Novant Health, Inc. and Novant Health Presbyterian Medical Center
7/31/2017 Comments in Opposition on
Carolinas Healthcare System-Pineville 6/15/2017 CON Application
To Add 15 New Acute Bed CON Project I.D. #F-011361-17

Overview

Carolinas Health Care System-Pineville (CHS-Pineville) is seeking the state's approval to add 15 new acute beds on the 2nd floor (2-East) of CHS-Pineville in space that is currently observation beds. CHS-Pineville estimates a capital cost of $1,115,000 and a projected opening date of 04/01/2018. In Section C of the CHS- Pineville CON Application (page 34) CHS-Pineville also states that it projects to shift patient volume from CHS-Pineville to CHS Fort Mill in South Carolina when it opens.

On page 32 of its application, CHS-Pineville is showing a current patient origin for its medical /surgical beds of:

- 44.2% Mecklenburg County
- 28.4% York County (SC)
- 10.3% Lancaster (SC)
- 6.1% Union County (NC)
- 1.7% Gaston County
- 9.4% Other

This demonstrates that over one-third of CHS-Pineville's medical/surgical inpatients originate outside North Carolina.

SECTION B – "CRITERION (1)" – G.S. 131E-183(a)(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."***

The need in the SMFP was generated based upon current inpatient days provided in inpatient acute care beds in Mecklenburg County. However, the methodology does not identify in which acute care facility those beds should be placed. It is simply a tool to identify the "determinative need" for acute care beds in the identified service area.

As will be discussed in the context of CON Review Criteria (3), (3a), (4), (5), (9) and (18a), CHS-Pineville:

- Does not demonstrate need for the proposed project.

Therefore, the CHS-Pineville CON application does not conform to Policy GEN-3 and CON Review Criterion (1). Further, as discussed in the comments in opposition submitted for Criterion 3, CHS-Pineville fails to conform to the CON Criteria and Standards when reasonable assumptions are utilized, and as a result does not demonstrate a need for additional acute care beds.

SECTION C - "CRITERION (3)" and RULES: - G.S. 131E-183(a)(3) and G.S. 131E-183(b)

Criterion (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."*

CHS-Pineville is located in southwestern Mecklenburg County and as discussed below, over 40% of its total discharges were from South Carolina in FFY 2016.

The need in the SMFP was generated based upon current inpatient days provided in inpatient acute care beds in Mecklenburg County. However, the methodology does not identify in which acute care facility those beds should be placed. It is simply a tool to identify the "determinative need" for acute care beds in the identified service area. CHS inpatient hospitals currently serve a large number of South Carolina residents as discussed in the application and below. As discussed in the CHS-Pineville application, a new hospital is being built in Fort Mill, South Carolina. This hospital will be either a 64-bed acute care hospital operated by CHS, OR it will be a 100-bed hospital operated by Piedmont Medical Center. Either way a new hospital with, at a minimum, 64 new acute care beds will be developed in Fort Mill in the next 3 three to five years as reflected in Attachment 1.

Currently, **an estimated 65 to 72 patients per day** from South Carolina are occupying an acute care bed at CHS-Pineville as reflected in the following table.

Estimated South Carolina ADC at CHS-Pineville

	CY 2016
South Carolina Discharges – 2017 LRA	42.70%
Total CHS-Pineville Pt Days [Form C Assumptions page 2])	61,095
Estimated South Carolina Patient Days (% of discharges x Total CHS-Pineville Pt Days [Form C Assumptions page 2])	26,088
South Carolina Estimated Average Daily Census	**71.5**
South Carolina Discharges Two Counties (Pg 32)	38.70%
Total CHS-Pineville Pt Days [Form C Assumptions page 2])	61,095
Estimated South Carolina Patient Days (% of discharges x Total CHS-Pineville Pt Days)	23,644
South Carolina Estimated Average Daily Census	**64.8**

Source: LRAs; CHS-Application page 32

In its 2017 LRA, CHS-Pineville reports that 42.7% of its total patients came from South Carolina. On page 32 of its application, CHS Pineville reports that 38.7% of its total medical surgical patients came from two counties in South Carolina, York (28.4%) and Lancaster (10.3%).

