

## REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conforming as Conditioned

NC = Nonconforming

NA = Not Applicable

Decision Date: November 22, 2024

Findings Date: November 22, 2024

Project Analyst: Chalice Moore

Co-Signer: Mike McKillip

Project ID: F-12544-24

Facility: Atrium Health Lake Norman

FID #: 190513

County: Mecklenburg

Applicant: The Charlotte-Mecklenburg Hospital Authority

Project: Change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman and a total of no more than 174 acute care beds on the license for Atrium Health University City

### 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

The Charlotte-Mecklenburg Hospital Authority (CMHA) and Atrium Health Lake Norman (hereinafter referred to as “the applicant” or “Atrium Health Lake Norman” ) proposes a change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center (CMC) for a total of no more than 53 acute care beds at Atrium Health Lake Norman and a total of no more than 174 acute care beds on the license for Atrium Health University City.

In Project ID # F-12319-23, the applicant was approved for a total capital cost of \$228,473,856. The current application proposes a capital cost increase of \$19,025,604 over the previously approved capital expenditure for a total combined capital expenditure of \$247,499,460.

### **Need Determination**

There were no need determinations in the 2020 State Medical Facilities Plan (SMFP) applicable to Project ID #F-12010-20 and the applicant proposes no changes in the current application which would affect that determination. The applicant does not propose to increase the number of licensed beds in any category, add any new health services, or acquire equipment for which there is a need determination in the 2024 SMFP. Therefore, there are no need determinations applicable to this review.

### **Policies**

There is one policy in the 2024 SMFP applicable to this review. Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities.

*Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities*, on page 30 of the 2024 SMFP, states:

*“Any person proposing a capital expenditure greater than \$4 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 \$5 million. In Section B, pages 27-28, 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. Therefore, the application is consistent with Policy GEN-4.

### **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 because 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 change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman.

### **Patient Origin**

On page 31, the 2024 SMFP defines the service area for acute care beds as "... *the single or multicounty grouping shown in Figure 5.1.*" Figure 5.1, on page 36, shows Mecklenburg County as its own acute care bed service area. Thus, the service area for this facility is Mecklenburg County. Facilities may also serve residents of counties not included in their service area.

In Section Q, page 118, the applicant describes the project as follows:

*"As discussed in Section C.8, the Charlotte-Mecklenburg Hospital Authority (CMHA) proposes a change of scope to a previously approved project, Project ID # F-012319-23, which involved a cost overrun related to Project ID # F-12010-20 to develop a new acute care hospital in Mecklenburg County, Atrium Health Lake Norman. The proposed change of scope involves the relocation of 23 previously approved, not yet*

*developed licensed acute care beds from Carolinas Medical Center (CMC) to Atrium Health Lake Norman for a total of 53 licensed acute care beds at Atrium Health Lake Norman. The proposed relocation will also result in a change of scope to Project ID # F-12006-20, which proposed to develop 87 additional licensed acute care beds at CMC pursuant to a need determination in the 2020 SMFP. Following the proposed relocation of 23 of these undeveloped acute care beds to Atrium Health Lake Norman, the remaining 64 beds will be developed at CMC as previously proposed. The proposed change of scope project does not involve the development of any service component that was not included in the previously approved Project ID #s F-12010-20 or F-012319-23. Further, the proposed change of scope involves no addition of regulated assets (other than the proposed relocated acute care beds) when compared to the previously approved applications.”*

In Section C.8, page 52, the applicant states that the projected patient origin is not expected to materially change as a result of the proposed change of scope. In Project ID # F-12319-23, the Agency determined the applicant had adequately identified the projected patient origin for the facility. The applicant proposes no changes in the current application that would affect that determination.

**Analysis of Need**

In Section Q, Form F.1b, the applicant provides a summary of the capital cost approved in Project ID #F-12319-23, the changes proposed in this application, and the new total projected capital cost, as shown in the table below.

