

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: June 25, 2014

PROJECT ANALYST: Michael J. McKillip

INTERIM CHIEF: Martha J. Frisone

PROJECT I.D. NUMBER: J-10276-14 / Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. / Add 23 adult inpatient psychiatric beds to the existing hospital for a total of 140 adult inpatient psychiatric beds upon completion of this project and Project I.D. #J-8816-12 (add 37 adult inpatient psychiatric beds) / Wake 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.

C

The applicants, Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services (UHS), Inc. [**Holly Hill Hospital**] propose to add 23 adult inpatient psychiatric beds at the existing hospital in Raleigh for a total of 140 adult inpatient psychiatric beds upon completion of this project and Project I.D. #J-8816-12 (add 37 adult inpatient psychiatric beds).

The 2014 State Medical Facilities Plan (SMFP) contains a need methodology for determining the number of new adult inpatient psychiatric beds needed by service area. Application of the need methodology in the 2014 SMFP identified a need for 44 additional adult inpatient psychiatric beds in Wake County. The applicants do not propose to add more than 44 beds; therefore, the application is conforming with the need determination in the 2014 SMFP.

There are two policies in the 2014 SMFP which are applicable to this review:

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) shall document that the affected local management entity-managed care organization has been contacted and invited to comment on the proposed services.*” Exhibit 4 contains a letter of support for the project from Alliance Behavioral Healthcare, the local management entity-managed care organization (LME-MCO) for Wake County. The application is conforming with Policy MH-1.

Policy GEN-3: BASIC PRINCIPLES states the following:

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

Promote Safety and Quality

In Section III.2, page 52, the applicants, Holly Hill Hospital (HHH), discuss how the project will promote safety and quality. The applicants state: “*HHH has existing Performance Improvement, Risk Management and Utilization Review Plans that it will continue to utilize upon completion of the proposed project to ensure safety and quality.*” Exhibit 10 contains copies of these policies. The applicants adequately demonstrate how the proposal will promote safety and quality in the delivery of inpatient psychiatric services.

Promote Equitable Access

In Section III.2, page 52, the applicants discuss how the project will promote equitable access to psychiatric services. The applicants state that they continue to participate in a Medicaid waiver pilot program in which HHH is “*eligible to be reimbursed for treating Medicaid patients ages 21-64 through December 31, 2015.*” The applicants adequately demonstrate that the proposal will promote equitable access for medically underserved populations.

Maximizing Healthcare Value

In Section III.2, page 52, the applicants state:

“The proposed project is cost effective. HHH will alleviate capacity constraints and reduce patient wait times in the community. Additional access to psychiatric inpatient

beds will also reduce the strain on local emergency departments. Instead of languishing in an emergency department or observation unit, psychiatric patients can be appropriately admitted to an inpatient bed in a timelier manner. This reduces the total resources expended for each patient. Additionally, HHH will develop the proposed 23 adult beds in the space vacated by the child/adolescent bed relocation project; thus, the proposed project will involve minimal up fit costs.”

The applicants adequately demonstrate the proposal will maximize healthcare value. See Criterion (3) for discussion regarding the need for the project which is incorporated hereby as if set forth fully herein. See Criterion (5) for discussion regarding revenues and costs which is incorporated hereby as if set forth fully herein.

In summary, the application is conforming with Policy MH-1, Policy GEN-3 and the need determination in the 2014 SMFP for new inpatient psychiatric beds. 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.

The applicants, Holly Hill Hospital, LLC (HHH), Holly Hill Real Estate (HHRE), LLC and Universal Health Services (UHS), Inc. propose to add 23 inpatient psychiatric beds at the existing hospital in Raleigh. UHS is the parent company of HHH and HHRE. Holly Hill Hospital (HHH) currently operates 80 adult inpatient psychiatric beds, 60 child and adolescent inpatient psychiatric beds and 28 inpatient chemical dependency beds in Raleigh. On September 25, 2012, HHH was approved (Project I.D. #J-8820-12) to relocate its 60 child and adolescent inpatient psychiatric beds to a new facility to be located approximately one half mile from the existing hospital. Also on September 25, 2012, HHH was approved (Project I.D. #J-8816-12) to add 37 adult inpatient psychiatric beds at the existing hospital in space to be vacated by the child and adolescent inpatient psychiatric beds. Both projects are currently under development. In this project, the applicant proposes to develop 23 additional adult psychiatric beds which will be located in space to be vacated by the child and adolescent inpatient psychiatric beds.

