritas’ Executive Team has established and will continue to cultivate solid relationships with health providers throughout the service area, as well as throughout the State of North Carolina.*” Letters of support from local health care providers who currently refer or are anticipated to refer patients to Veritas are contained in Exhibit 18.
  - (f) *The applicant shall provide copies of any current or proposed contracts or agreements or letters of intent to develop contracts or agreements for the provision of any services to the clients served in the psychiatric facility.*
  - C- Exhibit 19 contains copies of contracts for the provision of services to the clients in the existing Veritas’ facility.
  - (g) *The applicant shall document that the following items are currently available or will be made available following completion of the project:*
    - (1) *admission criteria for clinical admissions to the facility or unit;*
  - C- Admission criteria for clinical admissions to the facility are provided on

- page 25 of the application and in Exhibit 3.
- (2) *emergency screening services for the targeted population which shall include services for handling emergencies on a 24-hour basis or through formalized transfer agreements;*
- C- On page 32, the applicant states that emergency services are provided on a 24-hour basis.
- (3) *client evaluation procedures, including preliminary evaluation and establishment of an individual treatment plan;*
- C- Exhibit 3 contains copies of the Basic Prevention, Screening and Physical Health Care Services and Timing of Multidisciplinary Assessments policies utilized by Veritas. The applicant states “*Exhibit 3 also contains a description of services provided at Veritas, including admission criteria and program structure. Please also refer to Sections II.2, II.4 and II.8, regarding client evaluation procedures and treatment plans.*” [See page 33 of the application.]
- (4) *procedures for referral and follow-up of clients to necessary outside services;*
- C- On pages 33-35, the applicant provides its procedures for referral and follow-up of clients to necessary outside services.
- (5) *procedures for involvement of family in counseling process;*
- C- On page 35, the applicant provides its procedures for involvement of family in counseling process.
- (6) *comprehensive services which shall include individual, group and family therapy; medication therapy; and activities therapy including recreation;*
- C- On page 36, the applicant states that comprehensive services including individual, group and family therapy; medication therapy; and activities therapy, including recreation will continue to be provided. Exhibit 3 and Section II.2 include descriptions.
- (7) *educational components if the application is for child or adolescent beds;*
- C- On page 36, the applicant states: “*Veritas provides education services for its patients.*” The educational components are described in more detail in Section II.2, pages 19-21, and on page 36 of the application.
- (8) *provision of an aftercare plan; and*

-C- Veritas's aftercare plans are described in Exhibit 3 (Discharge Planning Policy).

*(9) quality assurance/utilization review plan.*

-C- Exhibit 9 and Section II.11 contain descriptions of Veritas' quality assurance/utilization review plans.

*(h) An applicant proposing to establish new psychiatric beds shall specify the primary site on which the facility will be located. If such site is neither owned by nor under option by the applicant, the applicant shall provide a written commitment to pursue acquiring the site if and when a certificate of need application is approved, shall specify at least one alternate site on which the facility could be located should acquisition efforts relative to the primary site ultimately fail, and shall demonstrate that the primary site and alternate sites are available for acquisition.*

-C- In Section II, page 37 and Section XI., page 109, the applicant states that the proposed new psychiatric bed will be located at its existing facility at 615 Douglas Street in Durham. The applicant states that the facility is on a lease renewable every 12 years.

*(i) An applicant proposing to establish new psychiatric beds shall provide documentation to show that the services will be provided in a physical environment that conforms with the requirements in 10A NCAC 27G .0300.*

-C- On page 37, the applicant states that "Veritas will continue to provide the proposed behavioral health services in a physical environment that conforms with the requirements in 10A NCAC 27G .0300." See also Exhibit 11.

*(j) An applicant proposing to establish new adult or child/adolescent psychiatric beds shall provide:*

*(1) documentation that adult or child/adolescent inpatient psychiatric beds designated for involuntary admissions in the licensed hospitals that serve the proposed mental health planning area were utilized at less than 70 percent for facilities with 20 or more beds, less than 65 percent for facilities with 10 to 19 beds, and less than 60 percent for facilities with one to nine beds in the most recent 12 month period prior to submittal of the application; or*

*(2) a written commitment that the applicant will accept involuntary admissions and will meet the requirements of 10A NCAC 26C .0103 for designation of the facility, in which the new psychiatric beds will be located, for the custody and treatment of involuntary clients, pursuant to G.S. 122C-252.*

-C- Exhibit 12 contains a letter from the President and CEO of Veritas Collaborative which states that the facility will accept involuntary admissions and will meet the requirements of 10A NCAC 26C .0103.