<b>Atrium Health Lake Norman - Previously Approved and Proposed Capital Cost</b>			
	<b>Previously Approved (F-12319-23)</b>	<b>Projected Changes to Capital Cost (F-12544-24)</b>	<b>New Total Projected Capital Cost</b>
Purchase Price of Land	\$5,084,042		\$5,084,042
Closing Costs	\$125,191		\$125,191
Site Preparation	\$23,696,825	\$285,000	\$23,981,825
Construction/Renovation Contracts	\$123,574,659	\$10,726,000	\$134,300,659
Landscaping	\$1,000,000	\$25,000	\$1,025,000
Architect/Engineering Fees	\$10,249,197	\$735,000	\$10,984,197
Medical Equipment	\$24,758,876	\$2,688,000	\$27,446,876
Non-Medical Equipment	\$2,563,402	\$217,000	\$2,780,402
Furniture	\$3,296,493	\$452,000	\$3,748,493
Consultant Fees	\$389,260	\$150,000	\$539,260
Financing Costs	\$988,359	\$1,073,243	\$84,884
Interest during Construction	\$7,878,286	\$487,720	\$8,366,006
Other	\$24,869,266	\$3,175,000	\$28,044,266
<b>Total Capital Cost</b>	<b>\$ 228,473,856</b>	<b>\$19,025,604</b>	<b>\$247,499,460</b>

Source: Section Q, Form F1.b.

In Section C, pages 42-51, the applicant explains why the proposed increase in capital cost is necessary to develop the proposed project:

- The applicant states that the proposed new capital cost includes the cost overrun for Project ID #F-12010-20.
- Construction/Renovation Contracts increased by \$10,726,000 from the approved project. The applicant states that construction costs are based on the experience of the project architect with similar projects and reflect the changes to the project site as well as current inflation estimates.
- Medical equipment increased by \$2,688,000. The medical equipment costs are based on vendor estimates and the experience of CMHA with similar projects.
- Furniture increased by \$452,000. Furniture costs are based on vendor estimates and the experience of CMHA with similar projects.
- Architect/Engineering Fees increased by \$735,000. The architect and engineering costs are based on the experience of the project architect with similar projects and reflect the changes to the project site.
- Consultant Fees and Other Fees (including Contingency, IT Costs) increased by a total of \$150,000. Consultant fees include legal fees in addition to CON fees associated with the planning, development, and filing of the proposed project.

The applicant proposes to increase the number of acute care beds from 30 to 53. The applicant states the proposed changes to the previously approved projects are primarily driven by Mecklenburg County's large and growing population (particularly in the Lake Norman service area) and the need to mitigate capacity constraints across CMHA's existing facilities. The applicant describes the need for the additional acute care beds as follows:

- The applicant states the proposed changes are better and more cost effective to expand while the project is still under development so as to help minimize disruptions to care that may occur if CMHA were to fully wait until after the completion of the previously approved project.
- The applicant states occupancy rates across all of CMHA's Mecklenburg County facilities, including CMC and Atrium Health University City, are projected to remain high. The proposed project is a result of CMHA's efforts to balance the use of existing and approved assets with patients' need for services today.
- The applicant states that CMHA expects Atrium Health Lake Norman to have an ADC of 40 patients by the third year of operation of the proposed project (CY 2029). Patients will no longer have to travel from their homes in the Lake Norman service area to choose Atrium Health hospital services.
- The applicant states high occupancy rates are a detriment to the community as CMC and Atrium Health University City are sometimes unable to provide services in a timely manner to patients that choose CMHA.

The information is reasonable and supported for the following reasons:

- The applicant adequately explains why additional costs are necessary to develop the proposed project.
- The applicant provides a letter in Exhibit F.511 from a licensed architect which certifies the proposed total capital cost of the project.
- The applicant provides reliable data, makes reasonable statements about the data, and uses reasonable assumptions about the data to demonstrate the projected population growth in the area.
- The applicant provides evidence of challenges in patient care it experiences as the result of existing capacity constraints.

