

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: July 24, 2015

Findings Date: July 24, 2015

Project Analyst: Celia C. Inman

Assistant Chief: Martha J. Frisone

Project ID #: J-11034-15

Facility: UNC Hospitals Hillsborough Campus

FID #: 090274

County: Orange

Applicant(s): University of North Carolina Hospitals at Chapel Hill

Project: Add 4 acute care beds on the Hillsborough campus for a total of 806 acute care beds upon completion of this project and Project ID #J-011032-15 (add 42 acute care beds on the Chapel Hill campus)

### 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 University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) proposes to develop four additional acute care beds at UNC Hospitals Hillsborough Campus, for a total of 72 licensed acute care beds on that campus upon project completion. The applicant states the four proposed beds will be developed as general acute care beds and will be physically located within the previously approved 15-bed observation unit in Project ID #J-8330-09, which approved the development of a second UNC Hospitals campus in Hillsborough through the relocation of existing licensed beds, licensed operating rooms and imaging equipment. Project ID #J-8330-09 Criterion (4), Condition (5) states:

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*“University of North Carolina Hospitals at Chapel Hill shall develop and operate a second hospital campus in Hillsborough with no more than 68 licensed general acute care beds, including 18 intensive care unit beds, 6 licensed shared operating rooms, and 15 unlicensed observation beds.”*

The UNC Hospitals Hillsborough Campus, offering a broad spectrum of hospital services, including a 24-hour emergency department, is scheduled to complete Phase I in September 2015, opening the facility with 33 acute care beds (25 general acute care and eight ICU beds). The remaining 35 previously approved beds (25 general acute and 10 ICU beds) are projected to become operational in January 2016, along with the four additional acute care beds proposed in this application.

The applicant is not proposing to acquire additional major medical equipment or develop any other health services as part of this project.

**Need Determination**

The 2015 State Medical Facilities Plan (SMFP) includes an Acute Care Bed Need Determination for 46 additional acute care beds in the Orange County Service Area. The 2015 SMFP states:

*“Any qualified applicant may apply for a certificate of need to acquire the needed acute care beds. A person is a qualified applicant if he or she proposes to operate the additional acute care beds in a hospital that will provide:*

- (1) a 24-hour emergency services department,*
- (2) inpatient medical services to both surgical and non-surgical patients,*  
*and*
- (3) if proposing a new licensed hospital, medical and surgical services on a daily basis within at least five of the major diagnostic categories as recognized by the Centers for Medicare and Medicaid services (CMS), as follows: ... [as listed on page 47 of the 2015 SFMP].”*

The applicant submitted two concurrent and complementary applications in response to the need identified in the 2015 SMFP for 46 additional beds in Orange County. This application (Project ID # J-11034-15) proposes to develop four additional acute care beds at UNC Hospitals Hillsborough Campus. The concurrently filed application (Project ID #J-11032-15) proposes to develop 42 additional acute care beds on its main campus, UNC Hospitals Chapel Hill Campus, located at 101 Manning Drive, Chapel Hill, NC.

The applicant does not propose to develop more acute care beds than are determined to be needed in the Orange County Service Area. UNC Hospitals currently operates a 24-hour emergency services department. In Exhibit 8, the applicant provides the number of inpatient

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days of care by major diagnostic category (MDC) provided at UNC Hospitals during FY 2014. UNC Hospitals provides services in all 25 MDCs listed in the 2015 SMFP. Therefore, the applicant adequately demonstrates that it will provide medical and surgical services in at least five MDCs recognized by CMS. UNC Hospitals adequately demonstrates that it provides inpatient medical services to both surgical and non-surgical patients. Thus, UNC Hospitals is a qualified applicant and the proposal is consistent with the need determination in the 2015 SMFP for acute care beds in Orange County.

**Policies**

Policy GEN-3: Basic Principles, on page 38 of the 2105 SMFP is applicable to this review. Policy GEN-3 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.”*

The applicant responds to Policy GEN-3 in Section III.2, pages 70-73. On page 70, the applicant states:

*“UNC Hospitals maintains that the development of additional acute care capacity in Orange County will promote cost-effectiveness, quality, and access to services in the proposed service area and will thus be in compliance with the spirit and legislative intent of the Certificate of Need Law.”*

**Promote Safety and Quality**

In Section III, pages 70-71, the applicant discusses patient safety and quality of care, stating that UNC believes the proposed project will promote the provision of quality healthcare services to patients from all 100 North Carolina counties. The applicant further states:

*“UNC Hospitals is known for providing high quality services and expects the proposed project to expand its acute care programs while bolstering its high quality reputation. The proposed project will not only add needed capacity to UNC Hospitals, but will also ensure that the needs of patients are being met in the most appropriate setting.”*

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Exhibits 5, 6, 7 and 21 contain UNC Health Care policies on performance improvement, utilization management, risk management and competency assessment policies, respectively. The applicant also discusses UNC Hospital’s quality awards and designations on page 71.

The applicant adequately demonstrates that the proposal will promote safety and quality care.

Promote Equitable Access

In Section III.2, page 72, the applicant discusses how the proposed project will promote equitable access. The applicant states:

*“As North Carolina’s only state-owned comprehensive, full service hospital-based program, UNC Hospitals has the obligation to accept any North Carolina citizen requiring medically necessary treatment. No North Carolina citizen is presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance as demonstrated in Section VI.2.”*

In Section VI.2, pages 109-110, the applicant states that UNC Hospitals traditionally provides services to a wide variety of patient groups and provides the following supporting FY 2014 data.

	<b>Low Income</b>	<b>Racial &amp; Ethnic Minorities</b>	<b>Women</b>	<b>Elderly</b>	<b>Other Underserved</b>
UNC Hospitals Total	16.6%	36.3%	58.5%	23.9%	11.0%
Medical/Surgical Inpatients	22.6%	39.8%	52.3%	28.0%	7.6%

Low Income = Medicaid and ½ of Medicaid Pending; Other Underserved = Self Pay and ½ of Medicaid Pending. “Low income” is based on Federal poverty guidelines as outlined in the Patient Financial Assistance Policy contained in Exhibit 12. “Elderly” is defined as patients age 65 and over.

In Section VI.8, pages 113-114, the applicant discusses charity care and bad debt, stating that UNC Hospitals’ service will provide more than \$240,000,000 and \$350,000,000 in charity care in project years one and two, respectively; and approximately \$150,000,000 in bad debt each year. The applicant further states:

*“Charity care is defined in accordance with UNC Hospitals’ Patient Financial Assistance Policy based upon the guarantor’s ability to pay. The guarantor’s ability to pay is determined after a financial statement is obtained with the required verification documentation and assigned a credit rating. Provision for bad debts represents services for which individuals have refused to make payment even though they have the financial ability to pay. These are incurred on uninsured (self pay) patients and on portions of the copayments and deductibles that are the patient’s liability under commercial indemnity insurance policies.*

*See Exhibit 12 for the Patient Financial Assistance Policy.”*

The applicant adequately demonstrates that the proposal will promote adequate access.

#### Maximize Healthcare Value

In Section III.2, page 73, the applicant states that the proposed complementary applications are indicative of UNC Hospitals’ commitment to containing healthcare costs and maximizing healthcare benefit per dollar expended. The applicant states this proposed project will maximize healthcare value because:

- The project will provide additional capacity to meet the continued need at UNC Hospital’s main campus and decompress the main campus through the Hillsborough Campus;
- The project will allow UNC Hospitals to develop additional acute care beds as quickly as possible in existing space with minimal renovation, which will involve minimal costs;
- UNC Hospitals, as a member of the larger UNC Health Care System, benefits from the significant cost saving measures through the consolidation of multiple services and large economies of scale, resulting in lower costs that are passed to patients in the form of lower charges; and
- The project is responsive to a healthcare environment that emphasizes cost containment, efficient utilization of existing resources, coordination with managed care and continued healthcare system development.

