

## REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conforming as Conditioned

NC = Nonconforming

NA = Not Applicable

Decision Date: November 19, 2024

Findings Date: November 19, 2024

Project Analyst: Tanya M. Saporito

Co-Signer: Michael J. McKillip

Project ID #: N-12541-24

Facility: Scotland Memorial Hospital

FID #: 933446

County: Scotland

Applicant: Scotland Memorial Hospital, Inc.

Project: Develop no more than 20 additional acute care beds pursuant to the 2024 SMFP need determination

### 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

Scotland Memorial Hospital, Inc. (“the applicant”) proposes to add no more than 20 acute care beds to Scotland Memorial Hospital (“SMH”) pursuant to the need determination in the 2024 State Medical Facilities Plan (SMFP) for 26 acute care beds in Scotland County. SMH is an existing acute care hospital currently licensed for 97 acute care beds. Upon project completion, SMH will be licensed for 117 acute care beds

#### **Need Determination**

Chapter 5 of the 2024 State Medical Facilities Plan (SMFP) includes a methodology for determining the need for additional acute care (AC) beds in North Carolina by service area. Application of the need methodology in the 2024 SMFP identified a need for 26 additional acute care beds in the Scotland County acute care bed service area.

## 2024 SMFP: Applicant criteria for acute care beds

On pages 34-35, the 2024 SMFP states:

*“A person who proposes to operate additional acute care beds in a hospital must show that the hospital will provide:*

- (1) a 24-hour emergency services department,*
- (2) inpatient medical services to both surgical and non-surgical patients, and*
- (3) if proposing a new licensed hospital, medical and surgical services on a daily basis within at least five of the following major diagnostic categories (MDC) recognized by the Centers for Medicare & Medicaid services listed below... [listed on pages 34-35 of the 2024 SMFP].”*

The applicant does not propose to develop more acute care beds than are determined to be needed in Scotland County. In Section B, page 24, the applicant adequately demonstrates that it meets the requirements imposed on persons proposing to operate additional acute care beds in a hospital as outlined in Chapter 5 of the 2024 SMFP.

## Policies

There are two policies in the 2024 SMFP applicable to this review: Policy GEN-3: *Basic Principles* and Policy GEN-4: *Energy Efficiency and Sustainability for Health Service Facilities*.

*Policy GEN-3: Basic Principles*, on page 29 of the 2024 SMFP states:

*“A certificate of need applicant applying to develop or offer a new institutional health service for which there is a need determination in the North Carolina State Medical Facilities Plan shall demonstrate how the project will promote safety and quality in the delivery of health care services while promoting equitable access and maximizing healthcare value for resources expended. A certificate of need applicant shall document its plans for providing access to services for patients with limited financial resources and demonstrate the availability of capacity to provide these services. A certificate of need applicant shall also document how its projected volumes incorporate these concepts in meeting the need identified in the State Medical Facilities Plan as well as addressing the needs of all residents in the proposed service area.”*

In Section B, pages 26-28, the applicant explains why it believes its application is consistent with Policy GEN-3.

*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 of energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4. The plan shall not adversely affect patient or resident health, safety or infection control."*

The proposed capital expenditure for this project is greater than \$5 million. In Section B, pages 29-30, the applicant provides a written statement describing the project's plan to improve energy efficiency and conserve water.

### **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 following:

- The applicant does not propose to develop more acute care beds than are determined to be needed in the service area and meets the requirements imposed on persons proposing to add additional acute care beds to a hospital as described in Chapter 5 of the 2024 SMFP.
- The applicant adequately demonstrates that the proposal is consistent with Policy GEN-3 based on the following:
  - The applicant documents how the project will promote quality in the delivery of acute care services in Scotland County and how the hospital has quality measures in place to ensure quality care on page 26 and in referenced exhibits;
  - The applicant documents that the project will promote equitable access to acute care services in Scotland County on page 27 and in referenced exhibits;

- The applicant documents that the project will maximize healthcare value in the delivery of acute care services in Scotland County on page 27 and in referenced exhibits;
  - The applicant adequately demonstrates that the proposal is consistent with Policy GEN-4 because the applicant adequately demonstrates 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 to add 20 acute care beds to the existing hospital pursuant to the 2024 SMFP need determination for a total of 117 acute care beds upon project completion.

