

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: February 14, 2018

Findings Date: February 14, 2018

Project Analyst: Mike McKillip

Team Leader: Lisa Pittman

Project ID #: A-11427-17

Facility: Angel Medical Center

FID #: 942938

County: Macon

Applicants: Angel Medical Center, Inc.

Project: Construct a replacement hospital facility

### REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

N.C. Gen. Stat. §131E-183(a) The Agency 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

Angel Medical Center, Inc. [AMC] proposes to construct a replacement hospital facility to be located approximately one mile from the existing facility in Franklin (Macon County).

#### **Need Determination and Policies**

There are no need determinations in the 2017 State Medical Facilities Plan (SMFP) applicable to the construction of a replacement hospital. However, Policy AC-5 and Policy GEN-4 are applicable.

**Policy AC-5**

AMC is currently licensed for 59 acute care beds, and proposes to develop a replacement hospital with 30 acute care beds. In Section B.5, pages 19-20, the applicant states AMC is currently designated as a Critical Access Hospital (CAH) by the Centers for Medicare and Medicaid, and intends to remain a CAH, and to maintain its swing bed capacity, following completion of the proposed project.

Policy AC-5: Replacement of Acute Care Bed Capacity states:

*“Proposals for either partial or total replacement of acute care beds (i.e., construction of new space for existing acute care beds) shall be evaluated against the utilization of the total number of acute care beds in the applicant’s hospital in relation to utilization targets found below. For hospitals **not** designated by the Centers for Medicare and Medicaid Services as Critical Access Hospitals, in determining utilization of acute care beds, only acute care bed “days of care” shall be counted. For hospitals designated by the Centers for Medicare and Medicaid Services as Critical Access Hospitals, in determining utilization of acute care beds, only acute care bed “days of care” **and** swing bed days (i.e., nursing facility days of care) shall be counted in determining utilization of acute care beds. Any hospital proposing replacement of acute care beds must clearly demonstrate the need for maintaining the acute care bed capacity proposed within the application. Additionally, if the hospital is a Critical Access Hospital and swing bed days are proposed to be counted in determining utilization of acute care beds, the hospital shall also propose to remain a Critical Access Hospital and must demonstrate the need for maintaining the swing bed capacity proposed within the application. If the Critical Access Hospital does not propose to remain a Critical Access Hospital, only acute care bed “days of care” shall be counted in determining utilization of acute care beds and the hospital must clearly demonstrate the need for maintaining the acute care bed capacity proposed within the application.*

<i>Facility Average Daily Census</i>	<i>Target Occupancy of Licensed Acute Care Beds</i>
<i>1 – 99</i>	<i>66.7%</i>
<i>100 – 200</i>	<i>71.4%</i>
<i>Greater than 200</i>	<i>75.2%</i>

In Section Q, page 110 and page 114, the applicant provides AMC’s historical and projected acute care bed utilization from FY2014 through the first three years of the proposed project, as summarized in the table below.

<b>Fiscal Year</b>	<b>Licensed Acute Care Beds</b>	<b>Acute Patient Days of Care</b>	<b>Average Daily Census</b>	<b>Percent Change</b>	<b>Average Occupancy Rate</b>
2014 Actual	59	5,967	16.3	---	27.7%
2015 Actual	59	6,439	17.6	7.9%	29.9%
2016 Actual	59	6,329	17.3	-1.7%	29.4%
2017 Actual	59	6,205	17.0	-2.0%	28.8%
2018 Projected	59	6,384	17.5	2.9%	29.6%
2019 Projected	59	6,568	18.0	2.9%	30.5%
2020 Projected	59	6,758	18.5	2.9%	31.4%
2021 Projected	59	6,953	19.0	2.9%	32.3%
2022 Year 1	30	7,154	19.6	2.9%	65.3%
2023 Year 2	30	7,360	20.2	2.9%	67.2%
2024 Year 3	30	7,573	20.7	2.9%	69.2%

Source: Tables on pages 110 and 114 of the application.

As shown in the table above, AMC projects an average occupancy rate of 69.2% in the third operating year following completion of the project, which exceeds the utilization target of 66.7% for facilities with an average daily census of 1-99 patients, as required in Policy AC-5 of the 2017 SMFP. Projected utilization is based on reasonable and supported assumptions. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. The applicant adequately demonstrates the need to maintain the acute care bed capacity proposed in this application and the application is consistent with Policy AC-5.

**Policy GEN-4**

Policy GEN-4 states:

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

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

*Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan of energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant’s representation in the written statement as described in*

*paragraph one of Policy GEN-4. The plan shall not adversely affect patient or resident health, safety or infection control.”*

The proposed capital expenditure for this project is greater than \$5 million. In Section B.11, pages 26-27, the applicant states:

*“AMC designed the proposed hospital replacement facility to be in compliance with all applicable federal, state, and local building codes, and requirements for energy efficiency and consumption, including Policy GEN-4. The project will be designed to be energy efficient and to conserve water. Subsequent to CON approval, AMC will develop and implement an Energy Efficiency and Sustainability Plan for the proposed facility that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest North Carolina State Building Codes.”*

The applicant adequately demonstrates that the application includes a written statement describing the project’s plan to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4.