Population to be Served

In Section III.5(a), page 57, the applicants provide projected patient origin for the adult psychiatric beds at HHH in the first two years of operation (CY2016-CY2017), as shown in the table below.

**Holly Hill Hospital
Adult Psychiatric Inpatient Beds
Projected Patient Origin, CY2016-CY2017**

County	Patients Percent of Total
Wake	62.2%
Harnett	2.6%
Davidson	1.8%
Cumberland	1.8%
Durham	1.7%
Johnston	1.6%
Vance	1.5%
Franklin	1.3%
Granville	1.1%
Lee	0.9%
Other Counties*	23.5%
TOTAL	100.0%

*The applicants identify the counties included in the "Other" category on page 57 of the application.

On page 58 of the application, the applicants state, "Projected patient origin is based on the historical patient origin for adult psychiatric services at HHH. HHH does not anticipate a significant change in patient origin as a result of the proposed bed expansion project." The applicants adequately identified the population proposed to be served.

Need for the Project

In Section III.1(a) of the application, the applicant describes the factors supporting the need for the proposed project, including admission delays to State psychiatric hospitals due to significant reductions in State-operated psychiatric beds (pages 38-39), long wait times in hospital emergency departments (pages 39-42), and changes in insurance coverage for mental illness resulting from the Affordable Care Act (pages 42-44).

In Section IV.1, pages 60-61, the applicants provide the historical and projected utilization of the adult psychiatric beds at HHH through the first two full fiscal years of operation following completion of the project. The applicants' projected patient discharges, average length of stay (ALOS), and total patient days for the adult psychiatric beds is summarized below:

Adult Psychiatric Bed Utilization, CY2014 – CY2017

Year	Licensed Beds*	Patient Discharges	ALOS	Total Patient Days	Percent Change	Average Occupancy Rate
CY2014 – Projected	80	3,927	9.1	35,592	---	122%
CY2015 – Interim	117	4,241	9.1	38,442	8.0%	98%
CY2016 – Year 1	140	4,453	9.1	40,364	5.0%	79%
CY2017 – Year 2	140	4,676	9.1	42,382	5.0%	83%

*The applicants project that the 37 adult psychiatric beds approved in Project I.D. J-8816-12 will become operational in April 2015 [80 + 37 = 117], and the 23 adult psychiatric beds proposed in this project will be become operational in January 2016 [117 + 23 = 140].

In Section III.1(b), pages 48-51, the applicants describe the assumptions and methodology used to project the utilization of the adult psychiatric beds at HHH through the first two full fiscal years of operation as follows:

“As described previously, the utilization of adult psychiatric beds at HHH has exceeded 100 percent occupancy since 2009. Please see the following table.

	CY2009	CY2010	CY2011	CY2012	CY2013
<i>Licensed Adult IP Beds</i>	64	64	64	64	80
<i>Admissions</i>	2,888	3,098	3,097	3,235	3,930
<i>Discharges</i>	2,891	3,114	3,032	3,200	3,927
<i>Patient Days</i>	24,766	26,639	26,253	27,669	35,592
<i>ALOS</i>	8.6	8.6	8.7	8.6	9.1
<i>% Occupancy</i>	106.0%	114.0%	112.4%	118.4%	121.9%

The most recent four-year compound annual growth rate (CY09-CY13) for HHH’s adult inpatient psychiatric admissions was 8.0 percent. HHH’s discharges and days of care have increased at approximately the same rate as admissions. Despite development of 16 additional adult IP beds in CY2013, HHH’s adult occupancy rate rose to its highest rate in four years. During CY2013, HHH’s adult inpatient psychiatric beds operated at 121.9 percent capacity (35,592 / 365 / 80 = 121.9 percent).