These estimates are based upon historical inpatient discharge information provided by CHS-Pineville in its annual LRA and on page 32 of the CHS application. Novant Health did not find any patient origin data for total patient days in either the CHS-Pineville or CMC applications.

In Section Q of its application in the assumptions provided for Form C, CHS assumes that only 10.8% of total patient days from South Carolina will transfer back to the new hospital in their own state, once the CHS facility is operational. This represents 18.3 patients per day in 2017; **less than 30%** of all South Carolina residents seeking care at CHS-Pineville. This is projected to increase to only 20.5 patients per day by 2021; **which is too low.** This assumption used by CHS is based upon the 2013 CON Application submitted in South Carolina for the Fort Mill Hospital. It does not reflect the increase in admissions and patient days provided for South Carolina residents at CHS-Pineville since that time; nor does it reflect the high population growth experienced in York and Lancaster Counties in South Carolina since that time.

Mecklenburg County is the second fastest growing county in North Carolina. In fact, seven of the eight counties in HSA III are in the top 25 fastest growth counties when considering actual population growth as shown in the following table.

Population Growth in North Carolina

County	2017	2021	Growth	Average Annual Growth
Wake	1,052,122	1,141,451	89,329	1.7%
Mecklenburg	1,077,874	1,166,058	88,184	1.6%
Durham	307,438	327,816	20,378	1.3%
Johnston	193,035	210,312	17,277	1.8%
Union	228,065	244,212	16,147	1.4%
Cabarrus	205,097	221,185	16,088	1.6%
Forsyth	373,145	388,510	15,365	0.8%
Guilford	525,464	540,481	15,017	0.6%
Brunswick	128,891	141,611	12,720	2.0%
Buncombe	261,031	273,427	12,396	0.9%
Iredell	176,191	188,125	11,934	1.4%
New Hanover	226,069	237,746	11,677	1.0%
Onslow	199,025	207,801	8,776	0.9%
Alamance	161,309	169,439	8,130	1.0%
Gaston	216,693	224,810	8,117	0.7%
Orange	143,264	149,483	6,219	0.9%
Hoke	54,161	60,224	6,063	2.2%
Harnett	129,996	135,589	5,593	0.9%
Chatham	74,538	79,987	5,449	1.5%
Henderson	115,082	120,014	4,932	0.9%
Pender	60,408	65,333	4,925	1.6%
Moore	97,081	101,969	4,888	1.0%
Lincoln	83,554	87,870	4,316	1.0%
Wayne	125,146	129,267	4,121	0.7%
Rowan	141,806	145,177	3,371	0.5%

Source: NCOSBM 7.27.17

Any additional acute care beds awarded in Mecklenburg County should be awarded to meet the needs of residents of Mecklenburg County, not South Carolina. CHS-Pineville relied on old projections from

2013 to estimate the potential impact of a new hospital in Fort Mill. It is unreasonable for CHS-Pineville to assume that the volume shifting would not increase from estimates made in 2013, when actual admissions from South Carolina at CHS-Pineville have increased nearly 64% from FFY 2013 to FFY 2016 as reflected in the following table.

CHS-Pineville South Carolina Inpatient Admissions

	FFY 2012	FFY 2013	FFY 2014	FFY 2015	FFY 2016	Total Increase
CHS Pineville PO SC	3,948	4,785	5,694	6,286	6,460	63.6%
Annual Growth Rate		21.2%	19.0%	10.4%	2.8%	

Source: Annual LRAs 2014-2017

Therefore, the assumptions made by CHS-Pineville regarding the shift of patients from CHS-Pineville to a new hospital in Fort Mill are unreasonable and significantly understated. Inflating the estimated patient day shift (Form C assumptions page 4) based upon actual growth in South Carolina patient days since the CHS-Fort Mill application was submitted in 2013 shows that substantially more patient days should shift when the new acute care hospital opens in Fort Mill.

