



March 31, 2020

Ms. Martha Frisone, Chief
Ms. Julie Faenza, Project Analyst
Certificate of Need Section
Division of Health Service Regulation
NC Department of Health and Human Services
809 Ruggles Drive
Raleigh, North Carolina 27603

Re: Comments on UNC Health Care System's Application for a Certificate of Need to Develop a New Diagnostic Center in Cary, Wake County, Health Service Area IV; CON Project ID Number: J-011865-20

Dear Ms. Frisone and Ms. Faenza,

On behalf of Raleigh Radiology, LLC, thank you for the opportunity to comment on the above referenced application to develop a new diagnostic center in the Panther Creek area of Cary, Wake County. During your review of the project, I trust that you will consider these comments thoughtfully.

UNC Health Care System's ("UNCHCS") application does not demonstrate need, increase access to the proposed services, or present as a cost-effective alternative; the project will unnecessarily duplicate existing services. Our reasons are detailed in the attached comments. Approval of this application would be inconsistent with the Access and Value Basic Principles found in the 2020 SMFP (at pages 2 and 3).

Moreover, we believe that a diagnostic imaging service operating on the first floor of the proposed address is operating as a diagnostic center that is not in material compliance with its original Certificate of Need ("CON"). For further discussion on this topic, see attachment 9.

We understand that the State's CON award for the proposed diagnostic center must be based upon the State's CON health planning objectives, as outlined in G.S 131E-183. In reviewing UNCHCS' application, we request that the CON Section give careful consideration to the extent the applicant not only meets all statutory review criteria, but also offers necessary and cost-effective diagnostic services to the residents of Wake County and its surrounding counties.

Thank you for your time and consideration. Please do not hesitate to call me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads 'Joanne Watson'.

Joanne Watson
Chief Operating Officer
Raleigh Radiology, LLC

Attachment(s)

5220 Greens Dairy Rd Raleigh, NC 27616

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ATTACHMENTS

1. Comments on J-011865-20, University of North Carolina Health Care System
2. Services offered at WR Imaging, Panther Creek, per UNC REX website
3. Inventory of nuclear cameras within UNCHCS' proposed service area, by type
4. ACR accredited facilities for nuclear medicine within UNC Panther Creek's Proposed Service Area
5. Material Compliance Filed by Rex Hospitals, Inc. on February 1, 2019, Re: CON J-8263-08
6. Excerpts from the No Reviews filed by Rex Hospital, Inc. to develop urgent care and laboratory services separately from their original CON project J-0118263-08
7. Rex Hospital, Inc. Form 990 Tax ID
8. Excerpts from CON applications G-11725-19 and J-11800-19, proformas
9. Letter Re: WR Imaging, LLC Diagnostic Imaging Center in Cary, Wake County, Health Service Area IV; CON Project ID Number: J-8263-08
10. CON Application J-8265-08, p.5
11. Revised CON Issued to WR Imaging, LLC on February 21, 2019

Review of:
UNC Health Care System CON Application,
UNC Panther Creek Diagnostic Center, J-011865-20

Overview

UNC Health Care System (“UNCHCS”) proposes to develop a new, approximately 57,000 SF, diagnostic center, UNC Health Care Panther Creek Diagnostic Center (“Panther Creek”), in their existing medical office building (“MOB”) at 6715 McCrimmon Parkway in Cary. UNCHCS’ application is non-conforming with statutory review criteria 3, 4, 5, 6, 8, and 12.

This application proposes to add a nuclear camera valued at more than \$10,000 to the third floor of the UNC Panther Creek MOB, causing the total cost of all the medical diagnostic equipment on the second and third floor, with the exception of laboratory and Raleigh Orthopedic Clinic spaces, to exceed the \$500,000 threshold. However, the applicant does not provide enough information to adequately evaluate all elements of the proposed project. UNCHCS fails to prove a need for the services proposed. Approval of the proposed project will result in unnecessary duplication of existing resources.

