

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: April 29, 2019

Findings Date: May 6, 2019

Project Analyst: Gregory F. Yakaboski

Primary Co-Signor: Fatimah Wilson, Team Leader

Secondary Co-Signor: Martha J. Frisone, Chief

### COMPETITIVE REVIEW

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Project ID #: J-11632-18  
Facility: Duke Health Orange Ambulatory Surgical Center  
FID #: 180658  
County: Orange  
Applicant: Duke University Health System, Inc.  
Project: Develop a new ambulatory surgical center in Chapel Hill with two operating rooms and two procedure rooms pursuant to the need determination in the 2018 SMFP

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Project ID #: J-11644-18  
Facility: University of North Carolina Hospitals  
FID #: 923517  
County: Orange  
Applicant: University of North Carolina Hospitals at Chapel Hill  
Project: Develop 2 additional operating rooms pursuant to the need determination in the 2018 SMFP for a total of 42 operating rooms on the Chapel Hill Campus

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Project ID #: J-11645-18  
Facility: North Chapel Hill Surgery Center  
FID #: 180567  
County: Orange  
Applicant(s): North Chapel Hill Surgery Center, LLC  
University of North Carolina Health Care System  
Project: Develop a new ambulatory surgical center in Chapel Hill with two operating rooms and two procedure rooms pursuant to the need determination in the 2018 SMFP

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Project ID #: J-11646-18  
Facility: University of North Carolina Hospitals-Hillsborough Campus  
FID #: 090274  
County: Orange  
Applicant: University of North Carolina Hospitals at Chapel Hill  
Project: Develop 2 operating rooms on the Hillsborough Campus pursuant to the 2018 SMFP need determination for a total of 8 operating rooms on the Hillsborough Campus

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## **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 All Applications**

#### **Need Determination**

Chapter 6 of the 2018 State Medical Facilities Plan (SMFP) includes a methodology for determining the need for additional operating rooms (ORs) in North Carolina by service area. Application of the need methodology in the 2018 SMFP identifies a need for six additional ORs in the Orange County OR service area. Four applications were submitted to the Healthcare Planning and Certificate of Need Section (Agency) proposing to develop a total of eight ORs. However, pursuant to the need determination, only six ORs may be approved in this review for Orange County. See the Conclusion following the Comparative Analysis for the decision.

#### **Policies**

There are two policies applicable to the review for the four applications submitted in response to the need determination in the 2018 SMFP for the Orange County service area.

*Policy GEN-3: Basic Principles*, on page 33 of the 2018 SMFP, 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.”*

*Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities*, on page 33 of the 2018 SMFP, 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.”*

### **J-11632-18/Duke Health Orange ASC/Develop Two ORs**

The applicant, Duke University Health System, Inc. (DUHS) proposes to develop Duke Health Orange Ambulatory Surgery Center (Duke Health Orange ASC), a new multi-specialty ASC in Chapel Hill with two ORs and two procedure rooms.

*Need Determination.* The applicant does not propose to develop more ORs than are determined to be needed in the Orange County service area.

*Policy GEN-3.* In Section B.3, page 12, the applicant adequately explains why it believes the application is consistent with Policy GEN-3.

*Policy GEN-4.* The proposed capital expenditure for this project is greater than \$5 million. In Section B.4, pages 13-14, the applicant adequately describes the project’s plan to improve energy efficiency and conserve water. The applicant adequately demonstrates that the application includes a written statement describing the project’s plan to assure improved energy efficiency and water conservation.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant does not propose to develop more ORs than are determined to be needed in Orange County.
- The applicant adequately demonstrates that the proposal is consistent with Policy GEN-3.
- The applicant adequately demonstrates that the proposal is consistent with Policy GEN-4.

### **J-11644-18/UNC-Main Campus/Develop Two ORs**

The applicant, University of North Carolina Hospitals at Chapel Hill (**UNC Hospitals-CH**) proposes to develop two additional ORs at the existing hospital's main campus in Chapel Hill (**UNC-Main Campus**) for a total of 42 ORs upon project completion.

*Need Determination.* The applicant does not propose to develop more ORs than are determined to be needed in the Orange County service area.

*Policy GEN-3.* In Section B.3, pages 15-19, the applicant adequately explains why it believes the application is consistent with Policy GEN-3.

*Policy GEN-4.* The proposed capital expenditure for this project is less than \$2 million. Therefore, Policy GEN-4 is not applicable to this review.

*Conclusion* - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant does not propose to develop more ORs than are determined to be needed in Orange County.
- The applicant adequately demonstrates that the proposal is consistent with Policy GEN-3.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

The applicants, The North Chapel Hill Surgery Center, LLC (**North Chapel Hill Surgery Center**) and the University of North Carolina Health Care System (**UNC Health Care System**) (hereinafter collectively referred to as "the applicant"), propose to develop North Chapel Hill Surgery Center (**North Chapel Hill ASC**), a new multi-specialty ASC in Chapel Hill with two ORs and two procedure rooms.

*Need Determination.* The applicant does not propose to develop more ORs than are determined to be needed in the Orange County service area.

*Policy GEN-3.* In Section B.3, pages 18-23, the applicant adequately explains why it believes the application is consistent with Policy GEN-3.

*Policy GEN-4.* The proposed capital expenditure for this project is greater than \$2 million and less than \$5 million. In Section B.4, pages 24-25, the applicant describes the project's plan to improve energy efficiency and conserve water. The applicant adequately demonstrates that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant do not propose to develop more ORs than are determined to be needed in Orange County.
- The applicant adequately demonstrate that the proposal is consistent with Policy GEN-3.
- The applicant adequately demonstrate that the proposal is consistent with Policy GEN-4.

### **J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

The applicant, UNC-Hospitals-CH, proposes to develop a two additional ORs at the existing hospital's Hillsborough Campus (**UNC-Hillsborough Campus**).

*Need Determination.* The applicant does not propose to develop more ORs than are determined to be needed in the Orange County service area.

*Policy GEN-3.* In Section B.3, pages 15-19, the applicant adequately explains why it believes the application is consistent with Policy GEN-3.

*Policy GEN-4.* The proposed capital expenditure for this project is greater than \$2 million and less than \$5 million. In Section B.4, page 20, the applicant describes the project's plan to improve energy efficiency and conserve water. The applicant adequately demonstrates that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant does not propose to develop more ORs than are determined to be needed in Orange County.

- The applicant adequately demonstrates that the proposal is consistent with Policy GEN-3.
  - The applicant adequately demonstrates that the proposal is consistent with Policy GEN-4.
- (2) Repealed effective July 1, 1987.
- (3) The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.

**C**  
 All Applications

**J-11632-18/Duke Health Orange ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, Duke Health Orange ASC, in Chapel Hill with two ORs and two procedure rooms.

*Patient Origin* - On page 57, the 2018 SMFP states, “An operating room’s service area is the operating room planning area in which the operating room is located. The operating room planning areas are the single and multicounty groupings shown in Figure 6.1.” In Figure 6.1, page 62 of the 2018 SMFP, Orange County is shown as a single-county OR service area. 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 following table illustrates projected patient origin for the applicant’s proposed ASC.

County	Projected Patient Origin	
	3 <sup>rd</sup> Full Fiscal Year (FY)	
	SFY2024	
	Patients	% of Total
Orange	1,327	37.4%
Alamance	1,759	49.5%
Chatham	466	13.1%
<b>Total</b>	<b>3,552</b>	<b>100.0%</b>

Source: Section C.3, page 17.

Note: The applicant states that the total number of surgical cases is equivalent to the total number of patients.

In Section Q, pages 107-115, the applicant provides the assumptions and methodology used to project its patient origin. The applicant’s assumptions are reasonable and adequately supported.

*Analysis of Need* - In Section C.4, pages 18-37, the applicant explains why it believes the population projected to utilize the proposed services needs the proposed services, summarized as follows:

- Projected growth and aging of the populations in Orange, Alamance and Chatham counties.
- The trend of more surgical cases being performed on an outpatient basis due to technological advancements, improvements in anesthesia and pain management, the development of minimally invasive procedures, and the financial pressure to reduce the cost of healthcare by shifting patients to the outpatient setting.
- Historical utilization of surgical services at DUHS facilities located in Durham County by residents of Orange County.
- Historical growth in outpatient surgery volumes at DUHS facilities.

There are two types of health service facility that can have licensed ORs in North Carolina: hospitals and ASCs. There are 41 ORs (less exclusions) located in Orange County and all 41 are currently hospital-based. Based on the applications, written comments and response to comments and statements made at the public hearing, many, but not all outpatient surgical services can be appropriately performed either in a hospital-based OR or in an ASC OR. However, the cost to the patient and a third party payor will be lower if the service is provided in an ASC OR than the cost for the same service provided in a hospital-based OR on an outpatient basis.

Orange County residents wanting to take advantage of the lower costs associated with non-hospital-based ORs must utilize an ASC located in another county. In federal fiscal year (FFY) 2017, 6,158 Orange County residents had outpatient surgery, as shown in the table below.

FFY 2017	Residents of Orange County Utilized Facilities Located in					
	Orange	Durham	Alamance	Chatham	Other	Total
# of Outpatient Surgical Cases	2,450	3,100	144	12	464	6,158
% of the Total	39.79%	50.34%	2.34%	0.19%	7.53%	100.00%

As shown in the table above, 3,100 Orange County residents utilized a facility located in Durham County which is 50.34% of the total. Only 2,450 or 39.8% Orange County residents utilized the hospital in Orange County for outpatient surgery services. Of the 3,100 Orange County residents that had their outpatient surgery performed at a facility located in Durham County, 2,685 had the surgery performed at a DUHS facility which is 43.6% of the total ( $2,685 / 6,158 = 0.436$ ).

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

- There is a need determination in the 2018 SMFP for six additional ORs in the Orange County OR Service Area.
- The applicant provides information to support its assertion that the historical trend is toward moving surgical cases to outpatient settings.
- The applicant provides information and data to support its assertions regarding the growth in surgical case volumes for the residents of the service area.
- The applicant provides information and data to support its assertions regarding surgical volumes at DUHS facilities and utilization by Orange County residents.

*Projected Utilization* - In Section Q, Form C, the applicant provides projected surgical utilization, as illustrated in the following table.

<b>Projected Utilization</b>			
<b>Operating Rooms</b>	<b>1<sup>st</sup> Full FY SFY2022</b>	<b>2<sup>nd</sup> Full FY SFY2023</b>	<b>3<sup>rd</sup> Full FY SFY2024</b>
Dedicated Ambulatory ORs	2	2	2
Outpatient Surgical Cases	2,427	3,181	3,552
Outpatient Surgical Case Time	45.0	45.0	45.0
Outpatient Surgical Hours	1,820	2,386	2,664
Group Assignment	5	5	5
Standard Hours per OR per Year	1,312.5	1,312.5	1,312.5
Total Surgical Hours/Standard Hours Per OR per Year	1.4	1.8	2.0

Source: Section Q, Form C.

In Section Q, the applicant provides the assumptions and methodology used to project utilization, which is summarized below.

*Surgical Cases*

Step 1. Duke Health Orange ASC projects to serve residents of Orange, Alamance and Chatham counties. The applicant obtained projected population data for Orange, Alamance and Chatham counties from 2018 through the third full FY of operation following completion of the project (3<sup>rd</sup> Full FY) from the North Carolina Office of State Budget and Management (NCOSBM). The growth rates for Orange, Alamance and Chatham counties for this time period were 1.0%, 1.4% and 1.9% respectively. The Orange County growth rate is comparable to the projected statewide growth rate of 1.1% during the same time period. The Alamance and Chatham county growth rates are projected to exceed the statewide growth rate.

Step 2. The applicant calculated the statewide ambulatory surgery use rate per 1,000 population for 2014-2017 using data from the NCOSBM, 2015-2018 SMFPs and the proposed 2019 SMFP. The state wide ambulatory surgery use rate per 1,000 people was 64.1, 65.0, 64.8 and 64.6 respectively for 2014-2017. These rates were based on the North Carolina population and the annual number of ambulatory surgery cases performed statewide. The application states that the basis for this assumption is the March MedPAC report to Congress: Medicare Payment Policy which cites studies that suggest that the presence of ASCs might increase overall surgical volume, particularly when introducing ASCs into service areas that had one ASC or none at all. The applicant states that this contextual information combined with projected population growth for individuals age 65+ in the applicant’s service area, statistical data in Section C regarding ambulatory surgery utilization and the qualitative impact of the proposed project for local residents supports the applicant’s use of a statewide use rate.

Step 3. The applicant calculated total projected ambulatory surgery cases for Orange, Alamance and Chatham counties for 2018 through 2024, as shown in the table below.



**Projected Ambulatory Surgery Cases**

County	CY2018	CY2019	CY2020	CY2021	CY2022	CY2023	CY2024	CAGR
Orange	9,296	9,394	9,491	9,588	9,685	9,782	9,879	1.0%
Alamance	10,535	10,680	10,829	10,977	11,125	11,273	11,421	1.4%
Chatham	4,935	5,035	5,136	5,236	5,336	5,436	5,536	1.9%
Total	24,767	25,110	25,455	25,801	26,146	26,491	26,837	1.3%

Formula: The applicant states that the growth in the 65+ age cohort will have a direct impact on the demand for ophthalmic surgery, which is anticipated to comprise approximately 50% of the projected surgical cases performed at the proposed ASC. Thus, the applicant states that projected demand for outpatient surgical cases is probably conservative.

Step 4. DUHS projected ambulatory surgery market share for Duke Health Orange ASC for CY2021 through CY2024 for Orange, Alamance and Chatham counties, as illustrated in the table below.

**Projected Market Share**

	Interim CY2021	CY2022	CY2023	CY2024
Orange	8.0%	11.0%	13.5%	13.5%
Alamance	10.0%	13.0%	15.5%	15.5%
Chatham	3.0%	6.0%	8.5%	8.5%

The applicant states that the projected market shares in the table above are incremental or in addition to existing DUHS ambulatory surgery market share for residents of these three counties. Projected utilization assumes no shift of existing market share to the proposed Duke Health Orange ASC.

When projecting market share, the applicant states it considered:

- DUHS market presence;
- Brand awareness DUHS currently maintains for each identified county;
- The number and type of surgeons who will have privileges at the facility;
- Ongoing planned physician recruitment efforts; and
- Confirmation from the clinical and administrative leadership at DUHS that the projected incremental market share percentages are reasonable and achievable.

On pages 112-114, the applicant provides additional factors to support why the projected annual market shares are reasonable and adequately supported.

Step 5. The applicant projects outpatient surgical cases at Duke Health Orange ASC by multiplying market share from Step 4 by projected ambulatory surgery cases from Step 3, as illustrated in the table below.

**Projected Ambulatory Surgery Cases**

	<b>Interim CY2021</b>	<b>CY2022</b>	<b>CY2023</b>	<b>CY2024</b>
Orange	767	1,065	1,321	1,334
Alamance	1,098	1,446	1,747	1,770
Chatham	157	320	462	471
Total	2,022	2,835	3,530	3,575

DUHS operates on a fiscal year of July 1st – June 30<sup>th</sup> (SFY). Therefore, DUHS converted the projected ambulatory surgery cases for Duke Health Orange ASC to its fiscal year, as shown in the table below.

**Projected Ambulatory Surgery Cases**

	<b>Interim Full FY SFY2021</b>	<b>1<sup>st</sup> Full FY SFY2022</b>	<b>2<sup>nd</sup> Full FY SFY2023</b>	<b>3<sup>rd</sup> Full FY SFY2024</b>
Orange	384	916	1,193	1,327
Alamance	549	1,272	1,597	1,759
Chatham	79	239	391	466
Total	1,011	2,427	3,181	3,552

\*Duke Health Orange ASC is projected to be licensed and operational 1/1/2021.

Conversion Formula Example: SFY2022 = (0.5 x 767) + (0.5 x 1,065) = 916.

*Procedure Room Cases*

In Section Q, Form C, the applicant provides projected procedure room utilization, as illustrated in the following table.

**Projected Utilization**

<b>Procedure Rooms</b>	<b>1<sup>st</sup> Full FY SFY2022</b>	<b>2<sup>nd</sup> Full FY SFY2023</b>	<b>3<sup>rd</sup> Full FY SFY2024</b>
# of Procedure Rooms	2	2	2
Total Procedures	485	636	710

Source: Section Q, Form C.

DUHS bases projected procedure room utilization on its ASC experience in Durham County during FY2017 which was 20% of surgical cases and on physician letters of support (See Exhibit 12).

Projected utilization is reasonable and adequately supported for the following reasons:

- Currently, the only ORs located in Orange County are hospital-based.
- Patients and third party payors pay less for the same procedure performed at an ASC than one done on an outpatient basis in a hospital-based OR.
- On-going physician recruitment efforts together with existing DUHS physician presence.
- Projected surgical case growth is supported by projected population growth.
- The methodology and assumptions are reasonable and adequately supported.
- DUHS will be a new provider in Orange County.
- Neither Alamance nor Chatham counties has a multi-specialty ASC.

Access - In Section C.8, page 42, the applicant states it is committed to providing services to all patients, and will not discriminate against anyone based on race, age, gender, ethnicity, disability, or the patient’s ability to pay. In Section L.3, page 91, the applicant projects the following payor mix during the 2<sup>nd</sup> full FY (SFY2023) of operation following completion of the project, as illustrated in the following table.

Payor Source	Operating Rooms	Procedure Rooms
Self-Pay/Charity Care	1.1%	1.8%
Medicare *	41.5%	46.7%
Medicaid *	4.2%	6.2%
Insurance *	51.6%	44.0%
Other (Workers Comp, VA, TRICARE)	1.6%	1.3%
Total	100.0%	100.0%

\* Including any managed care plans

The projected payor mix is reasonable and adequately supported.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately identifies the population to be served.
- The applicant adequately explains why the population to be served needs the services proposed in this application.
- Projected utilization is based on reasonable and adequately supported assumptions.
- The applicant projects the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately supports its assumptions.