The applicant adequately demonstrates that the proposal will maximize healthcare value. The applicant also 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 2015 SMFP. Therefore the application is conforming to Policy GEN-3.

#### Conclusion

In summary, the applicants adequately demonstrate that the proposal to add acute care beds is consistent with Policy GEN-3. Therefore, the application is conforming to 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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UNC Hospitals proposes to develop four additional general acute care beds at UNC Hospitals Hillsborough Campus. The four additional acute care beds will be developed within the previously approved 15-bed observation unit (Project ID #J-8330-09) which upon completion of the previously approved project and the proposed project will house the proposed four general acute care beds and 11 observation beds.

**Population to be Served**

On page 48, the 2015 SMFP defines the service area for acute care services by county (or multicounty service area for counties without a hospital). UNC Hospitals is located in Orange County. Thus, the service area for this facility consists of Orange County. Facilities may also serve residents of counties not included in their service area.

In Section III.4(a), pages 76-79, the applicant identifies the population UNC Hospitals served during FY2014. As North Carolina's only state-owned, tertiary care referral center, UNC Hospitals provided care to residents residing in counties throughout North Carolina with Orange County residents receiving the highest percentage of that care. The table below summarizes the historical percentage of patient origin for UNC Hospitals facility-wide services and medical/surgical inpatient services, based on the applicant's information as reported on pages 76-83 of the application.

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County of Residence	Facility-wide Services	Medical/Surgical Services
Orange	23.9%	13.2%
Wake	13.9%	11.7%
Durham	10.5%	5.7%
Alamance	9.4%	7.5%
Chatham	6.8%	6.1%
Cumberland	3.7%	6.0%
Lee	3.3%	3.7%
Harnett	2.1%	3.2%
Guilford	1.9%	2.3%
Johnston	1.8%	2.2%
Robeson	1.2%	2.6%
All Other NC Counties	19.8%	32.8%
Total NC	98.3%	96.9%
Other US Total	1.7%	3.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Totals may not sum due to rounding.

All Other NC Counties includes patients from each of the 100 NC counties not listed above.

As illustrated in the above table, Orange, Wake, Durham, Alamance, Chatham, Cumberland, Lee, Harnett, Guilford, Johnston and Robeson counties represent approximately 78.5% of the acute care patient origin at UNC Hospitals, and approximately 64.2% of its medical/surgical services inpatient patient origin. The tables on pages 76-83 illustrate that UNC Hospitals treats patients from all over North Carolina and from outside the State. In Section III.5(a), page 83, the applicant states:

*“The 2015 SMFP identifies UNC Hospitals as a part of the Orange County acute care bed service area, as used in the development of the acute care bed need determination. The remainder of UNC Hospitals’ service area includes every other county in North Carolina and a small percentage of patients from other states and countries.”*

In Section III.5(c), pages 84-87, the applicant provides the projected patient origin for medical/surgical inpatient services, as a percent of discharges, for the first two years following completion of the proposed project. The table below illustrates the 11 North Carolina counties projected to have patient origin of at least two percent of the total patient origin, with 13.2%, the highest percentage originating in Orange County, and 11.7% originating in Wake County.

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County of Residence	Percent Patient Origin
Orange	13.2%
Wake	11.7%
Alamance	7.5%
Chatham	6.1%
Cumberland	6.0%
Durham	5.7%
Lee	3.7%
Harnett	3.2%
Robeson	2.6%
Guilford	2.3%
Johnston	2.2%
Total Top 11 Counties	64.2%
Other NC Counties*	32.8%
Out of State	3.0%
International	<0.1%
<b>Total</b>	<b>100.00%</b>

Totals may not sum due to rounding.

\*Other NC Counties includes patients from each of the NC 100 counties not listed above.

As illustrated in the table above, the applicant projects that approximately 64% of its medical/surgical discharged inpatients will originate from Orange, Wake, Alamance, Durham, Cumberland, Chatham, Lee, Harnett, Robeson, Guilford and Johnston counties. Another 33% of its total discharges will originate from other North Carolina counties. An additional 3% of its discharges is projected to come from residents residing in other states and outside the US. The applicant states that its patient origin for the proposed project will remain consistent with its FY 2014 UNC Hospitals patient origin.

The applicant adequately identifies the population it proposes to serve.

**Analysis of Need**

In Section III.1, page 51, the applicant states:

*“The overall need for the proposed complementary projects is based on the following factors:*

- *The need for additional acute care beds in Orange County identified in the 2015 SMFP;*
- *The continued need for additional capacity at UNC Hospitals’ main campus and the decompression of the main campus through the opening of UNC Hospitals Hillsborough Campus; and*



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- *The projected population growth in Orange County.”*

The applicant discusses the above factors on pages 52-62 of the application, as summarized below.

2015 SMFP Identified Need for Additional Acute Care Beds

In Section III.1, page 52, the applicant discusses the need for additional acute care beds in the 2015 SMFP being triggered by the utilization of the total number of existing and approved acute care beds within a given service area. The applicant states that the 2013 utilization data from Truven Health Analytics is used to project the average daily census (ADC) for 2017, using the Orange County growth rate multiplier of 1.0245, based on the annual percentage of change over the last five federal fiscal years, as shown in the table below.

	<b>2013 Acute Days of Care</b>	<b>Growth Rate Multiplier</b>	<b>2017 Projected Acute Care Days</b>	<b>2017 Projected ADC</b>
<b>UNC Hospitals</b>	<b>207,654</b>	<b>1.0245</b>	<b>228,764</b>	<b>627</b>

The ADC is then multiplied by the appropriate target occupancy factor (1.28 for ADC >400) to determine the projected bed need. Subtracting the existing and approved beds from the projected need results in the need determination for an additional 46 beds, as shown in the table below.

	<b>2017 Projected ADC</b>	<b>Occupancy Factor</b>	<b>Projected 2017 Bed Need</b>	<b>Existing and Approved Beds</b>	<b>Need Determination</b>
<b>UNC Hospitals</b>	<b>627</b>	<b>1.28</b>	<b>802</b>	<b>756</b>	<b>46</b>

On page 54, the applicant states that Orange County had a need identified for 36 beds in 2010, and 27 beds in 2012. UNC Hospitals received approval to develop both the 36 bed (Project ID #J-8501-10) and the 27 bed (Project ID #J-8812-12) need determinations. The applicant states that despite these additional beds, UNC Hospitals still requires additional capacity to meet the needs of its patients as discussed below.

UNC Hospital’s Continued Need for Additional Capacity

On page 55, the applicant states:

*“For several years, UNC Hospitals has experienced periods of extremely high utilization during which the availability of beds for new admissions has been challenged. The need for the additional 46 beds between the two UNC Hospitals campuses is primarily based on the inadequacy of the existing number of acute care beds to meet current patient demand.”*

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The applicant further states that because UNC Hospitals is a quaternary referral hospital, trauma center, and provider of specialty care for complex diseases for patients from all 100 North Carolina counties, the issue of capacity constraints is of great concern. The applicant also states that in spite of submitting several CON applications to address patient needs, including the development of the Hillsborough campus, UNC Hospitals continues to experience high occupancies and occasionally must refuse to accept patients or delay admittance due to lack of an appropriate bed.