Projected Utilization

In Section Q, Form C.1b, the applicant provides projected acute care bed utilization, as illustrated in the following table.

Atrium Health Lake Norman Projected Acute Care Bed Utilization				
	Partial FY2026	1st Full FY2027	2 <sup>nd</sup> Full FY2028	3 <sup>rd</sup> Full FY2029
Acute Care Beds	53	53	53	53
Patient Discharges	2,249	3,151	3,312	3,481
Patient Days	9,389	13,165	13,846	14,564
Average Length of Stay	4.2	4.2	4.2	4.2
Occupancy Rate	48.5	68.1%	71.6%	75.3%

Source: Section Q, page 108

In Section Q, following Form C.1b, the applicant provides the assumptions and methodology used to project acute care bed utilization upon project completion, which is summarized below.

**Step 1:** The applicant identifies 7 zip code areas that comprise the primary and secondary service area.

**Step 2:** The applicant identifies the base of patients that would be clinically appropriate for the services proposed to be provided at Atrium Health Lake Norman and who would be served closer to home and/or more conveniently at Atrium Health Lake Norman.

**Step 3:** The applicant states that to determine the projected number of days to be served at Atrium Health Lake Norman, CMHA conducted an analysis of the potential patients to be served at the proposed facility. First, CMHA assumed that any patient days related to services that are not proposed to be provided at Atrium Health Lake Norman such as invasive/surgical cardiology, neurosurgery, pediatrics, and minor or advanced neonatal services would continue to be provided at existing CMHA facilities and not at Atrium Health Lake Norman. Secondly, CMHA assumed that Atrium Health Lake Norman would serve only patients with a Primary or Secondary Acuity Level Medical Severity Diagnosis Related Groups (MS-DRG), as defined by CMHA.

**Step 4:** The applicant states that based on the location of the facility in relation to the service area as defined by primary and secondary service area, CMHA projects the percentages of potential days will be served by Atrium Health Lake Norman from each service area.

**Step 5:** The applicant states that based on the assumed shift of 80 percent of PSA patients and 30 percent of SSA patients, CMHA determined the number of patient days in CY 2023 that could potentially be served by Atrium Health Lake Norman in future years.

**Step 6:** The applicant projects that CMHA days of care served by Atrium Health Lake Norman originating from the PSA and SSA will shift from existing CMHA Mecklenburg County hospitals proportional to their CY 2023 percentage.

**Step 7:** CMHA analyzed historical observation bed utilization data for acuity appropriate patients from the service area in order to project observation days of care at Atrium Health Lake Norman. From CY 2019 to 2023, the ratio of observation days to acute care patient days was 0.04. CMHA applied this ratio to Atrium Health Lake Norman's projected acute care patient days to project observation days.

**Step 8:** CMHA is proposing to relocate 23 undeveloped licensed acute care beds from CMC to Atrium Health Lake Norman. To project future utilization of acute care beds at CMC, CMHA analyzed historical utilization. Acute care days at CMC grew at a CAGR of 3.3 percent from CY 2019 to annualized CY 2024, or at a slightly faster rate than the growth rate multiplier utilized for all of Mecklenburg County in the 2024 SMFP (3.25 percent). The applicant projects the acute care days that will remain at CMC following the projected shift of acuity-appropriate acute care days and beds to Atrium Health Lake Norman.

Projected utilization is reasonable and adequately supported based on the following:

- The applicant adequately demonstrates that the proposed service area is supported by historical utilization by residents of other CMHA hospitals.
- The applicant adequately demonstrates that patients who are clinically appropriate would be served closer to home and/or more conveniently at Atrium Health Lake Norman that have historically been served at CMHA's other hospitals.