### **J-11644-18/UNC-Main Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Main Campus.

Patient Origin - On page 57, the 2018 SMFP states, “An operating room’s service area is the operating room planning area in which the operating room is located. The operating room planning areas are the single and multicounty groupings shown in Figure 6.1.” In Figure 6.1, page 62 of the 2018 SMFP, Orange County is shown as a single-county OR service area. 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 following table illustrates current and projected patient origin.

County	Current SFY2018		3 <sup>rd</sup> Full FY SFY2023	
	Patients	% of Total	Patients	% of Total
Wake	3,800	14.0%	3,230	11.2%
Orange	2,939	10.8%	3,127	10.9%
Other*	20,432	75.2%	22,458	77.9%
Total	27,171	100.0	28,815	100.0%

Source: Table on pages 22-29

\*The applicant lists the counties and other states included in this category on pages 26-29.

In Section C.3, page 29, the applicant provides the assumptions and methodology used to project patient origin. The applicant’s assumptions are reasonable and adequately supported.

*Analysis of Need* - In Section C.4, pages 29-42, the applicant explains why it believes the population projected to utilize the proposed services needs the proposed services, as summarized below:

- The combination of a growing and aging population in the Orange County OR service area.
- Demand for surgical services overall in North Carolina and specifically in Orange County.
- The growth in inpatient surgical case volume in Orange County.

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

- There is a need determination in the 2018 SMFP for six additional ORs in the Orange County OR service area.
- The applicant provides information and data to support its assertion regarding the growth in surgical case volumes in North Carolina and Orange County.
- The applicant provides information to support its assertion that inpatient surgical volume in Orange County has increased at a CAGR of 3.5% from FFY2012 to FFY2017.
- The applicant provides population growth projections for the proposed service area based on data from the NCOSBM.
- The applicant provides information that the combination of the complexity of surgical intervention based on advanced inpatient surgical techniques and higher acuity patients results in greater case time and thus more demand for OR capacity.

*Projected Utilization - UNC Main Campus*

In Form C, the applicant provides historical and projected utilization, as illustrated in the following tables.

<b>UNC-Main Campus Historical and Interim OR Utilization</b>	<b>SFY2016</b>	<b>SFY2017</b>	<b>SFY2018</b>	<b>SFY2019</b>	<b>SFY2020</b>
Inpatient Surgical Cases	12,513	12,796	12,974	12,779	12,884
Outpatient Surgical Case	13,949	13,582	14,197	14,771	15,137
<b>Total Surgical Cases</b>	<b>26,462</b>	<b>26,378</b>	<b>27,171</b>	<b>27,550</b>	<b>28,021</b>
Inpatient Surgical Case Times	234	234	234	234	234
Outpatient Surgical Case Times	137	137	137	137	137
Inpatient Surgical Hours	48,801	49,904	50,599	49,838	50,246
Outpatient Surgical Hours	31,850	31,012	32,416	33,728	34,563
<b>Total Surgical Hours</b>	<b>80,651</b>	<b>80,917</b>	<b>83,015</b>	<b>83,566</b>	<b>84,810</b>
Group Assignment	1	1	1	1	1
Standard Hours per OR per Year	1,950	1,950	1,950	1,950	1,950
Total Surgical Hours/Standard Hours Per OR per Year	41.4	41.5	42.6	42.9	43.5
Adjusted Planning Inventory - UNC Main Campus	35.0	35.0	35.0	35.0	35.0
OR Deficit	6.4	6.5	7.6	7.9	8.5

Source: Section Q, Form C.

<b>UNC-Main Campus Projected OR Utilization</b>	<b>1<sup>st</sup> Full FY SFY 2021</b>	<b>2<sup>nd</sup> Full FY SFY2022</b>	<b>3<sup>rd</sup> Full FY SFY2023</b>
Inpatient Surgical Cases	12,999	13,359	13,651
Outpatient Surgical Case	15,507	15,105	15,164
<b>Total Surgical Cases</b>	<b>28,506</b>	<b>28,464</b>	<b>28,815</b>
Inpatient Surgical Case Times	234	234	234
Outpatient Surgical Case Times	137	137	137
Inpatient Surgical Hours	50,696	52,100	53,239
Outpatient Surgical Hours	35,408	34,490	34,625
<b>Total Surgical Hours</b>	<b>86,104</b>	<b>86,590</b>	<b>87,864</b>
Group Assignment	1	1	1
Standard Hours per OR per Year	1,950	1,950	1,950
Total Surgical Hours/Standard Hours Per OR per Year	44.2	44.4	45.1
Adjusted Planning Inventory - UNC Main Campus	35.0	35.0	35.0
OR Deficit	9.2	9.4	10.1
# of Proposed New ORs	2.0	2.0	2.0

Source: Section Q, Form C.

In Form C, the applicant provides the assumptions and methodology used to project utilization, which is summarized below.

- The 2018 SMFP identified a need for six additional ORs in the Orange County OR service area.
- UNC Hospitals-CH is currently the only provider of surgical services in Orange County. UNC Hospitals has two campuses: UNC-Main Campus in Chapel Hill and UNC-Hillsborough Campus in Hillsborough. Both campuses operate under the same license.
- UNC Hospitals-CH operates under the State Fiscal Year (SFY) which runs from July 1<sup>st</sup> to June 30<sup>th</sup>.
- UNC-Main Campus currently has an adjusted planning inventory of 35 ORs (not including 3 dedicated C-Section ORs, 1 trauma OR and 1 burn OR), as shown in the table below.

	<b>Current Adjusted Planning Inventory</b>	<b>Proposed Adjusted Planning Inventory</b>
UNC-Main Campus	35	37
UNC-Hillsborough Campus *	6	8
North Chapel Hill-ASC *	0	2
<b>Total</b>	<b>41</b>	<b>47</b>

Source: Section Q, Form C.

\*UNC Hospitals submitted two other applications in this review: one proposing two additional ORs on the UNC-Hillsborough Campus and the other proposing a new ASC with two ORs.

- UNC Hospitals-CH calculated its CAGR for inpatient and outpatient surgical cases for SFY2016 – SFY2018. The inpatient CAGR was 3.1% and the outpatient CAGR was 4.4%.
- Using the inpatient and outpatient CAGRs, UNC Hospitals-CH projected its inpatient and outpatient surgical cases through to SFY2024.
- UNC-Hospitals-CH then backed out a projected “shift” of inpatient surgical cases from UNC Hospitals-CH to UNC Rex Hospital in Wake County pursuant to Project ID #J-11555-18 (add two ORs) for SFY2019 to SFY2024.
- UNC Hospitals-CH also identified cases from UNC-Main Campus that could be performed at the proposed North Chapel Hill ASC and accounted for that shift based on a ramp up of 50% in SFY2022, 75% in SFY2023 and 100% in SFY2024.
- UNC Hospitals-CH also identified the projected volume of both inpatient and outpatient surgical cases that could be performed at the UNC-Hillsborough Campus.

Historical, interim and projected utilization at UNC-Main Campus, UNC-Hillsborough Campus (UNC Hospitals) and the proposed North Chapel Hill ASC are shown in the tables below.

<b>UNC Hospitals Historical and Interim OR Utilization</b>	<b>SFY2016</b>	<b>SFY2017</b>	<b>SFY2018</b>	<b>SFY2019</b>	<b>SFY2020</b>
<b>Inpatient (IP) Surgical Cases</b>					
UNC-Main Campus	12,513	12,796	12,974	12,779	12,884
UNC-Hillsborough Campus	842	1,150	1,228	1,341	1,432
Total Projected IP Cases	13,355	13,946	14,202	14,120	14,315
Percent Change	NA	4.4%	1.84%	<0.6%>	1.38%
<b>Outpatient (OP) Surgical Cases</b>					
UNC-Main Campus	13,949	13,582	14,197	14,771	15,137
UNC-Hillsborough Campus	1,797	2,361	2,957	3,133	3,551
Total Projected OP Cases	15,746	15,943	17,154	17,905	18,688
Percent Change	NA	1.30%	7.60%	4.37%	4.37%
<b>Total Surgical Cases</b>					
UNC-Main Campus	26,462	26,378	27,171	27,550	28,021
UNC-Hillsborough Campus	2,639	3,511	4,185	4,475	4,982
Total Projected Cases	29,101	29,889	31,356	32,025	33,003
Percent Change	NA	2.70%	4.9%	2.13%	3.05%

Source: Section Q, Form C.

<b>UNC Hospitals Health System Projected OR Utilization</b>	<b>1<sup>st</sup> Full FY SFY2021</b>	<b>2<sup>nd</sup> Full FY SFY2022</b>	<b>3<sup>rd</sup> Full FY SFY2023</b>
<b>Inpatient (IP) Surgical Cases</b>			
UNC-Main Campus	12,999	13,359	13,651
UNC-Hillsborough Campus	1,525	1,651	1,861
Total Projected IP Cases	14,524	15,011	15,512
Percent Change	1.46%	3.34%	3.34%
<b>Outpatient (OP) Surgical Cases</b>			
UNC-Main Campus	15,507	15,105	15,164
UNC-Hillsborough Campus	3,999	4,260	4,530
North Chapel Hill ASC	NA	994	1,556
Total Projected OP Cases	19,506	20,359	21,250
Percent Change	4.37%	4.37%	4.37%
<b>Total Surgical Cases</b>			
UNC-Main Campus	28,506	28,464	28,815
UNC-Hillsborough Campus	5,524	5,911	6,391
North Chapel Hill ASC	NA	994	1,556
Total Cases	34,030	35,370	36,762
Percent Change	3.11%	3.94	3.94%

Source: Section Q, Form C.

Note: the projected shift of inpatient cases from UNC Hospitals-CH to UNC Rex Hospital Wake County projected in Project ID #J-11555-18 for SFY2019 to SFY2024 has already been factored in and is not shown in the table above.

The following tables illustrate the number of ORs needed at UNC-Main Campus, UNC Hospitals and the proposed ASC, respectively.

<b>Table 1 UNC-Main Campus Projected ORs Needed</b>	<b>1<sup>st</sup> Full FY SFY2021</b>	<b>2<sup>nd</sup> Full FY SFY2022</b>	<b>3<sup>rd</sup> Full FY SFY2023</b>
Inpatient Surgical Cases	12,999	13,359	13,651
Outpatient Surgical Case	15,507	15,105	15,164
<b>Total Surgical Cases</b>	<b>28,506</b>	<b>28,464</b>	<b>28,815</b>
Inpatient Surgical Case Times	234	234	234
Outpatient Surgical Case Times	137	137	137
Inpatient Surgical Hours	50,696	52,100	53,239
Outpatient Surgical Hours	35,408	34,490	34,625
<b>Total Surgical Hours</b>	<b>86,104</b>	<b>86,590</b>	<b>87,864</b>
Group Assignment	1	1	1
Standard Hours per OR per Year	1,950	1,950	1,950
Total Surgical Hours/Standard Hours Per OR per Year	44.2	44.4	45.1
Adjusted Planning Inventory (1)	37.0	37.0	37.0
OR Deficit	7.2	7.4	8.1

Source: Section Q, Form C.

(1) Includes the existing (40) and proposed ORs (2) less exclusions (5).

<b>Table 2 UNC Hospitals Projected ORs Needed</b>	<b>1<sup>st</sup> Full FY SFY2021</b>	<b>2<sup>nd</sup> Full FY SFY2022</b>	<b>3<sup>rd</sup> Full FY SFY2023</b>
Group Assignment	1	1	1
Standard Hours per OR per Year (1)	1,950	1,950	1,950
Inpatient Surgical Cases	14,524	15,011	15,512
Final Inpatient Case Time (2)	234	234	234
Inpatient Surgical Hours (3)	56,645	58,541	60,497
Ambulatory Surgical Cases	19,506	19,365	19,694
Final Ambulatory Case Time (2)	137	137	137
Ambulatory Surgical Hours (3)	44,538	44,217	44,967
<b>Total Surgical Hours (4)</b>	<b>101,182</b>	<b>102,758</b>	<b>105,464</b>
# of ORs Needed (5)	51.9	52.7	54.1
Adjusted Planning Inventory (6)	43.0	45.0	45.0
OR Deficit	8.9	7.7	9.1

(1) From Table 6A in the 2018 SMFP.

(2) From Table 6B in the 2018 SMFP.

(3) Surgical Hours equals Surgical Cases multiplied by the Final Case Time.

(4) Total Surgical Hours equals Inpatient Surgical Hours plus Ambulatory Surgical Hours.

(5) # of ORs Needed equals Total Surgical Hours divided by the Standard Hours per OR per Year.

(6) Includes the existing (41) and proposed ORs (4) less exclusions (5). The two ORs on the Hillsborough Campus become available during the 2<sup>nd</sup> full FY of the main campus project.



<b>Table 3 North Chapel Hill ASC Projected ORs Needed</b>	<b>1<sup>st</sup> Full FY SFY2021</b>	<b>2nd Full FY SFY2022</b>	<b>3rd Full FY SFY2023</b>
Group Assignment	The proposed ASC is still under development during the 1 <sup>st</sup> Full FY of the main campus project	6	6
Standard Hours per OR per Year (1)		1,312.5	1,312.5
Ambulatory Surgical Cases		994	1,556
Average Ambulatory Case Time (2)		68.6	68.6
Ambulatory Surgical Hours (3)		1,136	1,779
Total Surgical Hours (4)		1,136	1,779
Adjusted Planning Inventory (5)		2.0	2.0
# of ORs Needed (6)		0.9	1.4
OR Surplus		1.1	0.6

- (1) From Table 6A in the 2018 SMFP.
- (2) From Table 6B in the 2018 SMFP.
- (3) Surgical Hours equals Surgical Cases multiplied by the Final Case Time.
- (4) Total Surgical Hours equals Inpatient Surgical Hours plus Ambulatory Surgical Hours.
- (5) Includes the proposed ORs.
- (6) # of ORs Needed equals Total Surgical Hours divided by the Standard Hours per OR per Year.

- As shown in Table 1 above, in the third full FY of the main campus project (SFY2023), the main campus is projected to need eight additional ORs even with the addition of two ORs in this review cycle.
- As shown in Table 2 above, in the third full FY of the main campus project (SFY2023), the hospital is projected to need nine additional ORs even with the addition of four ORs in this review cycle.
- As shown in Table 3 above, in the third full FY of the main campus project (SFY2023), the proposed ASC is projected to need one OR.

Projected utilization is reasonable and adequately supported for the following reasons:

- Current OR utilization shows a need for more than two additional ORs with no OR utilization growth going forward.
- The applicant based projected inpatient and outpatient surgical case growth on historical inpatient and outpatient growth rates.
- The applicant accounted for projected shifts of certain outpatient cases to the proposed North Chapel Hill ASC.
- The applicant accounted for the projected shift of inpatient cases from UNC Hospitals to UNC REX Hospital in Wake County (Project ID# J-11555-18).
- Projected growth is supported by projected population growth and the expected recruitment of additional surgeons.
- The methodology and assumptions are reasonable and adequately supported.
- Based solely on surgical cases performed in FFY 2018 and with no growth, UNC Hospitals shows a need for seven additional ORs. See the table below.

UNC Hospitals Historical OR Utilization	Last Full FY FFY2018
Group Assignment	1
Standard Hours per OR per Year (1)	1,950
Inpatient Surgical Cases	14,226
Final Inpatient Case Time (2)	234
Inpatient Surgical Hours (3)	55,481
Ambulatory Surgical Cases	16,267
Final Ambulatory Case Time (2)	143
Ambulatory Surgical Hours (3)	38,770
Total Surgical Hours (4)	94,251
Adjusted Planning Inventory (5)	41.0
# of ORs Needed (6)	48.0
OR Deficit	7.0

Source: 2018 License Renewal Application for UNC Hospitals

*Access* - In Section C.8, page 46, the applicant states, “As North Carolina’s only state-owned, comprehensive, full service hospital system, 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.” In Section L, page 95, the applicant projects the following payor mix during the 2<sup>nd</sup> full FY (SFY2022), as illustrated in the table below.

UNC-Main Campus	
Payor Category	Operating Room Services as Percent of Total
Self-Pay	7.9%
Medicare *	25.8%
Medicaid *	23.0%
Insurance *	35.2%
Other government, Workers Compensation	8.1%
Total	100.0%

Source: Table on page 87 of the application.

\* Including any managed care plans

The projected payor mix is reasonable and adequately supported.

*Conclusion* - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately identifies the population to be served.
- The applicant adequately explains why the population to be served needs the services proposed in this application.
- Projected utilization is reasonable and adequately supported.
- The applicant projects the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately supports the assumptions.

**J-11645-18/North Chapel Hill ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, North Chapel Hill ASC, in Chapel Hill with two ORs and two procedure rooms.

*Patient Origin* - On page 57, the 2018 SMFP states, “An operating room’s service area is the operating room planning area in which the operating room is located. The operating room planning areas are the single and multicounty groupings shown in Figure 6.1.” In Figure 6.1, page 62 of the 2018 SMFP, Orange County is shown as a single-county OR service area. 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 following table illustrates projected patient origin for the proposed ORs.

County	3 <sup>rd</sup> Full FY SFY2024	
	Patients	% of Total
Orange	745	34.4%
Wake	224	10.3%
Alamance	129	5.9%
Cumberland	116	5.4%
Durham	100	4.6%
Chatham	92	4.2%
Lee	58	2.7%
Harnett	45	2.1%
Johnston	44	2.0%
Robeson	43	2.0%
Moore	41	1.9%
Guilford	34	1.6%
Onslow	33	1.5%
Wayne	31	1.4%
New Hanover	21	1.0%
Other*	412	19.0%
Total	2,166	100.0%

Source: Table on page 31 of the application.

\*The applicant lists the counties and states which make up the “other” category on page 31 of the application.

The following table illustrates projected patient origin for the proposed procedure rooms.