### **Conclusion**

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant’s historical and projected acute care bed utilization demonstrate conformity with Policy AC-5.
- The applicant’s statements regarding energy efficiency and water conservation demonstrate conformity with Policy GEN-4.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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.

The applicant, Angel Medical Center (AMC), proposes to construct a replacement hospital to be located in Franklin (Macon County) approximately one mile from the existing facility. AMC is a 59-bed acute care hospital that is owned by Mission Health System, Inc., and designated by the Centers for Medicare and Medicaid as a Critical Access Hospital (CAH). In Section C.1, pages 28-30, the applicant describes the proposed project as follows:

*“AMC is proposing to construct a replacement hospital near the intersection of U.S. Highway 23/441 and Hunnicut Lane. The replacement hospital site is located approximately one mile from the current hospital. Upon completion of the proposed project, AMC will de-license 29 of its acute care beds, and will thus be licensed for a total of 30 acute care beds (59 – 29 = 30). The proposed project does not involve development of any new services or acquisition of major medical equipment. AMC intends to remain a critical access hospital upon completion of the proposed project. ... The replacement project is projected to be complete and start serving patients in October 2021 (FY2022). ... The facility will be approximately 82,600 SF and will have two levels.”*

The following table summarizes the scope of services AMC currently provides at the existing facility and the services it proposes to provide at the replacement facility:

**Angel Medical Center  
 Replacement Hospital**

<b>BEDS/EQUIPMENT/SERVICES</b>	<b>EXISTING</b>	<b>PROPOSED</b>
Intensive Care Unit (ICU) Beds	5	5
Medical/Surgical Beds	54	25
Total Licensed Acute Care Beds	59	30
Swing Bed Agreement	Yes	Yes
Dedicated C-Section Operating Room	1	0
Shared Operating Rooms	4	3
Gastrointestinal Endoscopy Rooms	2	1
Minor Procedure Rooms	1	0
Emergency Department Exam Rooms	14	17
Fixed MRI	2	2
CT Scanner	1	1
Mammography Unit	2	1
Ultrasound Unit	6	2
Fixed X-Ray Unit	2	2
Fluoroscopic X-Ray Units	3	3
Bone Density Equipment	1	1
Nuclear Medicine	Yes	Yes
Laboratory Services	Yes	Yes
Pharmacy Services	Yes	Yes
Dietary Services	Yes	Yes

Source: Table on page 30 of the application.

**Patient Origin**

On page 39, the 2017 SMFP defines the service area for acute care beds as “*the acute care bed planning area in which the bed is located. The acute care bed planning areas are the single and multicounty groupings shown in Figure 5.1.*” Figure 5.1 on page 42 of the 2017 SMFP indicates that Macon County is a single county service area. Thus, the service area for this project consists of Macon County. Facilities may also serve residents of counties not included in their service area.

In Sections C.2 and C.3, pages 31-32, the applicant provide the historical (FY2017) and projected patient origin for AMC for the first three operating years (FY2022-FY2024), as shown in the table below.

**Historical and Projected Patient Origin  
Angel Medical Center Acute Care Beds**

<b>County</b>	<b>FY2017 Percent of Total</b>	<b>Project Years 1-3 Percent of Total</b>
Macon	82.0%	82.0%
Jackson	6.1%	6.1%
Swain	2.3%	2.3%
Cherokee	1.3%	1.3%
Clay	1.0%	1.0%
Graham	0.7%	0.7%
Haywood	0.4%	0.4%
Buncombe	0.2%	0.2%
Cumberland	0.1%	0.1%
Pitt	0.1%	0.1%
Georgia	3.4%	3.4%
Other states	2.4%	2.4%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Tables on pages 31 and 32 of the application.

In Section C.3, page 33, the applicant states, “*The projected patient origin is consistent with AMC’s historical experience providing acute care services.*” The applicant adequately identified the population proposed to be served.

**Analysis of Need**

In Section C.4 of the application, the applicant describes the factors which it states supports the need for the proposed project, including:

- The age and condition of the existing facility (p. 34-36).

- The projected need for acute care beds in Macon County as described in the 2018 Proposed 2018 SMFP and the recent historical utilization of AMC’s acute care beds (p. 36-37).
- The historical and projected growth in utilization of the hospital’s emergency department (p. 42-43).
- Mission Health’s physician recruitment goal to add physicians to the AMC medical staff over the next few years (p. 44-45).
- The projected growth and aging of the service area population (p. 46-47).

The information provided by the applicant in the pages referenced above is reasonable and adequately supported.

*Projected Utilization*

**Acute Care Beds**

The proposed replacement facility will have 30 acute care beds. The existing AMC facility has 59 acute care beds. In Section Q, page 110 and page 114, the applicant provides AMC’s historical and projected acute care bed utilization from FY2014 through the first three years of the proposed project, as summarized in the table below.

