

REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conforming as Conditioned

NC = Nonconforming

NA = Not Applicable

Decision Date: May 18, 2021

Findings Date: May 18, 2021

Project Analyst: Celia C. Inman

Team Leader: Fatimah Wilson

Project ID #: F-12016-21

Facility: Novant Health Presbyterian Medical Center

FID #: 943501

County: Mecklenburg

Applicant(s): Novant Health, Inc.

The Presbyterian Hospital

Project: A cost overrun for Project I.D. F-11584-18 (develop a 10-bed inpatient rehabilitation unit by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center)

REVIEW CRITERIA

G.S. 131E-183(a): The Department shall review all applications utilizing the criteria outlined in this subsection and shall determine that an application is either consistent with or not in conflict with these criteria before a certificate of need for the proposed project shall be issued.

- (1) The proposed project shall be consistent with applicable policies and need determinations in the State Medical Facilities Plan, the need determination of which constitutes a determinative limitation on the provision of any health service, health service facility, health service facility beds, dialysis stations, operating rooms, or home health offices that may be approved.

C

Novant Health, Inc. and The Presbyterian Hospital (herein after referred to collectively as “the applicant”) proposes a cost overrun (COR) for Project ID #F-11584-18, which approved the development of a 10-bed inpatient rehabilitation unit at Novant Health Presbyterian Medical Center (NHPMC) by developing the eight beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center. The application proposes no material change in scope from the originally approved project.

Need Determination

The original project involved a need determination pursuant to the 2018 SMFP for eight inpatient rehabilitation beds in Health Service Area (HSA) III which consisted of the following counties: Iredell, Rowan, Cabarrus, Stanly, Union, Mecklenburg, Gaston and Lincoln. That application was conforming to the need determination in the 2018 SMFP and approved for development. The current COR application does not involve the addition of any new health service facility beds, services, or equipment for which there is a need determination in the 2021 SMFP. Therefore, there are no need determinations applicable to this review.

Policies

Policy GEN-4: *Energy Efficiency and Sustainability for Health Service Facilities*, on page 29 of the 2021 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 is required to submit a plan for energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy GEN-4. The plan shall not adversely affect patient or resident health, safety or infection control.”

The proposed capital expenditure for this project is greater than \$2 million and less than \$5 million. In Section B, pages 26-27, the applicant describes the project’s plan to improve energy efficiency and conserve water and provides documentation in Exhibit K.3-2. 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
- Information which was 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 does not propose to develop any services for which there is a need determination in the 2021 State Medical Facilities Plan (SMFP).
- The applicant adequately demonstrates that the proposal is consistent with Policy GEN-4 because the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation.

- (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, ... persons [with disabilities], the elderly, and other underserved groups are likely to have access to the services proposed.

C

The applicant proposes a cost overrun for Project ID #F-11584-18 (develop a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center).

A certificate of need was issued on October 1, 2019 for Project ID #F-11584-18 and authorized a capital cost of \$2,033,433. The current application proposes a capital cost increase of \$4,185,736 over the previously approved capital cost for a total combined capital cost of \$6,219,169. The cost overrun application is necessary due to increased costs for construction for additional renovations necessary to comply with building codes and licensure rules, an extended timetable to allow for a phased approach, increased labor and material costs, and additional information technologies and contingencies. The application proposes no material change in scope from the originally approved project.

Patient Origin

On page 107, the 2021 SMFP defines the service area for rehabilitation beds as "...*the Health Service Area (HSA) in which the beds are located.* Table 8A on page 110 of the 2021 SMFP shows Novant Health Presbyterian Medical Center is in HSA III. Appendix A: North Carolina Health Service Areas provides a map showing that HSA III consists of Iredell, Rowan, Cabarrus, Stanly, Union, Mecklenburg, Gaston and Lincoln counties.

Thus, the service area for this facility consists Iredell, Rowan, Cabarrus, Stanly, Union, Mecklenburg, Gaston and Lincoln counties. Facilities may also serve residents of counties not included in their service area.

In Project ID #F-11584-18, the Agency determined the applicant had adequately identified the projected patient origin for the facility. The applicant proposes no changes in the current application which would affect that determination

Analysis of Need

The following table compares the previously approved capital cost and the proposed capital cost, as reported in Section C, page 38 and Section Q Form F.1b.