County	3 <sup>rd</sup> Full FY FY2024	
	Patients	% of Total
Orange	499	34.4%
Wake	150	10.3%
Alamance	86	5.9%
Cumberland	78	5.4%
Durham	67	4.6%
Chatham	61	4.2%
Lee	39	2.7%
Harnett	30	2.1%
Johnston	29	2.0%
Robeson	29	2.0%
Moore	27	1.9%
Guilford	23	1.6%
Onslow	22	1.5%
Wayne	21	1.4%
New Hanover	14	1.0%
Other*	276	19.0%
Total	1,451	100.0%

Source: Table on page 32 of the application.

\*The applicant lists the counties and states which make up the “other” category on page 32 of the application.

In Section C.3, page 32, the applicant provides the assumptions and methodology used to project patient origin. The applicant’s assumptions are reasonable and adequately supported.

*Analysis of Need* - In Section C.4, pages 33-45, the applicant explains why it believes the population projected to utilize the proposed services needs the proposed services, as summarized below:

- The combination of a growing and aging population in the Orange County OR service area.
- Demand for surgical services overall in North Carolina and specifically in Orange County.
- The growth in outpatient surgical case volume in Orange County.
- The outmigration of Orange county residents for outpatient surgery in a lower cost, non-hospital based settings.
- The increasing demand for surgical services, particularly in outpatient settings, due to changes in technology and reimbursement.

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

- There is a need determination in the 2018 SMFP for six additional ORs in the Orange County OR service area.
- The applicant provides information and data to support its assertion regarding the growth in surgical case volumes in North Carolina and Orange County.

- The applicant provides information to support its assertion that outpatient surgical volume in Orange County has increased at a CAGR of 4.4% from SFY2016 to SFY2018 at UNC Hospitals-CH.
- The applicant provides population growth projections for the proposed service area based on data from the NCOSBM.

*Projected Utilization - North Chapel Hill ASC*

In Form C, the applicant provides projected utilization as illustrated in the following table.

North Chapel Hill ASC Projected Utilization and ORs Needed	1st Full FY SFY2022	2nd Full FY SFY2023	3rd Full FY SFY2024
Group Assignment	6	6	6
Standard Hours per OR per Year (1)	1,312.5	1,312.5	1,312.5
Ambulatory Surgical Cases	994	1,556	2,166
Average Ambulatory Case Time (2)	68.6	68.6	68.6
Ambulatory Surgical Hours (3)	1,136	1,779	2,476
Total Surgical Hours (4)	1,136	1,779	2,476

Source: Section Q, Form C.

- (1) From Table 6A in the 2018 SMFP.
- (2) From Table 6B in the 2018 SMFP.
- (3) Surgical Hours equals Surgical Cases multiplied by the Final Case Time.
- (4) Total Surgical Hours equals Inpatient Surgical Hours plus Ambulatory Surgical Hours.

In Form C, the applicant provides the assumptions and methodology used to project utilization, which are summarized below.

- The 2018 SMFP identified a need for six additional ORs in the Orange County OR service area.
- UNC Hospitals-CH is currently the only provider of surgical services in Orange County. UNC Hospitals has two campuses: UNC-Main Campus in Chapel Hill and UNC-Hillsborough Campus in Hillsborough. Both campuses operate under the same license.
- UNC Hospitals-CH operates under the State Fiscal Year (SFY) which runs from July 1<sup>st</sup> to June 30<sup>th</sup>.
- UNC-Main Campus currently has an adjusted planning inventory of 35 ORs (not including 3 dedicated C-Section ORs, 1 trauma OR and 1 burn OR). UNC-Hillsborough Campus currently has 6 ORs, as shown in the table below.

	Current Adjusted Planning Inventory	Proposed Adjusted Planning Inventory
UNC-Main Campus	35	37
UNC-Hillsborough Campus *	6	8
North Chapel Hill-ASC *	0	2
Total	41	47

Source: Section Q, Form C.

\*UNC Hospitals submitted two other applications in this review: one proposing two additional ORs on the UNC-Hillsborough Campus and the other proposing a new ASC with two ORs.

- UNC Hospitals-CH calculated its CAGRs for inpatient and outpatient surgical cases for SFY2016 – SFY2018. The inpatient CAGR was 3.1% and the outpatient CAGR was 4.4%.
- Using the inpatient and outpatient CAGRs, UNC Hospitals-CH projected its inpatient and outpatient surgical cases through to SFY2024.
- UNC-Hospitals-CH then backed out a projected “shift” of inpatient surgical cases from UNC Hospitals-CH to UNC Rex Hospital in Wake County pursuant to Project ID #J-11555-18 (add two ORs) for SFY2019 to SFY2024.
- UNC Hospitals-CH also identified cases from UNC-Main Campus that could be performed at the proposed North Chapel Hill ASC and accounted for that shift based on a ramp up of 50% in SFY2022, 75% in SFY2023 and 100% in SFY2024.
- UNC Hospitals-CH also identified the projected volume of both inpatient and outpatient surgical cases that could be performed at the UNC-Hillsborough Campus.

Projected surgical cases at UNC-Main Campus, UNC-Hillsborough Campus and the proposed North Chapel Hill ASC are shown in the tables below:

UNC Hospitals Historical and Interim OR Utilization	SFY2016	SFY2017	SFY2018	SFY2019	SFY2020	SFY2021
<b>Inpatient (IP) Surgical Cases</b>						
UNC-Main Campus	12,513	12,796	12,974	12,779	12,884	12,999
UNC-Hillsborough Campus	842	1,150	1,228	1,341	1,432	1,525
Total Projected IP Cases	13,355	13,946	14,202	14,120	14,315	14,524
Percent Change	NA	4.4%	1.84%	<0.6%>	1.38%	1.46%
<b>Outpatient (OP) Surgical Cases</b>						
UNC-Main Campus	13,949	13,582	14,197	14,771	15,137	15,507
UNC-Hillsborough Campus	1,797	2,361	2,957	3,133	3,551	3,999
Total Projected OP Cases	15,746	15,943	17,154	17,905	18,688	19,506
Percent Change	NA	1.30%	7.60%	4.37%	4.37%	4.37%
<b>Total Surgical Cases</b>						
UNC-Main Campus	26,462	26,378	27,171	27,550	28,021	28,506
UNC-Hillsborough Campus	2,639	3,511	4,185	4,475	4,982	5,524
Total Cases	29,101	29,889	31,356	32,025	33,003	34,030
Percent Change	NA	2.70%	4.9%	2.13%	3.05%	3.11%

Source: Section Q, Form C.

UNC Hospitals Health System Projected OR Utilization	1st Full FY SFY2022	2nd Full FY SFY2023	3rd Full FY SFY2024
<b>Inpatient (IP) Surgical Cases</b>			
UNC-Main Campus	13,359	13,651	14,106
UNC-Hillsborough Campus	1,651	1,861	1,923
Total Projected IP Cases	15,011	15,512	16,029
Percent Change	3.34%	3.34%	3.3%
<b>Outpatient (OP) Surgical Cases</b>			
UNC-Main Campus	15,105	15,164	15,411
UNC-Hillsborough Campus	4,260	4,530	4,603
North Chapel Hill ASC	994	1,556	2,166
Total Projected OP Cases	20,359	21,250	22,179
Percent Change	4.37%	4.37%	4.37%
<b>Total Surgical Cases</b>			
UNC-Main Campus	28,464	28,815	29,517
UNC-Hillsborough Campus	5,911	6,391	6,527
North Chapel Hill ASC	994	1,556	2,166
Total Cases	35,370	36,762	38,209
Percent Change	3.94	3.94%	3.94%

Source: Section Q, Form C.

Note: the projected shift of inpatient cases from UNC Hospitals-CH to UNC Rex Hospital Wake County projected in Project ID #J-11555-18 for SFY2019 to SFY2024 has already been factored in and is not shown in the table above.

The following tables illustrate the number of ORs needed at the proposed ASC and UNC Hospitals, respectively.

<b>Table 1 North Chapel Hill ASC Projected ORs Needed</b>	1 <sup>st</sup> Full FY SFY2022	2 <sup>nd</sup> Full FY SFY2023	3 <sup>rd</sup> Full FY SFY2024
Group Assignment	6	6	6
Standard Hours per OR per Year (1)	1,312.5	1,312.5	1,312.5
Ambulatory Surgical Cases	994	1,556	2,166
Average Ambulatory Case Time (2)	68.6	68.6	68.6
Ambulatory Surgical Hours (3)	1,136	1,779	2,476
Total Surgical Hours (4)	1,136	1,779	2,476
Adjusted Planning Inventory (5)	2.0	2.0	2.0
# of ORs Needed (6)	0.9	1.4	1.9
OR Surplus	1.1	0.6	0.1

- (1) From Table 6A in the 2018 SMFP.
- (2) From Table 6B in the 2018 SMFP.
- (3) Surgical Hours equals Surgical Cases multiplied by the Final Case Time.
- (4) Total Surgical Hours equals Inpatient Surgical Hours plus Ambulatory Surgical Hours.
- (5) Includes the proposed ORs.
- (6) # of ORs Needed equals Total Surgical Hours divided by the Standard Hours per OR per Year.

<b>Table 2 UNC Hospitals Projected ORs Needed</b>	<b>1<sup>st</sup> Full FY SFY2022</b>	<b>2<sup>nd</sup> Full FY SFY2023</b>	<b>3<sup>rd</sup> Full FY SFY2024</b>
Group Assignment	1	1	1
Standard Hours per OR per Year (1)	1,950	1,950	1,950
Inpatient Surgical Cases	15,011	15,512	16,029
Final Inpatient Case Time (2)	234	234	234
Inpatient Surgical Hours (3)	58,541	60,497	62,514
Ambulatory Surgical Cases	19,365	19,694	20,014
Final Ambulatory Case Time (2)	137	137	137
Ambulatory Surgical Hours (3)	44,217	44,967	45,698
Total Surgical Hours (4)	102,758	105,464	108,212
# of ORs Needed (5)	52.7	54.1	55.5
Adjusted Planning Inventory (6)	45.0	45.0	45.0
OR Deficit	7.7	9.1	10.5

- (1) From Table 6A in the 2018 SMFP.
- (2) From Table 6B in the 2018 SMFP.
- (3) Surgical Hours equals Surgical Cases multiplied by the Final Case Time.
- (4) Total Surgical Hours equals Inpatient Surgical Hours plus Ambulatory Surgical Hours.
- (5) # of ORs Needed equals Total Surgical Hours divided by the Standard Hours per OR per Year.
- (6) Includes the existing (41) and proposed ORs (4) less exclusions (5).

- As shown in Table 1 above, in the third full FY of the ASC project (SFY 2024), the proposed ASC is projected to need two ORs.
- As shown in Table 2 above, in the third full FY of the ASC project (SFY 2024), the hospital is projected to need 11 additional ORs even with the addition of 4 ORs in this review cycle.

Projected utilization is reasonable and adequately supported for the following reasons:

- UNC Hospitals-CH current OR utilization shows a need for more than two additional ORs, even with no OR utilization growth going forward.
- The applicant based projected inpatient and outpatient surgical case growth on historical inpatient and outpatient growth rates.
- The applicant accounted for projected shifts of certain outpatient cases to the proposed North Chapel Hill ASC.
- Projected growth is supported by projected population growth and the expected recruitment of additional surgeons.
- The methodology and assumptions are reasonable and adequately supported.
- Based solely on utilization in FFY 2018, with no growth, UNC Hospitals shows a need for eight additional ORs.



*Procedure Rooms*

In Form C, the applicant pro provides projected utilization for the two procedure rooms, as illustrated in the following table.

	<b>1<sup>st</sup> Full FY (SFY2022)</b>	<b>2<sup>nd</sup> Full FY (SFY2023)</b>	<b>3<sup>rd</sup> Full FY (SFY2024)</b>
Procedures	1,322	1,390	1,451

In Form C, the applicant provides the assumptions and methodology used to project utilization, which are summarized below.

The North Chapel Hill ASC is proposed to be developed in space currently occupied by the UNC Aesthetic, Laser, and Burn Center which currently has two unlicensed procedure rooms as part of a physician clinic. Those two procedure rooms will become part of the ASC.

Procedure room procedures are to come from two sources: 1) the procedures currently performed in the two unlicensed procedure rooms at the UNC Aesthetic, Laser and Burn Center; and 2) procedures currently performed in two procedure rooms on the UNC-Main Campus at the UNC Ambulatory Care Center (UNC ACC) which are proposed to be converted to ORs as part of the UNC-Main Campus project to develop two additional ORs.

The applicant estimates that as of SFY2018, the annual number of procedures currently being performed is 1,122. Procedures are expected to grow at the UNC Hospitals historical 4.4% CAGR for outpatient surgical cases, as shown in the table below:

	<b>SFY2018</b>	<b>SFY2019</b>	<b>SFY2020</b>	<b>SFY2021</b>	<b>1<sup>st</sup> Full FY (SFY2022)</b>	<b>2<sup>nd</sup> Full FY (SFY2023)</b>	<b>3<sup>rd</sup> Full FY (SFY2024)</b>
Projected Procedures	1,122	1,171	1,222	1,276	1,332	1,390	1,451

Projected utilization is reasonable and adequately supported for the following reasons:

- Projected utilization is based on historical utilization and a reasonable and adequately supported growth rate.
- The applicants project a “shift” of existing procedures from the procedure rooms located in UNC ACC which is located a short distance from the proposed location of the North Chapel Hill Surgery ASC.
- The procedures currently being performed in procedure rooms at the UNC Aesthetic, Laser and Burn Center will still be performed at the same physical location.

*Access* - In Section C.8, pages 49-50, the applicants state “North Chapel Hill Surgery Center will utilize existing UNC Hospitals policies related to access which ensure that the facility will provide services to all persons in need of medical care, regardless of race, color, religion, disability, or source of payment. ... As outlined in its ‘Assuring access at UNC Health Care’ document, Exhibit B.3, ‘as part of its mission, UNCHCS provides care for residents of North Carolina who are uninsured or underinsured and do not have the ability to pay for medically necessary healthcare services.’”

In Section L, page 89, the applicant projects the following payor mix during the 2<sup>nd</sup> full FY (SFY2023), as shown in the table below.

Payor Category	Operating Room Services as Percent of Total	Procedure Room Services as Percent of Total
Self-Pay	6.9%	6.9%
Medicare *	11.3%	11.3%
Medicaid *	25.8%	25.8%
Insurance *	44.5%	44.5%
Other Government, Worker's Comp	11.5%	11.5%
Total	100.0%	100.0%

Source: Table on page 89 of the application.

\* Including any managed care plans

The projected payor mix is reasonable and adequately supported.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately identifies the population to be served.
- The applicant adequately explains why the population to be served needs the services proposed in this application.
- Projected utilization is reasonable and adequately supported.
- The applicant projects the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately supports their assumptions.

**J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals Hillsborough Campus

Patient Origin - On page 57, the 2018 SMFP states, “An operating room’s service area is the operating room planning area in which the operating room is located. The operating room planning areas are the single and multicounty groupings shown in Figure 6.1.” In Figure 6.1, page 62 of the 2018 SMFP, Orange County is shown as a single-county OR service area. 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 following table illustrates current and projected patient origin.

County	Current SFY2018		3 <sup>rd</sup> Full FY SFY2023	
	Patients	% of Total	Patients	% of Total
Orange	783	18.7%	1,221	18.7%
Wake	656	15.7%	1,023	15.7%
Other*	2,746	65.6%	4,283	65.6%
Total	4,185	100.0%	6,527	100.0%

Source: Table on pages 22-24.

\*The applicant lists the counties and other states included in this category on pages 22-24.

In Section C.3, page 27, the applicant provides the assumptions and methodology used to project patient origin. The applicant’s assumptions are reasonable and adequately supported.

Analysis of Need - In Section C.4, pages 29-42, the applicant explains why it believes the population projected to utilize the proposed services needs the proposed services, as summarized below:

- The combination of a growing and aging population in the Orange County OR service area.
- Demand for surgical services overall in North Carolina and specifically in Orange County.
- The growth in inpatient surgical case volume in Orange County.

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

- There is a need determination in the 2018 SMFP for six additional ORs in the Orange County OR service area.
- The applicant provides information and data to support its assertion regarding the growth in surgical case volumes in North Carolina and Orange County.
- The applicant provides information to support its assertion that inpatient surgical volume in Orange County has increased at a CAGR of 3.5% from FFY2012 to FFY2017.
- The applicant provides population growth projections for the proposed service area based on data from the NCOSBM.
- The applicant provides information that the combination of the complexity of surgical intervention based on advanced inpatient surgical techniques and higher acuity patients results in greater case time and thus more demand for OR capacity.

*Projected Utilization- UNC Hillsborough Campus*

In Form C, the applicant provides historical and projected utilization, as illustrated in the following table.

<b>UNC-Hillsborough Campus Historical and Interim OR Utilization</b>	<b>SFY2016</b>	<b>SFY2017</b>	<b>SFY2018</b>	<b>SFY2019</b>	<b>SFY2020</b>	<b>SFY2021</b>
Inpatient Surgical Cases	842	1,150	1,228	1,341	1,432	1,525
Outpatient Surgical Case	1,797	2,361	2,957	3,133	3,551	3,999
<b>Total Surgical Cases</b>	<b>2,639</b>	<b>3,511</b>	<b>4,185</b>	<b>4,475</b>	<b>4,982</b>	<b>5,524</b>
Inpatient Surgical Case Times	234	234	234	234	234	234
Outpatient Surgical Case Times	137	137	137	137	137	137
Inpatient Surgical Hours	3,284	4,485	4,789	5,232	5,583	5,948
Outpatient Surgical Hours	4,103	5,391	6,752	7,154	8,107	9,130
<b>Total Surgical Hours</b>	<b>7,387</b>	<b>9,876</b>	<b>11,541</b>	<b>12,386</b>	<b>13,690</b>	<b>15,078</b>
Group Assignment	1	1	1	1	1	1
Standard Hours per OR per Year	1,950	1,950	1,950	1,950	1,950	1,950
Total Surgical Hours/Standard Hours Per OR per Year	3.8	5.1	5.9	6.4	7.0	7.7
Adjusted Planning Inventory - UNC-Hillsborough Campus	6	6	6	6	6	6

Source: Section Q, Form C.