**Patient Origin**

On page 32, 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 Scotland County as its own acute care bed service area. Thus, the service area for this facility is Scotland County. Facilities may also serve residents of counties not included in their service area.

In Section C, page 33 the applicant provides the following historical patient origin for SMH acute care beds for FFY 2023:

SMH HISTORICAL PATIENT ORIGIN ACUTE CARE BEDS FFY 2023		
COUNTY	# OF PATIENTS	% OF TOTAL
Scotland	2,444	42.0%
Robeson	1,900	32.7%
Marlboro, SC	1,052	18.1%
Richmond	144	3.0%
Other*	244	4.2%
<b>Total</b>	<b>5,818</b>	<b>100.0%</b>

\*The applicant provides a list of counties that comprise the “other” category on page 33.

In Section C, page 35 the applicant provides the following projected patient origin for SMH acute care beds for the first three full FFYs of operation, FFY2029-2031:

<b>SMH PROJECTED PATIENT ORIGIN ACUTE CARE BEDS FFY 2029-2031</b>						
<b>COUNTY</b>	<b>PY 1 (FFY 2029)</b>		<b>PY 2 (FFY 2030)</b>		<b>PY 3 (FFY 2031)</b>	
	<b># OF PATIENTS</b>	<b>% OF TOTAL</b>	<b># OF PATIENTS</b>	<b>% OF TOTAL</b>	<b># OF PATIENTS</b>	<b>% OF TOTAL</b>
Scotland	3,181	42.0%	3,324	42.0%	3,473	42.0%
Robeson	2,473	32.7%	2,584	32.7%	2,700	32.7%
Marlboro, SC	1,370	18.1%	1,431	18.1%	1,495	18.1%
Richmond	230	3.0%	240	3.0%	251	3.0%
Other*	318	4.2%	332	4.2%	347	4.2%
<b>Total</b>	<b>7,572</b>	<b>100.0%</b>	<b>7,911</b>	<b>100.0%</b>	<b>8,266</b>	<b>100.0%</b>

\*The applicant provides a list of counties that comprise the “other” category on page 33.

In Section C, page 35 the applicant provides the assumptions and methodology used to project patient origin. The applicant’s assumptions are reasonable and adequately supported because they are based on historical patient origin for SMH acute care beds. The applicant states it does not expect the addition of 20 acute care beds to have any impact on patient origin.

**Analysis of Need**

In Section C, page 37-44, the applicant explains why it believes the population projected to utilize the proposed services needs the proposed services, summarized as follows:

- Aging population and overall health status of Scotland County residents – The applicant cites the North Carolina Office of State Budget and Management (NC OSBM) data that shows that, while the overall Scotland County population decreased between FY 2014-2024, the over 65 Scotland County population increased by 21.9% during the same time. Additionally, the over 65 Scotland County population is projected to increase by a compound annual growth rate (CAGR) of 0.4% from 2024-2029. The applicant states the over 65 population is the cohort that typically utilizes acute care services more frequently than younger populations. The projected growth in the 65+ population, combined with poor health risk factors and chronic disease incidence rates in Scotland County indicate an increased and continuing need for additional acute care beds at SMH (pages 37-41).
- Need for additional acute care capacity in Scotland County – The applicant operates the only hospital in Scotland County. The applicant’s internal data shows acute care days at SMH increased by a CAGR of 4.5% from FY 2019-2023 and are projected to continue to increase. The increased utilization creates capacity constraints which negatively impact hospital operations and patient throughput.

Additionally, SMH’s emergency department (ED) is regularly utilized as a holding area for those patients waiting for an acute care bed to become available, despite the utilization of additional temporary beds. Holding patients in the ED while awaiting an

acute care bed creates capacity constraints for emergency patients in need of care. The applicant states the “*ED boarding holds*” increased by 43.2% from FY 20223-2024.

The applicant states its observation beds are also increasingly utilized, and when an observation patient needs to be admitted, there are capacity constraints because there is insufficient acute care capacity at SMH. The applicant states these capacity issues must be addressed in order for the applicant to continue to provide quality care and timely access to acute care services at SMH (pages 41-44).