CHS-Pineville Patient Days Adjusted for More Reasonable Shift in South Carolina Patient Days

	2020	2021
Projected Days of Care (Page 5 of assumptions for Form C Section Q. of application)	67,544	69,506
SC Days Already Shifted (Page 4 of assumptions for Form C Section Q. of application)	7,276	7,482
Novant Health Estimated Shift in Days (63.6% Increase in 2013 estimate based upon actual growth at CHS-Pineville from South Carolina)	11,906	**12,243**
Adjusted Days – Projected Days – Novant Health Estimated Shift in Days	55,638	57,263
Average Daily Census	152.4	156.9
Beds (including new 15 acute care beds)	221	221
Projected Utilization	69.0%	71.0%

Source: Annual LRAs 2014-2017 (previous table); CHS-Pineville CON Application

As shown in the previous table, when South Carolina patient days at CHS-Pineville are adjusted to reflect actual growth in patient days for South Carolina residents, the resulting CHS-Pineville projected utilization does not achieve the 71.4% target occupancy rate required by the CON regulations for new acute care beds.

Note that even adjusting the 2013 assumption inflated to reflect the growth in South Carolina residents admitted to CHS-Pineville between 2012 and 2016, as reflected in the above table, (12,243 days in 2021), is only 33.5 patients per day, or 41% of total estimated South Carolina patient days provided. The following table reflects these calculations.

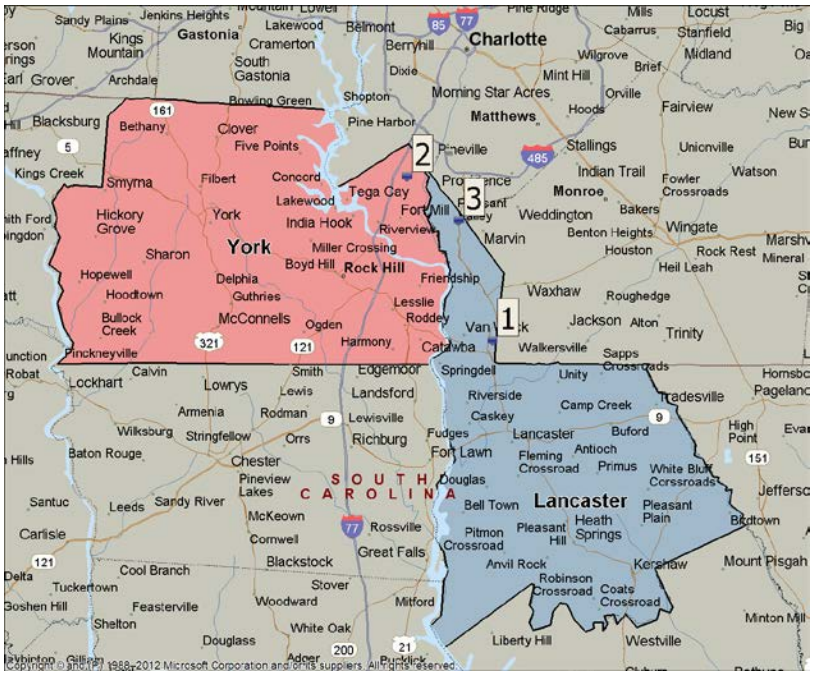
South Carolina Patient Days Shift Still Only 41%

	CY 2021
Projected Days of Care (Form C Assumptions Page 5)	69,506
SC Percent of Admissions 2017 LRA	42.7%
Expected SC Resident Patient Days	29,679
Expected SC Residents Average Daily Census	81.3
Novant Health Adjusted Days Shifted (Previous table)	**12,243**
Novant Health Adjusted SC Residents Average Daily Census	33.5
Adjusted Days Percent of Expected Based upon 2017 LRA Patient Origin	41.2%

Source: CHS CON Application: 2017 LRA patient origin; Previous Table
Note that CHS-Pineville patient origin provided in the application on pages 33 and 34 is only for medical surgical services and CHS-Pineville admissions/discharges.