### **Access to Medically Underserved Groups**

In Section C, page 53, the applicant states:

*“Projected access by medically underserved groups is not expected to materially change as a result of the proposed change of scope. However, the proposed project will increase access to the medically underserved by expanding the capacity of the previously approved Atrium Health Lake Norman project to all patients, including medically underserved groups. Consistent with all CMHA facilities, Atrium Health Lake Norman will provide services to all people in need of medical care and will continue to following the completion of the proposed change in scope project.”*

The applicant adequately describes the extent to which all residents of the service area, including underserved groups, are likely to have access to the proposed services based on the following:

- The applicant provides a statement saying it will provide service to all residents of the service area, including underserved groups, without regard for anything other than the need for acute care bed services.
- The applicant provides documentation of its existing policies regarding non-discrimination and financial access in Exhibits C.8-4, L.6-1 and L.6.2

### **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 described above.

- (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.

### C

The applicant proposes a change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman.

In Section D, pages 58-59, the applicant states:

*“As noted previously, the inpatient capacity at Atrium Health Lake Norman will be used to care for acuity appropriate patients that historically have chosen to receive inpatient care at CMHA facilities in Mecklenburg County, particularly CMC and Atrium Health University City; thus, not only will acute care bed capacity be relocated from CMC to Atrium Health Lake Norman, but many of the patients being served by these existing services are expected to choose to receive care from their provider groups at Atrium Health Lake Norman. As shown in Form C Assumptions and Methodology, by shifting both beds and patients to Atrium Health Lake Norman, CMC will operate closer to target occupancy and will have more capacity to serve the highest-acuity patients. Further, as discussed previously, the acute care beds proposed to be relocated from CMC to Atrium Health Lake Norman are not yet operational; thus, they are not currently serving patients and would not need to be taken out of service to be deployed at Atrium Health Lake Norman. Given the lack of available space in the existing facility, it is not feasible for CMC to operationalize these approved beds until its new patient tower opens on April 1, 2027. In contrast, Atrium Health Lake Norman*



*can operationalize the relocated beds one year earlier, or on April 1, 2026. Upon completion of the proposed change of scope project, 1,037 beds will remain at CMC. Further, CMHA reasonably believes that it will have an opportunity to apply for additional capacity at CMC in the near-term and that future SMFPs will identify the need for additional acute care beds in the county. For these reasons, CMHA does not believe that the proposed relocated beds will adversely impact patients at CMC; rather, it will improve access to CMC’s services and increase convenient access to inpatient services for patients in the growing Lake Norman service area, as discussed in Section C.8.”*

In Section Q, Form D.1, the applicant provides the historical and projected utilization of the acute care beds at CMC, as shown in the table below:

Carolinus Medical Center Historical and Projected Health Service Facility Bed Utilization					
CMC - All Beds	Last Full FY 01/01/2023 to 12/31/2023	Interim Full FY 01/01/2024 to 12/31/2024	Interim Full FY 01/01/2025 to 12/31/2025	Partial FY 01/01/2026 to 12/31/2026	Partial FY 01/01/2027 to 12/31/2027
Total # of Beds, including all types of beds	783	783	783	783	1,037
# of Admissions or Discharges (discharges)	42,092	44,286	44,147	43,696	44,908
# of Patient Days	286,290	297,418	296,250	292,997	300,889
Average Length of Stay	6.8	6.7	6.7	6.7	6.7
Occupancy Rate	100.2%	104.1%	103.7%	102.5%	79.5%

In Section D, page 59, the applicant states:

*“The proposed project, including the reduction in the number of licensed beds at CMC, will have a positive effect on all patients utilizing CMHA facilities in Mecklenburg County, including historically underserved populations.”*

The applicant adequately describes how the needs of the patients continuing to use the facility will be met following the reduction or elimination of the existing service components based on the following:

- The applicant projects CMC will operate closer to target occupancy and will have more capacity to serve the highest-acuity patients.
- The applicant states it is not feasible for CMC to operationalize these approved beds until its new patient tower opens on April 1, 2027. In contrast, Atrium Health Lake Norman can operationalize the relocated beds one year earlier, or on April 1, 2026.
- The applicant adequately demonstrates the medically underserved groups will continue to have access to acute care services at CMC following relocation of the 23 acute care beds.