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

- There is a need determination in the 2024 SMFP for 26 additional acute care beds in Scotland County.
- SMH is the only hospital in Scotland County and the hospital that generated the need determination for the additional acute care beds.
- The applicant provides reliable data and uses reasonable assumptions based on the data to demonstrate projected population growth in the area, particularly in the 65+ age cohort.
- The applicant documents its existing capacity constraints at the hospital due to insufficient acute care capacity, which impact observation patients and emergency capacity at the hospital.

#### Projected Utilization

In Section Q, “*Form C Utilization – Assumptions and Methodology*”, on pages 104-107, the applicant provides the assumptions and methodology used to project utilization, summarized below:

- The applicant examined historical total acute care days at SMH from FY 2019-2023, which increased by a CAGR of 4.5%. The applicant states the increase in acute care days resulted in increased occupancy rates as well – from 59.8% if FY 2019 to 76.9% in FY 2022. FY 2023 occupancy was 71.3%. The applicant states average length of stay (ALOS) at SMH decreased from 4.5 to 4.1 following the Pandemic, which contributed to the lower total acute care days.
- Relying on the population growth projections for the over 65 population and the disease incidence and health factors present in Scotland County, the applicant projects utilization at SMH using the historical CAGR of 4.5%. The applicant states discharges at SMH were calculated by dividing the projected acute care days by the ALOS, all of which is based on historical utilization. The applicant holds constant the ALOS of 4.1.

The following table summarizes the applicant’s utilization projections:

**SMH Projected Acute Care Bed Utilization, FFY 2024-2031**

	FY 24	FFY 25	FFY 26	FFY 27	FFY 28*	PY 1	PY 2	PY 3	CAGR
Total Acute Care Days	25,002	26,124	27,297	28,522	29,802	31,140	32,537	33,998	4.5%
Average Daily Census	68.5	71.6	74.8	78.1	81.6	85.3	89.1	93.1	
# Licensed Beds	92	92	92	92	112	112	112	112	
Occupancy	74.5%	77.8%	81.3%	84.9%	72.9%	76.2%	79.6%	83.2%	
ALOS	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	

Source: Application Section Q, "Form C Utilization – Assumptions and Methodology", page 107.

\*The applicant states the licensed beds are expected to increase during FFY 2028, in the interim year.

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

- SMH is the only hospital in Scotland County, and SMH’s utilization created the current need determination for 26 additional acute care beds in the 2024 SMFP for the Scotland County Acute Care Bed Service Area.
- The applicant relies on the Scotland County over 65 population growth rate to project future growth, since that is the population most likely to need acute care services.
- The applicant adequately documents the historical data that it uses to project utilization of the proposed acute care beds.

**Access to Medically Underserved Groups**

In Section C, page 51, the applicant states:

*“SMH provides services to all people in need of medical care. ... Scotland Health Care System does not deny care to any persons on the basis of race, color, religion, national origin, age, sex, sexual orientation, gender identity, gender expression, disability or source of payment as noted in its Financial Assistance Policies ....”*

On page 52, the applicant provides the estimated percentage of total patients for each medically underserved group during the third full fiscal year, as shown in the following table:

MEDICALLY UNDERSERVED GROUPS	ESTIMATED % OF TOTAL PATIENTS IN 3RD FULL FY
Low-income persons	
Racial and ethnic minorities	63.1%
Women	61.5%
Persons with disabilities	
Persons 65 and older	34.1%
Medicare beneficiaries	39.9%
Medicaid recipients	24.8%

In Section C, page 52 the applicant states that it does not maintain data on the number of low-income or disabled persons it serves and cannot reasonably estimate their percentage of total patients. The applicant states neither low-income persons nor disabled persons are denied access to services.

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 B.20-5 and B.20-4.

### **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 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.

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.

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

C

The applicant proposes to add 20 acute care beds pursuant to the 2024 SMFP need determination.

In Section E, page 64-65, the applicant describes the alternatives it considered and explains why each alternative is either more costly or less effective than the alternative proposed in this application to meet the need. The alternatives considered were:

Maintain the status quo: The applicant states this alternative is less not an effective alternative because it would result in the hospital continuing to operate with excess capacity, which causes



patient throughput issues and does not permit the hospital to provide quality, timely care for its patients. Developing the proposed acute care beds will alleviate existing capacity and care issues.