CON Review Criteria

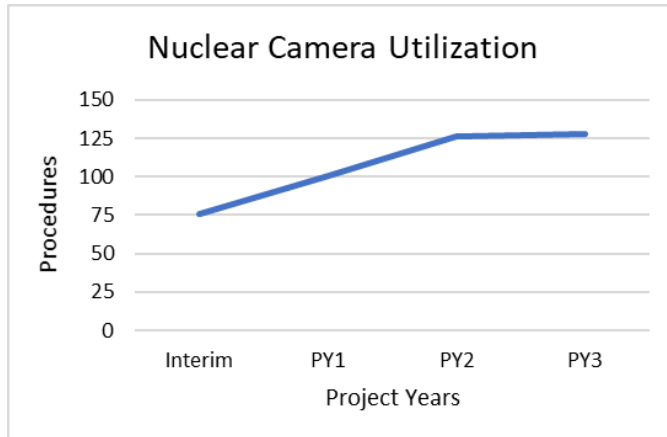
- 3. The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.**

Demonstration of Need

Page 24 of the application states WR Imaging, LLC (a joint venture entity between Rex Hospital, Inc. and Wake Radiology Services, LLC) currently “operates WR Imaging Panther Creek—a diagnostic center and independent testing facility” on the first floor of the UNC Panther Creek MOB. By the applicant’s own admission, there is an operational diagnostic center, owned by a subsidiary of the applicant, in the same building as the proposed diagnostic center. WR Imaging Panther Creek offers 3D mammography screening, bone density scanning, CT, MRI, ultrasound, and x-ray services (attachment 2). The proposed UNC Panther Creek Diagnostic Center will also be offering ultrasound and x-ray services. The application does not demonstrate that the population to be served needs more x-ray and ultrasound services.

The application contains no information about patient need for nuclear medicine imaging. UNCHCS proposes to use the newly acquired nuclear camera at 9.8 percent capacity, amounting to only 128 procedures in the third project year. Based on the projected utilization forecast methodology, the applicant does not expect the number of nuclear imaging procedures performed in future years to be any larger. Figure 1 below shows a plateau in the projected utilization of the nuclear camera.

Figure 1—UNCHCS Projected Utilization Trend Over Interim and First Three Project Years for Proposed Nuclear Camera



Source: UNCHCS Panther Creek Diagnostic Center Application, Form C

The application does not provide any vendor data or equipment specifications. Therefore, it is impossible to determine what equipment UNCHCS proposes to acquire. There are two versions of nuclear cameras currently on the market: Gamma cameras and Single-Photon Emission Computed Tomography camera (“SPECT”). A Gamma camera detects gamma rays emitted from a radiotracer administered to the patient and yields a 2-dimensional image, much like an x-ray¹. A SPECT, on the other hand, is a tomographic version of a gamma camera, meaning it produces cross-sectional images, or “slices,” of the body and is more similar to a CT Scanner. There are at least 28 Gamma cameras and at least 21 SPECTs in the application’s proposed service area (attachment 3). These are conservative estimates. There may be more nuclear cameras located in non-hospital facilities; however, there is not a public data source that provides a definitive inventory of them.

30 nuclear cameras are located within 18 miles of the proposed site. Of the 30 cameras, at least 16 are owned by UNCHCS or a related entity. The closest camera to the proposed diagnostic center is only 11.9 miles away at Wake Radiology Cary, a freestanding imaging facility. According to Google Maps, this distance amounts to 20 minutes’ drive time. Because utilization of nuclear imaging is so low, it is fair to assume this is a reasonable distance for less than four patients per week to travel. Given the very large service area, it is possible that most of the target population actually lives closer to the Wake Radiology Cary location. In the same vein, patients from northern Wake County parts of the service area could easily live or work closer to Durham facilities. Approximately 88 percent of projected Panther Creek patients originate from Wake County. Thus, it is probable that a significant number of patients live near one of the 30 cameras within an 18-mile radius of Panther Creek. The applicant neglects to address this issue and does not adequately demonstrate the need the population to be served has for the proposed project, particularly for nuclear medicine imaging.

The application makes no attempt to provide a basis for utilization projections. All of the forecasts provided are tied to generalized “historical patterns at applicant facilities,” with no specific reference to nuclear medicine services. UNCHCS facilities supposedly form the basis for

¹ <https://www.sciencedirect.com/topics/medicine-and-dentistry/gamma-camera>

equipment utilization for Panther Creek. UNCHCS' Weaver Crossing Orthopedic Clinic was used to project orthopedic X-ray utilization only. UNCHCS does not identify which other facilities were analyzed to project equipment utilization for Panther Creek. UNCHCS asserts Weaver Crossing Orthopedic Clinic is of similar size and serves a similar demographic; however, the applicant provides no evidence to back up this claim. Therefore, the applicant's State Fiscal Year 2023 ("SFY23") projections are unsupported and unreliable. UNCHCS also makes an assumption that the "proposed diagnostic center will be fully ramped up by 2023."² As such, the applicant projects utilization for SFY23 and then uses a reverse ramp to project utilization for SFY21 and SFY22 (60 and 80 percent, respectively). The applicant did not provide reasoning for this ramp. Because SFY21 and SFY22 projections are based on SFY23, they are also unreliable. The application's lack of information makes it impossible to validate UNCHCS utilization projections.