HHH’s growth rate is limited based on obvious capacity constraints during the last three years. Every day approximately 20-40 patients are on the wait list for admission to HHH....

HHH anticipates its 37 approved adult psychiatric inpatient beds will be operational in early 2015. Therefore, to project utilization during CY2014, HHH projects that its admissions, discharges and days of care will remain consistent with CY2013 utilization. It is reasonable to project that HHH will continue to operate above 100 percent occupancy based on its established growth rate for inpatient psychiatric services and its consistent ability to operate at a high occupancy. HHH has operated above 100 percent occupancy since CY2009.

To project utilization during interim CY2015, HHH projects admissions will increase based on its four-year compound annual growth rate (8.0%). This projected growth rate is reasonable when compared to the historical growth rate for HHH's adult psychiatric inpatient services. Furthermore, the development of HHH's previously approved 37 adult psychiatric beds during 2015 will alleviate capacity constraints to achieve greater growth potential. For comparative purposes, HHH most recently expanded its adult inpatient capacity in June 2012, via development of 12 adult beds pursuant to Project I.D. #J-8442-09. During the subsequent initial full year of operation (CY2013), HHH's adult inpatient admissions increased 21.5% from CY2012 to CY2013. Given that HHH will expand its adult bed capacity by 46 percent (80 beds to 117 beds) in 2015, and current utilization is far exceeding 100 percent occupancy, a projected annual increase of 8.0 percent is very conservative....

HHH projects adult psychiatric ALOS based on the most recent calendar year average length of stay for HHH patients (CY2013, 9.1 days)....

Based on its historical utilization for adult inpatient psychiatric services, [sic] current operational experience in Wake County, HHH projects adult psychiatric admissions will increase five percent annually during the first three project years. ... HHH's projected annual growth rate of five percent during the initial three project years is reasonable and very conservative. The growth rate is a fraction of HHH's historical growth for admissions (5.0% / 8.0% = 62.5%)."

As discussed above, HHH's adult psychiatric beds have operated at an occupancy rate in excess of 100 percent since 2009. The applicants' projected annual utilization growth rates of 8 percent in CY2015, and 5.0 percent in CY2016 and CY2016, are consistent with the applicants' historical experience, and are supported by the projected population growth in the applicants' proposed service area. Exhibits 4 and 21 contain letters from the LME-MCO, area hospitals, and area physicians expressing support for the proposed project. The projected utilization of the adult psychiatric beds at HHH is based on reasonable, credible and adequately supported assumptions. HHH adequately demonstrates the need for the proposed project.

Access

The applicant projects 73.2% of the patients will be covered by Medicare (31.1%), Medicaid (10.1%), or a local government payor (32.0%). The applicant demonstrates adequate access for medically underserved groups to the proposed services.

In summary, the applicant adequately identified the population to be served, adequately demonstrated the need the population projected to be served has for the proposed project, and demonstrated all residents of the service area, and, in particular, underserved groups, are likely to have access to the services proposed. 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.

CA

In Section III.3, pages 53-55, the applicants discuss the alternatives considered prior to the submission of this application, which include:

1. Maintain the Status Quo – The applicants concluded that this alternative is less effective and unacceptable because HHH has been operating at over 100% of capacity since 2009, even with the addition of the 16 adult psychiatric inpatient beds in CY2013.
2. Develop the Proposed Adult Psychiatric Beds in a Different Location – The applicants concluded that this alternative is less cost-effective because “*the proposed project will involve minimal up fit costs.*” Also, it would be “*counterproductive*” to construct the adult beds in the same facility as the child and adolescent beds since the two patient populations are different and should not be combined if possible.
3. Refer Patients to Wakebrook – The applicants concluded that the proposed project is the more effective since UNC Hospitals at Wakebrook is a smaller, more specialized treatment facility, which treats a different patient population than is typically treated by HHH.

After considering those alternatives, the applicant states the alternative represented in the application is the most effective alternative.