<b>UNC-Hillsborough Campus Projected OR Utilization</b>	<b>1<sup>st</sup> Full FY SFY2022</b>	<b>2<sup>nd</sup> Full FY SFY2023</b>	<b>3<sup>rd</sup> Full FY SFY2024</b>
Inpatient Surgical Cases	1,651	1,861	1,923
Outpatient Surgical Case	4,260	4,530	4,603
<b>Total Surgical Cases</b>	<b>5,911</b>	<b>6,391</b>	<b>6,527</b>
Inpatient Surgical Case Times	234	234	234
Outpatient Surgical Case Times	137	137	137
Inpatient Surgical Hours	6,440	7,260	7,502
Outpatient Surgical Hours	9,728	10,342	10,511
<b>Total Surgical Hours</b>	<b>16,167</b>	<b>17,602</b>	<b>18,012</b>
Group Assignment	1	1	1
Standard Hours per OR per Year	1,950	1,950	1,950
Total Surgical Hours/Standard Hours Per OR per Year	8.3	9.0	9.2
Adjusted Planning Inventory - UNC-Hillsborough Campus	6	6	6
# of Proposed New ORs	2	2	2

Source: Section Q, Form C.

In Form C, the applicant provides the assumptions and methodology used to project utilization, which are summarized below.

- The 2018 SMFP identified a need for six additional ORs in the Orange County OR service area.
- UNC Hospitals-CH is currently the only provider of surgical services in Orange County. UNC Hospitals has two campuses: UNC-Main Campus in Chapel Hill and UNC-Hillsborough Campus in Hillsborough. Both campuses operate under the same license.
- UNC Hospitals-CH operates under the State Fiscal Year (SFY) which runs from July 1<sup>st</sup> to June 30<sup>th</sup>.
- UNC-Hillsborough Campus currently has an adjusted planning inventory of 6 ORs, as shown in the table below.

	<b>Current Adjusted Planning Inventory</b>	<b>Proposed Adjusted Planning Inventory</b>
UNC-Main Campus	35	37
UNC-Hillsborough Campus *	6	8
North Chapel Hill-ASC *	0	2
<b>Total</b>	<b>41</b>	<b>47</b>

Source: Section Q, Form C.

\*UNC Hospitals submitted two other applications in this review: one proposing two additional ORs on the UNC-Hillsborough Campus and the other proposing a new ASC with two ORs.

- UNC Hospitals-CH calculated its CAGRs for inpatient and outpatient surgical cases for SFY2016 – SFY2018. The inpatient CAGR was 3.1% and outpatient CAGR was 4.4%.
- Using the inpatient and outpatient CAGRs, UNC Hospitals-CH projected its inpatient and outpatient surgical cases through to SFY2024.
- UNC-Hospitals-CH then backed out a projected “shift” of inpatient surgical cases from UNC Hospitals-CH to UNC Rex Hospital in Wake County pursuant to Project ID #J-11555-18 (add two ORs) for SFY2019 to SFY2024.
- UNC Hospitals-CH also identified cases from UNC-Main Campus that could be performed at the proposed North Chapel Hill ASC and accounted for that shift based on a ramp up of 50% in SFY2022, 75% in SFY2023 and 100% in SFY2024.
- UNC Hospitals-CH also identified the projected volume of both inpatient and outpatient surgical cases that could be performed at the UNC-Hillsborough Campus.

Historical, interim and projected utilization at UNC-Main Campus, UNC-Hillsborough Campus (UNC Hospitals) and the proposed North Chapel Hill ASC are shown in the tables below.

<b>UNC Hospitals Historical and Interim OR Utilization</b>	<b>SFY2016</b>	<b>SFY2017</b>	<b>SFY2018</b>	<b>SFY2019</b>	<b>SFY2020</b>	<b>SFY2021</b>
<b>Inpatient (IP) Surgical Cases</b>						
UNC-Main Campus	12,513	12,796	12,974	12,779	12,884	12,999
UNC-Hillsborough Campus	842	1,150	1,228	1,341	1,432	1,525
Total Projected IP Cases	13,355	13,946	14,202	14,120	14,315	14,524
Percent Change	NA	4.4%	1.84%	<0.6%>	1.38%	1.46%
<b>Outpatient (OP) Surgical Cases</b>						
UNC-Main Campus	13,949	13,582	14,197	14,771	15,137	15,507
UNC-Hillsborough Campus	1,797	2,361	2,957	3,133	3,551	3,999
North Chapel Hill ASC	NA	NA	NA	NA	NA	NA
Total Projected OP Cases	15,746	15,943	17,154	17,905	18,688	19,506
Percent Change	NA	1.30%	7.60%	4.37%	4.37%	4.37%
<b>Total Surgical Cases</b>						
UNC-Main Campus	26,462	26,378	27,171	27,550	28,021	28,506
UNC-Hillsborough Campus	2,639	3,511	4,185	4,475	4,982	5,524
North Chapel Hill ASC	NA	NA	NA	NA	NA	NA
Total Cases	29,101	29,889	31,356	32,025	33,003	34,030
Percent Change	NA	2.70%	4.9%	2.13%	3.05%	3.11%

Source: Section Q, Form C.

<b>UNC Hospitals Health System Projected OR Utilization</b>	<b>1st Full FY SFY2022</b>	<b>2nd Full FY SFY2023</b>	<b>3rd Full FY SFY2024</b>
<b>Inpatient (IP) Surgical Cases</b>			
UNC-Main Campus	13,359	13,651	14,106
UNC-Hillsborough Campus	1,651	1,861	1,923
Total Projected IP Cases	15,011	15,512	16,029
Percent Change	3.34%	3.34%	3.3%
<b>Outpatient (OP) Surgical Cases</b>			
UNC-Main Campus	15,105	15,164	15,411
UNC-Hillsborough Campus	4,260	4,530	4,603
North Chapel Hill ASC	994	1,556	2,166
Total Projected OP Cases	20,359	21,250	22,179
Percent Change	4.37%	4.37%	4.37%
<b>Total Surgical Cases</b>			
UNC-Main Campus	28,464	28,815	29,517
UNC-Hillsborough Campus	5,911	6,391	6,527
North Chapel Hill ASC	994	1,556	2,166
Total Cases	35,370	36,762	38,209
Percent Change	3.94	3.94%	3.94%

Source: Section Q, Form C.

Note: the projected shift of inpatient cases from UNC Hospitals-CH to UNC Rex Hospital Wake County projected in Project ID #J-11555-18 for SFY2019 to SFY2024 has already been factored in and is not shown in the table above.

The following tables illustrate the number of ORs needed at UNC-Hillsborough Campus, UNC Hospitals and the proposed ASC, respectively.

<b>Table 1 UNC-Hillsborough Campus Projected ORs Needed</b>	<b>1<sup>st</sup> Full FY SFY2022</b>	<b>2<sup>nd</sup> Full FY SFY2023</b>	<b>3<sup>rd</sup> Full FY SFY2024</b>
Inpatient Surgical Cases	1,651	1,861	1,923
Outpatient Surgical Case	4,260	4,530	4,603
<b>Total Surgical Cases</b>	<b>5,911</b>	<b>6,391</b>	<b>6,527</b>
Inpatient Surgical Case Times	234	234	234
Outpatient Surgical Case Times	137	137	137
Inpatient Surgical Hours	6,440	7,260	7,502
Outpatient Surgical Hours	9,728	10,342	10,511
<b>Total Surgical Hours</b>	<b>16,167</b>	<b>17,602</b>	<b>18,012</b>
Group Assignment	1	1	1
Standard Hours per OR per Year	1,950	1,950	1,950
Total Surgical Hours/Standard Hours Per OR per Year	8.3	9.0	9.2
Adjusted Planning Inventory (1)	8.0	8.0	8.0
OR Deficit	0.3	1.0	1.2

Source: Section Q, Form C.

(1) Includes the existing (6) and proposed ORs (2).

<b>Table 2 UNC Hospitals Projected ORs Needed</b>	<b>1<sup>st</sup> Full FY SFY2021</b>	<b>2<sup>nd</sup> Full FY SFY2022</b>	<b>3<sup>rd</sup> Full FY SFY2023</b>	<b>4<sup>th</sup> Full FY SFY2024</b>
Group Assignment	1	1	1	1
Standard Hours per OR per Year (1)	1,950	1,950	1,950	1,950
Inpatient Surgical Cases	14,524	15,011	15,512	16,029
Final Inpatient Case Time (2)	234	234	234	234
Inpatient Surgical Hours (3)	56,645	58,541	60,497	62,514
Ambulatory Surgical Cases	19,506	19,365	19,694	20,014
Final Ambulatory Case Time (2)	137	137	137	137
Ambulatory Surgical Hours (3)	44,538	44,217	44,967	45,698
<b>Total Surgical Hours (4)</b>	<b>101,182</b>	<b>102,758</b>	<b>105,464</b>	<b>108,212</b>
# of ORs Needed (5)	51.9	52.7	54.1	55.5
Adjusted Planning Inventory (6)	43.0	45.0	45.0	45.0
OR Deficit	8.9	7.7	9.1	10.5

(1) From Table 6A in the 2018 SMFP.

(2) From Table 6B in the 2018 SMFP.

(3) Surgical Hours equals Surgical Cases multiplied by the Final Case Time.

(4) Total Surgical Hours equals Inpatient Surgical Hours plus Ambulatory Surgical Hours.

(5) # of ORs Needed equals Total Surgical Hours divided by the Standard Hours per OR per Year.

(6) Includes the existing (41) and proposed ORs (4) less exclusions (5).

<b>Table 3 North Chapel Hill ASC Projected ORs Needed</b>	<b>1st Full FY SFY2022</b>	<b>2nd Full FY SFY2023</b>	<b>3rd Full FY SFY2024</b>
Group Assignment	6	6	6
Standard Hours per OR per Year (1)	1,312.5	1,312.5	1,312.5
Ambulatory Surgical Cases	994	1,556	2,166
Average Ambulatory Case Time (2)	68.6	68.6	68.6
Ambulatory Surgical Hours (3)	1,136	1,779	2,476
Total Surgical Hours (4)	1,136	1,779	2,476
Adjusted Planning Inventory (5)	2.0	2.0	2.0
# of ORs Needed (6)	0.9	1.4	1.9
OR Surplus	1.1	0.6	0.1

- (1) From Table 6A in the 2018 SMFP.
- (2) From Table 6B in the 2018 SMFP.
- (3) Surgical Hours equals Surgical Cases multiplied by the Final Case Time.
- (4) Total Surgical Hours equals Inpatient Surgical Hours plus Ambulatory Surgical Hours.
- (5) Includes the proposed ORs.
- (6) # of ORs Needed equals Total Surgical Hours divided by the Standard Hours per OR per Year.

- As shown in Table 1 above, in the third full FY (SFY2024), UNC-Hillsborough Campus is projected to need one additional OR even with the addition of two new ORs.
- As shown in Table 2 above, in the third full FY (SFY2024), UNC Hospitals is projected to need ten additional ORs even with the addition of four new ORs.
- As shown in Table 3 above, in the third full FY (SFY2024), the proposed ASC is projected to need two ORs.

Projected utilization is reasonable and adequately supported for the following reasons:

- UNC Hospitals-CH current OR utilization shows a need for more than two additional ORs, even with no OR utilization growth going forward.
- The applicant based projected inpatient and outpatient surgical case growth on historical inpatient and outpatient growth rates.
- The applicant accounted for projected shifts of certain outpatient cases to the proposed North Chapel Hill ASC.
- The applicant accounted for the projected shift of inpatient cases from UNC Hospitals to UNC REX Hospital in Wake County (Project ID# J-11555-18).
- Projected growth is supported by projected population growth and the expected recruitment of additional surgeons.
- The methodology and assumptions are reasonable and adequately supported.
- Based solely on surgical cases performed in FFY 2018 and with no growth, UNC Hospitals shows a need for seven additional ORs. See the table below.



UNC Hospitals Historical OR Utilization	Last Full FY FFY2018
Group Assignment	1
Standard Hours per OR per Year (1)	1,950
Inpatient Surgical Cases	14,226
Final Inpatient Case Time (2)	234
Inpatient Surgical Hours (3)	55,481
Ambulatory Surgical Cases	16,267
Final Ambulatory Case Time (2)	143
Ambulatory Surgical Hours (3)	38,770
Total Surgical Hours (4)	94,251
Adjusted Planning Inventory (5)	41.0
# of ORs Needed (6)	48.0
OR Deficit	7.0

Source: 2018 License Renewal Application for UNC Hospitals

*Access* - In Section C.8, pages 44-45, the applicant states, “As North Carolina’s only state-owned, comprehensive, full service hospital system, 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. ... UNC Hospitals has a long and proud history of serving patients who require care, regardless of their ability to pay.”

In Section L, page 86, the applicant projects the following payor mix during the 2<sup>nd</sup> full FY (SFY2023) of operation following completion of the project, as illustrated in the table below.

UNC - Hillsborough Campus	
Payor Category	Operating Room Services as Percent of Total
Self-Pay	11.0%
Medicare *	29.8%
Medicaid *	9.9%
Insurance *	42.4%
Other Government, Workers Compensation	6.9%
Total	100.0%

Source: Table on page 86 of the application.

\* Including any managed care plans

The projected payor mix is reasonable and adequately supported.

*Conclusion* - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately identifies the population to be served.
  - The applicant adequately explains why the population to be served needs the services proposed in this application.
  - Projected utilization is reasonable and adequately supported.
  - The applicant projects the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately supports the assumptions.
- (3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA  
All Applications

None of the applicants in this review propose to reduce or eliminate a service, or to relocate a facility or service. Therefore, Criterion (3a) is not applicable to this review.

- (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  
All Applications

### **J-11632-18/Duke Health Orange ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, Duke Health Orange ASC, in Chapel Hill with two ORs and two procedure rooms.

In Section E, pages 54-56, the applicant describes the alternatives it considered and explains why each alternative is either more costly or less effective than the alternative proposed in this application to meet the need. The alternatives considered were:

- Maintain the status quo
- Develop the ASC in another location
- Develop a different number of ORs at the Sage Road, Chapel Hill site
- Develop the project as proposed

On pages 54-56, the applicant states its proposal is the most effective alternative because,

*“Over 60% of all Orange County residents leave Orange County for ambulatory surgery. ... ASCs offer high quality surgical and procedural services at a lower cost when compared to*

*hospital services for the same services. ... Based on population distribution and growth, the proposed site is an optimal location for patient [sic] from Orange and neighboring counties in terms of geographic access. ... DUHS determined the complement of two ORs for the proposed project is the most appropriate size."*

The applicant provides supporting documentation in Section C.4, pages 18-37.

The applicant adequately demonstrates that the alternative proposed in this application is the most effective alternative to meet the need for the following reasons:

- Meets the need identified in the 2018 SMFP for additional ORs in Orange County.
- Growing ambulatory surgical demand at DUHS facilities.
- Capacity constraints across DUHS's existing facilities.
- Historical outmigration of Orange County ambulatory surgical cases to DUHS.
- Projected population in Orange County and surrounding areas.
- Orange County population is heavily concentrated in southeastern portion of the county and the proposed location is in the southeastern portion of Orange County.
- Proposed location is less than half a mile from the interchange of NC 501 and Interstate 40
- The surgical specialties that will be provided at the proposed facility.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11644-18/UNC-Main Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Main Campus.

In Section E, pages 58-59, the applicant describes the alternatives it considered and explains why each alternative is either more costly or less effective than the alternative proposed in this application to meet the need. The alternatives considered were:

- Maintain the status quo
- Develop a different number of ORs
- Develop the ORs in a different location
- Develop the project as proposed

On page 59, the applicant states its proposal is the most effective alternative because,

*“Compared to these alternatives, UNC Hospitals believes that the proposed project to add two operating rooms on the UNC Hospitals Main Campus in the UNC ACC is the least costly and most effective alternative to meet a portion of the need for additional operating rooms in Orange County.”*

The applicant provides supporting documentation in Section C.4, pages 29-42.

The applicant adequately demonstrates that the alternative proposed in this application is the most effective alternative to meet a portion of the need for the following reasons:

- Developing two ORs at UNC-Main Campus can be done for minimal capital costs.
- UNC-Main Campus is space-constrained, so developing more than two ORs at the UNC-Main Campus would be cost-prohibitive and difficult.
- Developing only one OR at UNC-Main Campus would not meet the need for additional hospital based capacity for the growing surgical volume at UNC-Main Campus.
- Developing more than two ORs at UNC-Main Campus would prevent the development of two ORs at the proposed North Chapel Hill ASC and two ORs at UNC-Hillsborough Campus which are needed for expanded patient access outside of the main hospital campus in Chapel Hill.
- Maintaining the status quo would not be responsive to the need for additional ORs in Orange County identified in the 2018 SMFP.
- Maintaining the status quo would not be responsive to the current and projected need for additional OR capacity at UNC Hospitals.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, North Chapel Hill ASC, in Chapel Hill with two ORs and two procedure rooms.

In Section E, pages 61-62, the applicant describes the alternatives it considered and explains why each alternative is either more costly or less effective than the alternative proposed in this application to meet the need. The alternatives considered were:

- Maintain the status quo
- Develop an ASC with a different number of ORs
- Develop an ASC in a different location

- Develop the project as proposed

On page 62, the applicant states its proposal is the most effective alternative because,

*“Compared to these alternatives, North Chapel Hill Surgery Center believes that the proposed project to develop the proposed ASC with two operating rooms is the least costly and most effective alternative to meet a portion of the need for additional operating rooms in Orange County.”*

The applicant provides supporting documentation in Section C.4, pages 33-45.