On page 57, the applicant states:

*“For each of the past four federal fiscal years, UNC Hospitals has operated at occupancy levels greater than the 78 percent target identified in the 2015 SMFP for facilities with an average daily census (ADC) greater than 400.”*

The applicant discusses the proposed development of the UNC Hospitals Hillsborough Campus as a means to reduce crowded conditions at the main campus, and its delay in development because of an appeal. The applicant says the delay has exacerbated the need at UNC Hospitals and for Orange County as population growth and the demand for inpatient services has outpaced the development of capacity.

### Population Growth

In Section III.1, pages 60-62, the applicant provides population data for Orange County. According to data from the North Carolina Office of State Budget and Management (NC OSBM), Orange County is the fifteenth fastest growing county in North Carolina based on both numerical and percentage growth. See Exhibit 18. The NC OSBM projects Orange County’s population to grow by 13.2% between 2010 and 2020, adding 17,000 people within the decade. The applicant further states on page 62, that the need for medical services in Orange County will be greater as the population continues to age, *“because, typically, older residents utilize healthcare services at a higher rate than those who are younger”*. By 2020, nearly 15 percent of the total population in Orange County will be over the age of 65 (more than 22,000 people), up from approximately 10 percent in 2010. See Exhibit 20. Further, between 2010 and 2020, Orange County’s population over the age of 65 is projected to grow by 72.1 percent.

### Projected Utilization UNC Hospitals Hillsborough Campus

UNC Hospitals Hillsborough Campus is projected to begin offering inpatient services on September 1, 2015 with Phase 1 of Project ID #J-8330-09, the operation of 25 general acute care beds and eight ICU beds. UNC Hospitals operates on a July 1 to June 30 fiscal year (FY). The proposed project is expected to begin operation January 1, 2016, along with Phase 2 of Project ID #J-8330-09, the completion of the remaining 25 general acute care

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beds and 10 ICU beds. Project Year One (PY1) of this proposed project begins January 1, 2016, the third quarter of UNC Hospitals' FY 2016, and runs through December 31, 2016. Project Year Two begins January 1, 2017, the third quarter of FY 2017, and Project Year Three will begin in the third quarter of FY 2018 (January 1, 2018) and run through December 31, 2018.

Project ID #J-11032-15, the concurrently filed application to add 42 acute care beds on UNC's Chapel Hill campus has project years that run from July 1, 2018 to June 30, 2021.

The following table provides the applicant's fiscal year projections (page 66) for UNC Hospitals Hillsborough Campus general acute care beds based on the number of days that beds will be operational; therefore, there are fewer bed days in FY16 due to the fact that 25 general acute care beds and eight ICU beds will be operational from September 2015 through June 2016 (304 days), 25 additional general acute care beds and 10 ICU beds (Phase II of Project ID #J-8330-09) and the four additional general acute care beds as proposed in this application will be operational from January 2016 through June 2016 (182 days). The applicant uses the average number of operational beds for FY16.

**Fiscal Year Projection of General Acute Care Beds**

	<b>FY16</b> 7/15-6/16	<b>FY17</b> 7/16-6/17	<b>FY18</b> 7/17-6/18	<b>FY19</b> 7/18-6/19	<b>FY20</b> 7/19-6/20	<b>FY21</b> 7/20-6/21
<b>UNC Hospitals Hillsborough Campus Medical/Surgical</b>						
Bed Days	12,878	19,710	19,710	19,710	19,764	19,710
# Beds	43	54	54	54	54	54
Discharges	2,639	3,456	3,522	3,610	3,661	3,716
Patient Days	10,544	13,826	14,130	14,624	15,122	15,651
% Occupancy	82.0%	70.1%	71.7%	74.2%	76.5%	79.4%
<b>UNC Hospitals Hillsborough Campus ICU</b>						
Bed Days	4,252	6,570	6,570	6,570	6,570	6,570
# Beds	9	18	18	18	18	18
Discharges	833	1,789	1,256	1,429	1,465	1,507
Patient Days	2,249	4,835	4,908	5,497	5,634	5,798
% Occupancy	52.9%	73.6%	74.7%	83.7%	85.5%	88.2%
<b>UNC Hospitals Hillsborough Campus Total</b>						
Bed Days	17,130	26,280	26,280	26,280	26,280	26,280
# Beds	53	72	72	72	72	72
Discharges	3,472	5,246	4,779	5,039	5,126	5,223
Patient Days	12,803	18,661	19,038	20,121	20,756	21,449
% Occupancy	74.7%	71.0%	72.4%	76.6%	78.8%	81.6%

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The applicant converts the fiscal year projections shown above to the proposed project years, beginning January 1, 2016, using the following approach:

PY1 (January 1, 2016 – December 31, 2016) = 0.5 x FY 2016 + 0.5 x FY 2017  
 PY2 (January 1, 2017 – December 31, 2017) = 0.5 x FY 2017 + 0.5 x FY 2018  
 PY3 (January 1, 2018 – December 31, 2018) = 0.5 x FY 2018 + 0.5 x FY 2019

The applicant provides the following table on page 67, projecting bed days and occupancy rates by project years for the Hillsborough campus acute care beds.

<b>Projected General Acute Care Bed Occupancy Rates</b>			
	<b>PY1</b> 1/16-12/16	<b>PY2</b> 1/17-12/17	<b>PY3</b> 1/18-12/18
<b>UNC Hospitals Hillsborough Campus Medical/Surgical</b>			
Bed Days	16,294	19,710	19,710
# Beds	49	54	54
Discharges	3,047	3,489	3,566
Patient Days	12,190	13,978	14,377
% Occupancy	74.8%	70.9%	72.9%
<b>UNC Hospitals Hillsborough Campus ICU</b>			
Bed Days	5,411	6,570	6,570
# Beds	14	18	18
Discharges	1,311	1,523	1,343
Patient Days	3,542	4,872	5,202
% Occupancy	65.5%	74.1%	79.2%
<b>UNC Hospitals Hillsborough Campus Total</b>			
Bed Days	21,705	26,280	26,280
# Beds	62	72	72
Discharges	4,359	5,012	4,909
Patient Days	15,732	18,849	19,580
% Occupancy	72.5%	71.7%	74.5%

However, in the table above, the applicant assumes only an average of 49 medical/surgical (62, including ICU) operational beds for the first project year and that is not a valid assumption. The full number of general acute care beds are projected to become operational as of January 1, 2016 (54 medical/surgical and 18 ICU for a total of 72); therefore, the following table illustrates the correct number of available bed days, the projected utilization and the percent occupancy, adjusted for the correct number of projected available patient days in the first project year.

**Adjusted Available Bed Days and Occupancy Rates for  
54 General Acute Medical/Surgical and 18 ICU Beds**

	<b>PY1 1/16-12/16</b>	<b>PY2 1/17-12/17</b>	<b>PY3 1/18-12/18</b>
<b>UNC Hospitals Hillsborough Campus Medical/Surgical</b>			
Bed Days Available	19,710	19,710	19,710
# Beds	54	54	54
Discharges	3,047	3,489	3,566
Patient Days	12,190	13,978	14,377
% Occupancy	61.8%	70.9%	72.9%
<b>UNC Hospitals Hillsborough Campus ICU</b>			
Bed Days	6,570	6,570	6,570
# Beds	18	18	18
Discharges	1,311	1,523	1,343
Patient Days	3,542	4,872	5,202
% Occupancy	53.9%	74.1%	79.2%
<b>UNC Hospitals Hillsborough Campus Total</b>			
Bed Days	26,280	26,280	26,280
# Beds	72	72	72
Discharges	4,359	5,012	4,909
Patient Days	15,732	18,849	19,580
% Occupancy	59.9%	71.7%	74.5%

As the two tables above illustrate, the result is the same projected occupancy rates for the total number of acute care beds at UNC Hospitals Hillsborough Campus for the second and third project years: 71.7% and 74.5%, respectively.