The applicant attempted to validate projections by letters of support for the proposed project; 98 percent of these letters came from providers within the UNC Health network and none of the physicians who signed the support letters stated they would refer to the proposed center. These letters do not provide evidence of need for the proposed services. Rather, they imply the proposed project is designed for facility and uncertain physician convenience by stating "it is imperative that UNC Health Care have flexibility in the future to meet patient need" (see UNC Panther Creek Diagnostic Center Exhibit I.2).

Furthermore, the applicant clearly demonstrates that none of the equipment in the proposed diagnostic center is projected to operate at, or close to, capacity in the third project year. See Table 1 below. Low projected utilization suggests the population to be served does not have an unmet need for the proposed services.

Table 1—UNCHCS Projected Equipment Capacity, 2024

Equipment	2024 Percent Capacity
Urgent Care/ Orthopedic X-ray	68.9%
Specialty Clinic Electrocardiograms	46.1%
Pulmonary Function Test	65.6%
Nuclear Camera	9.8%

Note: Only equipment for which capacity was provided are included in the table above.

Source: Panther Creek Application, Form C Assumptions and Methodology

Given the number of nuclear cameras currently in the market and UNCHCS' unreasonable projections, one can reasonably conclude UNCHCS does not adequately demonstrate the need the population has for the services proposed.

For these reasons, the application should be found non-conforming to Criterion 3.

² Panther Creek Application, Form C Assumptions, p.1

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.

Alternatives

The applicant has not demonstrated need of the population to be served. Patients have access to at least 49 other nuclear cameras in the proposed service area (attachment 3). As such, the proposed project cannot be considered the most effective alternative.

UNCHCS states on page 34 of their application, “N.C. Gen. Stat. § 131E-176(7a) allows a provider the flexibility to define the physical space of a proposed new diagnostic center broadly or narrowly.” Conversely, according to, N.C. Gen. Stat. § 131E-181(a), one could also argue that the nature of the CON is address-specific and defined by physical location. UNCHCS also states, “none of the existing physician clinics in the MOB – including the specialty clinics – have medical diagnostic equipment valued at \$10,000 or more that when aggregated exceeds \$500,000” (p.27). The acquisition of the proposed nuclear camera “will cause the specialty clinics to exceed the \$500,000 threshold” (p.27). However, because the nuclear camera will be added to the third floor, the second floor MOB space would not meet the criterion to be designated a diagnostic center. Including the second-floor space in this application is a thinly veiled attempt to permit the applicant to make large scale future investments in diagnostic equipment using exemptions in statute § 131E-184(g). On page 56 of their application, UNCHCS states that having a diagnostic designation will allow UNCHCS to “add medical diagnostic equipment in real time as demand and practice standards necessitate.” The CON process is in place for a reason—to prevent providers from adding equipment that is not needed by the population to be served. UNCHCS is attempting to bypass restrictions under the guise of needing a nuclear camera.

On page 69 of the application, UNCHCS mentions that all staff will have appropriate accreditation and certification. However, there is no mention of plans to obtain accreditation for the proposed nuclear camera. American College of Radiology (“ACR”) accredited equipment are subject to uniform, strict quality control measures. As a result, ACR accredited equipment operate under superior standards. There are five outpatient facilities with ACR accreditation of nuclear medicine within the proposed service area (attachment 4). Taking into account the abundance of accredited nuclear cameras within UNCHCS’ service area, the proposed project cannot be considered the most effective alternative.

UNCHCS’ application addresses two alternatives to the proposed project: maintaining the status quo and defining the diagnostic center space more narrowly. As discussed above, either alternative is a more appropriate solution. However, UNCHCS did not consider a third alternative: locating the proposed nuclear camera in the diagnostic center on the first floor of the Panther Creek MOB. A material compliance filed by Rex Hospital, Inc. on February 1, 2019 includes a line drawing of the first-floor diagnostic space (attachment 5, p.11). According to the provided line drawing, the first-floor is 30,855 SF and includes unassigned space. Location in an existing space would save utility, building operations, and maintenance costs. The applicant did not demonstrate that placing a nuclear camera in this unassigned space is a less effective alternative.