<b>Fiscal Year</b>	<b>Licensed Acute Care Beds</b>	<b>Acute Patient Days of Care</b>	<b>Average Daily Census</b>	<b>Percent Change</b>	<b>Average Occupancy Rate</b>
2014 Actual	59	5,967	16.3	---	27.7%
2015 Actual	59	6,439	17.6	7.9%	29.9%
2016 Actual	59	6,329	17.3	-1.7%	29.4%
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2018 Projected	59	6,384	17.5	2.9%	29.6%
2019 Projected	59	6,568	18.0	2.9%	30.5%
2020 Projected	59	6,758	18.5	2.9%	31.4%
2021 Projected	59	6,953	19.0	2.9%	32.3%
2022 Year 1	30	7,154	19.6	2.9%	65.3%
2023 Year 2	30	7,360	20.2	2.9%	67.2%
2024 Year 3	30	7,573	20.7	2.9%	69.2%

Source: Tables on pages 110 and 114 of the application.

As shown in the table above, AMC projects an average occupancy rate of 69.2% in the third operating year following completion of the project.

In Section Q, pages 110-114, the applicant describes its assumptions and methodology for projecting utilization of the acute care beds at AMC, as summarized below.

**Step 1: Review Historical Utilization of AMC Acute Care Beds**

The applicants reviewed the historical utilization of the acute care beds at AMC and determined that total patient days of care increased at an average annual growth rate of 1.3 percent over

the past three years, from 5,967 patient days in FY2014 to 6,205 patient days in FY2017, and that total patient discharges increased at an average annual growth rate of 8.7 percent over the past three years, from 1,686 patient discharges in FY2014 to 2,163 discharges in FY2017. See the table on page 110 of the application. On page 111, the applicant states,

*“Despite the discontinuation of labor and delivery services at AMC, total acute care discharges increased during FY2017 compared to the previous year. The three-year compound annual growth rate for AMC acute care discharges is 8.7% from FY2014 to FY2017. This growth is consistent with AMC’s strategic initiative to keep more low-complexity patients at AMC instead of transferring patients to Mission Hospital. Additionally, Mission Health has expanded its total joint program to AMC, which has contributed to increased discharges and surgical cases.”*

### **Step 2: Estimate Impact of Retaining Basic Complexity and Orthopedic Patients**

The applicant states that Mission Health seeks to redirect more patients to AMC by retaining basic complexity patients and orthopedic patients. On pages 111-112, the applicant states,

*“According to Truven inpatient data, approximately 65% of inpatient discharges in Macon County are of basic complexity (2,391 patients in CY2015). While AMC captures the majority of these, nearly 20% (492 in CY2015) are treated at Mission Hospital. Therefore, even without net growth in Mission Health market share, keeping more of these patients local at AMC would contribute to increases in total inpatient discharges. ... In the four quarters ending June 2016, 251 inpatient total joint discharges originated from Macon County, with AMC and Mission Hospital each performing approximately 40-45%. An additional 463 total joints originated in the secondary service area, and while Mission Hospital captured around 30% of this volume, AMC had less than 5%. If an AMC total joint program could draw similar market share to the previous obstetrics program, the total volume would be in excess of 250 patients /year, more than double the current volume.”*

### **Step 3: Project AMC Acute Care Discharges**

The applicant projects AMC acute care discharges will increase at an average annual rate of 2.89% through the first three operating years following completion of the project. On page 114, the applicant states,

*“To project inpatient utilization, AMC projects acute care discharges by applying one-third of the three-year compound annual growth rate ( $8.7\% \times 1/3 = 2.89\%$ ). AMC projects days of care based on the FY2017 average length of stay (2.87).*

*AMC intends to maintain its swing bed agreement. AMC projects swing bed days based on the projected population growth rate for Macon County residents age 65+ (1.67%).*



**Angel Medical Center  
 Projected Inpatient Utilization**

	<i>Interim Years</i>				<i>Project Year 1</i>	<i>Project Year 2</i>	<i>Project Year 3</i>
	<i>FY2018</i>	<i>FY2019</i>	<i>FY2020</i>	<i>FY2021</i>	<i>FY2022</i>	<i>FY2023</i>	<i>FY2024</i>
<i>Inpatient Days of Care</i>	6,384	6,568	6,758	6,953	7,154	7,360	7,573
<i>Inpatient Discharges</i>	2,225	2,290	2,356	2,424	2,494	2,566	2,640
<i>Licensed Acute Beds</i>	59	59	59	59	30	30	30
<i>ADC</i>	17	18	19	19	20	20	21
<i>% Occupancy of Licensed Beds</i>	29.6%	30.5%	31.4%	32.3%	65.3%	67.2%	69.2%
<i>ALOS</i>	2.87	2.87	2.87	2.87	2.87	2.87	2.87
<i>Swing Bed Days</i>	57	58	59	60	61	62	63

Source: Table on page 114 in Section Q of the application.