NHPMC – Previously Approved & Proposed Capital Cost			
	Previously Approved (F-11584-18)	New Total Projected Capital Cost	Projected Changes to Capital Cost (F-12016-21)
Construction/Renovation Contract(s)	\$ 1,104,522	\$ 3,977,850	\$ 2,873,328
Architect/Engineering Fees	\$ 173,745	\$ 373,212	\$ 199,467
Medical Equipment	\$ 273,209	\$ 293,699	\$ 20,490
Non-Medical Equipment/Furniture	\$ 381,957	\$ 437,555	\$ 55,598
Consultant Fees	\$ 100,000	\$ 138,000	\$ 38,000
Other	\$ 0	\$ 998,853	\$ 998,853
Total Capital Cost	\$ 2,033,433	\$ 6,219,169	\$ 4,185,736

In Section C, pages 38-39, the applicant explains why it believes the proposed increase in capital cost is necessary to develop the proposed project:

- **Increased Construction Contract Costs:** After the certificate of need for Project ID #F-11584-18 was issued, the applicant became aware that additional renovations and square footage would be necessary to upfit the existing patient rooms to meet ADA accessibility requirements for inpatient rehabilitation rooms. The construction timeline has been extended and extra time is needed to phase the work to access pipes above the surgical suite and critical rooms that are located directly below the inpatient rehabilitation patient rooms to prevent disruption of service in the surgical suite during construction. Finally, construction labor and material costs have increased since the original 2018 CON application was approved.
- **Increased Architect & Engineering Fees:** The applicant states that, due to the renovation and additional square footage to develop the proposed project, the applicant incurred additional costs involving redesigning architectural drawings and schematics.
- **Medical Equipment/Non-Medical Equipment/Furniture:** All increased slightly due to escalation.
- **Consultant Fees:** Increased because the cost overrun CON was necessary.
- **Other:** The applicant states these fees were not included in the previous application and include costs for additional information technologies, low voltage systems, security, and a contingency for the demolition and renovation.

The information is reasonable and adequately supported based on the following:

- The applicant adequately explains the reasons the additional costs are necessary to develop the proposed project.
- The applicant provides supporting documentation for its statements in Exhibits K.2 and K.3-1, including copies of line drawings and the cost certification letter.
- The applicant does not propose to change the scope of services offered or to change the patients projected to be served by the proposed project.

Projected Utilization

In Project ID #F-11584-18, the Agency determined the applicant had demonstrated its projected utilization was based on reasonable and adequately supported assumptions. The applicant proposes no changes in the current application which would affect that determination.

Access to Medically Underserved Groups

The application for Project ID #F-11584-18, adequately demonstrated the extent to which all residents of the area, including underserved groups, were likely to have access to the proposed services. The applicant proposes no changes in the current application which would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 application for Project ID #F-11584-18 adequately identified the population to be served and there are no changes proposed in this application which would affect that determination.
- The applicant adequately explains why the proposed increase in projected capital cost is necessary to provide the population to be served with the services proposed in this application and the original application, Project ID #F-11584-18.
- Projected utilization was deemed reasonable and adequately supported in Project ID #F-11584-18 and there are no changes proposed in this application which would affect that determination.
- The application for Project ID #F-11584-18 adequately identified the extent to which all residents, including underserved groups, were likely to have access to the proposed

services, and there are no changes proposed in this application which would affect that determination.

- (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, ... persons [with disabilities], and other underserved groups and the elderly to obtain needed health care.

NA

The applicant does not propose to reduce a service, eliminate a service or relocate a facility or service. Therefore, Criterion (3a) is not applicable to this review.

The application for Project ID #F-11584-18 adequately demonstrated 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, ... persons [with disabilities], and other underserved groups and the elderly to obtain needed health care. The applicant proposes no changes in this application which would affect that determination.

- (4) Where alternative methods of meeting the needs for the proposed project exist, the applicant shall demonstrate that the least costly or most effective alternative has been proposed.

CA

The applicant proposes a cost overrun for Project ID #F-11584-18, which approved the development of a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center.

In Section E, page 45, the applicant describes considering the alternative of developing the project in different locations and explains why that alternative is either more costly or less effective than the alternative proposed in this application to meet the need.

The applicant states that other alternative locations for the development of the previously approved project were either too small, also required renovation or would require splitting the unit up. For those reasons, the applicant determined that alternative locations were not effective alternatives.

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

- The applicant does not propose to change the scope of the previously approved Project ID #F-11584-18.