Develop a different number of acute care beds: The 2024 SMFP published a need determination in Scotland County for 26 acute care beds. The applicant proposes to develop 20 of the 26 acute care beds identified in the need determination. The applicant states that to develop fewer than 20 beds would not meet the hospital's need for additional acute care capacity at SMH. Additionally, the applicant states that developing all 26 beds would require a more significant and costly vertical expansion at the hospital, and thus would be inconsistent with the applicant's commitment to containing healthcare costs for its patients. Therefore, the applicant states developing a different number of acute care beds is not an effective alternative.

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

- There is a 2024 SMFP need determination for 26 acute care beds in Scotland County.
- 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. Scotland Memorial Hospital, Inc. (hereinafter certificate holder) shall materially comply with all representations made in the certificate of need application.**
- 2. The certificate holder shall develop no more than 20 new acute care beds at Scotland Memorial Hospital pursuant to the Need Determination in the 2024 SMFP.**
- 3. Upon project completion, Scotland Memorial Hospital shall be licensed for no more than 117 acute care beds.**
- 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 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. 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.
  7. 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 to add 20 acute care beds pursuant to the 2024 SMFP need determination for a total of 117 acute care beds upon project completion.

**Capital and Working Capital Costs**

In Section Q, Form F.1a, page 108, the applicant projects the total capital cost of the project as shown in the following table:

**SMH Projected Capital Costs**

Site Costs	\$500,000
Construction/Renovation	\$21,085,000
Miscellaneous Costs	\$6,581,370
<b>Total</b>	<b>\$28,166,370</b>

In Section Q, page 109, the applicant provides the assumptions used to project the capital cost. The applicant adequately demonstrates that the projected capital cost is based on reasonable and adequately supported assumptions based on the following:

- Cost estimates are based on the applicant and the architect's experience with similar projects.
- In Exhibit F.1 the applicant provides a July 19, 2024 letter signed by the project architect certifying the project construction costs.

In Section F, page 68, the applicant states there will be no start-up costs or initial operating expenses because the proposed project does not include a new service or facility.

**Availability of Funds**

In Section F, page 66, the applicant states the capital cost will be funded with the accumulated reserves of Scotland Memorial Hospital, Inc.

In Exhibit F.2-1, the applicant provides an August 15, 2024 letter signed by the Chief Operations and Finance Officer for Scotland Health Care System, the ultimate parent company of Scotland Memorial Hospital, Inc. that confirms the availability of sufficient accumulated reserves for the project and commits those funds to the project. In Exhibit F.2-2, the applicant provides the audited financial statements for Scotland Health Care System for years ending September 30, 2023 that documents sufficient cash reserves for the project development.

The applicant adequately demonstrates the availability of sufficient funds for the capital needs of the project based on the following:

- The applicant provides documentation from the appropriate Scotland Health Care System officials confirming the availability of sufficient funds for the project and committing those funds to the project.
- The applicant provides documentation from the project architect verifying the construction costs associated with the project.

**Financial Feasibility**

In Section Q, Form F.2b, page 111 the applicant provides pro forma financial statements for the first three full fiscal years (FY), October 1 – September 30 for SMH following project completion, as shown in the following table:

ACUTE CARE BEDS	INTERIM FY	1ST FULL FY	2ND FULL FY	3RD FULL FY
	FY 2028	FY 2029	FY 2030	FY 2031
Total Patient Days (Form C.1b)	29,802	31,140	32,537	33,998
Total Gross Revenues (Charges)	\$128,436,305	\$138,256,143	\$148,795,494	\$160,138,267
Total Net Revenue	\$40,771,246	\$43,879,264	\$47,224,207	\$50,824,138
Average Net Revenue per Patient Day	\$1,368	\$1,409	\$1,451	\$1,495
Total Operating Expenses (Costs)	\$42,508,883	\$45,729,122	\$48,991,285	\$52,498,817
Average Operating Expenses per Patient Day	\$1,426	\$1,469	\$1,506	\$1,544
<b>Net Profit</b>	(\$1,737,637)	(\$1,849,858)	(\$1,767,078)	(\$1,674,679)

