May 31, 2011 Comments from Novant Health, Inc. Regarding Rex Hospital, Inc. Acute Care Bed Addition and Change of Scope Certificate of Need Application (J-8667-11) Submitted April 15, 2011 for May 1, 2011 Review

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Received by the CON Section

In accordance with N.C.G.S. Section 131E-185(a1)(1), Novant Health, Inc. submits the following comments regarding the CON Application of Rex Hospital, Inc. (J-8667-11).

I. Introduction

The following applications were submitted in response to the need determination identified in the *2011 State Medical Facilities Plan* (*2011 SMFP*) for 101 acute care beds in Wake County:

- J-8660-11: WakeMed to spend $57.5 million to add 79 beds at its main Raleigh campus,
- J-8661-11: WakeMed Cary to spend $2.1 million to add 22 beds
- J-8667-11: Rex Healthcare to spend $278.8 million to add 11 beds, replace 115 acute care beds, and change in scope for Project ID J-8532-10 (cardiovascular renovation and expansion project).
- J-8669-11: Rex Healthcare to spend $136.6 million to build a separately licensed 50-bed hospital in Holly Springs
- J-8670-11: Rex Healthcare to spend $102.2 million on a separately licensed 40-bed hospital in Wakefield.
- J-8673-11: Holly Springs Hospital, LLC to build a separately licensed 50-bed $77.7 million hospital in Holly Springs.

Rex Hospital (Rex) proposes to add 11 acute care beds for a total of 450 acute care beds on its Main Campus in Raleigh.

In addition, Rex proposes to construct a new bed tower to house 115 existing acute care beds. The proposed new 11 acute care beds will be developed on units 4E and 4W of the existing H-tower, in space to be vacated by beds moving to the proposed new bed tower. See page 23 of the Rex Main CON Application.

Lastly, Rex proposes to change significantly the scope of Rex's 2010 CON Application to consolidate Cardiovascular Services (Project ID #J-8532-10) by relocating consolidated cardiovascular services to the proposed new bed tower. Project ID #J-8532-10 involves expansion and renovation of Rex's surgical and cardiovascular services, creation of a new main entrance and public concourse (Phase III of Master Facility Plan). There is an appeal pending on Project ID #J-8532-10.

II. CON Review Criteria

G.S. 131E-183 (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, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.

The Rex Application is non-conforming to Criterion (3) because it overstates the need for the proposed new 11 acute care beds and new bed tower.

A. Acute Care Utilization is Declining at Rex Hospital

The following table shows acute care utilization reported by Rex in its annual Hospital License Renewal Applications (LRAs) over the last six fiscal years.

Rex Hospital Acute Care Bed Utilization
October 2004 – September 2010

Oct-Sept	2005	2006	2007	2008	2009	2010	CAGR 2005-2010	CAGR 2007-2010	CAGR 2008-2010
Days of Care	90,852	97,101	99,431	105,270	107,765	101,382	2.2%	0.6%	-1.9%
% Change		6.9%	2.4%	5.9%	2.4%	**-5.9%**			
Discharges	23,135	27,526	27,685	27,519	27,212	26,805	3.0%	-1.1%	-1.3%
% Change		19.0%	0.6%	**-0.6%**	**-1.1%**	**-1.5%**			
Licensed Beds	388	388	388	425	425	431			
ALOS	3.93	3.53	3.59	3.83	3.96	3.78			
ADC	248.9	266.0	272.4	288.4	295.2	277.8			
Occupancy	**64.2%**	**68.6%**	**70.2%**	**67.9%**	**69.5%**	**64.4%**			

Source: Rex Hospital License Renewal Applications 2006-2011

As shown in the previous table, a 5.9% decline in days of care in FY 2010 is anything but "slight," "an outlier," and "not a useful predictor of growth for future years." See the Rex Hospital Application at pages 137and 139.

Days of care in FFY 2010 are less than 2,000 days from the level they were in FFY 2007, as shown in the previous table. Additionally, discharges are in their third year of decline.

Rex's occupancy rate for the last six fiscal years (FFY 2005 through FFY 2010) is lower than the target occupancy rate of 75.2% for hospitals with an ADC greater than 200. As shown in the previous table, Rex's occupancy rate in FFY 2010 is lower than the target occupancy rate of 66.7% for smaller hospitals with ADC of 1-99.

Please note that the previous table shows licensed beds at 431 in FFY 2010. Rex has been approved for a total of 439 acute care beds. It will add two acute care beds in FY 2011 as part of Project ID # J-7342-05 and six Level IV NICU beds in FY 2012 as part of Project ID # J-8325-09.

The following table shows that even Rex expects that it will continue to have an occupancy rate below 75.2% for hospitals with an ADC between 200 and 400 in FFYs 2011 and FY 2012 after the addition of eight acute care beds.

Rex Hospital Acute Care Historic, Interim, and Projected Utilization
October 2008 – September 2012

Oct - Sept	2009	2010	2011	2012
Beds	425	431	433	439
Patients	28,800*	26,805	28,392	30,588
% Change		-6.9%	5.9%	7.7%
Days	107,675	101,382	107,383	115,691
% Change		-5.8%	5.9%	7.7%
Occupancy	**69.4%**	**64.4%**	**67.9%**	**72.2%**

Source: CON Application J-8667-11, pages 230-231
Note 1: Arithmetic error in table on page 230, FY 2009 total acute care bed patients is reported as 27,212. It appears to be an error in addition.
Note 2: Rex added two beds in FY 2011 as part of Project ID # J-7342-05
Note 3: Rex is approved to add 6 Level IV NICU beds in FY 2012 as part of Project ID # J-8325-09

The methodology used to project the utilization in FFYs 2011 and 2012 will be discussed in detail below.

This Application is one of three concurrently filed CON Applications. The other two Applications seek to develop two separately licensed hospitals: Rex Hospital Wakefield with 40 acute care beds and Rex Hospital Holly Springs with 50 acute care beds. Rex projects that 90% of the acute care volume at each new separately licensed hospital will shift from Rex Hospital.

As shown in the previous table, Rex's acute care utilization cannot support its existing acute care bed inventory; it is unreasonable to believe that it can support 11 new acute care beds plus ninety new acute care beds at two new separately licensed hospitals.

B. Methodology for Projecting Acute Care Volume is Unreasonable, Resulting in Overstated Projections

1. Overview of Methodology Used to Project Total Acute Care Volume

Rex uses a methodology that has three distinct elements, which individually and collectively are unreasonable.

First: Rex assumes that its historical acute care days will increase 2.4 percent annually, or the average of its FFY 2007 to FFY 2009 CAGR and its FFY 2007 to 2010 CAGR. See Rex Hospital CON Application at pages 137-140.

Second: In addition to a projected 2.4% annual increase in historical acute care days, Rex adds volume projected for its six new Level IV NICU beds, which are projected to open April 1, 2012. See the Rex Hospital CON Application at pages 140-141.

Because Level IV NICU services are not currently provided at Rex, those days are not captured in the 2.4 percent annual growth rate, they are in addition to the total days projected based on historical acute care days

Third: In addition to a projected 2.4% annual increase in historical acute care days and volume projected for its six new Level IV NICU beds, Rex adds net new acute care volume from "employed physician groups," specifically, Wake Heart & Vascular Associates. See the Rex Hospital CON Application at pages 141-144.