As discussed above, the applicant projects utilization of the replacement hospital’s acute care beds based on historical utilization of the existing AMC facility, as well as its efforts to redirect hospital admissions from Mission Hospital to AMC. Exhibit 13 contains letters from physicians expressing support for the proposed project. Projected utilization of AMC’s acute care beds is based on reasonable and adequately supported assumptions. Therefore, the applicant adequately demonstrates the need for 30 acute care beds at the proposed replacement facility.

**Emergency Department**

The proposed replacement facility will have an emergency department with 17 exam rooms. The existing AMC facility has 14 emergency department exam rooms. In Section Q, pages 115-116, the applicant provides AMC’s historical and projected emergency department utilization from FY2014 through the first three years of the proposed project, as summarized in the table below.

<b>Fiscal Year</b>	<b>Emergency Department Visits</b>	<b>Percent Change</b>
2014 Actual	17,160	---
2015 Actual	17,041	-0.7%
2016 Actual	17,831	4.6%
2017 Actual	18,967	6.4%
2018 Projected	19,289	1.7%
2019 Projected	19,616	1.7%
2020 Projected	19,949	1.7%
2021 Projected	20,287	1.7%
2022 Year 1	20,632	1.7%
2023 Year 2	20,982	1.7%
2024 Year 3	21,338	1.7%

Source: Tables on pages 115 and 116 of the application.

As shown in the table above, AMC projects emergency department visits will increase at an average annual rate of 1.7% through the third operating year following completion of the

project, based on one-half of the historical average rate of 3.4%, annually, from FY2014 to FY2017. Projected utilization of AMC’s emergency department is based on reasonable and adequately supported assumptions. Therefore, the applicant adequately demonstrates the need for 30 acute care beds at the proposed replacement facility.

**Operating Rooms**

The existing AMC facility has four shared surgical operating rooms and one dedicated C-Section operating room. The proposed replacement facility will have three shared surgical operating rooms and no dedicated C-Section operating rooms. In Section Q, page 117 and page 119, the applicant provides AMC’s historical and projected operating room utilization from FY2014 through the first three years of the proposed project, as summarized in the table below.

<b>Fiscal Year</b>	<b>Shared Operating Rooms</b>	<b>Inpatient Surgical Cases</b>	<b>Outpatient Surgical Cases</b>	<b>Total Surgical Cases</b>	<b>Percent Change</b>	<b>Percent Utilization*</b>
2014 Actual	4	312	1,689	2,001	---	46.3%
2015 Actual	4	546	3,111	3,657	82.8%	84.2%
2016 Actual	4	155	950	1,105	-69.8%	25.2%
2017 Actual	4	264	1,617	1,881	70.2%	43.0%
2018 Projected	4	392	1,536	1,928	2.5%	46.5%
2019 Projected	4	401	1,575	1,976	2.5%	47.6%
2020 Projected	4	411	1,614	2,025	2.5%	48.8%
2021 Projected	4	422	1,655	2,077	2.5%	50.1%
2022 Year 1	3	432	1,696	2,128	2.5%	68.4%
2023 Year 2	3	443	1,738	2,181	2.5%	70.1%
2024 Year 3	3	454	1,782	2,236	2.5%	71.8%

Source: Tables on pages 117 and 119 of the application.

\*Based on 1.5 surgical hours per outpatient surgical case and 3.0 surgical hours per inpatient surgical case and a total operating room capacity of 1,872 surgical hours per year.

As shown in the table above, AMC projects operating room utilization will increase at an average annual rate of 2.5% through the third operating year following completion of the project. The applicant states the projections are based on the projected growth in the service area population age 65 and older, as well as Mission Health’s physician and surgeon recruitment efforts. Projected utilization of AMC’s operating rooms is based on reasonable and adequately supported assumptions. Therefore, the applicant adequately demonstrates the need for three shared surgical operating rooms at the proposed replacement facility.

**Gastrointestinal Endoscopy Rooms**

The existing AMC facility has two gastrointestinal endoscopy procedure rooms. The proposed replacement facility will have one gastrointestinal endoscopy procedure room. In Section Q, page 119 and page 120, the applicant provides AMC’s historical and projected gastrointestinal endoscopy procedure room utilization from FY2014 through the first three years of the proposed project, as summarized in the table below.

<b>Fiscal Year</b>	<b>GI Endoscopy Rooms</b>	<b>Inpatient Endoscopy Cases</b>	<b>Outpatient Endoscopy Cases</b>	<b>Total Endoscopy Cases</b>	<b>Percent Change</b>	<b>Percent Utilization*</b>
2014 Actual	2	95	540	635	---	21.2%
2015 Actual	2	65	351	416	-34.5%	13.9%
2016 Actual	2	155	950	1,105	165.6%	36.8%
2017 Actual	2	127	778	905	-18.1%	30.2%
2018 Projected	2	129	791	920	1.7%	30.7%
2019 Projected	2	131	805	936	1.7%	31.2%
2020 Projected	2	133	818	951	1.7%	31.7%
2021 Projected	2	136	832	968	1.7%	32.3%
2022 Year 1	1	138	845	983	1.7%	65.5%
2023 Year 2	1	140	860	1,000	1.7%	66.7%
2024 Year 3	1	143	874	1,017	1.7%	67.8%

Source: Tables on pages 117 and 119 of the application.