Although the applicant’s financial pro forma forms project a loss in the first three full fiscal years following project completion, the applicant projects a positive overall cash flow in all three project years. Additionally, the audited financial statements in Exhibit F.2-2 show cash and cash equivalents of \$20,597,281 and total assets of \$338,048,507 for year ending December 31, 2023. In Section Q, page 114, the applicant states:

*“Cash Flow projects Scotland Memorial Hospital's cash flow generated by the service component by removing non-cash depreciation expense from the original net income, which results in positive cash flow each year. While net income is negative, a positive cash flow demonstrates financial feasibility. Further, as shown on page 31 of Exhibit F.2-2 Audited Financial Statements, Scotland Memorial Hospital generated significant operating income in FY 2023 which it expects to continue. The Hospital’s operating income can easily absorb the small net loss generated by this service component.”*

The assumptions used by the applicant in preparation of the pro forma financial statements are provided in Section Q, pages 114-115. The applicant adequately demonstrates that the financial feasibility of the proposal is reasonable and adequately supported based on the following:

- The applicant clearly details the sources of data used to project revenues and expenses.
- The applicant bases projections on his own historical experience.
- 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 to add 20 acute care beds pursuant to the 2024 SMFP need determination for a total of 117 acute care beds upon project completion.

On page 32, 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 Scotland County as its own acute care bed service area. Thus, the service area for this facility is Scotland County. Facilities may also serve residents of counties not included in their service area.

Table 5A on page 42 of the 2024 SMFP shows that Scotland Memorial Hospital is the only hospital in Scotland County. In Section G, page 76, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved acute care bed services in Scotland County. The applicant states:

*“SMH is the only hospital in Scotland County and drove the need determination for acute care beds in the 2024 SMFP. Further, ... SMH is experiencing capacity constraints due to high occupancy rates, which is negatively impacting multiple aspects of hospital operations. For example, an increasing number of patients are being held in the emergency department at SMH until a bed is available for admission. With the development of 20 licensed acute care beds, SMH will be able to mitigate existing capacity constraints. Thus, the proposed project will not result in any unnecessary duplication of services.”*

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

- There is a need determination in the 2024 SMFP for the proposed acute care beds.
- The applicant is the only provider of acute care hospital services in Scotland County.
- The applicant adequately demonstrates that the proposed acute care beds are needed in addition to the existing or approved acute care beds.

**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 all the reasons described 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 to add 20 acute care beds pursuant to the 2024 SMFP need determination for a total of 117 acute care beds upon project completion.

In Section Q, Form H, page 116, the applicant provides current and projected full-time equivalent (FTE) staffing for the proposed services, as illustrated in the following table:

POSITIONS	HISTORICAL	PROJECTED		
	AS OF 9/30/23	1 <sup>ST</sup> FULL FY	2 <sup>ND</sup> FULL FY	3 <sup>RD</sup> FULL FY
		FFY 2029	FFY 2030	FFY 2031
Registered Nurses	63.7	82.9	86.6	90.5
Certified Nurse Aides/Assistants	10.9	14.2	14.8	15.5
Unit Secretary	5.4	7.0	7.3	7.7
LPN	0.9	1.2	1.2	1.3
Supervisory	4.0	5.2	5.4	5.7
Patient Care Technician	30.4	39.6	41.3	43.2
PRN	41.5	54.0	56.4	59.0
Telemetry Technician	2.8	3.6	3.8	4.0
<b>Total</b>	<b>159.6</b>	<b>207.7</b>	<b>217.0</b>	<b>226.8</b>

The assumptions and methodology used to project staffing are provided in Section Q, page 117. Adequate operating expenses for the health manpower and management positions proposed by the applicant are budgeted in F.2b. In Section H, pages 78-79 the applicant describes the methods used to recruit or fill new positions and its existing training and continuing education programs.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services based on the following:

- Scotland Health Care System utilizes newspapers, journals, online job boards, and other appropriate media for staff recruitment. Scotland Health Care System also participates in college, university, and professional career fairs and professional conventions, as well as local colleges and universities.
- Scotland Health Care System provides educational incentives such as scholarships.
- Scotland Health Care System has several policies and procedures in place to ensure proper training and continuing education programs for staff.

## **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

The applicant proposes to add 20 acute care beds pursuant to the 2024 SMFP need determination for a total of 117 acute care beds upon project completion.