Projected Utilization UNC Hospitals (Hillsborough and Main Campus)

In Section III, beginning on page 58 and in Exhibit 35 (Section III of concurrently filed application, Project ID #J-11032-15), the applicant discusses occupancy rates for UNC Hospitals Chapel Hill and Hillsborough campuses, stating that UNC Hospitals must meet the target occupancy of 75.2%, as required in Section .3800 Criteria and Standards for Acute Care Beds – 10A NCAC 14C .3803(a). This rule states:

*“An applicant proposing to develop new acute care beds shall demonstrate that the projected average daily census (ADC) of the total number of licensed acute care beds proposed to be licensed within the service area, under common ownership with the applicant, divided by the total number of those licensed acute care beds is reasonably projected to be at least 66.7 percent when the projected ADC is less than 100 patients, 71.4 percent when the projected ADC is 100 to 200 patients, and 75.2*

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*percent when the projected ADC is greater than 200 patients, in the third operating year following completion of the proposed project or in the year for which the need determination is identified in the State Medical Facilities Plan, whichever is later.”*

The concurrently filed application, Project ID #J-11032-15 (add 42 acute care beds at UNC Hospitals Chapel Hill Campus), identifies its first year of operation on page 596 of Exhibit 35 as PY1: July 1, 2018 to June 30, 2019, which follows UNC Hospitals’ fiscal year. All utilization provided in Exhibit 35 for Project ID #J-11032-15 is fiscal year data. The Project Analyst converts the fiscal year utilization data for the Chapel Hill project to the project under review’s project years using the applicant’s assumption as stated above for conversion from fiscal year to project years, which run January 1 through December 31. The analyst then adds the Chapel Hill campus projected utilization during the applicable project years to the Hillsborough campus adjusted projected utilization to determine UNC Hospitals occupancy rate in the third operating year following completion of this proposed project, as shown in the table below.

**Projected UNC Hospitals Acute Care Inpatient Utilization  
PY = January 1 through December 31**

	Hillsborough Campus			Chapel Hill Main Campus			Total UNC Hospitals Facility-wide		
	PY1	PY2	PY3	PY1	PY2	PY3	PY1	PY2	PY3
<b>UNC Hillsborough Medical/Surgical</b>				<b>UNC CH Medical/Surgical</b>			<b>Total UNC Medical/Surgical</b>		
Bed Days	19,710	19,710	19,710	197,003	197,283	195,458	216,713	216,993	215,168
# Beds	54	54	54	539	541	536	593	595	590
Patient Days	12,190	13,978	14,377	162,536	164,633	163,012	174,726	178,611	177,389
% Occupancy	61.8%	70.9%	72.9%	82.5%	83.5%	83.4%	80.6%	82.3%	82.4%
<b>UNC Hillsborough Campus ICU</b>				<b>UNC CH Campus ICU</b>			<b>Total UNC ICU</b>		
Bed Days	6,570	6,570	6,570	39,112	40,637	43,370	45,682	47,207	49,940
# Beds	18	18	18	107	113	120	125	131	138
Patient Days	3,542	4,872	5,202	32,680	33,308	34,189	36,222	38,180	39,390
% Occupancy	53.9%	74.1%	79.2%	83.6%	82.0%	78.8%	79.3%	80.9%	78.9%
<b>Total UNC Hillsborough Campus</b>				<b>Total CH (M/S, ICU, NICU, PICU)</b>			<b>Total UNC (M/S, ICU, NICU, PICU)</b>		
Bed Days	26,280	26,280	26,280	264,624	266,389	267,297	290,904	292,669	293,577
# Beds	72	72	72	724	731	734	796	803	806
Patient Days	15,732	18,849	19,580	217,727	220,531	219,845	233,459	239,379	239,424
% Occupancy	59.9%	71.7%	74.5%	82.3%	82.8%	82.2%	80.3%	81.8%	81.6%

Totals may not sum due to rounding. UNC Chapel Hill Campus ICU does not include NICU and PICU; therefore the Total CH (M/S, ICU, NICU, PICU) is not a sum of UNC CH Medical/Surgical and UNC CH Campus ICU. Accordingly, the same is true for the calculations for the Total UNC Hospitals Facility-wide utilization.

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As the table above shows, UNC Hospitals' total utilization at the end of the proposed project's third operating year is above the required 75.2% occupancy rate required in the performance standard, *10A NCAC 14C .3803(a)*.

Projected utilization is based on reasonable and adequately supported assumptions which are provided in Section III, pages 58-59.

The applicant adequately demonstrates the need to add four additional acute care beds on the Hillsborough campus. The addition of beds at the Hillsborough campus will maximize efficiency for patients at both UNC Hospitals campuses.

**Access**

In Section III.2, page 72, the applicant discusses how the proposed project will promote equitable access. The applicant states:

*“As North Carolina’s only state-owned comprehensive, full service hospital-based program, UNC Hospitals has the obligation to accept any North Carolina citizen requiring medically necessary treatment. No North Carolina citizen is presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance as demonstrated in Section VI.2”*

In Section VI.2, pages 109-110, the applicant states that UNC Hospitals has traditionally provided services to a wide variety of patient groups and provides the following table, based on FY 2014 data.

	<b>Low Income</b>	<b>Racial &amp; Ethnic Minorities</b>	<b>Women</b>	<b>Elderly</b>	<b>Other Underserved</b>
Total Hospital	16.6%	36.3%	58.5%	23.9%	11.0%
Med/Surg Inpatients	22.6%	39.8%	52.3%	28.0%	7.6%

Low Income = Medicaid and ½ of Medicaid Pending; Other Underserved = Self Pay and ½ of Medicaid Pending. “Low income” is based on Federal poverty guidelines as outlined in the Patient Financial Assistance Policy contained in Exhibit 12. “Elderly” is defined as patients age 65 and over.

In Section VI.8, pages 113-114, the applicant discusses charity care and bad debt, stating that UNC Hospitals will provide more than \$240,000,000 and \$250,000,000 in charity care in project years one and two, respectively; and approximately \$150,000,000 in bad debt each year.

The applicant adequately demonstrates the extent to which residents of the area, including underserved groups, are likely to have access to the proposed services.

**Conclusion**

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 demonstrates the extent to which all residents of the area, including underserved groups, are likely to have access to the services provided. 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.

C

The applicant proposes to eliminate four of its approved observation beds and replace them with the proposed four acute care beds. On page 29 of the application, the applicant states:

*“The four proposed beds will be developed as general acute care beds and will be physically located within the previously approved 15-bed observation unit. The proposed project will result in a change in scope to the previously approved Project ID #J-8330-09 as the previously planned observation unit is now proposed to house four acute care and 11 observation beds.”*

On pages 29-30, the applicant further states:

*“By licensing four beds on this fifteen bed unit, UNC Hospitals Hillsborough Campus will have more operational flexibility. Observation patients can be accommodated in licensed beds but admitted patients cannot be accommodated in observation beds. Thus, upon completion of the proposed project, UNC Hospitals Hillsborough Campus will have the flexibility to use these four proposed beds in these dual roles.”*

The applicant adequately demonstrates the needs of the population originally proposed to be served will be adequately met by the proposed project without affecting 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. Therefore, the application is conforming to this criterion.