Rex believes it is reasonable to assume that the net acute care volume from Wake Heart & Vascular Associates will grow at the same rate of 2.4 percent annually that it grows its historical acute care days.

Each of those elements will be discussed in detail below.

2. Projected Historical Acute Care Days – Increasing at 2.4% Annually

Rex assumes that its historical acute care days will increase 2.4 percent annually, or the average of its FFY 2007 to FFY 2009 CAGR and its FFY 2007 to FFY 2010 CAGR.

Rex Hospital Acute Care Bed Utilization
October 2004 – September 2010

Oct-Sept	2005	2006	2007	2008	2009	2010	CAGR 2005-2010	CAGR 2007-2010	CAGR 2008-2010
Days of Care	90,852	97,101	99,431	105,270	107,765	101,382	2.2%	0.6%	-1.9%
% Change		6.9%	2.4%	5.9%	2.4%	**-5.9%**			
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% Change		19.0%	0.6%	**-0.6%**	**-1.1%**	**-1.5%**			
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ALOS	3.93	3.53	3.59	3.83	3.96	3.78			
ADC	248.9	266.0	272.4	288.4	295.2	277.8			
Occupancy	**64.2%**	**68.6%**	**70.2%**	**67.9%**	**69.5%**	**64.4%**			

Source: Rex Hospital License Renewal Applications 2006-2011

Rex makes that assumption fully cognizant of its declining historic volume of inpatient discharges from FFY 2007 through FFY 2010, as shown in the previous table.

The following table shows total acute care days in FFY 2010 through FFY 2017 (Project Year Three).

Rex Hospital Historic, Interim, and Projected Total Acute Care Days
October 2009 – September 2017

Oct - Sept	2010	2011	2012	2013	2014	2015	2016	2017
Total Acute Care Days	101,382	103,793	106,261	108,798	111,376	114,024	116,736	119,512
% Change	-5.9%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%

Source: CON Application

Total acute care days in FFY 2015 through FFY 2017 in the previous table are net of volume shift to the proposed two new hospitals.

The volume in the previous table shows a projected annual increase of 2.4% in total acute patient days. It does not depict the magnitude of increased annual volumes that Rex projects. Rex projects volume in FFY 2011 that is 102% greater than its volume in FFY 2010 (103,793/101,382 = 102.38%). Projected volume in FFY 2017, net of volume shifted to the proposed two hospitals in Holly Springs and Wakefield, is 118% greater than its volume in FFY 2010 (119,512/101,382 = 117.88%).

Given historical declines in patient days and discharges, it is wildly optimistic and unreasonable to project volume will increase 2.4% annually through FFY 2017.

3. Projected Volume for Six New Level IV NICU Beds

In January 2010, Rex was approved to develop six new Level IV NICU beds (Project ID # J-8325-09). Rex states its intent "to begin operation of those beds on April 1, 2012." See Rex Hospital CON Application at page 140.

The following table shows projected Level IV NICU days in FFY 2012 through FFY 2017.

Rex Hospital Projected NICU Level IV Days
October 2011 – September 2017

Oct-Sept	2012	2013	2014	2015	2016	2017
Level IV NICU Days	880	1,777	1,812	1,830	1,830	1,830
% Change		101.9%	2.0%	1.0%	0.0%	0.0%

Source: CON Application

Rex classifies Level IV NICU volume as "incremental" because it does not currently provide Level IV NICU services. See Rex Hospital CON Application at page 140.

Rex's CON Application (Project ID # J-8325-09) was non-competitive and did not receive comments in opposition from competitors in Wake County. As such, there was

no challenge to the methodology Rex used to project Level IV NICU volume or the assumptions on which its methodology was based.

Level IV NICU volume is the least objectionable element of Rex's methodology. Interestingly, Rex chose to hold NICU Level IV volume constant for FFY 2015 through FFY 2017. Level IV NICU volume is not shifting to the proposed two new hospitals, and is a very small component of Rex's overall total acute care volume.

4. Projected Net Acute Care Volume from Wake Heart & Vascular Associates – Increasing at 2.4% Annually

On page 142, Rex states that in "FFY 2010, the Wake Heart & Vascular Associates' physicians provided care to 5,444 patients at non-Rex Wake County facilities resulting in 23,249 patient days (represents patient days regardless of service line) or seven percent of total patient days at Wake County facilities." Rex then states that in "FFY 2009, these physicians accounted for 22,808 patient days." Rex calculates that the "acute care days of care for [physicians from Wake Heart & Vascular Associates] grew 1.9 percent over the prior year [...]."

On pages 142 through 151, Rex describes its relationship with physicians from Wake Heart & Vascular Associates (employment), and projections for those physicians' future days of care at Rex. Rex "believes it is reasonable to assume to project this physician group's acute care days to grow at the same rate as Rex's growth rate, 2.4 percent annually, through the third project year, FFY 2017." Rex does not explain why this assumption is reasonable and provides no further support for this.

Based on the current employment relationship between Rex and Wake Heart & Vascular Associates physicians, Rex "assumed that 20 percent of days [regardless of service line at non-Rex Wake County facilities] will shift to Rex in FFY 2011, 40 percent in FFY 2012, 60 percent in FFY 2013, 80 percent in FFY 2014, and 100 percent in FFY 2015 and thereafter." See Rex Hospital CON Application at page 143.

Rex notes at the bottom of page 141, that "[w]hile similar future activity is unknown, Rex has attempted to adjust for the known historical physician employment that is projected to impact the proposed project."

The following table shows Rex's projected "net impact of physician employment shifts" beginning in FY 2011 through the third project year (FY 2017).

Rex Hospital
Projected Net Days Impact of Wake Heart & Vascular Associates
October 2010 – September 2017

Oct-Sept	2011	2012	2013	2014	2015	2016	2017
Projected Wake Heart & Vascular Days at Non-Rex Wake County Facilities	23,802	24,368	24,947	25,541	26,148	26,770	27,407
% Change		2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Projected Wake Heart & Vascular Days at Rex	4,760	9,747	14,968	20,433	26,148	26,770	27,407
% Change		104.8%	53.6%	36.5%	28.0%	2.4%	2.4%
Projected WakeMed Employed Physician Days to Shift from Rex*	-1,170	-1,198	-1,227	-1,256	-1,286	-1,316	-1,347
% Change		2.4%	2.4%	2.4%	2.4%	2.3%	2.4%
Net Days Impact of Physician Employment at Rex	3,590	8,549	13,742	19,177	24,863	25,454	26,059
% Change		138.1%	60.7%	39.6%	29.7%	2.4%	2.4%

Source: CON Application
*WakeMed now employs Carolina Cardiology Consultants (8 physicians), J. Richard Daw, MD, and Jimmy Locklear, MD, which Rex assumes will result in a shift of volume from Rex to WakeMed. Rex assumes that volume will shift in total in FFY 2011. Rex assumes that volume shifted from Rex to WakeMed will grow at Rex's growth rate of 2.4% annually through FFY 2017.

The volume shown in the previous table is the third element in Rex's methodology for determining future volume at Rex Hospital.

