



Wyrick Robbins Yates & Ponton LLP
ATTORNEYS AT LAW

4101 Lake Boone Trail, Suite 300, Raleigh, NC 27607

PO Drawer 17803, Raleigh, NC 27619

P: 919.781.4000 F: 919.781.4865 www.wyrick.com

LEE M. WHITMAN
lwhitman@wyrick.com

May 31, 2011

Received by the
CON Section

31 MAY 2011 10:120

VIA ELECTRONIC MAIL AND
VIA HAND-DELIVERY

Mr. Michael McKillip, Project Analyst
Certificate of Need Section
Division of Health Service Regulation
701 Barbour Drive
Raleigh, NC 27603

Re: **Public Comments Regarding Acute Care Beds in Wake County**

Dear Mr. McKillip:

This firm represents Harnett Health System ("HHS"). Please find enclosed public written comments from HHS regarding the certificate of need applications filed for 101 acute care beds in Wake County. Thank you for your attention to this matter and please contact me if you have any questions relating to these comments.

With best regards.

Sincerely,

WYRICK ROBBINS YATES & PONTON LLP



Lee M. Whitman

LMW/bg
Enclosure

cc: Kenneth Bryan, President and CEO
Mike Jones, Vice-President, Central Campus

COMMENTS REGARDING CERTIFICATE OF NEED APPLICATIONS FILED
FOR 101 ACUTE CARE BEDS IN WAKE COUNTY

Received by the
CON Section

Submitted by Harnett Health System
May 31, 2011

31 MAY 2011 10 8:12

Harnett Health System (HHS) would like to take this opportunity to submit comments regarding the Certificate of Need (CON) applications submitted for the May 1, 2011 review cycle requesting acute care beds in Wake County. In particular, HHS would like to comment on the proposals submitted by Rex Healthcare and Novant Holly Springs Hospital, each of which seeks to develop a 50-bed hospital in Holly Springs. HHS has significant concerns about the impact of a new acute care hospital on its Harnett Health Central Campus facility, which is currently under construction in Lillington.

HHS is a private, not-for-profit corporation based in Dunn, North Carolina. It currently operates Harnett Health Betsy Johnson Hospital, licensed for 101 acute care beds. HHS has been managed by WakeMed since 2005.

On August 15, 2005, co-applicants HHS, Harnett County (provider of the site), and WakeMed (as manager) submitted a CON application seeking approval to construct a new 50-bed hospital in Lillington, North Carolina (Project I.D. No. M-7351-05). Harnett Health Central Campus (HHCC) will include three shared operating rooms, one procedure room, a CT scanner, nuclear medicine equipment, and fixed MRI scanner (pursuant to Project I.D. No. M-8287-09).

The HHCC project was approved by the CON Section on January 27, 2006 and following the initial round of litigation, HHS was awarded the CON on February 5, 2007. The revised schedule projected that the funding would be obtained by April 1, 2008 and that the hospital would be operational by January 1, 2010. However, the case continued to the Court of Appeals, which issued a split decision supporting the project on April 15, 2008. Because of the uncertainty regarding the timeline and outcome of the litigation process, HHS did not actively proceed with development of the project until after the North Carolina Supreme Court declined to hear the case. Key steps in the development of the project include:

- On July 16, 2007, the Division of Health Service Regulation issued a declaratory ruling allowing HHS to change the proposed site to the Brightwater Campus in Lillington.
- On May 29, 2008, HHS requested a letter of material compliance from the CON Section granting it permission to change the project to include all private rooms, to increase the square footage from 85,638 to 87,486, and to increase the project cost by 10%. The CON Section approved this request on August 5, 2008.
- HHS engaged the accounting firm Dixon Hughes to perform a feasibility study, as required by the Medical Care Commission, in order to apply for bond financing for the project.
- HHS presented its proposal to the Medical Care Commission and requested approval to seek bond financing in May 2010. The Medical Care Commission denied HHS' request.
- HHS then began seeking alternative funding sources. Ultimately it was able to acquire a \$63 million loan from the USDA on September 30, 2010 and \$23 million in bond financing on May 11, 2011.
- HHS engaged Perkins+Will as architect for the project and Brasfield & Gorrie as the construction manager. Construction documents were completed on December 3, 2010 and have been approved by the Construction Section, Division of Health Service Regulation.
- On May 9, 2011, HHS seated its new board members.

- The official groundbreaking for the site was held on May 11, 2011; however, it should be noted that the site had already been cleared well before that date.
- Site grading began on May 22, 2011.
- The NC Department of Transportation has approved plans and will be starting construction of improvements to U.S. Highway 401 in Fall 2011, improving access to the Brightwater Campus and the hospital site.
- The Harnett Forward Together Committee has completed plans for infrastructure improvements for the Brightwater Campus that will provide internal access and utilities to the hospital. Completion is scheduled for Summer 2012.
- HHCC is now scheduled to open in December 2012.

Therefore, although the Rex application states that “WakeMed has yet to develop its replacement hospital in Harnett County”, the timetable above shows that HHS has been actively pursuing development of this project since the end of legal challenges. In addition, it should be noted that HHCC is not a replacement hospital and WakeMed is the manager of HHS, not the developer of the project.

HHS is committed to providing services in a caring environment in a manner that reflects quality, innovation and value, and HHCC will provide primary acute medical and surgical services in a location that is more convenient to residents of central and western Harnett County. It will have a joint medical staff with Harnett Health Betsy Johnson Hospital, which currently has over 100 physicians on its medical staff, including many specialists based in Wake County (e.g., cardiologists, nephrologists, oncologists, and urologists). The leadership in Harnett County, including the County, the City of Dunn, the Harnett Forward Together Committee, the Brightwater Campus Board, and many local citizens have worked together to build a strong regional provider of care in Harnett County. These applications threaten the success of the hard work of the residents and leaders of Harnett County.