Furthermore, the application is conforming to all other statutory review criteria, and thus, is approvable. A project that cannot be approved cannot be an effective alternative.

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

- 1. Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall materially comply with all representations made in the certificate of need application.**

- 2. Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall develop and operate no more than 23 additional inpatient psychiatric beds for a total licensed bed complement of no more than 140 adult psychiatric beds and 28 chemical dependency treatment beds upon completion of this project and Project I.D. #J-8816-12 (add 37 adult psychiatric beds).**
 - 3. Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall accept patients requiring involuntary admission for inpatient psychiatric services.**
 - 4. Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. 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.**
 - 5. Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. 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.1, page 91, the applicants project the capital cost of the project to be \$250,000. The 23 beds will be located in space currently occupied by child/adolescent beds which will be relocated to a new building (see Project I.D. #J-8820-12). In Section XI.1, page 96, the applicants project no start-up expenses or initial operating expenses.

Exhibit 17 contains a letter dated March 31, 2014, from the Senior Vice President and Chief Financial Officer of Universal Health Services, Inc., the parent company of HHH and HHRE, which states:

"I can and will commit UHS' reserves to cover all of the capital costs associated with this project. The anticipated project costs are estimated at approximately than [sic] \$275,000. ... UHS will fund the capital cost from existing accumulated reserves."

Exhibit 18 contains the United States SEC Form 10-K filed by Universal Health Services, Inc. for the year ended December 31, 2013. As of December 31, 2013, the consolidated financial statements show the company had \$23.5 million in cash and cash equivalents. The

applicants adequately demonstrate the availability of sufficient funds for the capital needs of the project.

In the pro forma financial statements for HHH (Form B), the applicants project revenues will exceed expenses in each of the first three operating years, as shown below:

Holly Hill Hospital			
	CY2016 Year 1	CY2017 Year 2	CY2018 Year 3
Total Revenue	\$46,996,426	\$49,829,593	\$52,845,262
Total Expenses	\$32,380,576	\$33,440,029	\$34,541,091
Net Income (Loss)	\$14,615,850	\$16,389,563	\$18,304,171

Operating costs and revenues are based on reasonable assumptions including projected utilization. See the pro forma financial statements in the application for the assumptions. See Criterion (3) for discussion regarding utilization assumptions which is incorporated hereby as if set forth fully herein. The applicants adequately demonstrated that the financial feasibility of the proposal is based upon reasonable projections of operating costs and revenues, and 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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Holly Hill Hospital (HHH) currently operates 80 adult inpatient psychiatric beds, 60 child and adolescent inpatient psychiatric beds and 28 chemical dependency treatment beds in Raleigh. HHH was approved to add 37 adult psychiatric beds on September 25, 2012 (Project I.D. #J-8816-12). The applicants propose to add 23 adult psychiatric beds in the space vacated by the relocation of 60 child and adolescent inpatient psychiatric beds to a new facility approximately one half mile away from the existing hospital (Project ID #J-8820-12). The 2014 State Medical Facilities Plan includes a need determination for 44 additional adult inpatient psychiatric beds for Wake County. HHH is one of only two facilities with adult psychiatric beds listed in the inventory in the 2014 SMFP, and was the only applicant to submit a proposal to develop additional adult psychiatric beds in response to the 2014 SMFP need determination.

In Section IV.1, pages 60-61, the applicants provide the historical and projected utilization of the adult psychiatric beds at HHH through the first two full fiscal years of operation following completion of the project. The applicants' projected patient discharges, average length of stay (ALOS), and total patient days for the adult psychiatric beds is summarized below:

Holly Hill Hospital Adult Psychiatric Bed Utilization, CY2014 – CY2017						
Year	Licensed	Patient	ALOS	Total	Percent	Average

	Beds*	Discharges		Patient Days	Change	Occupancy Rate
CY2014 – Projected	80	3,927	9.1	35,592	---	122%
CY2015 – Interim	117	4,241	9.1	38,442	8.0%	98%
CY2016 – Year 1	140	4,453	9.1	40,364	5.0%	79%
CY2017 – Year 2	140	4,676	9.1	42,382	5.0%	83%

*The applicants project that the 37 adult psychiatric beds approved in Project I.D. J-8816-12 will become operational in April 2015 [80 + 37 = 117], and the 23 adult psychiatric beds proposed in this project will be become operational in January 2016 [117 + 23 = 140].