Rex documents only a one-year historical growth rate is 1.9% for patient days of Wake Heart & Vascular Associates, regardless of service line. See Rex Hospital CON Application at page 142. Rex, nevertheless, projects a 2.4% annual growth rate through FFY 2017, without further support or explanation of this assumption. It would have been more reasonable to Rex to project Wake Heart & Vascular's future utilization at a rate of 1.9%.

Rex believes that "the impact of Wake Heart & Vascular Associates is projected to be substantial." Indeed, it appears that Rex has designed its proposed bed tower in reliance on that impact.

There are at least four flaws in Rex's reliance on that impact:

- Given the changing physician affiliations with Wake County hospitals, Rex predicts future activity – namely, that Rex's relationship with Wake Heart &

Vascular Associates, all of the physicians currently in practice with Wake Heart & Vascular Associates, and their practice pattern will continue through the third project year (FFY 2017) or for seven years from FFY 2011 through FFY 2017.

- Rex assumes that the technological developments over the next six fiscal years will continue to require hospitalization of patients with heart and vascular disease.
- Rex assumes that the global economic circumstances that resulted in declining acute care volumes are improving such that acute care volume will return to and exceed its pre-FFY 2010 levels.

In view of the following, which, other the selection of an acute care patient day growth rate, is largely outside the control of Rex, it is reasonable to conclude that Rex overstates its projections for net future acute care volume from Wake Heart & Vascular Associates.

5. Projected Volume at Rex Hospital Pre-Shift to Two New Proposed Hospitals (Rex Wakefield & Rex Holly Springs)

The following table shows the last two fiscal years of data, as well as interim and projected utilization as per Rex's methodology.

Rex Hospital Total Acute Care Historic, Interim, and Projected Utilization
October 2008 – September 2017

Oct - Sept	2009	2010	2011	2012	2013	2014	2015	2016	2017
Days	107,675	101,382	107,383	115,690	124,317	132,365	140,717	144,020	147,401
% Change		-5.8%	5.9%	7.7%	7.5%	6.5%	6.3%	2.3%	2.3%

Source: CON Application

Total acute care days in FFY 2015 through FFY 2017 in the previous table are prior to the volume shift to the proposed two new hospitals in Holly Springs and Wakefield.

The magnitude of increase that Rex projects is not fully appreciated by simply looking at the numbers or the annual percentage changes in the previous table. Rex projects volume in FFY 2017 that is 45% greater than its volume in FFY 2010 (147,401/101,382 -1 = 45.39%).

Of course, it is necessary for Rex to project very high volume and rates of growth in order to have sufficient volume at Rex in Raleigh and sufficient volume to shift from Rex Raleigh Hospital to each of the two new proposed hospitals. That necessity in no way justifies unreasonable volume projections and growth rates by Rex. As reflected in the following table, continued growth rates such as those projected by Rex from 2010 through 2015 have never been realized at any facility in Wake County or in total by all facilities in Wake County.

Historical Wake County Inpatient Patient Days

Facility	2005	2006	2007	2008	2009	2010
Duke Raleigh	28,724	22,268	23,185	25,269	28,622	30,629
AGR PtDays		-22.48%	4.12%	8.99%	13.27%	7.01%
Rex	94,427	100,098	101,520	106,947	110,325	101,382
AGR PtDays		6.01%	1.42%	5.35%	3.16%	-8.11%
WakeMed	158,980	166,249	175,351	177,318	175,814	167,614
AGR PtDays		4.57%	5.47%	1.12%	-0.85%	-4.66%
WakeMed Cary Hospital	35,013	35,260	36,625	38,588	41,103	44,469
AGR PtDays		0.71%	3.87%	5.36%	6.52%	8.19%
Total	317,144	323,875	336,681	348,122	355,864	344,094
AGR PtDays		2.12%	3.95%	3.40%	2.22%	-3.31%

Source: Pt Days, SMFP

As shown in the previous table, the only facilities that have come close to this level of growth are Duke Raleigh, in the three year time frame from FFY 2008 to FFY2010 and WakeMed Cary which sustained greater than a 6% growth in patient days over the last three years. In addition, this growth rate is based upon less than half of Rex's 100,000+ patient days. Furthermore, some of WakeMed Cary's growth in patient days may due to patient shifts from WakeMed, which reflects lower growth rates and decreased patient days in the last fiscal year (FFY 2010). In addition, the projected acute patient day growth at Rex is greater than any historical patient day growth for Wake County as a whole, as shown in the table above. Thus, in the context of overall historical Wake County growth in acute patient days, the projected interim growth rates at Rex Hospital are unreasonable resulting in unsupported and unreliable projections for Rex Healthcare as a whole.

6. Projected Volume at Rex Hospital Post-Shift to Two New Proposed Hospitals (Rex Wakefield & Rex Holly Springs)

The following table shows the last two fiscal years of data, as well as interim and projected utilization as per Rex's methodology. Please note that in FFY 20015-FFY 2017, acute care volume will shift from Rex to the two new proposed hospitals in Holly Springs and Wakefield. Rex assumes that 90% of each new hospital's annual volume will shift from Rex Hospital in Raleigh during FFY 2015- FFY 2017. See Rex Hospital CON Application at pages 146-147.

Rex Hospital Acute Care Historic, Interim, and Projected Utilization October 2008 – September 2017

Oct - Sept	2009	2010	2011	2012	2013	2014	2015	2016	2017
Non-ICU Beds									
Beds	387	393	395	395	395	395	406	406	406
Patients	24,353	22,534	23,868	25,714	27,629	29,420	28,785	28,165	27,487
% Change		-7.5%	5.9%	7.7%	7.4%	6.5%	-2.2%	-2.2%	-2.4%
Days	99,671	93,694	99,240	106,038	113,104	120,515	117,854	115,278	112,458
% Change		-6.0%	5.9%	6.9%	6.7%	6.6%	-2.2%	-2.2%	-2.4%
Occupancy	70.6%	65.3%	68.8%	73.5%	78.4%	83.6%	79.5%	77.8%	75.9%
ICU Beds									
Beds	38	38	38	44	44	44	44	44	44
Patients	4,447	4,271	4,524	4,874	5,237	5,576	5,456	5,338	5,210
% Change		-4.0%	5.9%	7.7%	7.4%	6.5%	-2.2%	-2.2%	-2.4%
Days	8,004	7,688	8,143	9,653	11,203	11,849	11,651	11,439	11,208
% Change		-3.9%	5.9%	18.5%	16.1%	5.8%	-1.7%	-1.8%	-2.0%
Occupancy	57.7%	55.4%	58.7%	60.1%	69.8%	73.8%	72.5%	71.2%	69.8%
Total Acute Care Beds									
Beds	425	431	433	439	439	439	450	450	450
Patients	28,800*	26,805	28,392	30,588	32,866	34,996	34,241	33,503	32,697
% Change		-6.9%	5.9%	7.7%	7.4%	6.5%	-2.2%	-2.2%	-2.4%
Days	107,675	101,382	107,383	115,691	124,307	132,364	129,505	126,717	123,666
% Change		-5.8%	5.9%	7.7%	7.4%	6.5%	-2.2%	-2.2%	-2.4%
Occupancy	69.4%	64.4%	67.9%	72.2%	77.6%	82.6%	78.8%	77.1%	75.3%

Source: CON Application

Note 1: Arithmetic error in table on page 230, FY 2009 total acute care bed patients is reported as 27,212. It appears to be an error in addition.