The applicant adequately demonstrates that the alternative proposed in this application is the most effective alternative to meet a portion of the need for the following reasons:

- Maintaining the status quo would not permit the development of an ASC which would provide access in Orange County for Orange County residents currently leaving the county for outpatient surgical services. The proposed project would provide local access to Orange county residents in a lower cost setting.
- Developing an ASC will help alleviate capacity issues at UNC Hospitals in the shared ORs because the ASC will shift some outpatient cases from UNC Hospitals to the ASC.
- Developing the ASC in a different location is less effective because the proposed ASC can be developed thru renovation of an existing building which is more cost effective than the alternative of constructing a new building.
- Maintaining the status quo would not be responsive to the need for additional ORs in Orange County identified in the 2018 SMFP.
- Developing more than two ORs at North Chapel Hill Surgery ASC would prevent the development of two ORs at UNC-Main Campus and two ORs at UNC-Hillsborough Campus where additional ORs are needed.
- Developing an ASC with one OR is less effective because it would make scheduling more difficult.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Hillsborough Campus

In Section E, pages 57-58, the applicant describes the alternatives it considered and explains why each alternative is either more costly or less effective than the alternative proposed in this application to meet the need. The alternatives considered were:

- Maintain the status quo
- Develop a different number of ORs
- Develop the ORs in a different location
- Develop the project as proposed

On page 58, the applicant states its proposal is the most effective alternative because,

*“Compared to these alternatives, UNC Hospitals believes that the proposed project to develop two operating rooms on the Hillsborough campus is the most effective alternative to meet a portion of the need for additional operating rooms in Orange County.”*

The applicant provides supporting documentation in Section C.4, pages 28-40.

The applicant adequately demonstrates that the alternative proposed in this application is the most effective alternative to meet a portion of the need for the following reasons:

- Developing only one OR at UNC-Hillsborough Campus would not meet the need for additional capacity needed by the third full FY.
- Developing more than two ORs at UNC-Hillsborough Campus would prevent the development of two ORs at the proposed North Chapel Hill ASC which would provide patient access to lower cost outpatient surgery and two ORs which are needed on the hospital’s main campus in Chapel Hill.
- Maintaining the status quo would not be responsive to the need for additional ORs in Orange County identified in the 2018 SMFP.
- Maintaining the status quo would not be responsive to the current and projected need for additional OR capacity at UNC Hospitals, including the Hillsborough Campus.
- Development of additional surgical capacity at the Hillsborough Campus will enhance geographic access for patients in Orange County.

*Conclusion* - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

- (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  
All Applications

**J-11632-18/Duke Health Orange ASC/ Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, Duke Health Orange ASC, in Chapel Hill with two ORs and two procedure rooms.

Capital and Working Capital Costs

In Section Q, Form F.1a, the applicant projects the total capital cost of the project, as shown in the table below.

Construction Costs	\$7,870,000
Miscellaneous Costs	\$4,935,000
<b>Total Capital Cost</b>	<b>\$12,805,000</b>

In Section Q, the applicant provides the assumptions used to project the capital cost.

In Section F.3, pages 59-60, the applicant projects that start-up costs will be \$375,000 and initial operating expenses will be \$1,000,000 for a total working capital of \$1,375,000. On page 60 and in Section Q the applicant provides the assumptions and methodology used to project the working capital needs of the project.

Availability of Funds

In Section F.2, page 58, the applicant states that the capital cost will be funded as shown in the table below.

Sources of Capital Cost Financing	Amount
Accumulated reserves of DUHS	\$12,805,000
<b>Total Financing</b>	<b>\$12,805,000</b>

In Section F.3, page 60, the applicant states that the working capital needs of the project will be funded as shown in the table below.

Sources of Financing for Working Capital	Amount
Accumulated Reserves of DUHS	\$1,375,000
<b>Total Financing</b>	<b>\$1,375,000</b>

Exhibit 11 contains a letter from the Chief Financial Officer for DUHS documenting that the funds will be made available for the capital and working capital needs of the project. Exhibit 11 also contains the audited financial statements for DUHS which indicates the health system had \$182 million in cash and cash equivalents as of June 30, 2017.

Financial Feasibility

The applicant provided pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.3, the applicant projects that revenues will exceed operating expenses in the second and third operating years of the project, as shown in the table below.

	1 <sup>st</sup> Full FY FY2022	2 <sup>nd</sup> Full FY FY2023	3 <sup>rd</sup> Full FY FY2024
Total Operating Room Cases	2,427	3,181	3,552
Total Gross OR Revenues (Charges)	\$18,851,565	\$24,709,327	\$27,594,335
Total Net OR Revenue	\$7,814,921	\$10,355,684	\$11,688,980
Average Net Revenue per OR Case	\$3,220	\$3,255	\$3,319
Total Procedure Room (PR) Cases	485	636	710
Total Gross PR Revenues (Charges)	\$828,653	\$1,086,142	\$1,212,957
Total Net PR Revenue	\$318,291	\$422,146	\$476,908
Average Net Revenue per Procedure Room Case	\$656	\$664	\$672
Total Gross Revenue	\$19,680,218	\$25,795,468	\$28,807,292
Total Net Revenue	\$8,133,212	\$10,777,830	\$12,165,889
Total Operating Expenses (Costs)	\$8,612,800	\$10,760,577	\$12,033,105
<b>Net Income</b>	<b>(\$479,588)</b>	<b>\$17,253</b>	<b>\$132,783</b>

Totals may not sum due to rounding

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 Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:



- The applicant adequately demonstrates that the capital and working capital costs are based on reasonable and adequately supported assumptions.
- The applicant adequately demonstrates availability of sufficient funds for the capital and working capital needs of the proposal.
- The applicant adequately demonstrates sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

### **J-11644-18/UNC-Main Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Main Campus.

#### Capital and Working Capital Costs

In Section Q, Form F.1a, the applicant projects the total capital cost of the project as shown in the table below.

Construction Costs	\$278,875
Miscellaneous Costs	\$98,819
<b>Total Capital Cost</b>	<b>\$377,694</b>

In Section Q, the applicant provides the assumptions used to project the capital cost.

In Section F.3, pages 62, the applicant states there will be no start-up costs or initial operating expenses because the project does not involve a new service.

#### Availability of Funds

In Section F.2, page 61, the applicant states that the capital cost will be funded as shown in the table below.

<b>Sources of Capital Cost Financing</b>	<b>Amount</b>
Accumulated reserves of UNC Hospitals	\$377,694
<b>Total Financing</b>	<b>\$377,694</b>

Exhibit F.2 contains a letter from the Executive Vice President and Chief Financial Officer for UNC Hospitals documenting that the funds will be made available for the capital costs of the project. Exhibit F.2-2 contains the most recent audited financial statements for UNC Hospitals at Chapel Hill which indicate the hospital had \$49.8 million in cash and cash equivalents as of June 30, 2018.

#### Financial Feasibility

The applicant provided pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.3, the applicant projects that revenues

will exceed operating expenses in the second and third operating years of the project, as shown in the table below.

	<b>1<sup>st</sup> Full FY SFY2021</b>	<b>2<sup>nd</sup> Full FY SFY2022</b>	<b>3<sup>rd</sup> Full FY SFY2023</b>
Total Surgical Cases	28,506	28,464	28,815
Total Gross Revenues (Charges)	\$593,723,884	\$610,633,612	\$636,697,602
Total Net Revenue	\$246,847,504	\$253,877,917	\$264,714,319
Average Net Revenue per Case	\$8,659	\$8,919	\$9,187
Total Operating Expenses (Costs)	\$182,622,215	\$187,903,830	\$195,229,317
Average Operating Expense per Case	\$6,406	\$6,601	\$6,775
<b>Net Income</b>	<b>\$64,225,289</b>	<b>\$65,974,087</b>	<b>\$69,485,002</b>

Totals may not sum due to rounding

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 Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately demonstrate that the capital costs are based on reasonable and adequately supported assumptions.
- The applicant adequately demonstrate availability of sufficient funds for the capital needs of the proposal.
- The applicant adequately demonstrate sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, North Chapel Hill ASC, in Chapel Hill with two ORs and two procedure rooms.

#### Capital and Working Capital Costs

In Section Q, Form F.1a, the applicant projects the total capital cost of the project as shown in the table below.

Site Costs	\$335,000
Construction Costs	\$1,175,760
Miscellaneous Costs	\$2,795,164
<b>Total Capital Cost</b>	<b>\$4,305,924</b>

In Section Q, the applicant provides the assumptions used to project the capital cost.

In Section F.3, pages 65-66, the applicant projects that start-up costs will be \$260,189 and initial operating expenses will be \$341,044 for a total working capital of \$601,233. On pages 65-66, the applicant provides the assumptions and methodology used to project the working capital needs of the project.

Availability of Funds

There are two applicants: North Chapel Hill Surgery Center, LLC, a joint venture between University of North Carolina Health Care System and Rex Hospital, Inc. (See page 10 of the application); and UNC Hospitals.

In Section F.2, page 64, the applicant states that the capital cost will be funded, as shown in the table below.

Sources of Capital Cost Financing	UNC Hospitals	Rex Hospital, Inc.	Amount
Accumulated reserves	\$2,152,962	\$2,152,962	\$4,305,924
<b>Total Financing</b>	<b>\$2,152,962</b>	<b>\$2,152,962</b>	<b>\$4,305,924</b>

In Section F.3, page 66, the applicant states that the working capital needs of the project will be funded as shown in the table below.

Sources of Working Capital Financing	UNC Hospitals	Rex Hospital, Inc.	Amount
Accumulated reserves	\$300,617	\$300,617	\$601,233
<b>Total Financing</b>	<b>\$300,617</b>	<b>\$300,617</b>	<b>\$601,233</b>

Exhibit F-2-1 contains a letter from the Executive Vice President and Chief Financial Officer for UNC Hospitals documenting that the funds will be made available for the capital and working capital costs of the project. Exhibit F-2-1 also contains a letter from the Executive Vice President and Chief Financial Officer for Rex Hospital, Inc., documenting that the funds will be made available for the capital and working capital costs of the project. Exhibit F.2-2 contains the most recent audited financial statements for UNC Hospitals at Chapel Hill which indicate the hospital had \$49.8 million in cash and cash equivalents as of June 30, 2018. Exhibit F.2-3 contains the most recent audited financial statements for Rex Hospital, Inc. which indicate the hospital had \$60.75 million in cash and cash equivalents as of June 30, 2017.

Financial Feasibility

The applicant provided pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.3, the applicant projects that revenues will exceed operating expenses in the second and third operating years of the project, as shown in the table below.

	<b>1<sup>st</sup> Full FY SFY2022</b>	<b>2<sup>nd</sup> Full FY SFY2023</b>	<b>3<sup>rd</sup> Full FY SFY2024</b>
Total Operating Room Cases	994	1,556	2,166
Total Gross OR Revenues (Charges)	\$7,223,847	\$11,649,160	\$16,698,142
Total Net OR Revenue	\$2,173,134	\$3,504,391	\$5,023,265
Average Net Revenue per OR Case	\$2,186	\$2,252	\$2,139
Total Procedure Room (PR) Cases	1,332	1,390	1,451
Total Gross PR Revenues (Charges)	\$4,580,282	\$4,924,102	\$5,293,730
Total Net PR Revenue	\$1,377,876	\$1,481,307	\$1,592,501
Average Net Revenue per Procedure	\$1,386	\$952	\$735
Total Gross Revenue	\$11,804,129	\$16,573,262	\$21,991,872
Total Net Revenue	\$3,551,010	\$4,985,698	\$6,615,766
Total Operating Expenses (Costs)	\$3,673,633	\$4,784,051	\$6,055,336
<b>Net Income</b>	<b>(\$122,624)</b>	<b>\$201,647</b>	<b>\$560,430</b>

Totals may not sum due to rounding

The assumptions used by the applicants 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 Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately demonstrates that the capital and working capital costs are based on reasonable and adequately supported assumptions.
- The applicant adequately demonstrates availability of sufficient funds for the capital and working capital needs of the proposal.
- The applicant adequately demonstrates sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

## **J-11646-18/UNC-Hillsborough Campus/ Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Hillsborough Campus.

### Capital and Working Capital Costs

In Section Q, Form F.1a, the applicant projects the total capital cost of the project as shown in the table below.

Construction Costs	\$1,086,750
Miscellaneous Costs	\$1,035,088
<b>Total Capital Cost</b>	<b>\$2,121,838</b>

In Section Q, the applicant provides the assumptions used to project the capital cost.

In Section F.3, pages 61, the applicant states there will be no start-up costs or initial operating expenses because the project does not involve a new service.

### Availability of Funds

In Section F.2, page 60, the applicant states that the capital cost will be funded as shown in the table below.

<b>Sources of Capital Cost Financing</b>	<b>Amount</b>
Accumulated reserves of UNC Hospitals	\$2,121,838
<b>Total Financing</b>	<b>\$2,121,838</b>

Exhibit F.2 contains a letter from the Executive Vice President and Chief Financial Officer for UNC Hospitals documenting that the funds will be made available for the capital costs of the project. Exhibit F.2-2 contains the most recent audited financial statements for UNC Hospitals at Chapel Hill which indicate the hospital had \$49.8 million in cash and cash equivalents as of June 30, 2018.

### Financial Feasibility

The applicant provided pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.3, the applicant projects that revenues will exceed operating expenses in the second and third operating years of the project, as shown in the table below.

	<b>1<sup>st</sup> Full FY SFY2022</b>	<b>2<sup>nd</sup> Full FY SFY2023</b>	<b>3<sup>rd</sup> Full FY SFY2024</b>
Total Surgical Cases	5,911	6,391	6,527
Total Gross Revenues (Charges)	\$173,976,523	\$193,730,899	\$203,779,890
Total Net Revenue	\$70,002,319	\$77,950,817	\$81,994,195
Average Net Revenue per Case	\$11,843	\$12,197	\$12,562
Total Operating Expenses (Costs)	\$54,085,822	\$59,870,473	\$62,876,842
Average Operating Expense per Case	\$9,150	\$9,368	\$9,633
<b>Net Income</b>	<b>\$15,916,497</b>	<b>\$18,080,344</b>	<b>\$19,117,353</b>

Totals may not sum due to rounding

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 Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately demonstrates that the capital costs are based on reasonable and adequately supported assumptions.
  - The applicant adequately demonstrates availability of sufficient funds for the capital needs of the proposal.
  - The applicant adequately demonstrates sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.
- (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 All Applications

On page 57, the 2018 SMFP states, “An operating room’s service area is the operating room planning area in which the operating room is located. The operating room planning areas are the single and multicounty groupings shown in Figure 6.1.” In Figure 6.1, page 62 of the 2018 SMFP, Orange County is shown as a single-county OR service area. Thus, the service area for this review consists of Orange County. Facilities may also serve residents of counties not included in the service area.

The following table identifies the existing and approved inpatient (IP), outpatient (OP), and shared ORs located in Orange County, and the inpatient and outpatient case volumes for each provider, from pages 68 and 76 of the 2018 SMFP.

Orange County	IP ORs	OP ORs	Shared ORs	Excluded C-Section, Trauma, Burn ORs	CON Adjustments	IP Surgery Cases	OP Surgery Cases
UNC Hospitals	6	11	29	-5	0	13,529	15,736
<b>Total</b>	<b>6</b>	<b>11</b>	<b>29</b>	<b>-5</b>	<b>0</b>	<b>13,529</b>	<b>15,736</b>

Source: 2018 SMFP

As the table above indicates, there is only one existing health service facility located in Orange County with ORs and that is UNC Hospitals with 6 inpatient, 11 outpatient and 29 shared ORs. Five of those ORs are excluded from the Adjusted Planning Inventory pursuant to the OR Need Methodology in the 2018 SMFP.

The 2018 SMFP shows a need for six additional ORs in the Orange County service area based on the utilization of UNC Hospitals. See Table 6B: Projected Operating Room Need for 2020, on page 76. However, anyone can apply to meet the need.

**J-11632-18/Duke Health Orange ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, Duke Health Orange ASC, in Chapel Hill with two ORs and two procedure rooms.

In Section G.3, pages 66, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved ORs in Orange County. The applicant states, *“As described previously in Section C, Orange County is unique in that it has only one provider of surgical services and no local access to a freestanding ASC. UNC operates 46 ORs ... in Orange County, all of which are hospital-based with either inpatient or hospital outpatient department (HOPD) charges. ... Therefore, Orange County residents will greatly benefit from access to a new surgical provider in Orange County, especially one that proposes to develop a freestanding, non-hospital-based ASC.”*

The applicant adequately demonstrate that the proposal would not result in an unnecessary duplication of existing or approved services in the service area for the following reasons:

- There is a need determination in the 2018 SMFP for six additional ORs in the Orange County service area and the applicants propose to develop two ORs.
- The applicant adequately demonstrates that the proposed ORs are needed in addition to the existing or approved ORs in Orange County.

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11644-18/UNC-Main Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Main Campus.

In Section G.3, page 68, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved ORs in Orange County. The applicant states, *“The 2018 SMFP includes a need determination for six additional operating rooms in Orange County, based solely on the surgical utilization at UNC Hospitals. The identified need can best be met by the three concurrent and complementary applications submitted by UNC Health Care, including the proposed project to add two operating rooms at UNC Hospitals Main Campus. As the sole provider of surgical services in Orange County, and with the need determination based solely on its utilization, the proposed project by UNC Hospitals, along with the concurrent and complementary applications will provide much-needed additional capacity to serve a growing patient population.”*

The applicant adequately demonstrate that the proposal would not result in an unnecessary duplication of existing or approved services in the service area for the following reasons:

- There is a need determination in the 2018 SMFP for six additional ORs in the Orange County service area and the applicants propose to develop two ORs.
- The applicant adequately demonstrates that the proposed ORs are needed in addition to the existing or approved ORs in Orange County.

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, North Chapel Hill ASC, in Chapel Hill with two ORs and two procedure rooms.