## **Ancillary and Support Services**

In Section I, page 80 the applicant identifies the necessary ancillary and support services for the proposed services and explains how each ancillary and support service is or will be made available. The applicant provides supporting documentation in Exhibit I.1. The applicant adequately demonstrates that the necessary ancillary and support services will be made available because Scotland Memorial Hospital is an existing acute care hospital with ancillary and support services already in place to support the addition of the acute care beds. The applicant confirms those same services will continue to be offered following the addition of the proposed acute care beds.

## **Coordination**

In Section I, page 81 the applicant describes its existing and proposed relationships with other local health care and social service providers and provides supporting documentation in Exhibit I.2. The applicant adequately demonstrates that the proposed services will be coordinated with the existing health care system based on the following:

- Scotland Memorial Hospital has established relationships with local healthcare and social service providers, and these relationships will continue following project completion.
- In Exhibit I.2, the applicant provides letters from local health care and social service providers indicating support for the proposed project.

## **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.

- (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:
- would be available under a contract of at least 5 years duration;
  - would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
  - would cost no more than if the services were provided by the HMO; and
  - 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 to add 20 acute care beds pursuant to the 2024 SMFP need determination for a total of 117 acute care beds upon project completion.

In Section K, page 84, the applicant states the project involves 16,360 square feet of new construction. Line drawings are provided in Exhibit C.1.

On pages 84-85, 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 construction will be vertical construction above the hospital's new operating room suite, thereby containing costs that may be associated with other construction.
- The applicant states it applied for 20 of the 26 acute care beds that are needed in Scotland County.

On page 85, 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 the proposed costs are necessary to ensure the proposed bed expansion can be developed, which will enhance access to essential acute care services for patients.
- The applicant states Scotland Health Care System has set aside excess revenues from previous years to enable it to pay for projects such as the proposed project, without necessitating an increase in costs or charges.

In Section K, page 85 the applicant identifies the applicable energy saving features that will be incorporated into the construction plans.

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application

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

In Section L, page 88, the applicant provides historical payor mix for SMH during FFY 2023 as shown in the table below:

<b>SMH HISTORICAL PAYOR MIX 10/01/2022-09/30/2023</b>	
<b>PAYOR CATEGORY</b>	<b>PERCENT OF TOTAL</b>
Self-Pay	5.4%
Medicare*	47.9%
Medicaid*	20.9%
Insurance*	20.6%
Workers Compensation	0.3%
TRICARE	0.6%
Other government, other payor	4.2%
<b>Total</b>	<b>100.0%</b>

\*Including any managed care plans.

^The applicant states SMH internal data does not include charity care as a payor source for its patients, and that patients in any payor category can and do receive charity care.

In Section L, page 89 the applicant provides the following comparison:

SMH	PERCENTAGE OF TOTAL PATIENTS SERVED BY THE FACILITY OR CAMPUS DURING THE LAST FULL FY	PERCENTAGE OF THE POPULATION OF THE SERVICE AREA
Female	61.5%	48.6%
Male	38.5%	51.4%
Unknown	0.0%	0.0%
64 and Younger	65.9%	81.5%
65 and Older	34.1%	18.5%
American Indian	26.7%	13.2%
Asian	0.4%	1.0%
Black or African American	35.3%	39.5%
Native Hawaiian or Pacific Islander	0.1%	0.1%
White or Caucasian	33.9%	43.2%
Other Race	0.6%	3.0%
Declined / Unavailable	3.0%	0.0%

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 applicant adequately documents the extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved. Therefore, the application is conforming to this criterion.

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

C

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section L, page 90 the applicant states:

*“SMH has no obligation to provide a specific uncompensated care amount, community service, or access to care by medically underserved, minorities, or handicapped persons. SMH provides and will continue to provide services to all persons in need of medical care, regardless of race, color,*

*religion, national origin, sex, sexual orientation, gender identity, gender expression, disability, or ability to pay.”*

In Section L, page 91 the applicant states that during the 18 months immediately preceding the application deadline, no patient civil rights access complaints have been filed against SMH.