Note 2: Rex added two beds in FY 2011 as part of Project ID # J-7342-05

Note 3: Rex is approved to add 6 Level IV NICU beds in FY 2012 as part of Project ID # J-8325-09

Rex makes the following assumptions:

- Non-NICU ICU patient days are projected based on ratio of FFY 2010 ICU to total days (13%). See Rex Hospital CON Application at page 155.
- ICU patients are projected based on FFY 2010 ICU ALOS of 1.8 days.
- NICU Level IV ICU patients and days are based on approved projected utilization in Project ID #J-8325-09, held constant through FFY 2017.
- Non-ICU bed projections equal total acute bed patients and days minus ICU bed patients and days.

As discussed in detail in previous sections, two of the three elements of Rex's methodology to project interim and future volume are flawed, and result in overstated volume. Rex has projected future utilization at 75.3% which is only 0.1% over the required utilization of 75.2%. Thus, if any of Rex's assumptions are off just slightly, Rex will not meet the State Acute Bed CON Regulation performance standard requirement of a 75.2% acute inpatient occupancy rate.

Equally important, Rex relies on a methodology that is contrary to its own historical, declining volume. Rex assumes that a period of declining volume is over. Additionally, Rex expects that its total acute care volume and the components within that volume will erase all past losses and increase to levels of acute patient days never before experienced by Rex. As discussed above, the projected interim growth rates for Rex Hospital's inpatient days are unreasonable.

7. Rex does not have a Need for 98 Additional Acute Care Beds in FY 2017

On page 145, Rex boldly asserts that it "will have a need for 98 additional acute care beds in FFY 2017, or all but three of the 101 beds provided in the *2011 SMFP* need determination."

That assertion is based on the projected utilization as per Rex's methodology described above. See the following table.

Rex Hospital Total Acute Care Historic, Interim, and Projected Utilization October 2008 – September 2017

Oct - Sept	2009	2010	2011	2012	2013	2014	2015	2016	2017
Days	107,675	101,382	107,383	115,690	124,317	132,365	140,717	144,020	147,401
% Change		-5.8%	5.9%	7.7%	7.5%	6.5%	6.3%	2.3%	2.3%

Source: CON Application

Total acute care days in FFY 2015 through FFY 2017 in the previous table are pre-volume shift to the proposed two new hospitals.

However, comparison information presented at the May 25, 2011 SHCC meeting in the Draft Table 5A 2012 SMFP Wake County Acute Bed Need projections based on FFY 2010 Thomson Reuters acute inpatient days and the Wake County growth rate for acute inpatient days, reflects the following:

- Projected acute inpatient days at Rex Hospital in FFY 2014 are 110,492, which is much less (by 21,873 acute days or by 60 inpatients per day) than the 132,365 acute inpatient days projected by Rex in its need method for this application
- Rex Hospital has a projected surplus of 38 acute beds in FFY 2014

Furthermore, as discussed in detail in Comment Sections 1-5 above, two of the three elements of Rex's methodology to project interim and future volume are flawed, and result in overstated volume. Rex relies on a methodology that is contrary to its own historical, declining volume. Rex assumes that a period of declining volume is over. Additionally, Rex expects that its total acute care volume and the components within that volume will erase all past losses and increase to levels never before experienced by Rex.

Further, it is misleading for Rex to state on page 145 that "if Rex does not add any additional acute care beds, it will be forced to attempt to operate at 92 percent occupancy of its 439 existing/approved beds in FFY 2017."

First, as shown in the following table, Rex's occupancy rate for the last six fiscal years (FFY 2005 through FFY 2010) is lower than the state's target occupancy rate of 75.2% for hospitals with an ADC greater than 200. Rex's occupancy rate in FFY 2010 is lower than the state's target occupancy rate of 66.7% for smaller hospitals with ADC of 1-99.

Rex Hospital Acute Care Bed Utilization
October 2004 – September 2010

Oct-Sept	2005	2006	2007	2008	2009	2010	CAGR 2005-2010	CAGR 2007-2010	CAGR 2008-2010
Days of Care	90,852	97,101	99,431	105,270	107,765	101,382	2.2%	0.6%	-1.9%
% Change		6.9%	2.4%	5.9%	2.4%	**-5.9%**			
Discharges	23,135	27,526	27,685	27,519	27,212	26,805	3.0%	-1.1%	-1.3%
% Change		19.0%	0.6%	**-0.6%**	**-1.1%**	**-1.5%**			
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ALOS	3.93	3.53	3.59	3.83	3.96	3.78			
ADC	248.9	266.0	272.4	288.4	295.2	277.8			
Occupancy	**64.2%**	**68.6%**	**70.2%**	**67.9%**	**69.5%**	**64.4%**			

Source: CON Application

Second, Rex has been approved for 8 new acute beds for a total of 439 acute care beds. It will add two acute care beds in FY 2011 as part of Project ID # J-7342-05 and six Level IV NICU beds in FY 2012 as part of Project ID # J-8325-09. The following table shows that even Rex expects that it will continue to have an occupancy rate below 75.2% for hospitals with an ADC between 200 and 400 in FFYs 2011 and 2012 after the addition of eight acute care beds.

Rex Hospital Acute Care Historic, Interim, and Projected Utilization
October 2008 – September 2012

Oct - Sept	2009	2010	2011	2012
Beds	425	431	433	439
Patients	28,800*	26,805	28,392	30,588
% Change		-6.9%	5.9%	7.7%
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Occupancy	**69.4%**	**64.4%**	**67.9%**	**72.2%**

Source: CON Application
Note 1: Arithmetic error in table on page 230, FY 2009 total acute care bed patients is reported as 27,212. It appears to be an error in addition.
Note 2: Rex added two beds in FY 2011 as part of Project ID # J-7342-05
Note 3: Rex is approved to add 6 Level IV NICU beds in FY 2012 as part of Project ID # J-8325-09

Lastly, were it not for the bed need determination in the *2011 SMFP* for which Rex submitted three concurrent CON Applications, Rex would not need to overstate projections for acute care volume in FFY 2017. Note that the need determination in the 2011 SMFP for 101 new acute beds in Wake County, is generated largely by WakeMed and not by Rex. Of the 101 new acute beds, Rex's historical acute patient days generated the need for only 14 of those new Wake County bed. Thus, it is rather astonishing for Rex to focus on what it hypothetically needs in FFY 2017 when in FFY 2010, its days of care declined 5.9% and are less than 2,000 days from the level they were in FFY 2007. In addition, Rex Hospital is in the third straight year of declining inpatient discharges, as shown in the previous table.

C. There is no Need for the Proposed New Tower

Rex proposes to construct a new tower to house 115 replacement acute care beds (97 acute care beds and 18 ICU beds), two relocated operating rooms, 16 observation beds (6 existing and 10 new), a new 11-room Emergency Department for cardiovascular patients, and other related services and assets. See pages 6, 21-22, 30-39 and 120-136 of the Rex Hospital CON Application. For the reasons discussed in detail below, there is no need for the proposed new tower, certainly not at the present time.