\*Based on a capacity of 1,500 gastrointestinal endoscopy procedure per room per year.

As shown in the table above, AMC projects gastrointestinal endoscopy procedure room utilization will increase at an average annual rate of 1.7% through the third operating year following completion of the project. The applicant states the projections are based on the projected growth in the service area population age 65 and older, which is projected to be 1.67% per year. Projected utilization of AMC’s gastrointestinal endoscopy procedure room is based on reasonable and adequately supported assumptions. Therefore, the applicant adequately demonstrates the need for one gastrointestinal endoscopy procedure room at the proposed replacement facility.

**Access**

In Section C.10, page 52, the applicant states their commitment to provide services to all patients who need the services regardless of their ability to pay, racial/ethnic origin, age, gender, physical or mental conditions or other conditions that would classify them as underserved. In Section L.1, page 96, the applicant reports that 67.1 percent of the existing hospital services are provided to Medicare and Medicaid recipients. In Section L.3, page 98, the applicant projects that 67.1 percent of the proposed replacement hospital services will be provided to Medicare and Medicaid recipients in the second year of operation following completion of the project. The applicant adequately demonstrates the extent to which all residents, including underserved groups, will have access to the proposed services.

**Conclusion**

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant uses historical data that is clearly cited and is reasonable to use to make the assumptions used by the applicant with regard to identifying the population to be served and

with regard to demonstrating the need the population projected to be served has for the proposed services.

- The applicant uses established methodologies and uses assumptions which are reasonable to demonstrate the need the population projected to be served has for the proposed services.
- The applicant uses historical data to project future access to the services it provides for all residents, including underserved groups.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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, Angel Medical Center (AMC), proposes to construct a replacement hospital to be located in Franklin (Macon County) approximately one mile from the existing facility. AMC is a 59-bed acute care hospital that is owned by Mission Health System, Inc., and designated by the Centers for Medicare and Medicaid as a Critical Access Hospital (CAH). AMC proposes to develop a 30-bed acute care hospital replacement facility, and will continue to be designated as a CAH following completion of the project. In Section C.1, pages 28-30, the applicant states that the proposed replacement facility will continue to offer the same scope of acute care services currently available at the existing facility, including general medical/surgical inpatient beds, intensive care unit (ICU) beds, inpatient and outpatient surgical services, emergency services, and imaging, laboratory and pharmacy services. In Section D.2, pages 58-59, the applicant states,

*“As shown in Section Q, AMC projects an average daily census of 21 patients during FY2024. Using the ‘Target Occupancy Factor’ of 1.5 for facilities with an ADC of 1-99, this results in a projected bed need of 31 acute care beds in FY2024. Therefore, the proposed replacement facility is appropriately sized for the projected acute care utilization. Service area residents will continue to have adequate access to AMC’s acute care services, including inpatient, surgical, imaging, laboratory, and pharmacy services....*

*As described in Section C.5.(b), AMC determined that the replacement hospital should remain in Franklin to ensure continued access to acute care services for Macon County*

*residents in a location that is easily accessible to residents throughout the county. The proposed site is approximately one mile from the current hospital facility; therefore, the proposed new site will not reduce access for service area residents. In fact, the proposed site near the intersection of U.S. Highway 23/441 and Hunnicut Lane has superior visibility, accessibility, and expandability compared to the existing site.”*

In Section D.4, page 60, the applicant states,

*“Because the hospital will remain in Franklin, geographic accessibility will not be diminished. Further, AMC does not discriminate on the basis of race, ethnicity, age, gender, or disability. ... As set forth in the pro formas, a significant proportion of AMC’s acute care services will be provided to Medicare, Medicaid, and uninsured patients. Projected payor mix to these patient populations will not be reduced as a result of the proposed project.”*

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant uses historical data that is clearly cited and is reasonable to use to make the assumptions used by the applicant with regard to demonstrating that the needs of the population presently served will be met adequately by the proposed relocation.
- The applicant provides historical data to support its projection that the relocation of the hospital will not adversely affect the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to access the services.

This determination is based on a review of the:

- information in the application, including any exhibits
- information which was publicly available during the review and used by the Agency

Therefore, the applicant adequately demonstrates that 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.

## C

In Section E.2, pages 62-63, the applicant describes the following alternatives:

- Maintain the status quo – The applicant states this was not an effective alternative due to the fact that the existing facility’s age and condition make it outdated and out of compliance with current building codes and licensure requirements.

- Renovate the existing facility – The applicant determined that renovating the existing facility not be cost-effective due to the age, condition and limitations of the existing facility.

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

Furthermore, the application is conforming to all applicable statutory review criteria, and thus, the application is approvable. An application that cannot be approved is not an effective alternative.