(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.

The applicant proposes a change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman.

In Section E, pages 62-63, 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 where:

- **Relocate a different number of beds from CMC-** The applicant considered relocating a different number of beds from CMC to Atrium Health Lake Norman. Although the relocation of more acute care beds would likely be supported by the growing patient population, the proposed project is a result of CMHA's efforts to balance the use of existing and approved assets alongside the need for additional capacity at all of CMHA's Mecklenburg County facilities.
- **Maintain Status Quo-** the applicant states under the status quo, the 23 beds would remain on CMC's license and would not open until April 2027. As discussed in Section C.8, Atrium Health Lake Norman can operationalize the 23 relocated acute care beds one year earlier than CMC, helping to mitigate capacity constraints experienced across CMHA's Mecklenburg County facilities that have had sustained high occupancy rates. Further, given the growing need for acute care services in the Lake Norman service area, CMHA believes it is better and more cost effective and efficient to expand while the project is still under development to help minimize disruptions to care and unnecessary additional costs that may occur if CMHA were to wait to expand the facility. Therefore, CMHA does not believe that maintaining the status quo is the best alternative at this time.

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 provides reasonable 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

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. The Charlotte-Mecklenburg Hospital Authority (hereinafter certificate holder) shall materially comply with all representations made in this application and the representations in Project ID # F-12010-20 and Project ID # F-12319-23. Where representations conflict, the certificate holder shall materially comply with the last made representation.**
  - 2. The certificate holder shall relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman and a total of no more than 174 acute care beds on the license for Atrium Health University City.**
  - 3. 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.**
  - 4. 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. The first progress report shall be due on May 1, 2025.**
  - 5. The certificate holder 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.**
  - 6. 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.

The applicant proposes a change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman.

**Capital and Working Capital Costs**

On Form F.1b in Section Q, the applicant provides a summary of the capital cost approved in Project ID # F-12319-23, the changes proposed in this application, and the new projected capital cost as shown in the table below.

<b>Atrium Health Lake Norman - Previously Approved and Proposed Capital Cost</b>			
	<b>Previously Approved (F-12319-23)</b>	<b>Projected Changes to Capital Cost (F-12544-24)</b>	<b>New Total Projected Capital Cost</b>
Purchase Price of Land	\$5,084,042		\$5,084,042
Closing Costs	\$125,191		\$125,191
Site Preparation	\$23,696,825	\$285,000	\$23,981,825
Construction/Renovation Contracts	\$123,574,659	\$10,726,000	\$134,300,659
Landscaping	\$1,000,000	\$25,000	\$1,025,000
Architect/Engineering Fees	\$10,249,197	\$735,000	\$10,984,197
Medical Equipment	\$24,758,876	\$2,688,000	\$27,446,876
Non-Medical Equipment	\$2,563,402	\$217,000	\$2,780,402
Furniture	\$3,296,493	\$452,000	\$3,748,493
Consultant Fees	\$389,260	\$150,000	\$539,260
Financing Costs	\$988,359	\$1,073,243	\$84,884
Interest during Construction	\$7,878,286	\$487,720	\$8,366,006
Other	\$24,869,266	\$3,175,000	\$28,044,266
<b>Total Capital Cost</b>	<b>\$ 228,473,856</b>	<b>\$19,025,604</b>	<b>\$247,499,460</b>

In Section Q, the applicant provides the assumptions used to project capital cost. The applicant adequately demonstrates that the project capital cost is based on reasonable and adequately supported assumptions based on the following:

- Construction/Renovation Contracts increased by \$10,726,000 from the approved project. The applicant states that construction costs are based on the experience of the project architect with similar projects and reflect the changes to the project site as well as current inflation estimates.
- Medical equipment increased by \$2,688,000. The medical equipment costs are based on vendor estimates and the experience of CMHA with similar projects.
- Furniture increased by \$452,000. Furniture costs are based on vendor estimates and the experience of CMHA with similar projects.