It is reasonable to assume that considerably more than 34 patients per day of the potential 81 estimated to be treated at CHS-Pineville in the future will shift to a new hospital in Fort Mill. The new hospital in Fort Mill will be closer to home and family for practically all South Carolina residents. Novant Health mapped the time and distance from three points in northern Lancaster County and eastern York County to determine time and distance to CHS-Pineville and Fort Mill. Traveling to Fort Mill was closer and faster for all three of the locations in the following map.

Mapped Locations in South Carolina



The projections provided by CHS-Pineville does not take into consideration the large volume of patients that will seek care closer to home and family and to avoid the Charlotte traffic, when the new hospital is open in Fort Mill. CHS-Pineville's projections are overstated and unreasonable.

Therefore, the proposed project is not consisting with the CON Criteria and Standards for Acute Care Services and is non-conforming to Criterion 3.

SECTION D - "CRITERION (3a)" - G.S. 131E-183(a)(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, handicapped persons, and other underserved groups and the elderly to obtain needed health care."

Based upon projected utilization included in the application on pages 2 and 4 of the Form C Assumptions, CHS-Pineville projects a significant 4.5% decrease in ICU and obstetrical services from 2017 through 2021 as shown in the following table.

CHS-Pineville Projected Patient Days

	2013	2016	Annual Change 2013-2016	2017	Annual Change 2016-2017	2021	Annual Change 2017-2021
Total Days	51,572	61,095	6.2%	61,983	1.5%	69,506	4.0%
ADC	141.3	167.4		169.8		190.4	
M/S Days	36,462	46,329	9.0%	47,406	2.3%	56,877	6.7%
ADC	99.9	126.9		129.9		155.8	
ICU OB Days	15,110	14,766	-0.8%	14,577	-1.3%	12,629	-4.5%
ADC	41.4	40.5		39.9		34.6	

Source: CHS-Pineville CON Application, Form C assumptions page 2 and 4

CHS-Pineville projects a 4.5% decrease in ICU and obstetrical services from 2017 to 2021. Neither of these two services are programs that can be shifted to outpatient settings.

CHS-Pineville did not provide any information or discussion regarding the substantial reduction of these services. Further, CHS-Pineville did not demonstrate that the needs of the population presently served will be met adequately and did not demonstrate that any impact that reduction of the services would have on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

SECTION E - "CRITERION (4)" - G.S. 131E-183(a)(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."***

As discussed in the context of CON Statutory Review Criterion (3), CHS-Pineville failed to demonstrate a need of the identified population for the proposed project.

Consequently, CHS-Pineville fails to demonstrate that it is the least costly or most effective alternative proposed, which demonstrates non-conformity with CON Review Criteria (4).

SECTION F - "CRITERION (5)" - G.S. 131E-183(a)(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.

With its modest $1,115,000 capital cost this suggests that CHS-Pineville is spending less than $75,000 per bed for the proposed 15 new acute beds. The CHS-Pineville average capital cost per bed based on the estimated total capital cost is actually $74,333 per bed and may not be sufficient if there are unexpected considerations such as undiscovered damage in patient rooms or patient rooms that do not meet current building codes. Based on the $300,000 construction cost included in the CHS-Pineville total capital cost, the construction cost per bed for the CHS-Pineville project is only $20,000 per patient room. It is not clear whether CHS-Pineville will be able to appropriately develop the 15 patient rooms with new acute beds due to the very conservative total capital cost that also fails to consider the impact of potential future litigation on the estimated total capital cost.

Further, as discussed in the context of CON Statutory Review Criterion (3), CHS-Pineville failed to demonstrate a need of the identified population for the proposed project. Therefore, the financial ProFormas for the project are based upon unreasonable data and cannot be determined reasonable.