- (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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CA

In Section III.3, pages 75-76, the applicant describes several alternatives considered which include the following:

- 1) Maintain Status Quo – UNC Hospitals considered maintaining the status quo, however, the applicant concluded this option would force UNC Hospitals to continue to operate with inefficiencies and the inability to place patients in the most appropriate beds. The applicant also says that patients would continue to endure long wait times in the emergency room while waiting for a bed, in addition to surgical case delays and delays in the delivery of critical treatments due to lack of appropriate bed availability. Furthermore, the applicant states this option does not respond to the increased demand generated by population growth and is therefore not the most effective alternative.
- 2) Build a New Bed Tower on the Main Campus – the applicant evaluated this alternative and future master facility plans do include a new bed tower on the main campus; however, the applicant states this option is not practically or financially feasible in the near term and is therefore not the most effective alternative at this time.
- 3) Develop the Concurrently Filed Projects as Proposed – The applicant states on page 76 that its concurrently filed applications for four additional beds at UNC Hospitals Hillsborough Campus and 42 beds at UNC Hospitals Chapel Hill Campus are the most effective alternatives to meet the identified need for 46 additional acute care beds in Orange County. The applicant states that this proposal to add four additional beds on the Hillsborough campus develops the beds in an existing, previously approved bed unit and therefore requires minimal construction/renovation as compared to new construction. The applicant states that the project can also be developed quickly, enabling UNC Hospitals to bring the beds online in a timely manner. The applicant states that the project as proposed is the most reasonable, cost-effective and timely option for meeting the identified need for additional beds in Orange County.

The applicant adequately demonstrates that developing four additional acute care beds on its UNC Hospitals Hillsborough Campus is its most effective alternative to meet the identified need.

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

In summary, the applicant adequately demonstrates that its 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. **University of North Carolina Hospitals at Chapel Hill shall materially comply with all representations made in its certificate of need application and the supplemental information received June 18, 2015. In those instances where representations conflict, University of North Carolina Hospitals at Chapel Hill shall materially comply with the last made representation.**
  2. **University of North Carolina Hospitals at Chapel Hill 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 which would otherwise require a certificate of need.**
  3. **University of North Carolina Hospitals at Chapel Hill shall develop no more than four additional acute care beds at UNC Hospitals Hillsborough Campus for a total of no more than 72 acute care beds, including 18 ICU beds, on that campus. This project and Project ID #J-11032-15 (add 42 acute care beds at UNC Hospitals Chapel Hill Campus for a total of no more than 734) would bring the total number of acute care beds for UNC Hospitals to 806 beds, upon completion of both projects.**
  4. **Prior to issuance of the certificate of need, University of North Carolina Hospitals at Chapel Hill shall acknowledge acceptance of and agree to comply with all conditions stated herein in writing to the Certificate of Need Section.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

In Section VIII.1, pages 129-130, the applicant states that the total capital cost of the project will be \$22,500, as shown in the table below.

Construction / Labor Costs	\$ 5,000
Furniture	\$ 15,000
Architect & Engineering Fees	\$ 2,500
<b>Total Capital Cost</b>	<b>\$ 22,500</b>

In Section IX, page 135, the applicant states there will be no start-up or initial operating expenses associated with the proposed project. In Section VIII.3, page 130, the applicant states that the project will be funded through UNC Hospitals' accumulated reserves. Exhibit 27 contains an April 8, 2015 letter signed by the President for UNC Hospitals, which states:

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*“UNC Hospitals will fund the capital cost from existing accumulated cash reserves. This expenditure will not impact any other capital projects currently underway or planned for at this time. For verification of the availability of these funds and our ability to finance these projects internally, please refer to the “Cash and Cash Equivalents” line item in the audited financial statements included with this Certificate of Need application.”*

Exhibit 28 of the application contains the audited financial statements for UNC Hospitals for the year ending June 30, 2014. As of June 30, 2014, UNC had \$43,554,656 in cash and cash equivalents and \$1,279,661,957 in net assets (total assets less total liabilities). The applicant adequately demonstrates the availability of sufficient funds for the capital needs of the project.

The information provided by the applicant in Form C shows that UNC Hospitals’ facility-wide medical/surgical revenues will exceed expenses in the first three fiscal years following completion of the proposed project. However, the information as presented in the application as pro forma Forms D and E are for fiscal years 2019 through 2021, the project years for the concurrently filed Chapel Hill project, Project ID #J-11032-15. Therefore pro forma Forms D and E, as presented, do not respond appropriately to Section X.2, which requires a Form C and D for *“each of the first three full fiscal years of operation following completion of the project”*, FY2017, FY2018 and FY2019.

The applicant provided clarifying information during the expedited review of this application that includes pro forma Forms D and E for UNC Hospitals medical/surgical services for fiscal years 2017 and 2018. FY2019 is included in the application, as submitted. The information provided by the applicant in Forms D and E supports Form C, as presented in the application. UNC Hospitals projected medical/surgical revenues exceeds expenses in the first three fiscal years following completion of the proposed project. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. The applicant adequately demonstrates that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

In summary, the applicant adequately demonstrates the availability of funds for the capital needs of the proposal and adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and charges. Therefore, the application is conforming to this criterion.

- (6) The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

C

On page 48, the 2015 SMFP defines the service area for acute care services by county (or multicounty service area for counties without a hospital). UNC Hospitals is located in Orange

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County. Thus, the service area for this facility consists of Orange County. Facilities may also serve residents of counties not included in their service area.

The 2015 SMFP identifies a need determination for 46 additional acute care inpatient beds in the Orange County service area. UNC Hospitals is the only provider of acute care hospital services located in Orange County. UNC Hospitals proposes to add 46 acute care beds for a total of 806 facility-wide acute care beds upon completion of this project (add four beds on the UNC Hospitals Hillsborough Campus) and the concurrently filed application, Project ID #J-11032-15 (add 42 beds on the UNC Hospitals Chapel Hill Campus). The applicant does not propose to develop more acute care beds than are determined to be needed in the service area. The applicant adequately demonstrates the need the population proposed to be served has for the four additional acute care beds at UNC Hospitals Hillsborough Campus. The discussion regarding analysis of need found in Criterion (3) is incorporated herein by reference.

Therefore, the applicant adequately demonstrates the project would not result in unnecessary duplication of existing or approved acute care services in the Orange County service area. Consequently, the application is conforming to this criterion.

- (7) The applicant shall show evidence of the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided.

C

In Section VII.1(b), pages 120-121, the applicant provides the projected staffing for UNC Hospitals Hillsborough Campus' 15-bed unit (11 observation beds and the four acute care beds proposed in this application) during the second full fiscal year following the completion of the project, as illustrated in the table below.

**Proposed Staffing  
January 1, 2017 – December 31, 2017**

	<b>PROJECTED FTES</b>
Clinical Nurse II	8.2
Clinical Nurse III	0.5
Clinical Nurse IV	1.0
Nursing Assistant II	4.0
Clinical Support Tech II	3.3
Clinical Nurse Per Diem	1.0
Nursing Assistant II Per Diem	2.0
Patient Services Manager	0.9
Total	20.9

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As illustrated in the above table, the applicant projects 20.9 full-time equivalent (FTE) positions in the second full fiscal year following completion of the proposed project. Furthermore, in Section VII.3(a), page 121, the applicant states:

*“Because UNC Hospitals currently provides each of the services in the proposed project, the positions that result from this project will not be new. That is, UNC Hospitals currently employs staff in each of these positions. No new positions (i.e. types of FTEs) will result from the proposed project; however, UNC Hospitals does intend to hire incremental staff to support the additional acute care capacity.”*

In Section VII.6 (a) and (b), pages 122-123, the applicant provides UNC’s recruitment and staff retention plans. In Section VII.8 (a), page 124, the applicant states Dr. B. Anthony Lindsey is the Chief Medical Officer for UNC Hospitals. See Exhibit 25 for a copy of Dr. Lindsey’s letter of support. On pages 125-126, the applicant provides the number of UNC Hospitals’ active medical staff by specialty. The applicant demonstrates the availability of adequate health manpower and management personnel to provide the proposed services, and therefore, the application is conforming to this criterion.