- Architect/Engineering Fees increased by \$735,000. The architect and engineering costs are based on the experience of the project architect with similar projects and reflect the changes to the project site.
- Consultant Fees and Other Fees (including Contingency, IT Costs) increased by a total of \$150,000. Consultant fees include legal fees in addition to CON fees associated with the planning, development, and filing of the proposed project.

**Availability of Funds**

The current application proposes a capital cost increase of \$19,025,604. Exhibit F.2-1 contains a letter August 15, 2024, from the Chief Financial Officer of CMHA Hospitals stating that CMHA expects to fund the proposed project with accumulated cash reserves but has conservatively included financing costs in the event the proposed project is funded with bond financing. Exhibit F.2-2 contains the audited financial statements for CMHA for the year ending December 31, 2023. As of December 31, 2023, CMHA had adequate cash and assets to fund the proposed increase in the projected capital cost.

The applicant adequately demonstrates the availability of sufficient funds for the proposed increase in the projected 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 accumulated reserves it proposes to use to fund the capital needs of the project.

**Financial Feasibility**

In Section Q, Form F.2b, the applicant provides its projected revenues and operating expenses for the first three operating years as shown in the table below:

<b>Atrium Health Lake Norman Projected Revenues and Operating Expenses</b>	<b>1<sup>st</sup> Full FY CY2027</b>	<b>2<sup>nd</sup> Full FY CY2028</b>	<b>3<sup>rd</sup> Full FY CY2029</b>
Total Patient Days	13,165	13,846	14,564
Total Gross Revenue	\$300,096,013	\$325,087,549	\$352,188,580
Total Net Revenue	\$79,456,867	\$86,073,913	\$93,249,493
Total Net Revenue per Patient Day	\$6,035	\$6,217	\$6,403
Total Operating Costs	\$77,741,389	\$82,495,589	\$87,659,682
Total Operating Costs per Patient Day	\$5,905	\$5,958	\$6,019
Net Income	\$1,715,478	\$3,578,324	\$5,589,811

Source: Section Q, page 137

The assumptions used by the applicant in preparation of the pro forma financial statements are provided in Section Q. The applicant adequately demonstrates that the financial feasibility of the proposal is reasonable and adequately supported based on the following:

- The applicant clearly identifies the sources of data used to project revenues and expenses.
- The applicant adjusts revenues based on an annual inflation rate of 3 percent.
- Projected utilization is based on reasonable and adequately supported assumptions. See the discussion regarding projected utilization in Criterion (3) which 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 for all the reasons described above.
  - The applicant adequately demonstrates availability of sufficient funds for the capital needs of the proposal for all the reasons described above.
  - 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 revenues and operating expenses for all the reasons described above.
- (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 change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman.

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

- (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 change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman.

In Section Q, page 146, the applicant provides projected full-time equivalent (FTE) staffing for the proposed services, as illustrated in the following table.

Atrium Health Lake Norman	Projected FTE Staff		
	1 <sup>st</sup> Full FY FY 2027	2 <sup>nd</sup> Full FY FY 2028	3 <sup>rd</sup> Full FY FY 2029
Registered Nurses	56.0	58.9	62.0
Technicians	20.0	21.1	22.2
Clerical Staff	1.7	1.7	1.8
Clinical Manager / Supervisor	11.9	12.5	13.2
LPN	3.7	3.8	4.0
Nursing Assistant	4.2	4.4	4.6
Coordinator	1.6	1.7	1.8
Other Administration	2.6	2.8	2.9
Other (Lactation Consultants)	0.5	0.5	0.6
<b>Total</b>	<b>102.2</b>	<b>107.5</b>	<b>113.1</b>

The assumptions and methodology used to project staffing are provided in Section Q. Adequate operating expenses for the health manpower and management positions proposed by the applicant are budgeted in Form F.2b.