As shown in the table above, the applicants project an average annual occupancy rate of 83 percent in the second year of operation for the proposed project.

The applicants adequately demonstrate the need to develop 23 additional beds in Wake County. See Criterion (3) for discussion regarding need which is incorporated hereby as if set forth fully herein. Therefore, the applicants adequately demonstrate that the proposed project will not result in unnecessary duplication of existing or approved adult inpatient psychiatric beds. 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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In Section VII.2, page 82, HHH provides the projected staffing for the second operating year for the hospital's 140 adult psychiatric beds, as shown below in the table.

Position	Proposed Staffing Year 2
Nursing Administration	7.0
Psychiatrists	3.45
Psychologists	1.0
Psychiatric Social Workers	14.0

Psychiatric Registered Nurses	26.5
Utilization Review	5.0
Licensed Practical Nurses	4.5
Nursing Assistants/Aides/Orderlies	56.0
Clerical support/Unit Secretaries/	7.5
Medical Records	4.0
Pharmacy	Contract
Dietary	9.0
Housekeeping & Laundry	9.5
Engineering/Maintenance	3.9
Purchasing	0.5
Security	4.0
Communications / IT	2.25
Administration	2.0
Finance/Business Office	8.3
Admissions/Intake/Remote Triage	13.0
Marketing	1.0
Transcription	2.5
Quality Assurance	2.5
Personnel	3.0
Training	4.5
Activity Therapy	4.0
Total	195.45

Source: Table VII.2, page 82.

In Section VII.3, page 83, the applicants describe their recruitment and retention procedures, and indicate that they do not anticipate any difficulties identifying, hiring, and retaining qualified staff for the proposed project. In Section VII.8, page 89, the applicants identify Thomas Cornwall, M.D. as the Medical Director for HHH. Exhibit 3 contains Dr. Cornwall's curriculum vitae and a letter from Dr. Cornwall expressing his support for the project and his intention to serve as Medical Director. Exhibit 21 of the application contains copies of letters from other area physicians expressing support for the proposed project. The applicants adequately demonstrate 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.

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In Section II.3, page 20, and Section II.9, pages 23-24, the applicants identify the necessary ancillary and support services for the proposed services. Additionally, in Section V.3, page 64, the applicants identify the acute care hospitals with which transfer agreements exist, and Exhibit 8 contains a copy of a transfer agreement. On pages 64-65, the applicants provide a

list of the LME-MCOs with which HHH has contracts. Letters of support for the proposal from physicians and other health care providers are provided in Exhibit 21. The applicants adequately demonstrate 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 76, the applicants report the payor mix for psychiatric patient days (all age groups) at Holly Hill Hospital for CY2013, which is summarized in the following table:

Holly Hill Hospital Payor Category	CY2013 Psychiatric Patient Days as % of Total
Self Pay/Indigent/Charity	2.1%
Medicare/Medicare Managed Care	21.6%
Medicaid	25.4%
Commercial Insurance/Managed Care/Blue Cross	27.4%
Other (Local Government)	23.5%
Total	100.0%

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

County	2010 Total # of Medicaid Eligibles as % of Total Population	2010 Total # of Medicaid Eligibles Age 21 and older as % of Total Population	CY2008-2009 % Uninsured (Estimate by Cecil G. Sheps Center)
Wake	10%	3.3%	18.4%
Statewide	17%	6.7%	19.7%

The majority of Medicaid eligibles are children under the age of 21. This age group does not utilize the same health services at the same rate as older segments of the population, particularly the adult psychiatric services proposed in this application.