- The applicant provides credible information to explain why it believes the proposed project is the most effective alternative.
- The application is conforming to all other statutory and regulatory review criteria. Therefore, the application can be approved.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 reasons stated above. Therefore, the application is approved subject to the following conditions:

- 1. Novant Health, Inc. and The Presbyterian Hospital (hereinafter certificate holder) shall materially comply with the representations made in this application and the representations in Project ID #F-11584-18. Where representations conflict, the certificate holder shall materially comply with the last made representation.**
- 2. The certificate holder shall develop a 10-bed inpatient rehabilitation unit by developing no more than eight inpatient rehabilitation beds pursuant to the 2018 SMFP need determination and relocating two existing inpatient rehabilitation beds from Novant Health Rowan Medical Center.**
- 3. Upon completion of the project, Novant Health Presbyterian Medical Center shall be licensed for no more than 10 inpatient rehabilitation beds.**
- 4. Novant Health, Inc. shall delicense two inpatient rehabilitation beds at Novant Health Rowan Medical Center upon completion of the project for a total of no more than eight inpatient rehabilitation beds.**
- 5. The certificate holder 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.**
- 6. Progress Reports:**
 - a. Pursuant to G.S. 131E-189(a), the certificate holder shall submit periodic reports on the progress being made to develop the project consistent with the timetable and representations made in the application on the Progress Report form provided by the Healthcare Planning and Certificate of Need Section. The form is available online at: <https://info.ncdhhs.gov/dhsr/coneed/progressreport.html>.**
 - b. The certificate holder shall complete all sections of the Progress Report form.**

- c. **The certificate holder shall describe in detail all steps taken to develop the project since the last progress report and should include documentation to substantiate each step taken as available.**
 - d. **Progress reports shall be due on the first day of every third month. The first progress report shall be due on March 1, 2022. The second progress report shall be due on June 1, 2022 and so forth.**
7. **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, the certificate holder 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.**
8. **The certificate holder shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency in writing prior to issuance of the certificate of need.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

The applicant proposes a cost overrun for Project ID #F-11584-18 (develop a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center).

Capital and Working Capital Costs

The applicant projects the total capital cost to develop the inpatient rehabilitation unit (as approved in Project ID #F-11584-18) will be \$6,219,169, an increase of \$4,185,736 over the previously approved capital expenditure of \$2,033,433. The total proposed capital cost is 205 percent of the previously approved capital expenditure and thus requires a certificate of need. The following table compares the previously approved capital cost and the proposed capital cost, as reported in Section C, page 38 and Section Q Form F.1b.

NHPMC – Previously Approved & Proposed Capital Cost			
	Previously Approved (F-11584-18)	New Total Projected Capital Cost	Projected Changes to Capital Cost (F-12016-21)
Construction/Renovation Contract(s)	\$ 1,104,522	\$ 3,977,850	\$ 2,873,328
Architect/Engineering Fees	\$ 173,745	\$ 373,212	\$ 199,467
Medical Equipment	\$ 273,209	\$ 293,699	\$ 20,490
Non-Medical Equipment/Furniture	\$ 381,957	\$ 437,555	\$ 55,598
Consultant Fees	\$ 100,000	\$ 138,000	\$ 38,000
Other	\$ 0	\$ 998,853	\$ 998,853
Total Capital Cost	\$ 2,033,433	\$ 6,219,169	\$ 4,185,736

In Project ID #F-11584-18, the Agency determined the applicant had demonstrated the projected capital cost was based on reasonable and adequately supported assumptions. There are no changes in scope proposed in this application which would affect that determination.

In Section C, pages 38-39, the applicant explains the need for the proposed increase in projected capital costs. The discussion regarding analysis of need found in Criterion (3) is incorporated herein by reference.

In Section Q Excel Workbook Assumptions, pages 90-91, the applicant provides the assumptions used to project the proposed increase in capital cost. The applicant adequately demonstrates that the proposed increase in the projected capital cost is based on reasonable and adequately supported assumptions based on the following:

- The applicant had previously demonstrated to the Agency in Project ID #F-11584-18 that the projected capital costs in that application were based on reasonable and adequately supported assumptions, and there are no changes in scope proposed in this application which would affect that determination.
- The applicant explains the need for the different costs that make up the combined total increase in capital cost for this COR application and the explanations are reasonable and adequately supported.
- The applicant provides supporting documentation for the need for the proposed capital cost increase and the assumptions regarding the proposed capital cost increase in Exhibits F.2 and F.3-1.