In Section G.3, page 71, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved ORs in Orange County. The applicant states, *“The 2018 SMFP includes a need determination for six additional operating rooms in Orange County, based solely on the surgical utilization at UNC Hospitals. The identified need can best be met by the three concurrent and complementary applications submitted by UNC Health Care, including the proposed project to add two operating rooms in a freestanding ASC, North Chapel*



*Hill Surgery Center. As the sole provider of surgical services in Orange County, and with the need determination based solely on its utilization, the proposed project, along with the concurrent and complementary applications will provide much-needed additional capacity to serve a growing patient population.”*

The applicant adequately demonstrates that the proposal would not result in an unnecessary duplication of existing or approved services in the service area for the following reasons:

- There is a need determination in the 2018 SMFP for six additional ORs in the Orange County service area and the applicants propose to develop two ORs.
- The applicant adequately demonstrates that the proposed ORs are needed in addition to the existing or approved ORs in Orange County.

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Hillsborough Campus

In Section G.3, page 67, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved ORs in Orange County. The applicant states, *“The 2018 SMFP includes a need determination for six additional operating rooms in Orange County, based solely on the surgical utilization at UNC Hospitals. The identified need can best be met by the three concurrent and complementary applications submitted by UNC Health Care, including the proposed project to add two operating rooms at UNC Hospitals Hillsborough Campus. As the sole provider of surgical services in Orange County, and with the need determination based solely on its utilization, the proposed project by UNC Hospitals, along with the concurrent and complementary applications will provide much-needed additional capacity to serve a growing patient population.”*

The applicant adequately demonstrates that the proposal would not result in an unnecessary duplication of existing or approved services in the service area for the following reasons:

- There is a need determination in the 2018 SMFP for six additional ORs in the Orange County service area and the applicants propose to develop two ORs.
- The applicant adequately demonstrates that the proposed ORs are needed in addition to the existing or approved ORs in Orange County.

The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

- (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  
All Applications

**J-11632-18/Duke Health Orange ASC/Develop Two ORs**

In Section Q, Form H, the applicant provides projected staffing for the proposed services through the first three operating years of the project.

The assumptions and methodology used to project staffing are provided in Section Q. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in Form F.3, which is found in Section Q. In Sections H.2 and H.3, pages 69-70, the applicant describes the methods used to recruit or fill new positions and its existing training and continuing education programs. In Section H.4, page 71, the applicant identifies the proposed medical directors. In Exhibit 3, the applicant provides letters from the proposed medical directors indicating an interest in serving as medical directors for the proposed ASC. In Section H.4, page 71, the applicant describes its physician recruitment plans.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

**J-11644-18/UNC-Main Campus/Develop Two ORs**

In Section Q, Form H, the applicant provides projected staffing for the proposed services through the first three operating years of the project.

The assumptions and methodology used to project staffing are provided in Section Q. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted

in Form F.3, which is found in Section Q. In Sections H.2 and H.3, pages 70-71, the applicant describes the methods to be used to recruit or fill new positions and its existing training and continuing education programs. In Section H.4, page 71, the applicant identifies the directors of the major programs involved in the proposed project. In Exhibit I.2, the applicant provides letters from them endorsing the proposed project. In Section H.4, page 72, the applicant describes its physician recruitment plans. In Exhibit I.2, the applicant provides supporting documentation.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

In Section Q, Form H, the applicant provides projected staffing for the proposed services through the first three operating years of the project.

The assumptions and methodology used to project staffing are provided in Section Q. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in Form F.3, which is found in Section Q. In Sections H.2 and H.3, pages 73-74, the applicants describe the methods to be used to recruit or fill new positions and its existing training and continuing education programs. In Section H.4, pages 74-75, the applicants identify the proposed medical director. In Exhibit H.4, the applicants provide a letter from the proposed medical director indicating an interest in serving as medical director for the proposed services. In Section H.4, page 75, the applicants describe its physician recruitment plans. In Exhibit I.2, the applicants provide supporting documentation.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

In Section Q, Form H, the applicant provides projected staffing for the proposed services through the first three operating years of the project.

The assumptions and methodology used to project staffing are provided in Section Q. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in Form F.3, which is found in Section Q. In Sections H.2 and H.3, pages 69-70, the applicant describes the methods to be used to recruit or fill new positions and its existing training and continuing education programs. In Section H.4, page 70, the applicant identifies the directors of the major programs involved in the proposed project. In Exhibit I.2, the applicant provides letters from them endorsing the proposed project. In Section H.4, page 71, the applicant describes its physician recruitment plans. In Exhibit I.2, the applicant provides supporting documentation.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

- (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  
All Applications

**J-11632-18/Duke Health Orange ASC/Develop Two ORs**

In Section I.1, pages 73-74, the applicant states that the following ancillary and support services are necessary for the proposed services:

- Pathology
- Pharmacy
- Human Resources
- Accounting/ Billing
- Infection Control
- Anesthesiology
- Medical Supplies
- Medical records
- Reception/Business office
- Housekeeping/Maintenance
- Administration
- Laundry

- Information Technology
- Staff Education
- Surgical Services

On pages 73-74, the applicant adequately explains how each ancillary and support service will be made available and provides supporting documentation in Exhibit 12.

In Section I.2, page 74, the applicant describes its efforts to develop relationships with other local health care and social service providers and provides supporting documentation in Exhibit 12. The applicant adequately demonstrates that the proposed services will be coordinated with the existing health care system.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11644-18/UNC-Main Campus/Develop Two ORs**

In Section I.1, page 74, the applicant states that, “*as an existing full-service academic medical center, UNC Hospitals has all ancillary and support services in place to support hospital operations, including the existing surgical services at the ACC.*” On page 74, the applicant adequately explains how each ancillary and support service will be made available and provides supporting documentation in Exhibit I.1.

In Section I.2, page 74, the applicant describes its efforts to develop relationships with other local health care and social service providers and provides supporting documentation in Exhibit I.2. The applicant adequately demonstrates that the proposed services will be coordinated with the existing health care system.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

In Section I.1, page 77, the applicant states that the following ancillary and support services are necessary for the proposed services:

- Laboratory
- Diagnostic Imaging
- Pathology
- Anesthesia
- Housekeeping/Maintenance
- Billing/Insurance
- Medical Records
- Patient Reception

On page 77, the applicant adequately explains how each ancillary and support service will be made available and provides supporting documentation in Exhibit I.1.

In Section I.2, page 78, the applicant describes the efforts to develop relationships with other local health care and social service providers and provides supporting documentation in Exhibit I.2. The applicant adequately demonstrates that the proposed services will be coordinated with the existing health care system.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

In Section I.1, page 73, the applicant states that, *“as an existing full-service academic medical center, UNC Hospitals Hillsborough Campus has all ancillary and support services in place to support hospital operations, including the existing surgical services.”*

On page 73, the applicant adequately explains how each ancillary and support service will be made available and provides supporting documentation in Exhibit I.1.

In Section I.2, page 73, the applicant describes its efforts to develop relationships with other local health care and social service providers and provides supporting documentation in Exhibit I.2. The applicant adequately demonstrates that the proposed services will be coordinated with the existing health care system.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes 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  
All Applications

None of the applicants 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, none of the applicants 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. Therefore, Criterion (9) is not applicable to this review.

- (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  
All Applications

None of the applicants is an HMO. Therefore, Criterion (10) is not applicable to this review.

- (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  
All Applications

**J-11632-18/Duke Health Orange ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC in Chapel Hill, Duke Health Orange ASC, with two ORs and two procedure rooms.

In Section K, page 77, the applicant states that the project involves up fitting 15,219 square feet of leased space located at 201 Sage Road in Chapel Hill. Line drawings are provided in Exhibit 10.

On page 78, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal and provides supporting documentation in Exhibit 10.

On pages 78-79, the applicant adequately explains why the proposal will not unduly increase the costs to the applicant of providing the proposed services or the costs and charges to the public for the proposed services.

On page 79, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans and provides supporting documentation in Exhibit 10.

On pages 80-84, the applicant identifies the proposed site and provides information about the current owner, zoning and special use permits for the site, and the availability of water, sewer and waste disposal and power at the site.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

**J-11644-18/UNC Main Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Main Campus in Chapel Hill.

In Section K, page 77, the applicant states that the project involves the renovation of 967 square feet of existing space located at 101 Manning Drive in Chapel Hill. Line drawings are provided in Exhibit C-1.

On page 78, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal.



On page 78, the applicant adequately explains why the proposal will not unduly increase the costs to the applicant of providing the proposed services or the costs and charges to the public for the proposed services.

On pages 78-79, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC in Chapel Hill, North Chapel Hill ASC, with two ORs and two procedure rooms.

In Section K, page 80, the applicant states that the project involves the construction of 1,582 square feet of new space and the renovation of 2,146 square feet of existing space. The facility will be located at 151 Old University Station Road in Chapel Hill. Line drawings are provided in Exhibit C-1.

On page 81, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal.

On page 81, the applicant adequately explains why the proposal will not unduly increase the costs to the applicants of providing the proposed services or the costs and charges to the public for the proposed services and provides supporting documentation in Section Q.

On page 82, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans.

On page 26, the applicant states,

*“UNC Hospitals currently operates UNC Aesthetic, Laser and Burn Center, a physician clinic with two unlicensed procedure rooms that at present occupies the space where North Chapel Hill Surgery Center will be developed. As noted in Section A, UNC Health Care System, which is the ultimate parent of both initial members of North Chapel Hill Surgery Center, LLC, leases the existing building and intends to upfit and expand it for development of the proposed ASC and in turn sub-lease the building to North Chapel Hill Surgery Center, LLC for the operation of the proposed ASC.”*

Conclusion - The Agency reviewed the:

- Application

- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11646-18/UNC Hillsborough Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at the UNC Hospitals-Hillsborough Campus in Hillsborough.

In Section K, page 76, the applicant states that the project involves the renovation of 1,437 square feet of existing space located at 460 Waterstone Drive in Hillsborough. Line drawings are provided in Exhibit C-1.

On page 77, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal.

On page 77, the applicant adequately explains why the proposal will not unduly increase the costs to the applicant of providing the proposed services or the costs and charges to the public for the proposed services.

On pages 77-78, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans.

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes 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

All Applications

**J-11632-18/Duke Health Orange ASC/Develop Two ORs**

In Section L, pages 87-88, the applicant states there is no historical payor source data because Duke Health Orange ASC is not an existing facility. For informational purposes, on page 88, the applicant provides the following comparison based on the combined outpatient surgery payor mix for DUHS at all of its facilities during FY2018.

	<b>Percentage of Outpatient Surgery Patients Served by all DUHS facilities during FY 2018</b>	<b>Percentage of the Population of the Service Area</b>
Female	56.3%	52.3%
Male	43.6%	47.7%
Unknown	0.1%	0.0%
64 and Younger	63.3%	86.6%
65 and Older	36.7%	13.4%
American Indian	0.5%	0.6%
Asian	2.1%	8.2%
Black or African-American	21.8%	11.9%
Native Hawaiian or Pacific Islander	0.1%	0.1%
White or Caucasian	68.5%	70.7%
Other Race	3.9%	8.5%
Declined / Unavailable	3.2%	0.0%

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the applicant adequately documents 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. Therefore, the application is conforming to this criterion.

**J-11644-18/UNC-Main Campus/Develop Two ORs**

In Section L, page 85, the applicant provides the historical payor mix for UNC Hospital's Main Campus ORs for FY2018, as shown in the table below.

Payor Category	Operating Room Services as Percent of Total
Self Pay	7.9%
Medicare*	25.8%
Medicaid*	23.0%
Insurance*	35.2%
Other (Government, Workers Comp, TRICARE)	8.1%
<b>Total</b>	<b>100.0%</b>

Source: Table on page 85 of the application.

\*Including any managed care plans.

In Section L, page 84, the applicant provides the following comparison.

	Percentage of Total Patients Served by UNC Hospitals during FY2018	Percentage of the Population of Orange County
Female	58.3%	52.2%
Male	41.7%	47.8%
Unknown	0.0%	0.0%
64 and Younger	71.8%	82.7%
65 and Older	28.2%	17.3%
American Indian	0.6%	0.0%
Asian	1.8%	8.5%
Black or African-American	22.4%	10.9%
Native Hawaiian or Pacific Islander	0.1%	0.8%
White or Caucasian	60.9%	77.0%
Other Race	9.0%	2.8%
Declined / Unavailable	5.1%	0.0%

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the applicant adequately documents 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. Therefore, the application is conforming to this criterion.

**J-11645-18/North Chapel Hills ASC/Develop Two ORs**

In Section L, page 86, the applicant states there is no historical payor source data because North Chapel Hill ASC is not an existing facility. The applicant states, “*UNC Hospitals Main Campus currently serves the patient population that is expected to be served at the proposed North Chapel Hill Surgery Center.*” In Section L, page 88, the applicant's

historical payor mix for ORs at UNC-Main Campus in FY2018, as shown in the table below.

Payor Category	Operating Room Services as Percent of Total
Self Pay	7.7%
Medicare*	25.8%
Medicaid*	23.4%
Insurance*	34.7%
Other (Government, Workers Comp, TRICARE)	8.5%
<b>Total</b>	<b>100.0%</b>

Source: Table on page 88 of the application.

\*Including any managed care plans.

In Section L, page 87, the applicant provides the following comparison.

	Percentage of Total Patients Served by UNC Hospitals during FY2018	Percentage of the Population of Orange County
Female	58.3%	52.2%
Male	41.7%	47.8%
Unknown	0.0%	0.0%
64 and Younger	71.8%	82.7%
65 and Older	28.2%	17.3%
American Indian	0.6%	0.0%
Asian	1.8%	8.5%
Black or African-American	22.4%	10.9%
Native Hawaiian or Pacific Islander	0.1%	0.8%
White or Caucasian	60.9%	77.0%
Other Race	9.0%	2.8%
Declined / Unavailable	5.1%	0.0%

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the applicant adequately documents 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. Therefore, the application is conforming to this criterion.

### **J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

In Section L, page 84, the applicant provides the historical payor mix for ORs at UNC-Hillsborough Campus in FY2018, as shown in the table below.

Payor Category	Operating Room Services as Percent of Total
Self Pay	11.0%
Medicare*	29.8%
Medicaid*	9.9%
Insurance*	42.4%
Other (Government, Workers Comp, TRICARE)	6.9%
<b>Total</b>	<b>100.0%</b>

Source: Table on page 85 of the application.

\*Including any managed care plans.

In Section L, page 84, the applicant provides the following comparison.

	Percentage of Total Patients Served by UNC Hospitals during FY2018	Percentage of the Population of Orange County
Female	58.3%	52.2%
Male	41.7%	47.8%
Unknown	0.0%	0.0%
64 and Younger	71.8%	82.7%
65 and Older	28.2%	17.3%
American Indian	0.6%	0.0%
Asian	1.8%	8.5%
Black or African-American	22.4%	10.9%
Native Hawaiian or Pacific Islander	0.1%	0.8%
White or Caucasian	60.9%	77.0%
Other Race	9.0%	2.8%
Declined / Unavailable	5.1%	0.0%

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the applicant adequately documents 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. 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;

### **J-11632-18/Duke Health Orange ASC/Develop Two ORs**

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section L, page 88, the applicant states it has no obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, but that DUHS provides services to all patients regardless of income, racial/ethnic origin, gender, physical or mental conditions, age, ability to pay or any other factor.

In Section L, page 90, the applicant states that during the last five years, three patient civil rights access complaints have been filed against DUHS. The applicant reports that two of the complaints have been closed without further investigation and one complaint is pending. The applicant also states that *“one additional complaint was filed and voluntarily dismissed.”*

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11644-18/UNC Main Campus/Develop Two ORs**

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section L, page 85, the applicant states UNC Hospitals has no obligations to provide uncompensated care, community service or access by minorities and persons with disabilities, but that that they provide access to healthcare services to all patients needing care, regardless of their ability to pay.

In Section L, page 86, the applicant states that during the last five years no patient civil rights access complaints have been filed against UNC Hospitals or any related entities.

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section L, page 88, the applicant states North Chapel Hill ASC is not an existing entity and has no obligations to provide uncompensated care, community service or access by minorities and persons with disabilities.

In Section L, page 88, the applicant states that during the last five years no patient civil rights access complaints have been filed against UNC Hospitals or any related entities.

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11646-18/UNC Hillsborough Campus/Develop Two ORs**

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section L, page 84, the applicant states UNC Hospitals has no obligations to provide uncompensated care, community service or access by minorities and persons with disabilities, but that that they provide access to healthcare services to all patients needing care, regardless of their ability to pay.

In Section L, page 85, the applicant states that during the last five years no patient civil rights access complaints have been filed against UNC Hospitals or any related entities.

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes 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 All Applications

### **J-11632-18/Duke Health Orange ASC/Develop Two ORs**

In Section L, page 91, the applicant projects the following payor mix for the proposed services during the second full fiscal year of operation following completion of the project, as shown in the table below.



Payor Category	Operating Room Services as Percent of Total	Procedure Room Services as Percent of Total
Self-Pay/Charity	1.1%	1.8%
Medicare *	41.5%	46.7%
Medicaid *	4.2%	6.2%
Insurance *	51.6%	44.0%
Workers Comp, VA, TRICARE	1.6%	1.3%
Total	100.0%	100.0%

Source: Table on page 91 of the application.

\* Including any managed care plans

As shown in the table above, during the second full fiscal year of operation, the applicant projects that 1.1% of surgical services will be provided to self-pay/charity patients, 41.5% to Medicare patients and 4.2% to Medicaid patients.

On pages 91-92, the applicant provides the assumptions and methodology used to project payor mix during the second full fiscal year of operation following completion of the project. The projected payor mix is reasonable and adequately supported because it is based on the applicant's historical outpatient surgical encounters across all DUHS facilities for patients from Orange, Alamance and Chatham counties and the surgical specialties and types of cases and procedures projected for the proposed ASC.