The Agency reviewed the:

- Application
- Exhibits to the application

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

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

C

In Section L, pages 91-92 the applicant projects payor mix for the hospital as a whole and for the proposed acute care beds during the third full federal fiscal year of operation following project completion, as shown in the following tables:

<b>SMH TOTAL HOSPITAL PROJECTED PAYOR MIX 10/01/2030-09/30/2031</b>	
<b>PAYOR CATEGORY</b>	<b>PERCENT OF TOTAL</b>
Self-Pay	2.7%
Charity Care^	--
Medicare*	47.9%
Medicaid*	23.6%
Insurance*	20.6%
Workers Compensation	0.3%
TRICARE	0.6%
Other government, other payor	4.2%
<b>Total</b>	<b>100.0%</b>

\*Including any managed care plans.

^The applicant states SMH internal data does not include charity care as a payor source for its patients, and that patients in any payor category can and do receive charity care.

As shown in the table above, during the third full fiscal year of operation, the applicant projects that 2.7% of total hospital services will be provided to self-pay patients, 47.9% to Medicare patients and 23.6% to Medicaid patients.

<b>SMH ACUTE CARE BEDS PROJECTED PAYOR MIX 10/01/2030-09/30/2031</b>	
<b>PAYOR CATEGORY</b>	<b>PERCENT OF TOTAL</b>
Self-Pay	2.2%
Charity Care^	--
Medicare*	59.8%
Medicaid*	20.1%
Insurance*	13.4%
Workers Compensation	0.0%
TRICARE	0.4%
Other government, other payor	4.1%
<b>Total</b>	<b>100.0%</b>

\*Including any managed care plans.

^The applicant states SMH internal data does not include charity care as a payor source for its patients, and that patients in any payor category can and do receive charity care.

As shown in the table above, during the third full fiscal year of operation, the applicant projects that 2.2% of acute care bed services will be provided to self-pay patients, 59.8% to Medicare patients and 20.1% to Medicaid patients.

On page 91, the applicant provides the assumptions and methodology used to project payor mix following project completion. The projected payor mix is reasonable and adequately supported because it is based on the hospital's FFY 2023 historical payor mix, and accounting for Medicaid expansion.

The Agency reviewed the:

- Application
- Exhibits to the application

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

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

The Agency reviewed the:

- Application
- Exhibits to the application

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

- (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 to add 20 acute care beds pursuant to the 2024 SMFP need determination for a total of 117 acute care beds upon project completion.

In Section M, page 94 the applicant describes the extent to which health professional training programs in the area currently have and will continue to have access to SMH for training purposes. The applicant provides supporting documentation in Exhibit M.1. The applicant adequately demonstrates that health professional training programs in the area have access to the facility for training purposes based on the following:

- SMH currently provides professional training opportunities with area colleges and universities and states it will continue following project completion.
- In Exhibit M.1, the applicant provides a list of SMH's existing agreements with health professional training programs.

### **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.

- (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 to add 20 acute care beds pursuant to the 2024 SMFP need determination for a total of 117 acute care beds upon project completion.

On page 32, 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 Scotland County as its own acute care bed service area. Thus, the service area for this facility is Scotland County. Facilities may also serve residents of counties not included in their service area. Table 5A on page 42 of the 2024 SMFP shows that Scotland Memorial Hospital is the only hospital in Scotland County.

Regarding the expected effects of the proposal on competition in the service area, in Section N, page 95 the applicant states:

*“The proposed project is expected to enhance competition in the service area by promoting cost effectiveness, quality, and access to acute care services. While SMH is the only acute care hospital in Scotland County, the hospital competes with other providers in the region as Scotland County residents choose multiple providers for care. Approval of additional acute care beds at SMH will enhance competition through enabling sufficient capacity for SMH such that it can continue to compete for acute care patients.”*

Regarding the impact of the proposal on cost effectiveness, in Section B, page 27 the applicant states:

*“The proposed project is an extension of SMH’s commitment to ensuring that the hospital is able to appropriately serve the community, while containing healthcare costs and maximizing the healthcare benefit per dollar expended. Even though the addition of 20 acute care beds requires the expenditure of capital costs for their development, SMH believes the additional capacity to care for a growing number of patients can be developed efficiently and at a reasonable cost..”*

See also Sections C, F, and Q of the application and any exhibits.