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

C

The applicant currently provides acute care inpatient services and the necessary ancillary and support services are currently available. In Section II.2 (a), page 31, the applicant states:

*“UNC Hospitals currently has all ancillary and support services in place necessary to support hospital operations. UNC Hospitals Hillsborough Campus will provide ancillary and support services once it becomes operational.”*

The applicant provides a list of all services to be offered at UNC Hospitals Hillsborough Campus in Section II.1 on pages 28-29. See Exhibit 2 of the application for a copy of a letter from Dr. Brian P. Goldstein, Executive Vice President and Chief Operating Officer of UNC Hospitals, attesting to the availability of ancillary and support services. Exhibit 36 contains letters of support from physicians for the proposed project. The applicant adequately demonstrates the availability of the necessary ancillary and support services and that the proposed services will be coordinated with the existing health care system. Therefore, the application is conforming to 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:

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

C

In Section VI.12 and VI.13, page 117, the applicant provides the payor mix during FY 2014 for UNC Hospitals' entire facility and UNC Hospitals' Medical/Surgical services, as illustrated in the table below:

**UNC Hospitals  
 FY 2014(7/1/13-6/30/14)  
 Inpatient Days as a Percent of Total Utilization**

	<b>Entire Facility</b>	<b>Medical/Surgical</b>
Self-Pay / Indigent / Charity	6.7%	7.9%
Medicare/Medicare Managed Care	32.9%	40.1%
Medicaid	29.6%	22.8%
Commercial Insurance	0.8%	0.9%
Managed Care	24.4%	23.4%
Other (Other Gov't)	5.7%	4.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

In Section VI.2, page 109, the applicant states:

*“As North Carolina’s only state-owned comprehensive, full service hospital-based program, UNC Hospitals has the obligation to accept any North Carolina citizen requiring medically necessary treatment. No North Carolina citizen is presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance.*

*The proposed project will be designed in accordance with the latest State of North Carolina and Federal guidelines for handicapped accessibility. The project incorporates all applicable provisions of the Americans with Disabilities Act.”*

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.

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	<b>2010 Total # of Medicaid Eligibles as % of Total Population</b>	<b>2010 Total # of Medicaid Eligibles Age 21 and older as % of Total Population</b>	<b>2009 % Uninsured CY 2009 (Estimate by Cecil G. Sheps Center)</b>
Orange County	8.6%	3.5%	18.9%
Statewide	16.5%	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. This age group does not utilize the same health services at the same rate as older segments of the population.

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 payer mix would be of little value. The population data by age, race or gender does not include information on the number of elderly, minorities, handicapped persons or women utilizing health services.

The applicant demonstrates that medically underserved populations currently have adequate access to the services offered at UNC Hospitals. Therefore, the application is conforming to this criterion.

- (b) Its past performance in meeting its obligation, if any, under any applicable regulations requiring provision of uncompensated care, community service, or access by minorities and handicapped persons to programs receiving federal assistance, including the existence of any civil rights access complaints against the applicant;



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C

Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section VI.11, page 116, the applicant states:

*“UNC Hospitals has long since satisfied its “free care” obligation under the Hill-Burton Act. Charity care provided by UNC Hospitals for Fiscal Year 2014 is estimated to be \$191 million (15.64 percent of Net Revenue). UNC Hospitals provides care to all persons based only on their need for care and without regard to minority status or handicap/disability.”*

See Exhibit 13 for a copy of the applicant’s policies and procedures regarding admissions and discharges.

In Section VI.10 (a), page 116, the applicant states that it has not been notified of any civil rights equal access complaints being filed against the hospital and/or any facilities or services owned by the hospital within the past five years. Therefore, 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

C

In Section VI.14 (a) and (b) and VI.15 (a) and (b), pages 118-119, the applicant provides the projected payor mix for the entire facility and the medical/surgical services for UNC Hospitals Fiscal Year 2018 (July 1, 2017 – June 30, 2018), the second full fiscal year following completion of the project, as illustrated in the table below:

**UNC Hospitals Projected FY 2018 Payor Mix  
Inpatient Days as a Percent of Total Utilization**

	<b>Entire Facility</b>	<b>Med/Surg Volume</b>
Self-Pay / Indigent / Charity	6.7%	7.9%
Medicare/Medicare Managed Care	32.9%	40.1%
Medicaid	29.6%	22.8%
Commercial Insurance	0.8%	0.9%
Managed Care	24.4%	23.4%
Other (Other Gov't)	5.7%	4.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Totals may not sum due to rounding.

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On page 119, the applicant states that its payor mix for medical/surgical services is not expected to change from its historical mix.

The applicant adequately demonstrates 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.9, page 115, the applicant describes the range of means by which a person will have access to its 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.

C

In Section V.1(b), page 96, the applicant states that UNC Hospitals is associated with several health professional training programs. The applicant also states that the proposed project will be available as a clinical site for training programs and UNC Hospitals medical and surgical programs will continue to serve as a training site with the addition of the proposed acute care beds. The information provided in Section V.1 is reasonable and credible and supports a finding of conformity to 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

On page 48, the 2015 SMFP defines the service area for acute care services by county (or multicounty service area for counties without a hospital). UNC Hospitals is located in Orange County. Thus, the service area for this facility consists of Orange County. Facilities may also serve residents of counties not included in their service area.

The applicant operates the only state-owned academic medical center in North Carolina and is the only acute care hospital located in the Orange County service area. UNC Hospitals serves patients originating from all 100 counties in North Carolina. The applicant proposes to add four additional acute care beds for a total of 72 at UNC Hospitals Hillsborough Campus.

In Section V.7, pages 104-107, the applicant discusses how any enhanced competition in the service area will promote cost-effectiveness, quality and access to the proposed services. The applicant states:

*“UNC Hospitals believes that the proposed project may foster some competition in the proposed service area, particularly as the only provider of acute care services in the service area. However, the proposed project is not specifically being developed to foster competition per se, but rather to enhance the provision of timely, quality patient care and to assist UNC Hospitals in meeting its four-fold mission of patient care, teaching, research, and community service.”*

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

The information in the application is reasonable and credible and adequately demonstrates that any enhanced competition in the service area includes 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 applicant adequately demonstrates the need to add four acute care beds and that it is a cost-effective alternative. The discussions regarding analysis of need and alternatives found in Criteria (3) and (4), respectively, are incorporated herein by reference.
- The applicant adequately demonstrates that UNC Hospitals has and will continue to provide quality services. The discussions regarding quality found in Criteria (1) and (20) are incorporated herein by reference.
- The applicant adequately demonstrates UNC Hospitals will continue to provide adequate access to medically underserved populations. The discussions regarding access found in Criteria (1) and (13) are incorporated herein by reference.

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

In Section I.12, page 17, the applicant states that in addition to the UNC Hospitals, it currently owns, leases, or manages seven other hospitals in North Carolina. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents occurred within the eighteen months immediately preceding submission of the application through the date of this decision, for which any sanctions or penalties related to quality of care were imposed by the State on any facility owned and operated by UNC Hospitals in North Carolina. After reviewing and considering information provided by the applicant and by the Acute and Home Care Licensure and Certification Section and considering the quality of care provided at all eight facilities, the applicant provided sufficient evidence that quality care has been provided in the past and adequately demonstrated that there is no pattern of substandard quality of care. 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 submitted by University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) is conforming with all applicable Criteria and Standards for Acute Care Beds as promulgated in 10A NCAC 14C .3800. The specific criteria are discussed below.