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11644-18/UNC-Main Campus/Develop Two ORs**

In Section L, page 95, the applicant projects the following payor mix for the proposed services during the second full fiscal year of operation following completion of the project, as shown in the table below.

Payor Category	Operating Room Services as Percent of Total
Self-Pay	7.9%
Medicare *	25.8%
Medicaid *	23.0%
Insurance *	35.2%
Other Government, Workers Compensation	8.1%
Total	100.0%

Source: Table on page 87 of the application.

\* Including any managed care plans

As shown in the table above, during the second full fiscal year of operation, the applicant projects that 7.9% of total services will be provided to self-pay patients, 25.8% to Medicare patients and 23.0% to Medicaid patients.

On page 87, the applicant provides the assumptions and methodology used to project payor mix during the second full fiscal year of operation following completion of the project. The projected payor mix is reasonable and adequately supported because it is based on the applicant’s historical experience.

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

**J-11645-18/North Chapel Hill ASC/Develop Two ORs**

In Section L, page 89, the applicant projects the following payor mix for the proposed services during the second full fiscal year of operation following completion of the project, as shown in the table below.

Payor Category	Operating Room Services as Percent of Total	Procedure Room Services as Percent of Total
Self-Pay	6.9%	6.9%
Medicare *	11.3%	11.3%
Medicaid *	25.8%	25.8%
Insurance *	44.5%	44.5%
Other Government, Worker’s Compensation	11.5%	11.5%
Total	100.0%	100.0%

Source: Table on page 89 of the application.

\* Including any managed care plans

As shown in the table above, during the second full fiscal year of operation, the applicants project that 6.9% of total services will be provided to self-pay patients, 11.3% to Medicare patients and 25.8% to Medicaid patients.

On pages 89-90, the applicant provides the assumptions and methodology used to project payor mix during the second full fiscal year of operation following completion of the project. The projected payor mix is reasonable and adequately supported because it is based on the applicant’s historical experience of the outpatient cases currently performed at UNC-Main Campus that could be performed at the proposed North Chapel Hill ASC.

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

### **J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

In Section L, page 86, the applicant projects the following payor mix for the proposed services during the second full fiscal year of operation following completion of the project, as shown in the table below.

<b>Payor Category</b>	<b>Operating Room Services as Percent of Total</b>
Self-Pay	11.0%
Medicare *	29.8%
Medicaid *	9.9%
Insurance *	42.4%
Other Government, Workers Compensation	6.9%
Total	100.0%

Source: Table on page 86 of the application.

\* Including any managed care plans

As shown in the table above, during the second full fiscal year of operation, the applicant projects that 11.0% of total services will be provided to self-pay patients, 29.8% to Medicare patients and 9.9% to Medicaid patients.

On page 86, the applicant provides the assumptions and methodology used to project payor mix during the second full fiscal year of operation following completion of the project. The projected payor mix is reasonable and adequately supported because it is based on the applicant's historical experience.

The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes 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.

**J-11632-18/Duke Health Orange ASC/Develop Two ORs**

In Section L.5, page 93, the applicant adequately describes the range of means by which patients will have access to the proposed services. The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

**J-11644-18/UNC Main Campus/Develop Two ORs**

In Section L.5, page 88, the applicant adequately describe the range of means by which patients will have access to the proposed services. The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

**J-11645-18/North Chapel Hill ASC/Develop Two ORs**

In Section L.5, page 90, the applicant adequately describes the range of means by which patients will have access to the proposed services. The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes that the application is conforming to this criterion.

**J-11646-18/UNC Hillsborough Campus/Develop Two ORs**

In Section L.5, page 87, the applicant adequately describes the range of means by which patients will have access to the proposed services. The Agency reviewed the:

- Application
- Exhibits to the application

Based on that review, the Agency concludes 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.

**All Applications.** In Section M, the applicants describe the extent to which health professional training programs in the area have or will have access to the facility for training purposes and provide supporting documentation in the referenced exhibits.

The Agency reviewed:

- Each application
- Exhibits to each application

Based on that review, the Agency concludes that all of the applicants adequately demonstrate that the proposed services will accommodate the clinical needs of area health professional training programs, and therefore, all of the applications are 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 All Applications

On page 57, the 2018 SMFP states, “*An operating room’s service area is the operating room planning area in which the operating room is located. The operating room planning areas are the single and multicounty groupings shown in Figure 6.1.*” In Figure 6.1, page 62 of the 2018 SMFP, Orange County is shown as a single-county OR service area. Thus, the service area for this review consists of Orange County. Facilities may also serve residents of counties not included in the service area.

The following table identifies the existing and approved inpatient (IP), outpatient (OP), and shared ORs located in Orange County, and the inpatient and outpatient case volumes for each provider, from pages 68 and 76 of the 2018 SMFP.

Orange County	IP ORs	OP ORs	Shared ORs	Excluded C-Section, Trauma, Burn ORs	CON Adjustments	IP Surgery Cases	OP Surgery Cases
UNC Hospitals	6	11	29	-5	0	13,529	15,736
<b>Total</b>	<b>6</b>	<b>11</b>	<b>29</b>	<b>-5</b>	<b>0</b>	<b>13,529</b>	<b>15,736</b>

Source: 2018 SMFP

As the table above indicates, there is only one existing health service facility located in Orange County with ORs and that is UNC Hospitals with 6 inpatient, 11 outpatient and 29 shared ORs. Five of those ORs are excluded from the Adjusted Planning Inventory pursuant to the OR Need Methodology in the 2018 SMFP.

The 2018 SMFP shows a need for six additional ORs in the Orange County service area based on the utilization of UNC Hospitals. See Table 6B: Projected Operating Room Need for 2020, on page 76. However, anyone can apply to meet the need.

### **J-11632-18/Duke Health Orange ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, Duke Health Orange ASC, in Chapel Hill with two ORs and two procedure rooms.

In Section N, pages 95-98, the applicant describes the expected effects of the proposed services on competition in the service area and discusses how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed services. On page 95, the applicant states,

*“Orange County does not currently host a freestanding licensed ambulatory surgery center. The proposed project will represent a new opportunity for residents of Orange County and surrounding communities to access Duke outpatient surgical services at a non-hospital, freestanding charge structure. The proposed new operating rooms will promote cost-effectiveness, quality, and access to services via 1) creation of a new ASC within Orange County and 2) a new provider of surgical services in Orange County.*

*This will therefore better serve local residents and will promote competition in the Orange County service area. And local residents will have access to an alternative ASC provider conveniently located in Orange County.”*

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates:

- The cost-effectiveness of the proposal (see Sections F and Q of the application and any exhibits)
- Quality services will be provided (see Section O of the application and any exhibits)
- Access will be provided to underserved groups (see Section L of the application and any exhibits)

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11644-18/UNC-Main Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Main Campus.

In Section N, pages 92-96, the applicant describes the expected effects of the proposed services on competition in the service area and discusses how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed services. On page 92, the applicant states,

*“The proposed project will enhance competition by expanding the capacity of surgical services at UNC Hospitals, which will improve its ability to compete with other providers. The proposed project will enhance the provision of timely, quality patient care and will assist UNC Hospitals in meeting its four-fold mission of patient care, teaching, research, and community service. UNC Hospitals maintains that the development of additional surgical capacity in Orange County will promote cost-effectiveness, quality, and access to services in the proposed service area...”*

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates:

- The cost-effectiveness of the proposal (see Sections F and Q of the application and any exhibits)
- Quality services will be provided (see Section O of the application and any exhibits)
- Access will be provided to underserved groups (see Section L of the application and any exhibits)

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11645-18/North Chapel Hill ASC/Develop Two ORs**

The applicant proposes to develop a new multi-specialty ASC, North Chapel Hill ASC, in Chapel Hill with two ORs and two procedure rooms.

In Section N, pages 94-99, the applicant describes the expected effects of the proposed services on competition in the service area and discusses how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed services. On page 91, the applicant states,

*“The proposed project will foster competition in the proposed service area, particularly as the project proposes to develop the only freestanding ASC in Orange County. ... [T]he proposed project will allow Orange County patients that must currently leave the county for surgery in a freestanding ASC to have their surgery performed in their home county. ... [A]s a separately-licensed, freestanding facility, the proposed ASC will foster competition within Orange County as well as with providers in other counties. ... The proposed project will enhance competition by expanding the capacity of surgical services at UNC Hospitals, which will improve its ability to compete with other providers. The proposed project will enhance the provision of timely, quality patient care and will assist UNC Hospitals in meeting its four-fold mission of patient care, teaching, research, and community service. UNC Hospitals maintains that the development of additional surgical capacity in Orange County will promote cost-effectiveness, quality, and access to services in the proposed service area.”*

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates:

- The cost-effectiveness of the proposal (see Sections F and Q of the application and any exhibits)
- Quality services will be provided (see Section O of the application and any exhibits)
- Access will be provided to underserved groups (see Section L of the application and any exhibits)

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

### **J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

The applicant proposes to develop two additional ORs at UNC Hospitals-CH Hillsborough Campus.



In Section N, pages 91-94, the applicant describes the expected effects of the proposed services on competition in the service area and discusses how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed services. On page 91, the applicant states,

*“The proposed project will enhance competition by expanding the capacity of surgical services at UNC Hospitals, which will improve its ability to compete with other providers. The proposed project will enhance the provision of timely, quality patient care and will assist UNC Hospitals in meeting its four-fold mission of patient care, teaching, research, and community service. UNC Hospitals maintains that the development of additional surgical capacity in Orange County will promote cost-effectiveness, quality, and access to services in the proposed service area.”*

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates:

- The cost-effectiveness of the proposal (see Sections F and Q of the application and any exhibits)
- Quality services will be provided (see Section O of the application and any exhibits)
- Access will be provided to underserved groups (see Section L of the application and any exhibits)

Conclusion - The Agency reviewed the:

- Application
- Exhibits to the application
- Written comments
- Responses to comments

Based on that review, the Agency concludes that the application is conforming to this criterion for all the reasons stated above.

- (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  
All Applications

### **J-11632-18/Duke Health Orange ASC/Develop Two ORs**

In Section O, the applicant identifies one ASC, the James E. Davis Ambulatory Surgery Center, and three hospitals, Duke University Hospital, Duke Regional Hospital, and Duke Raleigh Hospital, that are owned or managed by DUHS.

In Section O, the applicant states that, during the 18 months immediately preceding the submittal of the application, none of the facilities have been out of compliance with any Medicare Conditions of Participation. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, all of the facilities are in compliance with all Medicare Conditions of Participation. 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 DUHS facilities, the applicant provides sufficient evidence that quality care has been provided in the past. Therefore, the application is conforming to this criterion.

**J-11644-18/UNC-Main Campus/Develop Two ORs**  
**J-11645-18/North Chapel Hill ASC/Develop Two ORs**  
**J-11646-18/UNC-Hillsborough Campus/Develop Two ORs**

In Section O of each application, the applicant identifies 10 health care facilities owned or managed by the UNC Health Care System.

In Section O, the applicant states that, during the 18 months immediately preceding the submittal of the application, incidents related to quality of care occurred at five UNC Health Care System facilities. In Section O.3, the applicant states that all of the facilities are back in compliance with all Medicare Conditions of Participation. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, all of the facilities are back in compliance with all Medicare Conditions of Participation. 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 UNC Health Care System facilities, the applicant provides sufficient evidence that quality care has been provided in the past. 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.

**SECTION .2100 – CRITERIA AND STANDARDS FOR SURGICAL SERVICES AND OPERATING ROOMS**

**10A NCAC 14C .2103 PERFORMANCE STANDARDS**

- (a) *An applicant proposing to increase the number of operating rooms (excluding dedicated C-section operating rooms) in a service area shall demonstrate the need for the number of proposed operating rooms in addition to the existing and approved operating rooms in the applicant's health system in the applicant's third full fiscal year following completion of the proposed project based on the Operating Room Need Methodology set forth in the 2018 State Medical Facilities Plan. The applicant is not required to use the population growth factor.*
- C- **Duke Health Orange ASC** proposes to develop a new ASC with two ORs. The proposed ASC would be the only health service facility in the health system. The applicant projects sufficient surgical cases and hours to demonstrate the need for two ORs in the third operating year of the proposed project based on the Operating Room Need Methodology in the 2018 SMFP. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.
- C- **UNC-Main Campus** proposes to develop two additional ORs on the main hospital campus in Chapel Hill which is part of the UNC Hospitals health system. The applicant projects sufficient surgical cases and hours to demonstrate the need for two additional ORs in the applicant's health system in the third operating year of the project based on the Operating Room Need Methodology in the 2018 SMFP. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.
- C- **North Chapel Hill ASC** proposes to develop a new ASC with two ORs. The proposed ASC would be part of the UNC Hospitals health system. The applicant projects sufficient surgical cases and hours to demonstrate the need for two additional ORs in the applicant's health system in the third operating year of the project based on the Operating Room Need Methodology in the 2018. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.
- C- **UNC-Hillsborough Campus** proposes to develop two additional ORs at the hospital campus in Hillsborough which is part of the UNC Hospitals health system. The applicant projects sufficient surgical cases and hours to demonstrate the need for two additional ORs in the applicant's health system in the third operating year of the project based on the Operating Room Need Methodology in the 2018 SMFP. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.
- (b) *The applicant shall document the assumptions and provide data supporting the methodology used for each projection in this Rule.*
- C- **Duke Health Orange ASC.** In Section Q, pages 107-116 and Form C, the applicant provides the assumptions and methodology used in the development of the projections

required by this Rule. The discussion regarding analysis of need, including projected utilization, found in Criterion (3) is incorporated herein by reference.

- C- **UNC-Main Campus.** In Section Q, Form C, pages 1-20, the applicant provides the assumptions and methodology used in the development of the projections required by this Rule. The discussion regarding analysis of need, including projected utilization, found in Criterion (3) is incorporated herein by reference.
- C- **North Chapel Hill ASC.** In Section Q, Form C, pages 1-20, the applicant provides the assumptions and methodology used in the development of the projections required by this Rule. The discussion regarding analysis of need, including projected utilization, found in Criterion (3) is incorporated herein by reference.
- C- **UNC-Hillsborough Campus.** In Section Q, Form C, pages 1-20, the applicant provide the assumptions and methodology used in the development of the projections required by this Rule. The discussion regarding analysis of need, including projected utilization, found in Criterion (3) is incorporated herein by reference.

## COMPARATIVE ANALYSIS

Pursuant to G.S. 131E-183(a)(1) and the 2018 State Medical Facilities Plan, no more than six additional ORs may be approved for Orange County in this review. Because the four applications in this review collectively propose to develop eight additional ORs to be located in Orange County, not all of the applications can be approved for the total number of ORs proposed. Therefore, after considering all of the information in each application and reviewing each application individually against all applicable review criteria, the Project Analyst conducted a comparative analysis of the proposals to decide which proposal should be approved.

The following provides a brief description of each of the proposed projects being addressed in the comparative analysis:

- **J-11632-18/Duke Health Orange ASC/**Develop a new multi-specialty ASC, Duke Health Orange Ambulatory Surgery Center, in Chapel Hill with two ORs and two procedure rooms.
- **J-11644-18/UNC-Main Campus/** Develop two additional ORs at UNC-Main Campus in Chapel Hill.
- **J-11645-18/North Chapel Hill ASC/**Develop a new multi-specialty ASC, North Chapel Hill Surgery Center, in Chapel Hill with two ORs and two procedure rooms.
- **J-11646-18/UNC-Hillsborough Campus/** Develop two additional ORs at UNC-Hillsborough Campus in Hillsborough.

Two applicants propose new multi-specialty ASCs and two applications propose to develop two ORs each on two separate campuses of the same hospital, an academic medical center teaching hospital.

### **Conformity with Review Criteria**

Table 6C, page 80, of the 2018 SMFP identifies a need for six additional ORs in Orange County. As shown in Table 6B, page 76, the UNC Hospitals shows a projected deficit of 6.48 ORs in 2020, which results in the Orange County need determination for six ORs. However, the application process is not limited to the provider (or providers) that show a deficit and create the need for additional ORs. Any provider can apply to develop the six ORs in Orange County. Furthermore, it is not necessary that an existing provider have a projected deficit of ORs to apply for more ORs. However, it is necessary that an applicant adequately demonstrate the need to develop its project as proposed.

Each applicant adequately demonstrates the need for their respective proposal and is conforming to all applicable statutory and regulatory review criteria.

Therefore, each application is an equally effective alternative with respect to this comparative factor.

### **Geographic Accessibility**

The 2018 SMFP identifies a need for six additional OR in the Orange County OR Service Area. Three of the four applications propose to develop two new ORs each in Chapel Hill and the fourth application proposes to develop two new ORs in Hillsborough immediately off interstate 40. **UNC-Main Campus**

and **UNC-Hillsborough Campus** are approximately 10 miles or an 18 minute drive apart. Otherwise all four proposed locations are within a five to ten minute drive of each other, all in Orange County.

Therefore, with regard to geographic accessibility each application is an equally effective alternative.

**Physician Support**

Each applicant documents physician support for its proposed project. Therefore, with regard to physician support, each application is an equally effective alternative.

**Competition**

The following table identifies the existing and approved inpatient (IP), outpatient (OP), and shared ORs located in Orange County, and the inpatient and outpatient case volumes for each provider, from pages 68 and 76 of the 2018 SMFP.

Orange County	IP ORs	OP ORs	Shared ORs	Excluded C-Section, Trauma, Burn ORs	CON Adjustments	IP Surgery Cases	OP Surgery Cases
UNC Hospitals	6	11	29	-5	0	13,529	15,736
<b>Total</b>	<b>6</b>	<b>11</b>	<b>29</b>	<b>-5</b>	<b>0</b>	<b>13,529</b>	<b>15,736</b>

Source: 2018 SMFP

As the table above indicates, there is only one existing health service facility located in Orange County with ORs and that is UNC Hospitals with 6 inpatient, 11 outpatient and 29 shared ORs. Five of those ORs are excluded from the Adjusted Planning Inventory pursuant to the OR Need Methodology in the 2018 SMFP.