If Rex is not approved by the CON Section to construct a new tower, the development of 11 new acute care beds will not be able to be completed in space designated on units 4E and 4W of the existing hospital because that space would not be vacated by existing acute care beds in order to accommodate the proposed new 11 acute care beds.

1. Projected Acute Care to Cardiology and Vascular Patients

Cardiology and vascular patients are a subset of total acute care patients at Rex. Based on information presented on pages 151 through 154, Rex projects that it will more than double that subset of patients (36,143 – 14,516 = 21,627) , as shown in the following table.

Rex Hospital Historic, Interim, and Projected Cardiology and Vascular Volume
October 2009 – September 2017

Oct - Sept	2010	2011	2012	2013	2014	2015	2016	2017
Existing Patient Days	14,516	14,861	15,215	15,576	15,947	16,326	16,714	17,112
% Change		2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Projected Wake Heart & Vascular Associates Cardiology and Vascular Days at Non-Rex Wake County facilities		19,711	20,180	20,660	21,151	21,654	22,169	22,696
% Change			2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Projected Carolina Cardiology Consultants Days Shift from Rex		-1,068	-1,093	-1,119	-1,146	-1,173	-1,201	-1,203
% Change			2.3%	2.4%	2.4%	2.4%	2.4%	0.2%
Days Shifted to Holly Springs						-616	-953	-1,312
% Change							54.7%	37.7%
Day Shifted to Wakefield						-529	-818	-1,124
% Change							54.6%	37.4%
Total						35,662	35,911	36,143
% Change							0.7%	0.6%

Source: Rex Hospital CON Application, pages 151-154

On page 153, Rex assumes that it will shift 10.7% of its medical cardiology days to the proposed Rex Hospital Holly Springs and 10.9% to the proposed Rex Hospital Wakefield. According to Rex, "currently, 10.7 percent of all med/surg patient days in the Holly Springs Service Area are medical cardiology; in the Wakefield Service Area the percentage is slightly higher." See Rex Hospital CON Application at pages 153-154. Using those ratios, Rex calculates days of care for each proposed hospital, and assumes that 100 percent of those medical cardiology patients will shift from Rex Hospital to each of the proposed new hospitals.

There is, however, an inconsistency in the volume in the previous table (based on Application pages 151-154) and the volume presented on Application pages 142-144 and in the following table. This volume was analyzed above in the context of the third element of the methodology.

Rex Hospital Projected Net Days Impact of Wake Heart & Vascular Associates
October 2010 – September 2017

Oct-Sept	2011	2012	2013	2014	2015	2016	2017
Projected Wake Heart & Vascular Days at Non-Rex Wake County Facilities	23,802	24,368	24,947	25,541	26,148	26,770	27,407
% Change		2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Projected Wake Heart & Vascular Days at Rex	4,760	9,747	14,968	20,433	26,148	26,770	27,407
% Change		104.8%	53.6%	36.5%	28.0%	2.4%	2.4%
Projected WakeMed Employed Physician Days to Shift from Rex*	-1,170	-1,198	-1,227	-1,256	-1,286	-1,316	-1,347
% Change		2.4%	2.4%	2.4%	2.4%	2.3%	2.4%
Net Days Impact of Physician Employment at Rex	3,590	8,549	13,742	19,177	24,863	25,454	26,059
% Change		138.1%	60.7%	39.6%	29.7%	2.4%	2.4%

Source: Rex Hospital CON Application, pages 142-144
*WakeMed now employs Carolina Cardiology Consultants (8 physicians), J. Richard Daw, MD, and Jimmy Locklear, MD, which Rex assumes will result in a shift of volume from Rex to WakeMed. Rex assumes that volume will shift in total in FY 2011. Rex assumes that volume shifted from Rex to WakeMed will grow at Rex's growth rate of 2.4% annually through FY 2017.

It appears that the acute patient day data in the table directly above shows volume regardless of service line and not just for cardiology and vascular service lines. Rex used the volume regardless of service line in the acute bed need methodology, and used cardiology and vascular volume to determine utilization of the proposed 115 replacement beds in the proposed new tower.

An unanswered question is what other service line is represented in addition to cardiology and vascular.

2. 18 ICU Beds in the New Tower

According to its 2011 LRA, Rex has 10 cardiac ICU beds and 8 cardiovascular ICU beds. Rex proposes to relocate those 18 beds to the proposed new tower as a combined ICU. The following table shows the historical utilization of those 18 ICU beds.

Rex Hospital Cardiac and Cardiovascular ICU Bed Utilization
October 2004 – September 2010

Oct-Sept	2005	2006	2007	2008	2009	2010	CAGR 2005-2010	CAGR 2007-2010	CAGR 2008-2010
Days of Care	2,548	2,664	2,843	2,854	3,383	3,202	4.7%	4.0%	5.9%
% Change		4.6%	6.7%	0.4%	18.5%	**-5.4%**			
Licensed Beds	18	18	18	18	18	18			
Occupancy	**38.8%**	**40.5%**	**43.3%**	**43.4%**	**51.5%**	**48.7%**			

Source: CON Application

The previous table shows that despite strong growth each year, other than FY 2010, the Rex ICU beds are underutilized.

On page 155 in footnote 32, Rex states that after those 18 ICU beds are relocated to the proposed new tower, they will serve only cardiology and vascular patients. All other patients currently served in those beds will be served in the future on Rex's existing medical/surgical ICU beds, which will not be located in the proposed new bed tower.

According to Rex, in FFY 2010, Rex provided 1,918 days, which Rex reports is equal to approximately 13 percent of its total cardiology and vascular days in those 18 ICU beds. Rex Hospital CON Application at page 155. Rex applies that percent (13%) to the projected utilization of its 115-bed tower, and determines that the 18-bed ICU unit within the proposed tower will operate at 72.7 percent occupancy in FFY 2017.

The following table shows historic and projected utilization of the 18 ICU beds.

Rex Hospital Cardiac and Cardiovascular ICU Bed Utilization
October 2004 – September 2010

Oct-Sept	2005	2006	2007	2008	2009	2010	2015	2016	2017
Days of Care	2,548	2,664	2,843	2,854	3,383	3,202	4,712	4,745	4,776
% Change		4.6%	6.7%	0.4%	18.5%	**-5.4%**		0.7%	0.7%
Licensed Beds	18	18	18	18	18	18	18	18	18
Occupancy	**38.8%**	**40.5%**	**43.3%**	**43.4%**	**51.5%**	**48.7%**	71.7%	72.2%	72.7%

Source: Rex Hospital CON Application, pages 155-156

The volume in the previous table does not depict the magnitude of increase that Rex projects for the 18-bed ICU unit. Rex expects volume in FFY 2017 to be 150% greater than its volume in FFY 2010 (4,776/3,202 = 149.12%). Even with that very significant increase, occupancy of the Cardiac/CV ICU unit is barely over 70%.

As discussed previously in the context of the methodology and in Comment Section 2 above, projected total cardiology and vascular days is overstated. Consequently, projected utilization of the 18-bed ICU unit also is overstated, unsupported, and unreasonable.