**SECTION .3800 - CRITERIA AND STANDARDS FOR ACUTE CARE BEDS**

**10A NCAC 14C .3802 INFORMATION REQUIRED OF APPLICANT**

*(a) An applicant that proposes to develop new acute care beds shall complete the Acute Care Facility/Medical Equipment application form.*

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-C- The applicant completed the Acute Care Facility/Medical Equipment application form.

(b) *An applicant proposing to develop new acute care beds shall submit the following information:*

(1) *the number of acute care beds proposed to be licensed and operated following completion of the proposed project;*

-C- In Section I, pages 7-8, the applicant states that it is submitting two concurrent and complementary applications in response to the need identified in the 2015 SMFP for 46 additional acute care beds in Orange County. This application proposes to develop four additional acute care beds at UNC Hospitals Hillsborough Campus. The complementary application (Project ID#J-11032-15) proposes to develop 42 additional acute care beds on its main campus, UNC Hospitals Chapel Hill Campus, located at 101 Manning Drive, Chapel Hill, NC. On page 36, the applicant provides the projected number of acute care beds following completion of the two proposed projects under review at this time.

	<b>Acute Care Beds</b>	<b>Inpatient Psych Beds</b>	<b>Inpatient Rehab Beds</b>	<b>UNC Hospitals Total</b>
Currently Licensed	731	76	30	837
Previously Approved Project ID #J-8812-12*	+25			+25
Previously Approved Project ID #J-8836-12	+4			+4
Proposed Complementary Applications	+46			+46
<b>Total</b>	<b>806</b>	<b>76</b>	<b>30</b>	<b>912</b>

\*Two of the 27 approved beds in Project ID #J-8812-12 are included in the currently licensed 731 beds.

As the table above shows, UNC Hospitals was previously approved for Project ID #J-8812-12 (add 27 acute care beds for a total of 756 acute care beds) and Project ID #J-8836-12 (add four burn intensive care beds for a total of 760 acute care beds). The 46 currently proposed additional beds brings UNC Hospitals total acute care bed count to 806, assuming completion of the previously approved projects above, this project (add 4 acute care beds), and the concurrently filed project, Project I.D. # J-11032-15 (add 42 acute care beds).

(2) *documentation that the proposed services shall be provided in conformance with all applicable facility, programmatic, and service specific licensure, certification, and JCAHO accreditation standards;*

-C- In Section II.8, pages 36-37 and Exhibit 2, the applicant provides documentation that UNC Hospitals' services are and will continue to be provided in conformance with all applicable facility, programmatic, and service specific licensure, certification, and Joint Commission accreditation standards.

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- (3) *documentation that the proposed services shall be offered in a physical environment that conforms to the requirements of federal, state, and local regulatory bodies;*
- C- In Section II.8, page 37 and Exhibit 2, the applicant provides documentation that the services will be provided in a physical environment that conforms to the requirements of federal, state, and local regulatory bodies.
- (4) *if adding new acute care beds to an existing facility, documentation of the number of inpatient days of care provided in the last operating year in the existing licensed acute care beds by medical diagnostic category, as classified by the Centers for Medicare and Medicaid Services according to the list set forth in the applicable State Medical Facilities Plan;*
- C- In Section II.8, page 37, the applicant refers to Exhibit 8 for UNC Hospitals' FY2014 acute inpatient days of care. Exhibit 8 provides the number of patient days of care provided in the existing licensed acute care beds at UNC Hospitals during FY 2014 by medical diagnostic category (MDC) as classified by the Centers for Medicare and Medicaid Services (CMS) according to the list set forth in the 2015 SMFP.
- (5) *the projected number of inpatient days of care to be provided in the total number of licensed acute care beds in the facility, by county of residence, for each of the first three years following completion of the proposed project, including all assumptions, data and methodologies;*
- C- In Section II.8, page 38, the applicant refers to Exhibit 9, which provides projected inpatient days of care, by county of residence, for each of the first three years following completion of the proposed project, as summarized below.

**UNC Hospitals Hillsborough Campus  
Projected Inpatient Days of Care**

County	PY 1 CY 2016	PY 2 CY 2017	PY CY 2018
Wake	2,357	2,824	2,934
Orange	1,991	2,385	2,478
Alamance	1,070	1,282	1,332
Cumberland	961	1,151	1,195
Chatham	903	1,082	1,124
Durham	874	1,047	1,087
Lee	535	641	665
Harnett	485	581	604
Robeson	401	481	499
Johnston	353	424	440
Guilford	343	411	426
Other NC Counties*	4,990	5,977	6,211
Other States	466	559	581
Other Countries	3	4	4
<b>Total</b>	<b>15,732</b>	<b>18,489</b>	<b>19,580</b>

\*Other NC Counties includes each of the remaining 100 NC counties not specifically listed above.

See Exhibit 9 and Sections III and IV for the applicant’s assumptions, data and methodologies used to project inpatient days of care. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

- (6) *documentation that the applicant shall be able to communicate with emergency transportation agencies 24 hours per day, 7 days per week;*
- C- In Section II.8, pages 38-39, and Exhibit 2, the applicant provides documentation that UNC Hospitals will continue to be able to communicate with emergency transportation agencies 24 hours per day, 7 days per week.
- (7) *documentation that services in the emergency care department shall be provided 24 hours per day, 7 days per week, including a description of the scope of services to be provided during each shift and the physician and professional staffing that will be responsible for provision of those services;*
- C- In Section II.8, page 39 and Exhibit 2, the applicant provides documentation that UNC Hospitals’ emergency department services are available 24 hours per day, 7 days per week. The applicant states that UNC’s Department of Emergency Medicine provides

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full-time services in the ER with additional clinical services provided as required for a Level I Trauma Center. See Exhibit 11.

(8) *copy of written administrative policies that prohibit the exclusion of services to any patient on the basis of age, race, sex, creed, religion, disability or the patient's ability to pay;*

-C- See Exhibit 12 (Financial Assistance Policies) and Exhibit 13 (Admission Policies). Also see Sections VI.2, and VI.4 (b) for discussions documenting that the hospital prohibits the exclusion of services to any patient on the basis of age, race, sex, creed, religion, disability or the patient's ability to pay.

(9) *a written commitment to participate in and comply with conditions of participation in the Medicare and Medicaid programs;*

-C- In Exhibit 2, the applicant provides a written commitment from the Executive Vice President and COO of UNC Hospitals to continue to participate in and comply with conditions of participation in the Medicare and Medicaid programs.

(10) *documentation of the health care services provided by the applicant, and any facility in North Carolina owned or operated by the applicant's parent organization, in each of the last two operating years to Medicare patients, Medicaid patients, and patients who are not able to pay for their care;*

-C- In Section II.8, page 42, the applicant provides the payor mix for UNC Health Care's facilities for the most recent two federal fiscal years (FFY14 and FFY13), which shows that UNC provides services to the groups identified in this Rule.

(11) *documentation of strategies to be used and activities undertaken by the applicant to attract physicians and medical staff who will provide care to patients without regard to their ability to pay; and*

-C- In Section II.8, page 43 and Exhibit 2, the applicant provides documentation of strategies used and activities undertaken by UNC Hospitals to attract physicians and medical staff who currently provide and will continue to provide care to patients without regard to their ability to pay.