In Project ID #F-11584-18, the applicant stated start-up costs will be \$244,683 and initial operating expenses will be \$599,443 for a total working capital of \$844,126. The Agency determined Project ID #F-11584-18 was conforming to this criterion. In Section F, page 54, the applicant projects total start-up costs and initial operating expenses of \$246,448 and \$685,689, respectively, for a total of \$932,137 in working capital, \$88,011 above the previously approved working capital of \$844,126. On page 54, the applicant explains the additional incremental increase in working capital are due to inflation in accordance with the revised project timetable.

Availability of Funds

In Project ID #F-11584-18, the Agency determined that the applicant adequately demonstrated it had sufficient funds available for the capital and working capital needs of the project in the amount of \$2,033,433 and \$844,126, respectively. The current application proposes a capital cost increase of \$4,185,736 over the previously approved capital cost and a working capital increase of \$88,011 over the previously approved working capital cost.

Exhibit F.5 contains a letter dated February 1, 2021 from Novant Health, Inc.'s Senior Vice President of Operational Finance and Revenue Cycle stating that Novant Health, Inc. is willing to commit accumulated reserves to fund the original CON-approved capital cost of \$2,033,433 and the capital cost overrun of \$4,185,736. The letter states that Novant Health, Inc. is also willing to commit accumulated reserves to fund the original CON-approved working capital of \$544,126 and the additional working capital of approximately \$90,000.

Exhibit F.5-3 contains the Consolidated Financial Statements for Novant Health, Inc. for the years ending December 31, 2019 and 2018. As of December 31, 2019, Novant Health, Inc. had adequate cash and assets to fund the original CON-approved costs and the proposed increase in the projected capital and working capital cost.

The applicant adequately demonstrates the availability of sufficient funds for the original CON-approved costs and the proposed increase in the projected capital and working capital cost based on the following:

- The applicant provides a letter from an appropriate company officer confirming the availability of the funding proposed for the capital needs of the project and a commitment to use that funding accordingly.
- The applicant provides adequate documentation of the availability of accumulated reserves it proposes to use to fund the capital needs of the project.

Financial Feasibility

In Project ID #F-11584-18, the applicant projected revenues would exceed operating expenses during the second and third full fiscal years of operation following project completion. The Agency determined Project ID #F-11584-18 had demonstrated the financial feasibility of the proposal was based on reasonable projections of costs and charges.

The applicant provides pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.2, the applicant projects that revenues will exceed operating expenses beginning in each of the first three full fiscal years following completion of the project, as shown in the table below.

Revenues and Operating Expenses			
	1st FY CY2024	2nd FY CY2025	3rd FY CY2026
Total (Days of Care)	2,651	3,176	3,249
Total Gross Revenues (Charges)	\$8,909,830	\$10,897,077	\$11,402,860
Total Net Revenue	\$3,725,700	\$4,559,158	\$4,786,339
Average Net Revenue per Days of Care	\$1,406	\$1,436	\$1,473
Total Operating Expenses (Costs)	\$3,662,354	\$4,195,818	\$4,325,255
Average Operating Expense per Days of Care	\$1,381	\$1,321	\$1,331
Net Income	\$63,346	\$363,340	\$461,084

In Section Q Excel Workbook Assumptions, pages 91-92, the applicant provides the assumptions used to project the proposed revenue and operating expenses. The applicant adequately demonstrates that the proposed increase in the revenue and operating cost is based on reasonable and adequately supported assumptions based on inflation.

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
- 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 demonstrates that the increased capital and working capital costs are based on reasonable and adequately supported assumptions for all the reasons described above.
- The applicant adequately demonstrates availability of sufficient funds for the capital and working capital cost of the proposal for all the reasons described above.
- The applicant projects no changes in annual utilization during the first three full years of operation.
- The applicant adequately demonstrates that the projected charges and operating costs are based on reasonable and adequately supported assumptions for all the reasons described above.
- The applicant adequately demonstrates the availability of sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal was 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

The applicant proposes a cost overrun for Project ID #F-11584-18 (develop a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center).

Project ID #F-11584-18 was conforming to this criterion and the applicant proposes no changes in the current application which would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 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

The applicant proposes a cost overrun for Project ID #F-11584-18 (develop a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center).

The application for Project ID #F-11584-18 adequately demonstrated the availability of resources, including health manpower and management personnel to provide the proposed services and no changes are proposed in this application which would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 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

The applicant proposes a cost overrun for Project ID #F-11584-18 (develop a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center).

The application for Project ID #F-11584-18 adequately demonstrated the availability of the ancillary and support services necessary to the provision of the proposed services and adequately demonstrated the proposed services would be coordinated with the existing healthcare system and no changes are proposed in this application which would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 reasons stated above.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

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

The applicant is not 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

The applicant proposes a cost overrun for Project ID #F-11584-18. That project approved the development of a 10-bed inpatient rehabilitation unit by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center.