3. Rex has and will Continue to have a Surplus of Operating Rooms

On pages 156 through 157, Rex analyzes operating rooms in terms of cardiovascular and vascular surgery cases, and focuses on utilization of the two operating rooms proposed to be relocated to the new tower. Exhibit 41 contains the "operating room methodology for all of Rex's existing and proposed projects."

Rex is licensed for 16 operating rooms. Rex will shift 4 operating rooms to Macon Pond Road Outpatient Center as part of Project ID # J-8053-08). Rex expects that the Macon Pond Road Outpatient Center will be operational on January 1, 2013. Rex proposes to relocate four operating rooms to the two proposed new separately licensed hospitals: one to the proposed Rex Hospital Wakefield and three to the proposed Rex Hospital Holly Springs.

The following table shows historic and interim and projected surgical utilization using information presented by Rex on pages 232 through 234 of the Application.

Rex Hospital Historic, Interim, and Projected Surgical Utilization
October 2008 – September 2017

Oct - Sept	2009	2010	2011	2012	2013	2014	2015	2016	2017
IP Cases (non-C-Section)	6,867	6,464	6,827	6,866	6,905	6,945	6,281	5,936	5,568
% Change		-5.9%	5.6%	0.6%	0.6%	0.6%	-9.6%	-5.5%	-6.2%
OP Cases	14,678	13,557	12,918	11,100	6,311	4,767	4,303	4,225	4,174
% Change		-7.6%	-4.7%	-14.1%	-43.1%	-24.5%	-9.7%	-1.8%	-1.2%
Total	21,545	20,021	19,745	17,966	13,216	11,712	10,584	10,161	9,742
% Change		-7.1%	-1.4%	-9.0%	-26.4%	-11.4%	-9.6%	-4.0%	-4.1%
Licensed ORs	24	24	24	24	20	20	16	16	16
ORs Needed at 1,872 Hrs/Yr	22.8	21.2	21.3	19.9	16.1	14.9	13.5	12.9	12.3
Surplus (+)/Deficit (-)	**1.2**	**2.8**	**2.7**	**4.1**	**3.9**	**5.1**	**2.5**	**3.1**	**3.7**

Source: Rex Hospital CON Application, pages 232-234

The previous table makes clear that Rex Hospital has and will continue to have a surplus of operating rooms through FFY 2017. Rex fails to disclose or discuss its existing and future operating room surplus in the Rex Hospital CON Application, and in the other two new community hospital CON Applications filed on April 15, 2011.

Rex Hospital's surgical utilization cannot support either its existing or future reduced operating room inventory on its Raleigh campus. This is not the time to begin "implementation of Rex's Vision 2030," which involves construction of a new tower to house among other services and assets, two operating rooms, for a capital cost of $278.8 million.

4. Rex Projects 16 Observation Beds in the Proposed Tower

In Project ID # J-8532-10, Rex was approved to develop six observation beds. On pages 182-183 of this Application, Rex proposes to increase the number of observation beds from six to sixteen.

As shown in the following table, Rex proposes more observation beds than it needs.

Rex Hospital Projected Observation Bed Utilization
October 2014 – September 2017

Oct - Sept	2015	2016	2017
Beds	16	16	16
Patients	3,710	3,736	3,760
% Change		0.7%	0.6%
ADC	10.2	10.2	10.3
Beds Needed at 75.2%	**13.5**	**13.6**	**13.7**

Source: CON Application

Observation beds are unlicensed, and do not have an applicable target occupancy rate. Nevertheless, using as a benchmark a target occupancy rate of 75.2%, applicable to licensed acute care beds at hospitals with ADC greater than 200, Rex needs two less observation beds than the sixteen for which it is seeking approval.

N.C.G.S. 131E-183 (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.

Each applicant has a burden of presenting, evaluating, and demonstrating that the least costly or most effective alternative has been proposed. Since this application fails to show that the projected is needed under Criterion (3), it is not the least costly or the most effective alternative under Criterion (4).

Rex proposes to construct a new tower to house 115 replacement acute care beds (97 acute care beds and 18 ICU beds), two relocated operating rooms, 16 observation beds (including 10 new observation beds), a new 11-room Emergency Department for cardiovascular patients, and other related services and equipment. For the reasons discussed in detail below, there is no need for the proposed new tower, certainly not at the present time.

If Rex is not approved by the CON Section to construct a new tower, the development of 11 new acute care beds will not be able to be completed in space designated on units 4E and 4W of the existing hospital because that space will not be vacated by existing acute care beds in order to accommodate the proposed new 11 acute care beds.

Rex has at least one alternative method of meeting the needs of patients at Rex, which method is less costly and more effective than the proposed new tower. Rex can develop approved Project ID # J-8532-10, which involves construction of an addition to the hospital to expand and consolidate surgical and cardiovascular services, including the acquisition of electrophysiology equipment, and the addition of a new main entrance and public concourse. That alternative requires a capital expenditure of $132,098,626, which far less than the proposed $279 Million capital expenditure in this Application. Further, as shown in page 8 of the audited financials included with the CON Application for Project ID # J-8532-10, for FY 2009, Rex Healthcare had $148,433,000 in cash and assets limited as to use, which are sufficient funds to provide the $132,098,626 in reserves required for the renovation and expansion project." Exhibit 42 for Project ID # J-8532-10 contains the audited financial statements for Rex Healthcare, Inc., which shows that for the year ending June 30, 2009, Rex Healthcare had $36 million in cash and cash equivalents and $112 million in "assets limited as to use."

For the reasons discussed, the Rex Application does not conform to Criterion (4).

N.C.G.S. 131E-183 (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.

As discussed extensively above in these Comments under Criterion (3) heading, Rex fails to satisfy Criterion (3), because its projections are unreasonable and unsupported. Since the volume projections are integral to the financial projections, Rex's unreasonable volumes cause the project to be financially infeasible and thus, non-conforming with Criterion (5).

N.C.G.S. 131E-183 (6)

The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

As discussed in these comments in the context of Criterion (3) above, Rex overstates its projections, which are unreasonable and unsupported. Projections which are not conforming with Criterion (3) are also considered to be evidence of an unnecessary duplication of existing health service capabilities and facilities.

As discussed in the context of Criterion (4) above, Rex has at least one alternative method of meeting the needs of patients at Rex Hospital, which method is less costly and more effective than the proposed addition of 11 new acute care beds and a new tower. Having a less costly and more effective alternative method for meeting the needs of

patients at Rex is evidence of an unnecessary duplication of existing health service capabilities and facilities.

For the reasons discussed, the Rex Application does not conform to Criterion (6).

G.S. 131E-183 (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.

As discussed above in the comments under Criteria (3), (4), (5) and (6), the proposed project for the scope change and new bed tower is not the most reasonable alternative in terms of cost, design, and means of construction. Rex Hospital has another less costly alternative in its previously approved project (Project ID # J-8532-10) for approximately $132 Million. This $132 Million project is about $147 Million less costly in terms of capital expenditure, than the project proposed in this application. Thus, the Rex Hospital project proposed in this application is not the most reasonable alternative in terms of cost, design, and means of construction.

For those reasons, the Rex Hospital Application is non-conforming to Criterion (12).

