WRITTEN COMMENTS REGARDING PETITION FOR AN ADJUSTED NEED DETERMINATION FOR ONE OPERATING ROOM IN THE 2017 STATE MEDICAL FACILITIES PLAN

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Background

On July 28, 2016, Graystone Eye Surgery Center, LLC (Graystone) submitted a petition for an adjusted need determination to include need for one additional surgical operating room (OR) in the Catawba County service area in the 2017 State Medical Facilities Plan (SMFP).

Graystone is aware that Catawba Valley Medical Center (CVMC) submitted comments regarding Graystone's petition. This document responds to CVMC's written comments.

Our petition to expand operating room capacity in Catawba County is not intended in any way to diminish the essential role that CVMC plays in the Unifour area. We respect and value the importance of Catawba Valley Medical Center as an indispensable resource in our local healthcare provider network. Indicative of this support, two of our physicians serve in key roles at CVMC: Dr. Reginald Williams serves on the Board of Trustees, and Dr. Richard Chang serves as the hospital's Chief of Surgery.

CVMC Contention: Catawba County Ambulatory Surgical Trends

Graystone Comments: CVMC's comments affirm one of Graystone's primary points, which is that ambulatory surgical cases have shifted from hospitals to ambulatory surgery centers. CVMC claims the rate of shift has declined in recent years; however, this is not true as summarized in Table 1.

Table 1
Catawba County Ambulatory Surgical Utilization by Site

	FY2011	FY2012	FY2013	FY2014	FY2015
Graystone Eye Surgery Center	4,999	5,770	6,025	5,924	6,069
Viewmont Surgery Center	2,767	2,327	2,614	2,450	2,905
Frye Regional Medical Center	5,416	4,959	4,748	4,455	4,564
Catawba Valley Medical Center	5,718	5,689	5,021	5,368	5,316
Total	18,900	18,745	18,408	18,197	18,854
Total Cases in ASCs	**7,766**	**8,097**	**8,639**	**8,374**	**8,974**
% of Total Outpatient Cases Performed in ASCs	**41.1%**	**43.2%**	**46.9%**	**46.0%**	**47.6%**

Source: 2013-2016 SMFP, Proposed 2017 SMFP; Graystone Eye petition, page 7

As shown in Table 1, the percent of total ambulatory surgical cases performed in ASCs increased from 41.1% in FY2011 to 47.6% in FY2015. The number of ambulatory surgical cases performed in ASCs experienced an overall four-year compound annual growth rate (CAGR) of 3.7%.

CVMC cites MedPac data to support its contention; however, the MedPac data sited is from 2010 and 2011, and therefore is dated and not particularly relevant. The more recent data in Table 1 reinforces that there is a pronounced increase in the number of ambulatory surgical cases being performed in Catawba County ambulatory surgery centers. As stated in Graystone's petition, only five (5) of Catawba County's 39 ORs are located in an ASC (5 ÷ 39 = 12.8%), while 47.6% of outpatient surgery cases in Catawba County are performed in ASCs. In summary, this helps to justify our concern for the lack of ASC capacity in

Catawba County, and for our petition to determine need for an additional operating room.

CVMC states that overall ambulatory surgical utilization has remained flat; however, that is due to the loss of market share by the two Catawba County hospitals. Given the limited access to freestanding ambulatory surgery centers within Catawba County, patients in need of outpatient surgery are increasingly traveling to other counties to have these procedures. For example, according to the 2014 and 2015 Ambulatory Surgery Patient Origin Reports provided by the DHSR Healthcare Planning and Certificate of Need Section, the outmigration for Catawba County residents obtaining ambulatory surgery in a different county increased from 22.5% in FY2014 to 25.5% in FY2015. Of particular significance was a 55% increase in the number of Catawba County residents who had ambulatory surgical cases performed in Mecklenburg County ASCs (FY2014: 169, FY2015: 262)[1]. This is evidence that the need for access to dedicated ambulatory surgical operating rooms in Catawba County will continue to increase based on the demographic, epidemiologic, and patient in-migration factors described in Graystone's petition. Hospitals will continue to experience declining ambulatory surgical volume as patients choose to utilize more cost effective and convenient alternatives for their surgical care.

CVMC Contention: Catawba County Ambulatory Surgical Use Rate

Graystone Comments: CVMC claims that Graystone failed to properly calculate the Catawba County ambulatory surgical use rate. CVMC states that Graystone should have used only the surgical cases for Catawba County residents to calculate the ambulatory surgical use rate. Three points are relevant in this regard:

First, Table 2 in Graystone's petition is an accurate comparison of the ambulatory surgical use in each county of HSA I. The use rate is calculated based on the total number of ambulatory surgical cases performed in each county, and each county's use rate is calculated the same way. The important point is that Catawba County has the highest use rate of all the counties.