A certificate of need was issued on October 1, 2019 for Project ID #F-11584-18 and authorized a capital cost of \$2,033,433. The current application proposes a capital cost increase of \$4,185,736 over the previously approved capital cost for a total combined capital cost of \$6,219,169. The cost overrun application is necessary due to increased costs for renovation construction deemed necessary to comply with building codes and licensure rules, an extended timetable to allow for a phased approach, increased labor and material costs, and additional information technologies and contingencies. The application proposes no material change in scope from the originally approved project.

In Section K.5.2, page 65, the applicant states that the project will involve renovation of 7,110 square feet to convert existing patient room toilets to meet ADA accessibility requirements. The proposed floor plan is provided in Exhibit K.2.

On page 65, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal based on the following:

- Cost, design, and means of construction have been developed using typical and reasonable commercial methods.
- Construction includes the least renovation possible to provide the services.
- Renovation costs were estimated by the design architect and general contractor, based on their experience and current market costs for materials and labor, including an inflation factor.

On pages 65-66, 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 based on the following:

- The cost overrun project is based on the efficient renovation and effective use of current hospital space.
- The project will not result in any changes to the costs and charges to the public for the approved inpatient rehabilitation services.

On page 66, the applicant it will use modern energy controls and the most energy effective materials for the proposed project and the unit will be designed in compliance with applicable state, local, and federal requirements for energy efficiency and consumption and water conservation. The applicant provides supporting documentation in Exhibit K.3-2.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 reasons stated above.

- (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 ... persons [with disabilities], 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

The applicant proposes a cost overrun for Project ID #F-11584-18 (develop a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center).

Project ID #F-11584-18 was conforming to this criterion and the applicant proposes no changes in the current application which would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 reasons stated above.

- (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 ... persons [with disabilities] to programs receiving federal assistance, including the existence of any civil rights access complaints against the applicant;

C

Project ID #F-11584-18 was found conforming to this criterion and the applicant proposes no changes in the current application which would affect that determination.

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 reasons stated above.

- (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

Project ID #F-11584-18 was found conforming to this criterion and the applicant proposes no changes in the current application which would affect that determination.

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 reasons stated above.

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

C

Project ID #F-11584-18 was found conforming to this criterion and the applicant proposes no changes in the current application which would affect that determination.

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 reasons stated above.

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

C

The applicant proposes a cost overrun for Project ID #F-11584-18 (develop a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center).

Project ID #F-11584-18 adequately demonstrated that the proposed health services will accommodate the clinical needs of health professional training programs in the area. The applicant proposes no changes in the current application which would affect that determination.

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 reasons stated above.

- (15) Repealed effective July 1, 1987.
- (16) Repealed effective July 1, 1987.
- (17) Repealed effective July 1, 1987.
- (18) Repealed effective July 1, 1987.

- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

C

The applicant proposes a cost overrun for Project ID #F-11584-18 (develop a 10-bed inpatient rehabilitation unit at NHPMC by developing the 8 beds pursuant to the 2018 SMFP need determination and relocating 2 existing rehabilitation beds from Novant Health Rowan Medical Center).

The application for Project ID #F-11584-18 adequately demonstrated the expected effects of the proposed services on competition and how any enhanced competition would have a positive impact on cost-effectiveness, quality, and access to the services proposed. The applicant proposes no changes in this application which would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 based on the reasons described 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

In Section Q, Form O Facilities, the applicant identifies the related hospital facilities located in North Carolina owned, operated or managed by the applicant or a related entity. The applicant identifies a total of 11 facilities located in North Carolina.

In Section O, page 79, the applicant states that, during the 18 months immediately preceding the submittal of the application, *“Novant Health has not operated out of compliance or licensure for any of its acute care hospitals.”* According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, during the 18 months immediately preceding submission of the application through the date of this decision, there have been no incidents related to quality of care at any of these facilities. After reviewing and considering information provided by the applicant and by the Acute and Home Licensure and Certification Section, DHSR, and considering the quality of care provided at all 11 facilities, the applicant provided 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.

G.S. 131E-183 (b): The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

C

In Project ID #F-11584-18, the Agency determined the application was conforming to all applicable Criteria and Standards for Rehabilitation Services, promulgated in 10A NCAC 14C .2800, which were in effect at that time. The applicant proposes no changes in this application which would affect that determination. Consequently, the application is conforming to the performance standards in this rule.