UNCHCS does not demonstrate need to include the second floor in the scope of the diagnostic center nor that the proposed project is the least costly or most effective alternative. For these reasons, the application should be found non-conforming to Criterion 4.

- 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.**

Financial Foundations

The proposed diagnostic center occupies about 57,260 square feet. See detail in Criterion 12 discussion below.

First Floor

The first floor of this address is excluded from the proposed new diagnostic center. As mentioned in Criterion 4, UNCHCS refers to N.C. Gen. Stat. § 131E-176(7a) in its argument for defining the space of the proposed diagnostic center. The statute clearly states a diagnostic center is a

“freestanding facility, program, or provider, including but not limited to, physicians’ offices, clinical laboratories, radiology centers, and mobile diagnostic programs, in which the total cost of all the medical diagnostic equipment utilized by the facility which cost ten thousand dollars (\$10,000) or more exceeds five hundred thousand dollars (\$500,000). In determining whether the medical diagnostic equipment in a diagnostic center costs more than five hundred thousand dollars (\$500,000), the costs of the equipment, studies, surveys, designs, plans, working drawings, specifications, construction, installation, and other activities essential to acquiring and making operational the equipment shall be included.”

The application indicates on page 24 that the first floor is occupied by a diagnostic center operated by WR Imaging, Inc. as an Independent Diagnostic Testing Facility (“IDTF”). WR Imaging, Inc, a joint venture involving UNCHCS is operating without a Diagnostic Center Certificate of Need. The original CON authorized a hospital outpatient department, not a freestanding facility. The two are significantly different and conditions on the original CON specifically require a hospital outpatient department. For details see attachment 9.

Second Floor

Laboratory:

Page 25 of the application states, “... only portions of the second and third floors that are occupied by UNCHCS physician clinics are included in the scope of the proposed project.” According to exemptions filed by Rex Hospital, Inc. on February 12, the

equipment and related costs for the laboratory located on the second floor, were \$467,978.68, (attachment 6, p.8). This space alone almost exceeds the \$500,000 threshold for designation of a diagnostic center. The February 12th letter indicates that the laboratory space is owned and operated by Rex Hospital, Inc., which is a different entity from the applicant (see attachment 7 for Tax ID for Rex Hospital and page 13 of the application for Tax ID for the applicant). Therefore, one can assume the laboratory space on the second floor is excluded from the proposed project.

Urgent Care:

The Exemption letters in Exhibit C.1-2 of the present application indicate intent to spend \$720,158.77 for the urgent care center equipment and related cost (attachment 6, p.4). The present application suggests that the urgent care center has only one EKG machine (application, p.26) and does not identify the cost of that EKG machine.

Costs and Charges

UNCHCS did not provide reasonable projections of costs and charges. The application states, on page 28, *“the original purchase price of each piece of equipment [is] included in the proposed diagnostic center in capital costs”* but the application did not include any cost detail or vendor quotes for the medical equipment. Thus, it is impossible to identify what type of nuclear camera the applicant proposes to acquire or the price of the proposed or existing equipment. The applicant states on page 63 that *“professional revenue (fees) and expenses have been excluded from Forms F.2 and F.3 for the proposed diagnostic center.”* However, page 28 of the application indicates that fees will be billed as physician office fees, which indicates an intent to bill globally. Without the professional fee and expense component, it is impossible to determine if the UNCHCS’ projections of costs and charges is reasonable. The applicant provides no documentation to show how it excluded professional revenue from global rates. Moreover, the utilization projections for the proposed diagnostic center are unreasonable and based on unsupported assumptions, as discussed in Criterion 3. Unreasonable projections compromise the financial viability of the project; therefore, the application should be found non-conforming to Criterion 5

The application is also internally inconsistent. In the financial statements, the “Specialty Clinic” is broken into two separate segments—Cardiology and the Department of Medicine; however, the rest of the application refers to this space as one clinic. Furthermore, the application contains unreasonable and unsupported revenue projections. UNCHCS does not provide detail on how the original construction of the building was funded or basis for including no interest expense for the proposed project, resulting in expense projections that may be understated. The application’s financial statements contain unreasonable assumptions and various understated expenses, including housekeeping/laundry expenses, depreciation, equipment maintenance, utilities, and insurance.