Second, calculating the Catawba County ambulatory surgical use rate based only on cases performed on Catawba County residents <u>is not an accurate representation of the actual use of surgical operating rooms in Catawba County</u>. As described in Graystone's petition, there is a high percentage of county in-

[1] Source: 2014 -2015 License Renewal Applications for Mecklenburg County Ambulatory Surgical Centers

migration for Catawba County's operating rooms. According to the 2015 Ambulatory Surgery Destination Patient Origin Report provided by the DHSR Healthcare Planning and Certificate of Need Section, only 48.6% (9,163 ÷ 18,870) of all FY2015 ambulatory surgical cases performed in Catawba County were for Catawba County residents. Over 51% (9,707 ÷ 18,870) of FY2015 ambulatory surgical cases performed in Catawba County were for residents from other counties. Therefore, CVMC's calculated use rate of 78.74 (see CVMC comments, page 3) represents only a portion of the actual surgical cases performed in Catawba County during FY2015. When evaluating the need for additional ambulatory surgical operating room capacity in Catawba County, it is simply not appropriate to exclude the majority of surgical volume actually performed in the county to calculate a use rate.

Third, for the sake of argument, even if one accepted CVMC's contention and considered operating room cases only for Catawba County residents, that use rate of 78.74 per 1,000 (which represents less than half of the surgical volume in Catawba County) is still over 21% higher compared to the statewide ambulatory surgical utilization rate of 64.91.

In summary, Graystone properly calculated a use rate in Catawba County that is representative of the actual use of ambulatory surgical services in Catawba County. And CVMC's calculation of a partial use rate actually supports Graystone's request for additional OR capacity in Catawba County because it also shows that ambulatory surgery utilization in Catawba County is much higher than the statewide average.

CVMC Contention: Catawba County ASC OR capacity

Graystone Comments: CVMC is skeptical that there is limited capacity in Catawba County ASCs to accommodate current and projected ambulatory surgical volume. In its petition, Graystone provided the estimation of its practical capacity based on the SMFP standard methodology to project need for surgical operating rooms. To be clear, Graystone's petition does not propose to change the standard methodology. In contrast, CVMC's written comments encourage the SHCC to change assumptions of the standard methodology when evaluating Graystone's petition. This would be inappropriate and inaccurate.

CVMC attempts to derive its own calculation of Graystone's OR capacity (CVMC comments, page 4) using information from Graystone's 2016 Ambulatory Surgical Facility License Renewal Application (LRA). CVMC utilized an average

case time of 20 minutes which was shown on page 12 of Graystone's 2016 LRA. However, the "definition" on how to complete the average "case time" is not specific regarding breakdown of procedures. The staff at Graystone who complete the annual LRAs are not health planning experts. Thus, in completing the LRA, Graystone provided the average case time for a cataract procedure, which is the most common procedure performed at GESC. However, approximately 20% of Graystone's surgical cases are retina, glaucoma, cornea and oculoplastics procedures – all of which require a case time of 50 to 90 minutes. It is important to note that these other cases were not included in the average case time on page 12 of Graystone's LRA. They merely provide an estimate of the most common surgical case performed in the ASC. Therefore, in response to CVMC's written comments, Graystone's weighted average case time is actually 30 minutes or more ((20*.8)+(70*.2)).

In summary, CVMC's attempted calculation of Graystone's capacity is not accurate and therefore invalid. As described in its petition, Graystone's surgical case volume speaks for itself. During FY2011-FY2015 Graystone's surgical volume experienced a 4-year CAGR of 5.0% (Graystone petition, page 8, Table 4). This growth was not achieved by simply shifting procedures from CVMC or Frye Regional Medical Center. Graystone's surgical case volume is based on organic market share growth in the UniFour and High County areas. As a result of this growth, as stated in the petition, some Graystone physicians are booked two months out for surgery. In addition, Graystone has recruited one new physician who will join the practice in August 2016, and three additional physicians who will join the practice during summer 2017. CVMC's inaccurate calculation of its perceived capacity is incongruent with the reality that Graystone experiences on a daily basis.

CVMC Contention: In-Migration

Graystone Comments: CVMC provides commentary on page 5 of its written comments regarding the percent of patients who travel to Catawba County for ambulatory surgical services. CVMC provides the following table which summarizes the percent of non-Catawba County residents treated at ASCs in Catawba County.