Generally, the application proposing to increase patient access to a new provider in the service area is the more effective alternative with regard to this comparative factor.

**Duke Health Orange ASC.** In Section O, page 103, the applicant states that it does not own or operate any existing surgical facilities located in the Orange County OR service area. Therefore, this proposed facility would be a new provider of surgical services located in Orange County.

**UNC-Main Campus, North Chapel Hill ASC and UNC-Hillsborough Campus.** The UNC Health Care System serves Orange County residents by providing surgical services at the following existing campuses located in Orange County:

- UNC Hospitals Main Campus- Chapel Hill
- UNC Hospitals Hillsborough Campus- Hillsborough

Therefore, with regard to introducing a new provider of surgical services located in Orange County, the application submitted by **Duke Health Orange ASC** is the more effective alternative.

### **Service to Residents of the Service Area**

On page 57, the 2018 SMFP states, “An operating room’s service area is the operating room planning area in which the operating room is located. The operating room planning areas are the single and multicounty groupings shown in Figure 6.1.” In Figure 6.1, page 62 of the 2018 SMFP, Orange County is shown as a single-county OR service area. Thus, the service area for this review consists of Orange County. Facilities may also serve residents of counties not included in the service area. Generally, the application projecting to serve the highest percentage of Orange County residents is the more effective alternative with regard to this comparative factor since the need determination is for six additional ORs in Orange County.

3 <sup>rd</sup> Full FY	
Application	% Orange County Residents
Duke Health Orange ASC	37.4%
UNC-Main Campus	10.9%
North Chapel Hill ASC	34.4%
UNC-Hillsborough Campus	18.7%

Source: Section C.3 (all applications)

As shown in the table above, **Duke Health Orange ASC** projects to serve the highest percentage of Orange County residents during the 3<sup>rd</sup> Full FY. Therefore, with regard to projected service to Orange County residents, **Duke Health Orange ASC** is the most effective alternative with respect to this comparative factor.

### **Patient Access to Lower Cost Surgical Services**

There are two types of health service facility that can have licensed ORs in North Carolina: hospitals and ASCs. There are 41 ORs (less exclusions) located in Orange County and all 41 are currently hospital-based. Based on the applications, written comments and response to comments and statements made at the public hearing, many, but not all outpatient surgical services can be appropriately performed either in a hospital-based OR or in an ASC OR. However, the cost to the patient and a third party payor will be lower if the service is provided in an ASC OR than the cost for the same service provided in a hospital-based OR on an outpatient basis. Nonetheless, there are some outpatient surgical services that must be performed in a hospital setting and there are some patients that need to have their outpatient surgery performed in a hospital. Moreover, hospital-based ORs are necessary for inpatients requiring surgery during their admission.

**UNC-Main Campus** and **UNC-Hillsborough Campus** are on the same hospital license and will continue to offer hospital-based outpatient surgical services. **Duke Health Orange ASC** and **North Chapel Hill ASC** are both proposing to develop new ASCs and both would offer outpatient surgical services in non-hospital-based ORs. The cost to patients and third party payors would be lower in these ASCs as compared to the cost for same service provided in a hospital-based OR on an outpatient basis. Therefore, with respect to this factor, the applications submitted by **Duke Health Orange ASC** and **North Chapel Hill ASC** are equally effective with each other and are both more effective than the **UNC-Main Campus** and the **UNC-Hillsborough Campus** applications.

**Access by Underserved Groups**

Underserved groups is defined in G.S. 131E-183(a)(13) as follows:

*“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.”*

*Projected Charity Care*

The following table shows each applicant’s projected charity care to be provided in the project’s third full fiscal year. Generally, the application proposing to provide more charity care is the more effective alternative with regard to this comparative factor.

CHARITY CARE				
APPLICANT	Projected Total Charity Care	# of Surgical Cases	Charity Care per Surgical Case	% of Net Revenue
Duke Health Orange ASC *	\$241,556	4,262	\$57	2.0%
UNC-Main Campus	\$49,887,906	28,815	\$1,731	18.8%
North Chapel Hill ASC *	\$1,172,967	3,616	\$324	17.7%
UNC-Hillsborough Campus	\$22,263,035	6,527	\$3,411	27.2%

Source: Forms F.3, F.4 and F.5 in each application

\* For Duke Health Orange ASC and North Chapel Hill ASC, the number of cases includes cases performed in both the ORs and the procedure rooms. Charity care is not provided separately for the ORs and the procedure rooms in Form F.3.

As shown in the table above, **UNC-Main Campus** projects the most charity care in dollars, and **UNC-Hillsborough Campus** projects the highest average charity care per surgical case and percentage of net revenue. Therefore, the applications submitted by **UNC-Main Campus** and **UNC-Hillsborough Campus** appear to be more effective alternatives with regard to access to charity care. However, due to differences in the types of facilities (two ASCs and two hospital campuses) and the number and types of surgical services proposed by each applicant (the two ASCs propose a different mix of patients), there is little value in comparing the numbers in the table above for determining which applications to approve in this review. Thus, the result of this analysis is inconclusive.

*Projected Medicare*

The following table shows each applicant’s total number of projected surgical cases and the number of cases projected to be provided to Medicare patients in the applicant’s third fiscal year. Generally, the application proposing to serve more Medicare patients is the more effective alternative with regard to this comparative factor.



**Medicare**

	Projected Total OR Cases	Projected Medicare OR Cases	% of Total OR Cases Provided to Medicare Recipients
Duke Health Orange ASC	3,552	1,474	41.5%
UNC-Main Campus	28,815	7,429	25.8%
North Chapel Hill ASC	2,166	244	11.3%
UNC-Hillsborough Campus	6,527	1,942	29.8%

Source: Form F.4 in each application

As shown in the table above, **Duke Health Orange ASC** projects to serve 1,474 Medicare patients or 41.5% of total surgical cases. **UNC-Main Campus** projects to serve 7,429 Medicare patients or 25.8% of total surgical cases. The application submitted by **Duke Health Orange ASC** appears to be a more effective alternative based on the percentage of the total and **UNC-Main Campus** appears to be a more effective alternative based on the number of Medicare patients. However, due to differences in the types of facilities (two ASCs and two hospital campuses) and the number and types of surgical services proposed by each applicant (the two ASCs propose a different mix of patients), there is little value in comparing the numbers in the table above for determining which applications to approve in this review. Thus, the result of this analysis is inconclusive.

*Projected Medicaid*

The following table shows each applicant's total number of projected surgical cases and the number of cases projected to be provided to Medicaid patients in the applicant's third fiscal year. Generally, the application proposing to serve more Medicaid patients is the more effective alternative with regard to this comparative factor.

**Medicaid**

	Projected Total OR Cases	Projected Medicaid OR Cases	% of Total OR Cases Provided to Medicaid Recipients
Duke Health Orange ASC	3,552	149	4.2%
UNC-Main Campus	28,815	6,631	23.0%
North Chapel Hill ASC	2,166	558	25.8%
UNC-Hillsborough Campus	6,527	648	9.9%

Source: Form F.4 in each application

As shown in the table above, **North Chapel Hill ASC** projects to serve 558 Medicaid patients or 25.8% of total surgical cases. **UNC-Main Campus** projects to serve 6,631 Medicaid patients or 23% of total surgical cases. The application submitted by **North Chapel Hill ASC** appears to be a more effective alternative with regard to serving Medicaid recipients based on the percentage of the total and **UNC-Main Campus** appears to be a more effective alternative based on the number of Medicaid patients. However,

due to differences in the types of facilities (two ASCs and two hospital campuses) and the number and types of surgical services proposed by each applicant (the two ASCs propose a different mix of patients), there is little value in comparing the numbers in the table above for determining which applications to approve in this review. Thus, the result of this analysis is inconclusive.

**Projected Average Net Revenue per Case**

The following table shows the projected average net surgical revenue per OR and per surgical case in the third fiscal year. Generally, the application proposing a lower average net revenue per case is the more effective alternative with regard to this comparative factor to the extent the average reflects a lower cost to the patient or third party payor.

	Net Revenue	# of OR Cases	Average Net Revenue/Case
Duke Health Orange ASC	\$12,165,889	3,552	\$3,425
UNC-Main Campus	\$264,714,319	28,815	\$9,187
North Chapel Hill ASC	\$5,023,265	2,166	\$2,319
UNC-Hillsborough Campus	\$81,994,195	6,527	\$12,562

Source: Forms F.3, F.4 and F.5 in each application

As shown in the table above, **North Chapel Hill ASC** projects the lowest average net revenue per case in the third fiscal year. Therefore, the application submitted by **North Chapel Hill ASC** appears to be a more effective alternative with respect to the average net revenue per case. However, due to differences in the types of facilities (two ASCs and two hospital campuses) and the number and types of surgical services proposed by each applicant (the two ASCs propose a different mix of patients), there is little value in comparing the numbers in the table above for determining which applications to approve in this review. Thus, the result of this analysis is inconclusive.

**Projected Average Operating Expense per Case**

The following table compares the projected average operating expense in the third fiscal year.

Generally, the application proposing a lower average operating expense per case is the more effective alternative with regard to this comparative factor to the extent it reflects a more cost effective service which could also result in lower costs to the patient or third party payor.

	Total Operating Expenses*	# of OR Cases	Average Operating Expense/Case
Duke Health Orange ASC	\$12,033,105	3,552	\$3,388
UNC-Main Campus	\$195,229,317	28,815	\$6,775
North Chapel Hill ASC	\$6,055,336	3,616	\$2,796
UNC-Hillsborough Campus	\$62,876,842	6,527	\$9,634

Source: Form F.3 in each application.

\*Operating expenses for the ASC applications include expenses for both the ORs and procedure rooms.

As shown in the table above, **North Chapel Hill ASC** projects the lowest average operating expense per case in the third fiscal year. Therefore, the application submitted by **North Chapel Hill ASC** appears to be a more effective alternative with respect to the average operating expense per case. However, due to differences in the types of facilities (two ASCs and two hospital campuses) and the number and types of surgical services proposed by each applicant (the two ASCs propose a different mix of patients), there is little value in comparing the numbers in the table above for determining which applications to approve in this review. Thus, the result of this analysis is inconclusive.

### SUMMARY

The following table summarizes the ranking of the applications for each comparative factor. The rankings are: more effective, equally effective and less effective.

Because of the significant differences in types of facilities, numbers of ORs, numbers of projected surgeries, types of proposed surgical services offered and the differences in how the pro forma financial statements were prepared, some of the comparative factors are of less value in determining which applications to approve than if all applications were for like facilities of like size proposing like services and reporting in like formats.

Comparative Factor	Duke Health Orange ASC	North Chapel Hill ASC	UNC- Main Campus	UNC- Hillsborough Campus
Conformity with Review Criteria	Equally Effective	Equally Effective	Equally Effective	Equally Effective
Geographic Accessibility	Equally Effective	Equally Effective	Equally Effective	Equally Effective
Physician Support	Equally Effective	Equally Effective	Equally Effective	Equally Effective
Competition	<b>More Effective</b>	Less Effective	Less Effective	Less Effective
Service to Residents of Orange County	<b>More Effective</b>	Less Effective	Less Effective	Less Effective
Patient Access to Lower Cost Surgical Services	Equally Effective	Equally Effective	Less Effective	Less Effective
Access by Underserved Groups: Charity Care	Inconclusive	Inconclusive	Inconclusive	Inconclusive
Access by Underserved Groups: Medicare	Inconclusive	Inconclusive	Inconclusive	Inconclusive
Access by Underserved Groups: Medicaid	Inconclusive	Inconclusive	Inconclusive	Inconclusive
Projected Average Net Revenue per Case	Inconclusive	Inconclusive	Inconclusive	Inconclusive
Projected Average Operating Expense per Case	Inconclusive	Inconclusive	Inconclusive	Inconclusive

Based on the comparative analysis:

**Duke Health Orange ASC** is determined to be the most effective alternative in this review. Duke Health Orange ASC is the only proposal that would introduce a new provider located in Orange County and Duke Health Orange ASC proposes to serve the highest percentage of Orange County residents.

**North Chapel Hill ASC** is determined to be the most effective alternative after Duke Health Orange ASC. Both ASC proposals offer lower cost solutions.

The two hospital proposals are determined to equally effective alternatives but are less effective than the ASC proposals.

## **DECISION**

Each application is individually conforming to the need determination in the 2018 SMFP for six additional ORs in Orange County as well as individually conforming to all review criteria. However, G.S. 131E-183(a)(1) states that the need determination in the SMFP is the determinative limit on the number of ORs that can be approved by the Healthcare Planning and Certificate of Need Section. Collectively, the applicants propose a total of eight ORs.

Based upon the independent review of each application and the Comparative Analysis, the following applications are approved as submitted:

- **Project I.D. #J-11632-18** / Duke University Health System, Inc. / Develop a new multi-specialty ASC in Chapel Hill with two ORs and two procedure rooms
- **Project I.D. #J-11645-18** / North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System / Develop a new multi-specialty ASC in Chapel Hill with two ORs and two procedure rooms

As that leaves only two ORs left to approve, **Project I.D. #F-11644-18** / University of North Carolina Hospitals at Chapel Hill / Develop two ORs on the Main Campus is approved to develop only one of the two ORs it proposed at its Chapel Hill campus and **Project I.D. #J-11646-18** / University of North Carolina Hospitals at Chapel Hill / Develop two ORs on the Hillsborough Campus is approved to develop only one of the two ORs it proposed at its Hillsborough campus.

The application submitted by Duke University Health System, Inc., **Project I.D. #J-11632-18** is approved subject to the following conditions.

1. Duke University Health System, Inc. shall materially comply with all representations made in the certificate of need application.
2. Duke University Health System, Inc. shall develop a new multi-specialty ambulatory surgical facility by developing no more than two operating rooms and two procedure rooms.
3. Upon project completion, Duke Health Orange Ambulatory Surgery Center shall be licensed for no more than two operating rooms and two procedure rooms.
4. Duke University Health System, 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.
5. Duke University Health System, Inc. shall receive accreditation from the Joint Commission for the Accreditation of Healthcare Organizations, the Accreditation Association for Ambulatory Health Care or a comparable accreditation authority within two years following licensure of the facility.
6. For the first three years of operation following completion of the project, Duke University Health System, Inc. shall not increase charges more than 5% of the charges projected in Section Q of the

application without first obtaining a determination from the Healthcare Planning and Certificate of Need Section that the proposed increase is in material compliance with the representations in the certificate of need application.

7. The procedure rooms shall not be used for procedures that should be performed only in an operating room based on current standards of practice.
8. Procedures performed in the procedure rooms shall not be reported for billing purposes as having been performed in an operating room and shall not be reported on the facility's license renewal application as procedures performed in an operating room.
9. Duke University Health System, 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.
10. 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, Duke University Health System, 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.
11. Duke University Health System, 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.

The application submitted by the University of North Carolina Hospitals at Chapel Hill, **Project ID# J-11644-18**, is approved subject to the following conditions.

1. University of North Carolina Hospitals Chapel Hill shall materially comply with all representations made in the certificate of need application.
2. University of North Carolina Hospitals at Chapel Hill shall develop one additional operating room on the Chapel Hill Campus for a total of 41 operating rooms on the Chapel Hill campus and 7 operating rooms on the Hillsborough campus upon completion of this project and Project I.D. # J-11646-18.
3. Upon completion of this project and Project I.D. # J-11646-18 University of North Carolina Hospitals at Chapel Hill shall be licensed for no more than 48 operating rooms (41 on the Chapel Hill campus and 7 on the Hillsborough campus).
4. 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 expenditures in Section Q of the application and that would otherwise require a certificate of need.
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, University of North Carolina Hospitals at Chapel Hill 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. University of North Carolina Hospitals at Chapel Hill 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.

The application submitted by North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System, **Project I.D. #J-11645-18**, is approved subject to the following conditions.

1. North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System shall materially comply with all representations made in the certificate of need application.
2. North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System shall develop a new multi-specialty ambulatory surgical facility by developing no more than two operating room and two procedure rooms.
3. Upon project completion, North Chapel Hill Surgery Center shall be licensed for no more than two operating rooms and two procedure rooms.
4. North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System 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.
5. North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System shall receive accreditation from the Joint Commission for the Accreditation of Healthcare Organizations, the Accreditation Association for Ambulatory Health Care or a comparable accreditation authority within two years following licensure of the facility.
6. For the first three years of operation following completion of the project, North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System shall not increase charges more than 5% of the charges projected in Section Q of the application without first obtaining a determination from the Healthcare Planning and Certificate of Need Section that the proposed increase is in material compliance with the representations in the certificate of need application.
7. The procedure rooms shall not be used for procedures that should be performed only in an operating room based on current standards of practice.
8. Procedures performed in the procedure rooms shall not be reported for billing purposes as having been performed in an operating room and shall not be reported on the facility's license renewal application as procedures performed in an operating room.
9. 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, North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System 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.
10. North Chapel Hill Surgery Center, LLC and University of North Carolina Health Care System 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.

The application submitted by the University of North Carolina Hospitals at Chapel Hill, **Project ID# J-11646-18**, is approved subject to the following conditions.

1. University of North Carolina Hospitals at Chapel Hill shall materially comply with all representations made in the certificate of need application.
2. University of North Carolina Hospitals at Chapel Hill shall develop one additional operating room on the Hillsborough campus for a total of 7 operating rooms on the Hillsborough campus and 41 on the Chapel Hill campus upon completion of this project and Project I.D. #J-11644-18.
3. Upon completion of this project and Project I.D. # J-11644-18, University of North Carolina Hospitals at Chapel Hill shall be licensed for no more than 48 operating rooms (41 on the Chapel Hill campus and 7 on the Hillsborough campus).
4. 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 expenditures in Section Q of the application and that would otherwise require a certificate of need.
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, University of North Carolina Hospitals at Chapel Hill 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. University of North Carolina Hospitals at Chapel Hill 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.