IV. CON Criteria and Standards for Acute Care Beds – 10A NCAC 14C .3800

10A NCAC 14C .3803(a)

As discussed in detail in the context of Criterion (3) above, Rex relies on overstated acute patient day volume projections. Therefore, the response to this Rule and the evaluation of the projected utilization under the performance standard set forth in this Rule is unreasonable, unreliable, and unsupported.

VII. Comparative Factors

The Agency Findings in the competitive review in 2007 for Medical Park Hospital-Clemmons and NCBH Davie County Hospital Replacement facility provide comparative factors that should be considered in the review of the Rex Hospital, Rex Wakefield Hospital, the Rex Holly Springs Hospital, and the Novant Holly Springs Hospital CON Applications all filed on April 15, 2011 in response to a need determination in the 2011 SMFP for 101 New Acute Beds in Wake County. These factors include: Geographic Access, Facility Design, Scope of Services, Staffing, Charges/Revenues, Operating Costs, Access by Underserved Groups, Coordination with Existing Healthcare System,

and Community Support. In addition, the Agency Findings for the eight competing CON Applications filed on August 15, 2008 to seek approval for the 41 new acute beds and the 4 new ORs identified in the 2008 SMFP for Wake County. That application included one set of comparative factors for the operating rooms and a separate set of comparative factors for the new acute beds. The Agency used the following comparative factors for the new Wake County ORs: Geographic Accessibility, Demonstration of Need, Financial Feasibility, Coordination with Existing Health Care System, Access by Underserved Groups, Revenue, Operating Expenses, and Documentation of Physician Support. The comparative factors used by the Agency for the new Wake County acute beds were the same eight factors used by the Agency for the operating room comparison in 2008.

GEOGRAPHIC ACCESS

The Rex Hospital proposes to expand capacity and services in Raleigh in central Wake County, where the majority of the existing acute beds in Wake County are already concentrated and plentiful. In contrast, the Novant Holly Springs Hospital is seeking approval for a 50-bed community hospital in southern Wake County, where currently there are no acute inpatient beds and no operating rooms. Currently, about 12% of the Wake County population resides in southern Wake County and 0% of the Wake County acute beds are located there today.

Thus, the Novant Holly Springs Hospital is superior to that of Rex Hospital in improving local geographic access to acute inpatient beds.

DEMONSTRATION OF NEED

As discussed above in these comments the Rex Hospital acute bed projected utilization is unreasonable, unsupported, and unreliable under Criterion (3). Thus, Rex Hospital did not adequately demonstrate the need for the new acute beds at the Rex Hospital location in central Wake County.

The Novant Holly Springs Hospital has adequately demonstrated that the patient days and surgical cases projected to be performed at Novant's HSH are reasonable and has adequately demonstrated that the population it proposes to serve has the need for the 50 new acute beds and 3 ORs in southern Wake County in the HSH service area. Thus, Novant's HSH is comparatively superior in terms of demonstration of need.

FINANCIAL FEASIBLITY

As discussed above in the Criterion (3) section of these comments, Rex Hospital fails to satisfy Criterion (3) because its projections are unreasonable and unsupported. Since volume projections are integral to the financial projections, Rex's unreasonable volumes cause the project to be financially infeasible.

In addition, the capital cost for Novant's Holly Springs Hospital of $77.7 Million, is $201 Million less than the capital cost for the Rex Hospital's project. Also, Rex Hospital's total

capital cost per bed is $25.4 Million and Novant HSH's total capital cost per bed is $1.55 Million, a capital cost difference $23.8 Million per bed to bring the new acute beds on line in Wake County. Since Rex Hospital made a decision to place the 11 new acute beds in a space that will be available only if the services currently occupying that space are relocated to the new $278 Million Bed Tower, then it is appropriate to make these comparisons. And the Novant HSH total capital cost per square foot is $548/SF compared to $862/SF for Rex Hospital. Novant's Holly Springs Hospital has the more cost-efficient and cost-effective method of bringing the new acute beds into operation in Wake County. And the lower capital cost, also means that Novant HSH will have a lower annual debt service expense (principal and interest) than the debt service expense than the amount that Rex Holly Springs Hospital will be obliged to pay. These additional features, also demonstrate the comparatively superior financial feasibility of Novant HSH compared to Rex Hospital's proposal.

ACCESS BY UNDERSERVED GROUPS

The Project Year 2 percentages of each applicant's projected percentage of entire hospital services to be provided to Medicare and Medicaid recipients, as stated in the applicants' responses to Question VI.14 are set forth in the table below.

Applicant	Projected % of Hospital Services to Medicare Recipients in Year 2	Projected % of Hospital Services to Medicaid Recipients in Year 2
Rex Hospital	50.8%	5.5%
Novant Holly Springs Hospital	31.15%	11.61%

With regard to Medicaid recipients, Novant HSH projects the highest percentage of hospital services to be provided to Medicaid recipients. With respect to Medicare recipients, Rex Hospital, projects a higher percentage of hospital services to be provided to Medicare recipients.

GROSS REVENUE

Below is a comparison of Year 3 Inpatient Gross Revenue per Inpatient Day using the information provided by the applicants' responses to Question X.3:

- Rex Hospital's Inpatient Gross Revenue Per Inpatient Day is $7,223 in Year 3
- Novant HSH's Inpatient Gross Revenue Per Inpatient Day is $6,516 in Year 3

Novant HSH projects the lowest Year 3 Inpatient Gross Revenue per Inpatient Day compared to Rex Hospital and the other four applicants in the third year of operation.

NET REVENUE

Below is a comparison of Year 3 Net Revenue per adjusted patient day using the information provided by the applicants' responses to Question X.3:

- Rex Hospital's net revenue per adjusted patient day is $3,285 in Year 3
- Novant HSH's net revenue per adjusted patient day is $2,728 in Year 3

Rex Hospital's net revenue per adjusted patient day is higher than that of Novant Holly Springs Hospital and is the highest among the six competing applicants.

OPERATING EXPENSES

Below is a comparison of Year 3 operating costs per adjusted patient day using the information provided by the applicants' responses to Question X.3:

- Rex Hospital's operating costs per adjusted patient day are $2,943 in Year 3
- Novant Holly Springs Hospital's operating costs per adjusted patient day are $2,464 in Year 3

Novant's HSH projects a lower operating expense per adjusted patient day than Rex Hospital. Novant HSH's operating expense per adjusted patient day is less than that of Rex Hospital by $479 or 19%. Thus, the lower Novant HSH operating expenses are relatively superior to those projected for Rex Hospital. Novant HSH has the lowest operating cost per adjusted patient day, among the three applicants that propose new community hospitals (Novant Holly Springs, Rex Holly Springs, and Rex Wakefield).

COMMUNITY SUPPORT

At the time the Rex Hospital CON Application was filed on April 15, 2011, there appear to be about 26 community letters of support included in Exhibit 54. See RHSH Application starting at pages 1061-1086, Exhibit 54. These letters appear to include expressions of support from Rex employees (although their affiliation is not specified in the letters) and current and former patients, who may be residents of the service area. There is also a letter of support from the Chairman of the Johnston County Board of Commissioners (page 1062).