The applicant adequately demonstrates the availability of sufficient health man power and management personal to provide services based on the following:

- The applicant projects the types of positions based on Atrium Health University City's historical experience with staffing patterns for hospital services because it is Atrium Health's community hospital in Mecklenburg County, it serves a patient population that is most similar to the proposed project, and Atrium Health Lake Norman will be licensed under Atrium Health University City.
- The applicant projects the number of FTEs projected for each position type is based on Atrium Health University City's historical experience with staffing patterns for hospital services. Staffing is increased over time consistent with the assumed ramp-up in utilization.

**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 described 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

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

- (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

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

- (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 change of scope for Project ID# F-12319-23 (COR for Project ID# F-12010-20 to develop a new acute care hospital) to relocate no more than 23 acute care beds from Carolinas Medical Center for a total of no more than 53 acute care beds at Atrium Health Lake Norman.

In Section K, page 88, the applicant states that the project involves renovating 22,125 square feet of existing space.

On page 88, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal based on the following:

- The proposed bed addition involves upfitting the previously exempted Level 5 floor with 20 licensed acute care beds and replacing three existing observation bed spaces with licensed acute care beds on Level 4 and thus does not introduce any additional facility expansion or new construction at Atrium Health Lake Norman.
- The applicant states that developing the proposed changes to Atrium Health Lake Norman while it is still under development is a more patient-focused and financially prudent alternative because it will help minimize disruptions to patient care or additional construction costs associated with any demolition and renovations required to accommodate future growth after the hospital has been fully constructed.
- The applicant states that the proposed changes of the overall layout of the Level 5 floor are based on a configuration that provides the most efficient circulation and throughput for the patients and caregivers.

On page 89, 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 applicant states that the proposed renovation costs are necessary to ensure the proposed project can be developed, providing enhanced access to essential acute care services for patients at Atrium Health Lake Norman.
- The applicant states that while the development of the proposed project does require additional capital, the expanded acute care capacity at Atrium Health Lake Norman will provide the access needed by the population of the Lake Norman service area and bring more beds online faster.

In Section B, page 27, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans.

- The applicant states that CMHA employs experienced, highly trained, and qualified architects, engineers, project managers, tradesmen, and technicians, who oversee the design, construction, operation, and maintenance of CMHA's facilities.
- CMHA has demonstrated its commitment to a higher standard of excellence and will continue to do so relative to the proposed project. CMHA has engaged experienced architects and engineers to ensure energy efficient systems are an inherent part of the proposed project. The design team has Energy Star and Hospitals for a Healthy Environment Green Guide for HealthCare (GGHC) experience.

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application

(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

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

- (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

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

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

C

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

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

C

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

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

C

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

- (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

In Project ID # F-12319-23, the Agency determined the application was conforming to this criterion and the applicant proposes no changes in the current application that would affect the determination.

- (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, page 148, the applicant identifies the acute care hospitals located in North Carolina owned, operated or managed by the applicant or a related entity. The applicant identifies a total of 25 of this type of facility located in North Carolina.

In Section O, pages 102-103, the applicant states that, during the 18 months immediately preceding the submittal of the application, two facilities identified in Form O were determined to have had situations resulting in a finding of immediate jeopardy: Columbus Regional and St. Luke's Hospital. According to the files in the Acute and Home Care Section Licensure and Certification Section, DHSR, during the 18 months immediately preceding submission of the application through the date of this decision, incidents related to quality of care occurred at Columbus Regional. A plan of correction was submitted and as of April 25, 2023, and the facility is back in compliance. St. Luke's Hospital received a complaint investigation which resulted in an immediate jeopardy. The facility is pending re-survey. 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 25 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.

NA

There are no administrative rules applicable to the proposed project, therefore, this criterion is not applicable to this review.