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 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 applicants demonstrate that medically underserved populations currently have adequate access to the applicants' existing services and 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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Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section VI.10, page 75, the applicants state:

“HHH is a recipient of federal funds, and is compliant with all applicable federal regulations to insure continued access to these funds. HHH does not discriminate based on race, ethnicity, creed, color, sex, age, religion, national origin, handicap, or ability to pay.”

In Section VI.9, page 75, the applicants state that no civil rights equal access complaints or violations were filed against HHH in the last five years. Therefore, the application is conforming with this criterion.

- (c) That the elderly and the medically underserved groups identified in this subdivision will be served by the applicant's proposed services and the extent to which each of these groups is expected to utilize the proposed services; and

C

In Section VI.12, page 77, the applicants provide the projected payor mix for adult inpatient psychiatric beds for the second year of operation following project completion, which is shown in the following table.

Holly Hill Hospital Payor Category	CY2017 Psychiatric Patient Days as % of Total
Self Pay/Indigent/Charity	2.8%
Medicare/Medicare Managed Care	31.1%
Medicaid	10.1%
Commercial Insurance/Managed Care/Blue Cross	24.0%
Other (Local Government)	32.0%
Total	100.0%

On page 77, the applicants state, “Because it already offers these services in the primary service area, HHH projects the payor mix for adult inpatient psychiatric beds to be similar to the CY2013 adult payor mix at HHH.” The applicants demonstrate that medically underserved populations will have adequate access to the proposed 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.

C

In Section VI.8(a), page 74, the applicants describe the range of means by which a person will have access to the proposed services. The information provided is reasonable and credible and supports a finding of conformity to this criterion.

- (14) The applicant shall demonstrate that the proposed health services accommodate the clinical needs of health professional training programs in the area, as applicable.

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In Section V.1, page 63, the applicants provide a list of their existing agreements for clinical training, which include area college nursing programs and social work programs. Exhibit 15 contains an affiliation agreement between HHH and East Carolina University. The applicants adequately demonstrate that the facility will continue to accommodate the clinical needs of area health professional training programs. Therefore, 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

HHH currently operates 80 adult inpatient psychiatric beds, 60 child and adolescent inpatient psychiatric beds and 28 inpatient chemical dependency beds in Raleigh, and proposes to add 23 inpatient psychiatric beds at the existing hospital. Also, on September 25, 2012, HHH was approved (Project I.D. #J-8816-12) to add 37 adult inpatient psychiatric beds at the existing hospital in space to be vacated when the child and adolescent inpatient psychiatric beds are relocated to a new building (Project I.D. #J-8820-12). Those projects are currently under development.

In Section V.6, pages 66-67, the applicants discuss how any enhanced competition in the service area will have a positive impact on the cost-effectiveness, quality and access to the proposed services. The applicants state,

“HHH’s behavioral health services are an important resource for medically underserved residents in Wake County and surrounding communities. Many physicians refer their patients to HHH who are medically indigent. ... HHH will continue to provide access to the medically indigent as discussed in Section VI.

In an increasingly competitive health care climate with limited resources, it is imperative that providers demonstrate excellence in their practices. HHH constantly reviews its data and processes to determine how it can improve the services it provides.

The proposed project is cost effective. HHH will alleviate capacity constraints and reduce patient wait times in the community. Additional access to psychiatric inpatient beds will also reduce the strain on local emergency departments. Instead of languishing in an emergency department or observation unit, psychiatric patients can be appropriately admitted to an inpatient bed in a timelier manner. This reduces the total resources expended for each patient.

Additionally, HHH will develop the proposed 23 adult beds in the space vacated by the child/adolescent bed relocation project; thus, the proposed project will involve minimal up fit costs. ... The proposed project leverages HHH’s existing staff and infrastructure to facilitate economies of scale.”

See also Sections II, III, V, VI and VII where the applicants discuss the impact of the project on cost-effectiveness, quality and access.

The information provided by the applicants in those sections is reasonable and credible and adequately demonstrates that any enhanced competition in the service area will have a positive impact on cost-effectiveness, quality and access to the proposed services. This determination is based on the information in the application and the following analysis:

- ◆ The applicants adequately demonstrate the need to add 23 adult psychiatric beds to their existing hospital and that it is a cost-effective alternative;
- ◆ The applicants adequately demonstrate that they will continue to provide quality services; and
- ◆ The applicants demonstrate that they will provide adequate access to medically underserved populations.