Consequently, CHS-Pineville fails to demonstrate that it is the least costly or most effective alternative proposed, which demonstrates non-conformity with CON Review Criteria (5).

SECTION J - "CRITERION (9)" - G.S. 131E-183(a)(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."

Presently, CHS-Pineville at page 33, Section C of its CON Application is showing a current patient origin for its medical /surgical beds of:

- 44.2% Mecklenburg County
- 28.4% York County (SC)
- 10.3% Lancaster (SC)
- 6.1% Union County (NC)
- 1.7% Gaston County
- 9.4% Other

This demonstrates that over one-third (38.7%) or 4,681CHS-Pineville medical/surgical inpatient discharges originated outside North Carolina during CY 2016.CHS-Pineville appears to be 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. CHS-Pineville has failed to document the special needs and circumstances that warrant service to these individuals.

In its responses, in CHS-Pineville CON Application Section C, CHS-Pineville projects future patient origin will change by PY3 defined as CY 2021:

- 48.5% Mecklenburg County
- 21.4%York (SC)
- 11.3% Lancaster (SC)
- 6.7% Union County
- 1.9% Gaston County
- 10.3% Other

This demonstrates that almost one-third (32.7%) or 4,505CHS-Pineville medical/surgical inpatient discharges are projected to originate outside North Carolina during CY 2021.CHS-Pineville appears to be 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.

The need in the SMFP was generated based upon current inpatient days provided in inpatient acute care beds in Mecklenburg County. However, the methodology does not identify in which acute care facility those beds should be placed. It is simply a tool to identify the "determinative need" for acute care beds in the identified service area. Therefore, the need methodology does not document the special needs of the South Carolina population as inferred by CHS-Pineville on page 78 of the application. Therefore, CHS-Pineville has failed to document the special needs and circumstances that warrant service to these individuals.

SECTION N - "CRITERION (18a)" - G.S. 131E-183(a)(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."

As discussed above, CHS-Pineville fails to demonstrate conformity with CON Review Criteria (1), (3), (4), (5) and (9). Consequently, CHS-Pineville fails to demonstrate that its CON application is conforming to CON Review Criterion (18a).

Comparative Factors

Payor Mix for Medically Underserved Populations

In CHS-Pineville CON Application Section L (page 87), CHS-Pineville fails to include a row label in the payor mix table for "Charity Care." Also, CHS-Pineville does not define Self-Pay in the payor mix table below. This omission makes it challenging to compare payor mix for medically underserved populations with other competing CON Applications.

Payor Source	**CHS-Pineville Medical Surgical Beds-PY2 CY 2020**
Medicare	57.6%
Medicaid	5.9%
Commercial/Managed Care	29.0%
Other (worker's comp & other)	1.3%
Self-Pay	6.3%
Total	100.0%

Note that this factor is not comparable when comparing the NHPMC NICU application. NICU patients are never Medicare. As reflected in the NHPMC NICU application, the predominant payors are Medicaid and insurance. North Carolina Medicaid has worked diligently over the years to assure that babies, especially babies from low-income families, have health insurance.

Cost Per Patient Day

Note that this factor is not comparable when comparing the NHPMC NICU application. NICU patients are high-cost patients. NICU babies use considerable resources, and unlike other patients, the cost per patient day does not dramatically decrease after the first day or two in the hospital. NICU babies, have longer, more intensive, lengths of stay and as a result, higher costs per patient day. Therefore this factor cannot be compared regarding the NHPMC NICU.

Payor Mix for Medically Underserved Populations

Note that this factor is not comparable when comparing the NHPMC NICU application. NICU patients are rarely charity patients. As reflected in the NHPMC NICU application, the predominant payors are Medicaid and insurance. North Carolina Medicaid has worked diligently over the years to assure that babies, especially babies from low-income families, have health insurance.