(12) *documentation that the proposed new acute care beds shall be operated in a hospital that provides inpatient medical services to both surgical and non-surgical patients.*

-C- In Section II.8, pages 43-44 and Exhibit 2, the applicant documents that UNC Hospitals provides inpatient medical services to both surgical and non-surgical patients



and UNC Hospitals Hillsborough Campus will provide inpatient medical services to both surgical and non-surgical patients.

*(c) An applicant proposing to develop new acute care beds in a new licensed hospital or on a new campus of an existing hospital shall also submit the following information:*

- (1) the projected number of inpatient days of care to be provided in the licensed acute care beds in the new hospital or on the new campus, by major diagnostic category as recognized by the Centers for Medicare and Medicaid Services (CMS) according to the list set forth in the applicable State Medical Facilities Plan;*
- (2) documentation that medical and surgical services shall be provided in the proposed acute care beds on a daily basis within at least five of the major diagnostic categories as recognized by the Centers for Medicare and Medicaid Services (CMS) according to the list set forth in the applicable State Medical Facilities Plan;*
- (3) copies of written policies and procedures for the provision of care within the new acute care hospital or on the new campus, including but not limited to the following:*
  - (A) the admission and discharge of patients, including discharge planning,*
  - (B) transfer of patients to another hospital,*
  - (C) infection control, and*
  - (D) safety procedures;*
- (4) documentation that the applicant owns or otherwise has control of the site on which the proposed acute care beds will be located; and*
- (5) documentation that the proposed site is suitable for development of the facility with regard to water, sewage disposal, site development and zoning requirements; and provide the required procedures for obtaining zoning changes and a special use permit if site is currently not properly zoned; and*
- (6) correspondence from physicians and other referral sources that documents their willingness to refer or admit patients to the proposed new hospital or new campus.*

-NA- The applicant proposes to add four additional acute care beds to the UNC Hospitals Hillsborough Campus, which will already be operational when the proposed beds are added.

### **10A NCAC 14C .3803 PERFORMANCE STANDARDS**

*(a) An applicant proposing to develop new acute care beds shall demonstrate that the projected average daily census (ADC) of the total number of licensed acute care beds proposed to be licensed within the service area, under common ownership with the applicant, divided by the total number of those licensed acute care beds is reasonably projected to be at least 66.7 percent when the projected ADC is less than 100 patients, 71.4 percent when the projected ADC is 100 to 200 patients, and 75.2 percent when the projected ADC is greater than 200 patients, in the third operating year following completion of the proposed project or in the year for which the need determination is identified in the State Medical Facilities Plan, whichever is later.*

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- C- In Section II.8, page 46, the applicant projects that the utilization rate for all UNC Hospitals acute care beds in the Orange County service area will be 81.4% in the third Project Year (PY2018: January 1, 2018 – December 31, 2018) following completion of the proposed project. See the following table.

<b>Combined Total Acute Care Beds</b>	<b>Patient Days</b>	<b>ADC</b>	<b>AC Beds</b>	<b>Occupancy</b>
UNC Hospitals Chapel Hill Campus	219,844	602.3	734	
UNC Hospitals Hillsborough Campus	19,580	53.6	72	
UNC Hospitals Orange County Total	239,424	656.0	806	81.4%

The occupancy rate above differs only two tenths of one percent, an insignificant difference, from the occupancy rate independently calculated by the Project Analyst. See the discussion regarding projected utilization found in Criterion (3) which is incorporated herein by reference. Projected utilization is based on reasonable and adequately supported assumptions.

*(b) An applicant proposing to develop new acute care beds shall provide all assumptions and data used to develop the projections required in this rule and demonstrate that they support the projected inpatient utilization and average daily census.*

- C- See Section III.1, pages 51-68 and Exhibit 35, for the applicant's assumptions and data used to project utilization support the projected utilization and average daily census. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

**10A NCAC 14C .3804 SUPPORT SERVICES**

*(a) An applicant proposing to develop new acute care beds shall document that each of the following items shall be available to the facility 24 hours per day, 7 days per week:*

- (1) laboratory services including microspecimen chemistry techniques and blood gas determinations;*
- (2) radiology services;*
- (3) blood bank services;*
- (4) pharmacy services;*
- (5) oxygen and air and suction capability;*
- (6) electronic physiological monitoring capability;*
- (7) mechanical ventilatory assistance equipment including airways, manual breathing bag and ventilator/respirator;*
- (8) endotracheal intubation capability;*
- (9) cardiac arrest management plan;*
- (10) patient weighing device for a patient confined to their bed; and*
- (11) isolation capability;*

-C- In Section II.8, pages 47-48, the applicant documents the availability of all of the items listed above 24 hours per day, seven days per week. Exhibit 2 contains a letter from the Executive Vice President and COO of UNC Hospitals regarding the availability of the services listed in this Rule at UNC Hospitals Hillsborough Campus.

*(b) If any item in Paragraph (a) of this Rule will not be available in the facility 24 hours per day, 7 days per week, the applicant shall document the basis for determining the item is not needed in the facility.*

-C- In Section II.8, page 48, the applicant states that all of the items in Paragraph (a) of this Rule will be available at UNC Hospitals Hillsborough Campus 24 hours per day, seven days per week.

*(c) If any item in Paragraph (a) of this Rule will be contracted, the applicant shall provide correspondence from the proposed provider of its intent to contract with the applicant.*

-C- In Section II.8, page 48, the applicant states that none of the items listed in Paragraph (a) of this Rule will be contracted.

#### **10A NCAC 14C .3805 STAFFING AND STAFF TRAINING**

*(a) An applicant proposing to develop new acute care beds shall demonstrate that the proposed staff for the new acute care beds shall comply with licensure requirements set forth in Title 10A NCAC 13B, Licensing of Hospitals.*

-C- Exhibit 2 contains a letter from the Executive Vice President and COO of UNC Hospitals documenting that the proposed staff will comply with the licensure requirements set forth in Title 10A NCAC 13B, Licensing of Hospitals.

*(b) An applicant proposing to develop new acute care beds shall provide correspondence from the persons who expressed interest in serving as Chief Executive Officer and Chief Nursing Executive of the facility in which the new acute care beds will be located, documenting their willingness to serve in this capacity.*

-C- In Section II.8, page 49, the applicant identifies the two individuals who currently serve as Chief Executive Officer and Chief Nursing Executive for UNC Hospitals. Exhibits 16 and 17 contain letters from each individual documenting their willingness to continue to serve in their respective roles.

*(c) An applicant proposing to develop new acute care beds in a new hospital or on a new campus of an existing hospital shall provide a job description and the educational and training requirements for the Chief Executive Officer, Chief Nursing Executive and each*

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*department head which is required by licensure rules to be employed in the facility in which the acute care beds will be located.*

-NA- The applicant proposes to add four additional acute care beds to a hospital which will be operational when the beds are added.

*(d) An applicant proposing to develop new acute care beds shall document the availability of admitting physicians who shall admit and care for patients in each of the major diagnostic categories to be served by the applicant.*

-C- In Section VII.8(b), pages 125-126, the applicant documents the availability of physicians who will admit and care for patients in each of the major diagnostic categories to be served at UNC Hospitals.

*(e) An applicant proposing to develop new acute care beds shall provide documentation of the availability of support and clinical staff to provide care for patients in each of the major diagnostic categories to be served by the applicant.*

-C- In Section VII.1(b) and Exhibit 2, the applicant provides documentation of the availability of support and clinical staff to provide care for patients in each of the major diagnostic categories provided at UNC Hospitals.