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant uses reasonable and adequately supported assumptions to project utilization.
- The data cited is reasonable to use to support the assumptions of the applicant with regard to its most effective alternative for development of the proposed project.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the application is conforming to this criterion and approved subject to the following conditions.

- 1. Angel Medical Center, Inc. shall materially comply with all representations made in the certificate of need application.**
- 2. Angel Medical Center, Inc. shall develop a replacement hospital with no more than 30 acute care beds, three shared operating rooms, and one gastrointestinal endoscopy procedure room.**
- 3. Angel Medical Center, Inc. shall not acquire as part of this project any equipment that is not included in the project's proposed capital expenditures in Section Q of the application and that would otherwise require a certificate of need.**
- 4. Angel Medical Center, Inc. shall develop and implement an energy efficiency and sustainability plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes.**
- 5. No later than three months after the last day of each of the first three full years of operation following initiation of the services authorized by this certificate of need, Angel Medical Center, Inc. shall submit, on the form provided by the Healthcare Planning and Certificate of Need Section, an annual report containing the:**

- a. Payor mix for the services authorized in this certificate of need.
  - b. Utilization of the services authorized in this certificate of need.
  - c. Revenues and operating costs for the services authorized in this certificate of need.
  - d. Average gross revenue per unit of service.
  - e. Average net revenue per unit of service.
  - f. Average operating cost per unit of service.
6. Angel Medical Center, Inc. shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency in writing prior to issuance of the certificate of need.
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

The applicant, Angel Medical Center (AMC), proposes to construct a two-story, 82,600 square foot replacement hospital to be located in Franklin, approximately one mile from the existing facility.

**Capital and Working Capital Costs**

In Section Q, Form F.1a, the applicants state the total capital cost for the proposed project is projected to be as follows:

**Angel Medical Center Replacement Facility Capital Cost**

<b>Cost Category</b>	<b>Projected Capital Cost</b>
Purchase Price of Land	\$1,375,000
Closing Costs	\$15,000
Site Preparation	\$439,615
Construction/Renovation	\$32,426,850
Architect/Engineering Fees	\$2,807,560
Medical Equipment	\$3,453,100
Furniture	\$1,362,900
Consultant Fees	\$796,819
Other (Contingency)	\$2,323,155
<b>TOTAL CAPITAL COST</b>	<b>\$45,000,000</b>

Source: Section Q, Form F.1a of the application.

In Section F.3, pages 67-68, the applicant state that AMC is an existing and operational hospital and no start-up or initial operating expenses will be required.

### **Availability of Funds**

In Section F.2, page 66, the applicant state that the \$45 million in project capital costs for the proposed replacement hospital facility will be funded by the accumulated reserves of Mission Health Systems, Inc. In Exhibit 7, the applicant provides a letter dated October 6, 2017, from the Senior Vice President, Finance and Chief Financial Officer for Mission Health System documenting their intention to provide \$45 million to fund the proposed project. Exhibit 7 also contains the audited financial statements for Mission Health System, Inc. and Affiliates (MHS) for FY2016 that indicate MHS had cash and cash equivalents of \$112 million and current assets of \$500 million as of September 30, 2016. The applicant adequately demonstrate that sufficient funds will be available for the capital needs of the project.

### **Financial Feasibility**

The applicant provides pro forma financial statements for the first three full fiscal years of operation following completion of the project. In the pro forma financial statements (Form F.4), the applicant projects that operating revenues will exceed expenses in the first three full fiscal years of operation of the project, as shown in the table below.

#### **Projected Revenue and Expenses for Radiation Oncology Services at UNC Hospitals**

	<b>PY1 FY2022</b>	<b>PY2 FY2023</b>	<b>PY3 FY2024</b>
Total Gross Revenue (Charges)	\$208,265,471	\$214,276,813	\$220,461,666
Total Net Revenue	\$72,345,854	\$74,370,701	\$76,453,361
Total Operating Expenses	\$71,365,664	\$73,284,534	\$76,453,361
<b>Net Income (Loss)</b>	<b>\$980,190</b>	<b>\$1,086,168</b>	<b>\$1,184,245</b>

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See Section Q of the application for the assumptions used regarding costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

### **Conclusion**

The applicant adequately demonstrates sufficient funds for the capital and operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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

The applicant, Angel Medical Center (AMC), proposes to construct a replacement hospital to be located in Franklin (Macon County) approximately one mile from the existing facility. AMC is a 59-bed acute care hospital that is owned by Mission Health System, Inc., and designated by the Centers for Medicare and Medicaid as a Critical Access Hospital (CAH).

On page 39, the 2017 SMFP defines the service area for acute care beds as “*the acute care bed planning area in which the bed is located. The acute care bed planning areas are the single and multicounty groupings shown in Figure 5.1.*” Figure 5.1 on page 42 of the 2017 SMFP indicates that Macon County is a single county service area. Thus, the service area for this project consists of Macon County. Facilities may also serve residents of counties not included in their service area.