At the time the Novant Holly Springs Hospital CON Application was filed on April 15, 2011, there were about 375 letters of support from Novant Medical Group-Triangle patients and residents of southern Wake County and surrounding communities including Holly Springs, Fuquay-Varina, Apex, Cary, New Hill, Garner, Willow Springs, Lillington (Harnett County), and Angier(Harnett County). In addition, Novant HSH Exhibit 16 includes letters and resolutions of support from the Mayor of Holly Springs (page 1781), the Town Council of Holly Springs (page 1603), the Fuquay-Varina Board of Commissioners (page 1604), and Senator Richard Y. Stevens of the North Carolina General Assembly (page 1606). Also, during the comment period approximately two

thousand additional community letters of support for the Novant Holly Springs Hospital were submitted to the CON Agency. These 2,001 letters of support are from residents of Holly Springs, Angier, Apex, Raleigh, Cary, Fuquay-Varina, Garner, New Hill, and Willow Springs. In total, the Novant Holly Springs Hospital project has demonstrated support with 2,376 community members support letters (375 +2001) and physician support letters representing 100 individual physicians, for a total of 2,476 expressions of support. It is clear that the Novant Holly Springs Hospital proposal has broad, deep, and sustained support from the communities that it proposes to serve.

DOCUMENTATION OF PHYSICIAN SUPPORT

Based on the physician letters of support in the Rex Hospital CON Application at Exhibit 54, it appears there are about 276 letters of support from primary care, medical specialist, and surgical physicians. There are letters of support from physicians practicing in Wake, Orange, Durham, Franklin, Granville, Harnett, Johnston, Nash, Person, Sampson, Vance, and Wayne counties, based on data provided on the web sites for the physician practices listed on pages 790-797, Exhibit 54 of the Rex Hospital CON Application. It should also be noted that the physician letters of support for the Rex Hospital project, the Rex Wakefield 40-bed hospital, and the Rex Holly Springs 50-bed hospital are identical. In other words, the exact same physician letters are used to support the Rex Hospital in central Wake County *and* both of the new community hospitals, with one located in the southern most part of Wake County, and the other located in the northern most part of Wake County. The Rex Wakefield Hospital and the Rex Holly Springs Hospital are 36 miles and 43 minutes driving time from each other, and although both are located in Wake County, they are at opposite ends of the County. Rex Hospital is also located 18 miles/21 minutes driving time from the proposed Rex Holly Springs Hospital and Rex Hospital is located 15 miles/24 minutes drive time from the proposed Rex Wakefield Hospital.[1] The proposed expansion to Rex Hospital in Raleigh will result in a total of 570 acute beds and 16 ORs on the Rex Hospital Raleigh campus. The two new proposed Rex community hospitals at Wakefield and Holly Springs have a combined total of 90 acute inpatient beds, 5 operating rooms, and 26 ED treatment rooms. Presumably, it is not practical or expected that all 276 physicians represented in the Exhibit 54 physician support letter will practice at Rex Hospital in Raleigh, as well as at both the northern Wake County proposed community hospital in Wakefield and the southern Wake County proposed community hospital in Holly Springs. The Rex Hospital CON Application is not specific about which or how many of these 276 physicians have privileges to practice at Rex Hospital or are most likely to seek privileges at, practice at, or refer to Rex Hospital. In addition, the 19 letters of support from the surgeons of Wake Heart and Vascular Associates[2] seem to focus their support on the Rex (Main) Hospital Heart & Vascular Center CON Application ("scope change") and do not specify in their letters whether they intend to practice at either the proposed Rex Holly Springs Hospital or the proposed Rex Wakefield Hospital. The Agency may not be able to determine if there is sufficient physician support specific to the proposed expanded Rex Hospital with a new

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[1]Source: MapQuest.com

bed tower, as well as the two proposed community hospitals, Rex Hospital Holly Springs and Rex Wakefield Hospital.

The Novant Holly Springs Hospital CON Application includes a HSH Chief of the Medical Staff letter, Medical Director/physician letters of support for services at HSH including Normal Newborn Nursery/Neonatal Level I, GI Endoscopy, Radiology, CT Scans, Emergency Medicine, Anesthesiology, Surgical Services, Inpatient Care Specialists/Hospitalists, Intensive Care Unit, Pathology, and Obstetrics, as well as physician support letters from primary care, medical specialist, and surgical physicians. Of the eleven Medical Director/Chief of Service letters for HSH, seven are from physicians practicing in the Triangle area today (Neonatal, GI Endoscopy, Radiology, Pathology, Anesthesia, Surgery, and CT Scans). These are found in Exhibit 14 of the Novant HSH CON Application. This exhibit also includes physician letters of support representing 42 individual primary care physicians (family practice, internal medicine, pediatrics) practicing in Wake, Durham, and Franklin counties, including three physician practices with offices in Holly Springs today. Novant HSH Exhibit #14 also includes physician letters of support representing 15 individual medical specialists including cardiology, gastroenterology, hepatology, medical oncology, neurology, pathology, pulmonology, and radiology. These physicians or their groups have offices in Wake, Durham, Franklin, Harnett, Moore, Orange, and Alamance Counties, including four practices with offices in Cary, NC. Finally, Exhibit 14 in the Novant HSH CON Application includes surgeon letters of support representing 32 individual surgeons, including ENT, general surgery, orthopedics, obstetrics and gynecology, and vascular surgery. These surgeons have offices in Wake, Durham, Franklin, and Orange counties, including three practices with offices in Apex or Cary.

Together these Novant HSH physician and medical director letters of support represent 100 individual physicians, the majority of whom practice in the Triangle area today, including Wake County. Each of their signed letters express a plan to seek medical staff privileges at Novant HSH, a commitment to admit patients to Novant HSH, an intent to refer appropriate patients to the Novant HSH, an intent to perform surgery a Novant HSH, a commitment to refer appropriate patients to other physicians and specialists on the Novant HSH medical staff for imaging studies, surgery, or emergency department care, or to perform the duties of medical director/chief of service for certain clinical service lines at HSH. See pages 1454-1594 in Exhibit 14 of the Novant HSH CON. These Novant HSH signed physician letters address their support for only one hospital, the Novant Holly Springs Hospital, rather than two or more hospitals[3], which appears to be the format for many of the letters in the Rex Wakefield and Rex Holly Springs CON Application. The Novant HSH physician support letters demonstrate sufficient and necessary support for the proposed 50-bed community hospital.

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[3]Note that one practice, Triangle Orthopaedic Associates, through its CEO, signed a letter of support for each of the following CON Applications filed on April 15, 2011: the Rex Hospital Application (page 1003) the Rex Wakefield Hospital CON Application (see page 1267), the Rex Holly Springs Hospital Application (see page 1353), and the Novant Holly Springs Hospital CON Application (see page 1570). TOA includes 23 orthopedic surgeons and 6 physical medicine/rehabilitation physicians.

The Agency should also take notice of the greater breadth, depth, and variety of local and regional physician support letters for this Novant 2011 Holly Springs Hospital CON Application compared to the Novant Holly Springs Hospital Application filed just about two and one-half years ago (in August 2008). During that period, the base of physician support letters for Novant's Holly Springs Hospital has grown by 270%.[4]

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[4]Calculation: ((100-27)/27 physician support letters)= 270%