Percent of Non-Catawba County Residents Treated at ASCs in Catawba County

County of Patient Residence	Viewmont	Graystone	ASC Volume	Total Amb Surg Pts	% Treated at ASCs
Alexander	245	342	587	1,620	36.23%
Caldwell	428	1,070	1,498	2,929	51.14%
Lincoln	246	485	731	1,488	49.13%
Burke	263	226	489	1,143	42.78%
Total	1,182	2,123	3,305	7,180	46.03%

Source: CVMC written comments, page 5

The data in CVMC's table actually supports Graystone's petition for an adjusted need determination for one additional OR in Catawba County. CVMC shows that over half of Caldwell County residents who travel to Catawba County are served in an ASC, and that over 46% of Alexander-Caldwell-Lincoln-Burke County residents who travel to Catawba County are served in an ASC. As stated in Graystone's petition, only five (5) of Catawba County's 39 ORs are located in an ASC (5 ÷ 39 = 12.8%). It is compelling that over 46% of the total in-migration patients are served by Catawba County ASC ORs that account for only 12.8% of the county's total OR inventory. To the contrary of CVMC's intent, this data is indicative of the important role that ASCs play in Catawba County. Due to the limited capacity previously described in this document and in Graystone's petition, the percent of in-migration served in Catawba County ASC ORs could be even greater given additional access to dedicated-ambulatory surgical ORs.

CVMC Contention: Unnecessary Duplication

Graystone Comments: CVMC claims that the petition represents unnecessary duplication, because the Proposed 2017 SMFP operating room need determination for Catawba County should reflect a surplus of 15.7 operating rooms. This statement is both inaccurate and misleading. CVMC states the methodology should include the supply of operating rooms at Frye Regional Medical Center. While it is true that FRMC has a substantial inventory of operating rooms at its facility, it is not correct that this hospital OR inventory should be considered. Precisely the opposite is the case. As stated in Step 4m of the Methodology for Projecting Operating Room Need in the Proposed 2017 SMFP,

"Exclude from Step 5 – "Determination of Need" the operating rooms in chronically underutilized facilities located in operating room service areas with more than one licensed facility."

The SHCC purposely added this vital step to the OR methodology in 2008 to avoid the undesirable situation where a chronically underutilized health facility prevents a service area from reflecting necessary operating room inventory increases. Such a situation would unnecessarily limit local access to surgical services.

Thus, in fact, the FRMC volume of cases and supply of operating rooms are properly excluded specifically because FRMC is a "chronic underutilized" facility. FRMC has operated below 40% of OR capacity for several years. Given its huge number of operating rooms, it is exceedingly unlikely that the OR inventory at FRMC will ever be used at a level even close to capacity.

CVMC Contention: Impact of Aging Population

Graystone Comments: CVMC's comments actually validate Graystone's assertion that the Catawba County population is continuing to both increase and age, and that the growth of the population aged 65+ is likely to increase the demand for ambulatory surgery services. However, CVMC then takes this fact and runs too far with its claim that "the poor health conditions of many of these individuals make them unlikely candidates for surgery in freestanding ambulatory surgery centers". While there may certainly be individuals who match this CVMC description, the broad assumption that the elderly are neither appropriate nor likely users of ambulatory surgery centers is completely inaccurate. In fact, this age cohort is synonymous with the case volume at Graystone. As noted on page 9 of Graystone's petition, ophthalmic ambulatory surgery represents the largest volume of all outpatient surgical cases by specialty in Catawba County. And as shown on page 7 of CVMC's comments, during 2014 76.8% of surgery cases at GESC were Medicare patients (aged 65+).

CVMC Contention: Payor Mix

Graystone Comments: CVMC claims that financial accessibility would not be improved for patients with limited financial resources by approving the petition. CVMC has no basis for making this statement. As shown in Table 6 of the CVMC comments, GESC's combined payor mix for medically underserved patients (Medicare, Medicaid, self-pay/charity care/indigent) is nearly 79%. Graystone provides services to all patients, regardless of ability to pay. Graystone is a certified provider under Title XIX (Medicaid), and thus provides services to low-income persons. Graystone provides, and will continue to provide, charity care to the community. For example, each year over a 2-week period, Graystone performs free cataract and other ophthalmic surgical procedures to individuals qualified by the Department of Social Services (DSS) that have no financial means to obtain it. Graystone is the only ophthalmic practice in NC performing what's referred to as "Mission Cataract". In late 2015, Graystone was awarded a commendation from the Catawba County Association for the Blind for this service.

CVMC receives an exemption from paying taxes in exchange for a commitment that the hospital provides indigent care. By contrast, GESC is not tax exempt. GESC tax payments go, in part, towards government financial assistance for the medically indigent. While GESC thus does not share CVMC's tax exempt obligation to provide indigent care, GESC nonetheless does provide assistance to some patients who have little or no ability to pay.