There are two hospitals located in Macon, as shown in the table below:

Hospital	Licensed Acute Care Beds	FY2016 Patient Days of Care	Percent Occupancy
Angel Medical Center	59	6,616	30.7%
Highlands-Cashiers Hospital	24	1,494	17.1%

Source: 2018 State Medical Facilities Plan, Table 5A: Acute Care Bed Need Projections.

In Section G.3, pages 74-75, the applicant states,

*“The proposed project will not result in unnecessary duplication of acute care services in Macon County. Highland-Cashiers Hospital (HCH) is a critical access hospital that has 24 beds for acute care services and is located in the southeast corner of Macon County approximately 20.5 miles (39 minutes driving time) from AMC. Therefore, although HCH is located in Macon County, it is not geographically proximate to AMC. Additionally, according to its 2017 License Renewal Application, approximately 31% of HCH’s acute care patient origin is from adjacent Jackson County. Therefore, the service areas for the two hospitals are not identical with respect to patient origin. Additionally, while the facility is licensed for two share operating rooms, HCH did not perform any inpatient or outpatient surgical cases. Thus the scope of acute care services at HCH is not comparable to AMC. For these reasons, the proposed AMC replacement hospital will not unnecessarily duplicate acute care services in Macon County.”*

AMC is one of only two acute care hospitals located in Macon County. AMC proposes to replace the existing hospital facility, and will not increase the number of hospitals in the service area. The applicant adequately demonstrates the need the population proposed to be served has for the replacement hospital, and adequately demonstrates that the projected utilization is

based on reasonable and adequately supported assumptions. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant uses established methodologies and assumptions which are reasonable to demonstrate the need for the proposed services.
- The applicant provides adequate documentation that the proposed services will not result in the unnecessary duplication of existing or approved health service capabilities or facilities.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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 Q, Form H, the applicant provides the current and projected full-time equivalent (FTE) staffing for the proposed replacement hospital for each of the first three operating years. In Section H.2, page 77, the applicant describes its experience and process for recruiting and retaining staff. In Section H.4, page 79, the applicant identifies Charles H. Barrier, M.D., as the Medical Director for AMC. The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services. Therefore, the application is conforming to this criterion.

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

C

In Section I.1, page 81, the applicant identifies and describe the manner in which they will provide the necessary ancillary and support services. Exhibit 13 of the application contains copies of letters from physicians expressing support for the proposed project.

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant provides appropriate documentation of the availability of necessary ancillary and support services.
- The applicant provides documentation of ongoing coordination with the existing health care system.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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

The applicant does not project to provide the proposed services to a substantial number of persons residing in Health Service Areas (HSAs) that are not adjacent to the HSA in which the services will be offered. Furthermore, the applicant does not project to provide the proposed services to a substantial number of persons residing in other states that are not adjacent to the North Carolina county in which the services will be offered.

- (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

The applicant is not an HMO. Therefore Criterion (10) is not applicable.

- (11) Repealed effective July 1, 1987.

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

C

The applicant, AMC, proposes to construct a two-story, 82,600 square foot replacement hospital to be located in Franklin, approximately one mile from the existing facility. Exhibit 11 contains a certified cost estimate from an architect that estimates construction costs that are consistent with the project capital cost projections provided by the applicant in Section Q, Form F.1a of the application. In Section K.4, pages 86-87, the applicant describes the methods that will be used by the facility to maintain efficient energy operations and contain the costs of utilities. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference.

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant provides a certified cost estimate and line drawing of the proposed replacement hospital.
- The applicant describes the energy saving features that have been incorporated into the construction plan.

This determination is based on a review of the:

- information in the application, including any exhibits
- information which was publicly available during the review and used by the Agency

Therefore, the applicant adequately demonstrates that the application is conforming to this criterion.

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

C

In Section L.1, page 96, the applicant reports that 68% of the patients who received services at AMC had some or all of their services paid for by Medicare or Medicaid in FY2016. The table below shows the historical (FY2016) payment source for the entire AMC facility:

<b>Payment Source</b>	<b>Patients as Percent of Total</b>
Self-Pay/Charity Care	6.7%
Medicare	51.2%
Medicaid	16.9%
Commercial Insurance	0.6%
Managed Care	21.9%
Other (WC, TriCare, Other government)	2.6%
<b>Total</b>	<b>100.00%</b>

Source: Table on page 96 of the application.

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant's historical payor mix is adequate documentation that it currently provides services to medically underserved populations.
- The applicant's historical payor mix is adequate documentation of the extent to which medically underserved populations utilize the applicant's existing services.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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;

C

Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section L.2, page 97, the applicant states,

*“AMC has no federal obligations regarding uncompensated care, community service or access by minorities and handicapped persons. ... However, Mission Health System hospitals, including AMC, have satisfied the requirements of applicable federal*

*regulations to provide, on an annual basis, a certain amount of uncompensated care in return for Hill Burton funds previously received. Further, they comply with the provision of section 501(r) of the Internal Revenue Code including provision requiring a published financial assistance policy limiting charges to self-pay patients, and periodically conducting a Community Health Needs Assessment.”*

In Section L.2, page 98, the applicant states that no civil rights access complaints have been filed against AMC or Mission Health in the last five years.