## **.2603 PERFORMANCE STANDARDS**

- (a) *An applicant proposing to add psychiatric beds in an existing facility shall not be approved unless the average occupancy over the six months immediately preceding the submittal of the application of the total number of licensed psychiatric beds within the facility in which the beds are to be operated was at least 75 percent.*
- C- In Section II, page 38, and Section IV., page 64, the applicant provides historical data for a six month period from July 2013 to December 2013. Veritas provided a total of 881 patient days of care during that time period in 5 beds, which is an occupancy rate of 95.8% [5 beds x 184 days (the six months) = 920 possible days of care; 881 patient days of care/920 total days = 0.9576 or 95.8%] which exceeds the 75% average occupancy required by this rule.
- (b) *An applicant proposing to establish new psychiatric beds shall not be approved unless occupancy is projected to be 75% for the total number of licensed psychiatric beds proposed to be operated in the facility no later than the fourth quarter of the second operating year following completion of the project.*
- C- In Section IV, page 66-67, the applicant provides projected utilization for the first two project years (CY2015 and CY2016) by quarter. In the fourth quarter of the second operating year (October 2016 – December 2016) following completion of the proposed project, Veritas projects a total of 484 patient days of care, which is an occupancy rate of 87.7% [6 beds x 92 days (the three months) = 552 possible days of care; 484 projected patient days of care/552 total days = 0.8768 or 87.7%] which exceeds the 75% average occupancy required by this Rule.

## **.2605 STAFFING AND STAFF TRAINING**

- (a) *A proposal to provide new or expanded psychiatric beds must provide a listing of disciplines and a staffing pattern covering seven days per week and 24 hours per day.*
- C- In Section II, page 39, and in Section VII.5, pages 93-94, the applicant provides a listing of disciplines and a staffing pattern covering seven days per week and 24 hours per day.
- (b) *A proposal to provide new psychiatric beds must identify the number of physicians licensed to practice medicine in North Carolina with a specialty in psychiatry who practice in the primary service area. Proposals specifically for or including child or adolescent psychiatric beds must provide documentation to show the availability of a psychiatrist specializing in the treatment of children or adolescents.*
- C- In Section II, page 39, the applicant provides a list of licensed psychiatrists routinely providing care in Veritas's primary service area, documenting the availability of psychiatrists specializing in the treatment of children or adolescents. See also Exhibit 6.

- (c) *A proposal to provide additional psychiatric beds in an existing facility shall indicate the number of psychiatrists who have privileges and practice at the facility proposing expansion. Proposals specifically for or including child or adolescent psychiatric beds must provide documentation to show the availability of a psychiatrist specializing in the treatment of children or adolescents.*
- C- In Section II, page 39, the applicant identifies the number of psychiatrists who have privileges and practice at the facility. The applicant states “*Dr. Landry is the Medical Director for Veritas’ Adolescent Program and specializes in the treatment of children and adolescents. ... She is triple board certified, and specializes in treating eating disorders patients. ... Dr. Dzirasa is the Associate Medical Director of Veritas’ Adolescent Program and also specializes in the treatment of children and adolescents.*” Exhibit 2 contains documentation of the credentials of both Dr. Landry and Dr. Dzirasa.
- (d) *A proposal to provide new or expanded psychiatric beds must demonstrate that it will be able to retain the services of a psychiatrist who is eligible to be certified or is certified by the American Board of Psychiatry and Neurology to serve as medical director of the facility or department chairman of the unit of a general hospital.*
- C- In Section II, page 40, and Exhibit 2 the applicant documents that Dr. Landry is board certified by the American Board of Psychiatry and Neurology, is currently the Medical Director for Verita’s psychiatric inpatient program and that Dr. Landry is willing to continue to serve as the Medical Director.
- (e) *A proposal to provide new or expanded psychiatric beds must provide documentation to show the availability of staff to serve involuntary admissions, if applicable.*
- C- In Section II, page 40, the applicant states “*Veritas will continue to have available staff to serve involuntary admissions. Veritas customarily staffs in accordance with 10A NCAC 27G .6002.*” See Section VII of the application and referenced exhibits.
- (f) *A proposal to provide new or expanded psychiatric beds must describe the procedures which have been developed to admit and treat patients not referred by private physicians.*
- C- In Section II, page 40, the applicant describes the procedures which have been developed to admit and treat patients not referred by private physicians.
- (g) *A proposal to provide new or expanded psychiatric beds shall indicate the availability of training or continuing education opportunities for the professional staff.*
- C- In Section II, page 25, and in Exhibit 10, the applicant describes the availability of training or continuing education opportunities for the professional staff.