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

According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents occurred 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 on the hospital. Therefore, the application is conforming with 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. 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 57-58, and Section III.1, pages 37-51, the applicants provide projected resident origin by percentage by county of residence and all assumptions and the methodology used to project occupancy.
- (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.1, page 61, and Section III.1, pages 37-51, the applicants project occupancy for the entire facility for the first eight calendar quarters, including ALOS, and all assumptions and the methodology used to project occupancy.
- (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.12, page 29, the applicants state that HHH's readmission rate is 8.5 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- See Exhibit 9 for the general treatment plan ("Plan for Professional Services").
- (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- On page 29, the applicants state that they have contracts with several LME-MCOs in central and eastern North Carolina. Exhibits 4 and 21 contain letters of support from physicians, LME-MCO's, and other health care providers.
- (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- In Section II.12, the applicants provide a list of LME-MCOs with which they contract, and Exhibit 23 contains a copy of an agreement between the facility and LME-MCO.
- (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- Exhibit 5 contains facility admission/assessment policies.

(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- In Section II.12, page 30, the applicants state, “Emergency services are available at HHH 24/7/365.” Exhibits 5 and 9 contain facility policies regarding admissions and assessment.

(3) client evaluation procedures, including preliminary evaluation and establishment of an individual treatment plan;

-C- Exhibits 5 and 9 contain facility policies regarding assessment and care planning.

(4) procedures for referral and follow-up of clients to necessary outside services;

-C- In Section II.12, page 31, the applicant describes the procedures for referral and follow-up, and Exhibit 9 contains facility policies regarding discharge planning and referrals.

(5) procedures for involvement of family in counseling process;

-C- Exhibit 9 contains facility policies which state that family members are involved in the treatment plan and counseling process.

(6) comprehensive services which shall include individual, group and family therapy; medication therapy; and activities therapy including recreation;

-C- Exhibit 9 contains facility policies regarding services offered, including those required by this rule.

(7) educational components if the application is for child or adolescent beds;

-NA- This project does not involve children and adolescents.

(8) provision of an aftercare plan; and

-C- Exhibits 6 and 9 contain facility policies regarding discharge planning and referrals.

(9) quality assurance/utilization review plan.

-C- Section II.10 and Exhibit 10, the applicants describe facility policies regarding quality assurance, organizational performance and utilization review.

- (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- The applicants will develop the additional beds at the existing facility on Falstaff Road in Raleigh.
- (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 32, the applicants state that HHH is an existing facility that conforms to 10A NCAC 27G .0300, and that it will continue to comply upon project completion.
- (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- On page 33, the applicants state that HHH will continue to accept involuntary admissions.

.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- On page 33, the applicants state that during the past six months (September 2013 – February 2014) the occupancy rate of the total number of licensed psychiatric beds in the facility was 97.4 percent.
- (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- On page 61, the applicants project that the occupancy rate in the fourth quarter of second operating year of the project will be 82 percent.

.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 VII.5, page 85, the applicants provide a staffing table showing the staffing pattern covering seven days a week and 24 hours a 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.12, page 34, the applicants state that there are 216 licensed physicians practicing psychiatry in Wake County.
- (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.12, page 35, the applicants state that HHH has 11 psychiatrists with privileges on its medical staff, and five consulting psychiatrists.
- (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.12, page 35, the applicants state that Thomas Cornwall, MD will continue to serve as medical director, and that he is board eligible for certification by the American Board of Psychiatry and Neurology and board certified in Psychoanalysis.
- (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.12, page 35, the applicants state that they will continue to provide staff to serve involuntary admissions. The staffing table is provided on page 85 of the application.

- (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- Exhibits 5 and 9 include procedures for admitting and treating 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- Section VII.6, page 86-87, and Exhibit 11 describe HHH's policies and procedures for training and continuing education of professional staff.