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant provides credible information about its lack of obligation to provide any uncompensated care or community service under any federal regulations.
- The applicant states it has not had any civil rights access complaints filed against it within the last five years.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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 L.3, page 98, the applicant projects the following payor mix for the entire replacement hospital during the second operating year (FY2023):

<b>Payment Source</b>	<b>Patients as Percent of Total</b>
Self-Pay/Charity Care	6.7%
Medicare	51.2%
Medicaid	16.9%
Commercial Insurance	0.6%
Managed Care	21.9%
Other (WC, TriCare, Other government)	2.6%
<b>Total</b>	<b>100.00%</b>

Source: Table on page 98 of the application.

On page 99, the applicant states projected payor mix is based on the historical payer mix for the existing AMC facility.

The information in the application, including any exhibits, is reasonable and adequately supported because the applicant's projected payor mix adequately demonstrates that medically underserved populations will have adequate access to the proposed services. Therefore, the applicant adequately demonstrates that 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 L.5, page 100, the applicant describes the range of means by which a person will have access to the proposed replacement hospital.

The information in the application, including any exhibits, is reasonable and adequately supported because the applicant adequately demonstrates that the facility will provide a range of means by which a person can access the services.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that the application is conforming 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 M.1, page 101 the applicant states that AMC has established relationships with local health professional training programs, and will continue to maintain those relationships following completion of the proposed project. On page 101 of the application, the applicant provides a list of area health professional training programs with which the AMC facility serves as a clinical training site. The information in the application, including any exhibits, is reasonable and adequately supported because the applicant adequately documents that the proposed health services will accommodate the clinical needs of health professional training programs in the area. Therefore, the applicant adequately demonstrates that the application is conforming 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

The applicant, Angel Medical Center (AMC), proposes to construct a replacement hospital to be located in Franklin (Macon County) approximately one mile from the existing facility. AMC is a 59-bed acute care hospital that is owned by Mission Health System, Inc., and designated by the Centers for Medicare and Medicaid as a Critical Access Hospital (CAH).

On page 39, the 2017 SMFP defines the service area for acute care beds as *“the acute care bed planning area in which the bed is located. The acute care bed planning areas are the single and multicounty groupings shown in Figure 5.1.”* Figure 5.1 on page 42 of the 2017 SMFP indicates that Macon County is a single county service area. Thus, the service area for this project consists of Macon County. Facilities may also serve residents of counties not included in their service area.

There are two hospitals located in Macon, as shown in the table below:

<b>Hospital</b>	<b>Licensed Acute Care Beds</b>	<b>FY2016 Patient Days of Care</b>	<b>Percent Occupancy</b>
Angel Medical Center	59	6,616	30.7%
Highlands-Cashiers Hospital	24	1,494	17.1%

Source: 2018 State Medical Facilities Plan, Table 5A: Acute Care Bed Need Projections.

In Sections N.1 and N.2, pages 103-104, the applicant discusses how any enhanced competition will have a positive impact on the cost-effectiveness, quality and access to the proposed services. On page 103, the applicant states:

*“AMC is the primary hospital in Macon County, and an essential provider of acute care services, including emergency and surgical services. ... The proposed hospital replacement project will promote cost-effectiveness, quality and access to services, as explained in Section N.2 below, and therefore will promote competition in the AMC service area because it will enable AMC to better meet the needs of its existing patient population, and to ensure the timely provision of hospital inpatient and outpatient services. ... There will be no adverse effect on other hospitals in western North Carolina because AMC is an existing facility with established referral patterns, and because the proposed replacement site is located just one mile from the current hospital location in Franklin.”*



The information in the application is reasonable and adequately supported for the following reasons:

- The applicant adequately demonstrates the need for the proposed project and that it is an effective alternative.
- The applicant adequately demonstrates that AMC will continue to provide quality services.
- The applicant demonstrates that AMC will continue to provide adequate access to medically underserved populations.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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

Mission Health System (MHS), owns or manages six hospitals in North Carolina. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, none of the MHS facilities is currently out of compliance with a CMS Condition of Participation, nor have any other 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 the Mission Health System.

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant provides adequate and credible documentation of its current policies with regard to providing quality care.
- The applicant provides accurate information regarding its history of compliance with CMS Conditions of Participation.

This determination is based on a review of the:

- Information in the application, including any exhibits.
- Information which was publicly available during the review and used by the Agency.

Therefore, the applicant adequately demonstrates that 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.

NA

AMC is a 59-bed acute care hospital, and proposes to develop a replacement hospital with 30 acute care beds. The applicant does not propose to increase the number of acute care beds, add operating rooms or gastrointestinal endoscopy procedure rooms, or acquire any additional medical equipment. There are no Rules applicable to the proposed project.