Regarding the impact of the proposal on quality, in Section B, page 26 the applicant states:

*“Through its parent company Scotland Health Care System, SMH has quality policies and procedures in place. These policies assure high quality care is provided through a variety of mechanisms, including a Risk Management Plan, Utilization Management Plan, and Performance Improvement/Patient Safety Program..”*

See also Sections C and O of the application and any exhibits.

Regarding the impact of the proposal on access by medically underserved groups, in Section B, page 26 the applicant states:

*“The increased capacity of licensed acute care beds will allow for more patients to be served, including the medically underserved, without concern for capacity constraints to the facility. The proposed project will be developed in such a way that healthcare value is maximized for both current and future value.”*

See also Sections L and C of the application and any exhibits.

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates the proposal would have a positive impact on cost-effectiveness, quality, and access because the applicant adequately demonstrates that:

- 1) The proposal is cost effective because the applicant adequately demonstrated: a) the need the population to be served has for the proposal; b) that the proposal would not result in an unnecessary duplication of existing and approved health services; and c) that projected revenues and operating costs are reasonable.
- 2) Quality care would be provided based on the applicant’s representations about how it will ensure the quality of the proposed services and the applicant’s record of providing quality care in the past.
- 3) Medically underserved groups will have access to the proposed services based on the applicant’s representations about access by medically underserved groups and the projected payor mix.

### **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 based on all 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

The applicant operates the only existing hospital in Scotland County and no other facilities in the state of North Carolina.

In Section O, page 97 the applicant states that, during the 18 months immediately preceding the submittal of the application, there were no incidents related to immediate jeopardy that occurred at SMH.



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 were no incidents related to quality of care at SMH. 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 SMH, 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

The Criteria and Standards for Acute Care Beds promulgated in 10A NCAC 14C .3800 are applicable to this review. The application is conforming to all applicable criteria, as discussed below.

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

*An applicant proposing to develop new acute care beds in a hospital pursuant to a need determination in the annual State Medical Facilities Plan in effect as of the first day of the review period shall:*

(1) *document that it is a qualified applicant;*

-C- In Section B, page 24 the applicant adequately documents that it is a qualified applicant. The discussion regarding persons who can develop new acute care beds found in Criterion (1) is incorporated herein by reference.

(2) *provide projected utilization of the existing, approved, and proposed acute care beds for the applicant hospital during each of the first three full fiscal years of operation following completion of the project;*

-C- In Section Q, Form C.1b, page 104 the applicant provides projected utilization of all existing, approved, and proposed acute care beds during each of the first three full federal fiscal years of operation following project completion. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

(3) *project an occupancy rate of the existing, approved, and proposed acute care beds for the applicant hospital during the third full fiscal year of operation following completion of the project that equals or exceeds the target occupancy percentage;*

- C- In Section Q, Form C.1b, page 104 the applicant projects an occupancy rate of the existing, approved, and proposed acute care beds during the first three full federal fiscal years of operation following project completion that exceeds the target occupancy percentage. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.
- (4) *provide projected utilization of the existing, approved, and proposed acute care beds for the hospital system during each of the first three full fiscal years of operation following completion of the project;*
- C- In Section Q, Form C.1b, page 104 the applicant provides projected utilization of the existing, approved, and proposed acute care beds during each of the first three full federal fiscal years of operation following project completion. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.
- (5) *project an average occupancy rate of the existing, approved, and proposed acute care beds for the hospital system during the third full fiscal year of operation following completion of the project that equals or exceeds the target occupancy percentage of:*
  - (a) *66.7 percent if the ADC is less than 100;*
  - (b) *71.4 percent if the ADC is 100 to 200;*
  - (c) *75.2 percent if the ADC is 201 to 399; or*
  - (d) *78.0 percent if the ADC is greater than 400; and*
- C- In Section Q, page 107 the applicant projects an occupancy rate of 83.2% for all existing, approved, and proposed acute care beds during the third full fiscal year of operation following project completion. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.
- (6) *provide the assumptions and methodology used to project the utilization and occupancy rates required in Items (2), (3), (4), and (5) of this Rule.*
- C- In Section Q, pages 105-107 the applicant provides the assumptions and methodology used to project the utilization and occupancy rates required in Items (2), (3), (4), and (5) of this Rule. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.