While Harnett County is one of the fastest growing counties in the state, it is a rural county that is relatively poor when compared to its some of its more affluent neighbors and to the state. According to data provided by the Economic Development Intelligence System (<https://edis.commerce.state.nc.us/EDIS/demographics.html>) and the NC Employment Security Commission (<http://www.ncesc1.com/lmi/workForceStats/workForceMain.asp>), Harnett County lags behind the state in several important economic and demographic factors:

	Harnett	NC
2009 Median Household Income	\$44,773	\$51,418
2014 Median Household Income	\$47,561	\$53,634
2009 Per Capita Income	\$19,968	\$25,989
2014 Per Capita Income	\$20,444	\$27,332
Unemployment Rate, March 2011	10.6%	9.7%
2009 Education Attainment – At Least Bachelor’s Degree	14.0%	24.9%

As the only acute care hospital provider located in Harnett County, HHS has the highest market share at 39%, although it captures only 29% of the commercially insured patients, as shown in the following tables. Many Harnett County residents travel to facilities in adjacent counties to receive their care, especially specialty care; and for many residents in the western and southwestern portions of the county, Central Carolina Hospital in Sanford is a more convenient alternative for primary medical and surgical care.

HHS FFY 2010 Market Share - Harnett County

Facility	Discharges	% Market Share
Betsy Johnson Reg Hosp	4,303	38.6%
WM Raleigh Campus	1,897	17.0%
UNC Hospitals	819	7.4%
Central Carolina Hospital	788	7.1%
Rex Healthcare	724	6.5%
Other Hospitals	2,611	23.4%
Total	11,142	100.0%

Source: Thomson Reuters. Excludes normal newborns, psychiatry, substance abuse, and rehabilitation.

As shown in the following table, HHS also serves a disproportionately high share of Medicaid and self pay/charity patients. While HHS is committed to serving all patients, regardless of their ability of pay, its low capture rate of commercially insured patients and high capture rate of Medicaid/self pay patients makes it difficult to maintain the operating margin necessary to fund ongoing capital investment.

HHS Market Share of Harnett County by Payor

Payor Category	HHS %
Commercial Ins./ Managed Care	29.2%
Medicaid/Self Pay	48.6%
Medicare	39.6%
Other Payors	15.8%

HHS believes that both the Rex and Novant proposals will unnecessarily duplicate services to be provided at Harnett Health Central Campus and are designed to attract paying patients from Harnett County. According to www.mapquest.com, both facilities would be less than 30 minutes away from HHCC:

Proposed Facility	Miles to HHCC	Driving Time
Holly Springs Hospital	17.08	24 minutes
Rex Holly Springs	17.68	25 minutes

Both the Rex and Novant facilities tout themselves as community hospitals, conveniently located to serve residents of southern Wake County. On page 148 of its application, Rex clearly shows that a portion of northern Harnett County is included in its proposed service area; however, it neglects to discuss the impact its proposed facility will have on HHCC. Likewise, Holly Springs Hospital shows that its service area extends into Harnett County (page 121 of its application); however, its impact analysis (see Exhibit 5, Tables 97-108) excludes any discussion of the impact it will have on HHCC. HHS believes that approval of either one of these hospitals will further pull the commercially insured patients living in northern Harnett County away from HHS facilities, thus having a significant negative financial impact on HHS.

HHS believes that the region would be better served by approving the expansions requested by WakeMed Raleigh Campus (79 beds) and WakeMed Cary Hospital (22 beds). Both hospitals are operating at rates that exceed the target occupancies as noted in the State Medical Facilities Plan and both offer a broader array of services than is being proposed by either applicant for small hospitals in Holly Springs. Further, the capital costs of both WakeMed projects are well below the alternatives proposed by Rex and Novant.

Harnett Health Betsy Johnson Hospital (BJ) refers an average of 90 patients per month to WakeMed Raleigh Campus. These are patients needing specialized care and services that are not provided at BJ, including cardiology, trauma, neurological, and intensive care. On average, WakeMed accepts 92% of BJ's referrals; however, in busy months, the acceptance rate has dropped as low as 87%. The most frequent reason why a patient is not accepted for transfer is due to lack of bed availability. Therefore, increasing WakeMed's bed capacity will better accommodate the specialty care needs of Harnett County residents, who must travel further than Wake County residents to receive that level of care.

Holly Springs will soon be home to a comprehensive outpatient facility, already under construction and being developed by Rex Healthcare. This facility will provide a convenient location for many of the health care needs of residents in Holly Springs and southern Wake County. This will also provide a more cost-effective alternative, rather than spending between \$77-136 million to build a new acute care hospital, as proposed by Rex and Novant. In addition, Holly Springs residents will still have access to WakeMed Apex and WakeMed Cary, both less than 20 minutes away from downtown Holly Springs.

Smaller hospitals and hospital systems are the backbone of healthcare in rural North Carolina. These systems assure access to physicians, emergency care and acute care, and provide the ability to quickly transport patients to tertiary care centers for specialty care. They are a major source of economic development to local communities; and it is important for the state to consider them in their deliberations when making decisions regarding major expansion projects in adjacent urban areas that could negatively impact the financial viability of these rural systems.

For these reasons, HHS requests that the CON Section deny the applications submitted by Rex and Novant Holly Springs Hospital, seeking to develop a community hospital in Holly Springs.