Percent of Patients Not Residing in Health Service Area III

In Section C of the CHS-Pineville CON Application, the applicant provides patient origin information, showing that 38.7% of its patients come from two counties in South Carolina (York County at 28.4% and Lancaster County at 10.3%). CHS-Pineville patients from North Carolina represent 61.4% of the patients served at CHS-Pineville. This means that less than two-thirds of CHS-Pineville's patients reside in Health Service Area III**.** This creates a Criterion (9) issue for CHS-Pineville as discussed above in Criterion(9).

Physician Support Letters

CHS-Pineville's CON Application Exhibit H-4 includes signed support letters from only 13 physicians, including physicians practicing in 11 physician specialties such as psychiatry, internal medicine, family practice, orthopedics, ob/gyn, neurology, anesthesia, cardiology, neurology, radiology, and hospitalist medicine. These letters do not reference other medical and surgical physician specialties such as general surgery, cancer surgery, bariatric surgery, pathology, gastroenterology, endocrinology, pediatrics, neonatology, nephrology, oral surgery, emergency medicine , etc. that one would expect to find at a hospital the size of CHS-Pineville. This may suggest that there is a Criterion(7) issue regarding the availability of health resources, including health manpower for the provision of services to be provided.

Construction Cost Per Square Foot

It is odd that the construction cost of $300,000 at CHS-Pineville to cover the 15 new acute beds is much higher that the CHS-Charlotte construction cost of $120,000 for 45 new acute beds. This potentially demonstrates that CHS-Pineville has overstated its construction cost for the development of the 15 acute beds. The CHS-Pineville construction cost per SF is $90.93/SF ($300,000/3,299SF =$90.93 per SF). The CHS-Charlotte Construction Cost per SF is $15.09 per SF ($120,000/7,890 SF=$15.09SF). Thus suggesting that CHS-Charlotte has understated its construction cost. CHS did not explain the variance in the construction cost estimates for CHS-Charlotte and CHS-Pineville. As the applicant developing the smaller number of beds it would be expected that the construction cost per SF would be lower for CHS-Pineville than for CHS-Charlotte.

Total Capital Cost Per Square Foot

The total capital cost per SF for CMC-Pineville is $337.98 ($1,115,000/3,299 SF = $337.98.). The total capital cost per SF for CMC-Charlotte's Charlotte's 45 beds project is $152.09 ($1,200,000/7,890 SF=$150.09, which is considerably less than the Total Capital Cost per SF for CHS-Pineville. It is unclear whether CHS-Pineville has overstated its Total Capital Cost.

Distribution of Acute Bed Inventory In Mecklenburg County

There are two predominant health systems serving Mecklenburg and surrounding counties. Novant Health operates an integrated system of physician practices, hospitals, outpatient centers, and more - each element committed to delivering a remarkable healthcare experience for patients. Carolinas Health System also operates an integrated system of physician practices, hospitals, outpatient centers, and more. These two healthcare systems compete with each other daily to meet the needs of patients as well as meeting the needs of physicians and other healthcare providers. While the majority of healthcare services are provided on an outpatient basis, it is critical that inpatient care be available when needed.

Over the years, Novant Health and CHS have competed for additional inpatient acute care beds multiple times. Currently, CHS has a large competitive advantage in the market with 1,316 licensed acute care beds. Novant Health has only 862 licensed and CON approved acute care beds. This reflects a disparity in the market with Novant Health having only 39.6% of total acute care beds.

Approving the Novant Health applications is the more effective alternative for choice and competition in Mecklenburg County.

Conclusion

The CHS-Pineville and CMC applications do not demonstrate conformity with multiple CON Review Criteria and does not demonstrate conformity with multiple CON Regulatory Criteria and Standards for acute care inpatient services. The NHPMC NICU application and the NHPMC 18 bed application comply with all applicable CON review criteria and rules. The NHPMC applications are comparatively superior to the CHS applications in several key areas, including access for medically underserved populations. As a result, the CHS-Pineville and CMC CON applications should be denied and the NHPMC CON applications should be approved.