Understated Expenses

Housekeeping/Laundry

UNCHCS indicated Housekeeping/Laundry expense is not applicable per F.3 assumption c. It is impossible to run a diagnostic center without some form of housekeeping and/or laundry. Raleigh Radiology operates two diagnostic centers. In 2019, Raleigh Radiology housekeeping/laundry costs for its diagnostic centers were \$1.25 per square foot. At that rate, the 57,260 SF diagnostic center would have an annual 2019 expense of \$71,574.68. Using UNCHCS' inflation factor of 3% per annum listed in Form F.3 Assumptions a & d, the 3rd Full FY Housekeeping/Laundry cost would be \$80,557.93. UNCHC's omission of Housekeeping/Laundry expense is a significant expense understatement.

Table 2—Adjusted Housekeeping / Laundry Expense

	Interim 2020	SFY21	SFY22	SFY23
Housekeeping / Laundry	\$76,068.38	\$78,350.44	\$80,700.95	\$83,121.98

Depreciation

Building

If we use the broad definition adopted by the applicant, with two exceptions, all of the second floor should be considered as one physical address. The two exceptions are Raleigh Ortho Clinic and Rex Hospital Laboratory.

The application does not include depreciation expense for the space used by the proposed diagnostic center. The proposed diagnostic center is approximately 57,260 SF. Page 73 of the application states that 512 square feet will undergo renovation to house the new nuclear camera. The applicant is the building owner. As such, the applicant does not pay rent on the building, but it is directly responsible for the operating cost of the building. Those costs should be included in Form F.3 for the total diagnostic center. The application provides depreciation only for the nuclear camera upfit costs. The application provides no information about the cost of the underlying building. The building depreciation expense of \$8,113 per year listed on Form F.3 is related only to the cost of nuclear camera space renovation. The applicant fails to include any building depreciation expense or alternative rent expense for the underlying 57,000+ square feet associated with the proposed new diagnostic center. This omission results in a material understatement of expenses for the proposed project. According to Cumming Corp, one of the leading multi-faceted project management and cost consulting firms in the country, a medical office building in the Raleigh/Durham market would cost approximately \$366 per square foot to construct³. At that cost, the underlying 57,260 SF would cost \$20,957,065. Depreciated over the applicant's assumed 30 years, the annual

³ <https://ccorpinsights.com/costs-per-square-foot/>

depreciation would be \$698,568.83, bringing total building depreciation expense to \$706,681.83.

Equipment

UNCHCS does not provide the capital cost for each piece of equipment. Instead, it provides only a lump sum for the cost of medical equipment and indicates that depreciation expense “is allocated equally to each clinic” (Form F.3, Assumption g). Under generally accepted accounting principles (“GAAP”), the most accurate way to allocate the equipment depreciation expense is to calculate the amount of depreciation for each piece of equipment, then, allocate each depreciation expense to the applicable clinic. The applicant also fails to explain why the depreciation expense for medical equipment is less in project year one than subsequent years. Under straight line depreciation, the expense should be the same each year, as it is with the building depreciation.

Unreasonable Assumptions

Form F.3 assumption d states that Equipment Maintenance, Utilities, and Insurance are a function of the number of procedures. The proforma estimates for these line items are low.

Equipment Maintenance

UNCHCS projects equipment maintenance for the 3rd Full FY of \$26,425, based on a per procedure cost assumption. This represents 3 percent of the \$832,707 medical equipment cost shown on Form F.1a. For comparison, in two other diagnostic center CON applications filed by Wake Forest Baptist and Raleigh Radiology, third year maintenance costs were 10 to 25 percent of equipment costs.

- 2019 CON application G-11725-19 estimated equipment maintenance as 10% (attachment 8, p.2).
- 2019 CON application J-011800-19 was over 25% of the cost of equipment (attachment 8, p.4).

At 10% of equipment cost, maintenance would be \$83,270.70 for 2019 (\$832,707 x 10%). Inflating at 3% annually, per assumption d, produces an equipment maintenance expense of \$93,721.91 for the 3rd Full FY, substantially more than the UNCHCS projection.

Utilities

The applicant projects \$3,490 in Utilities expense for the 3rd Full FY of operations for the entire diagnostic center. Dividing \$3,490 by the 57,260 square feet of space equates to \$0.06 per square foot. According to the most recent Commercial Buildings Energy Consumption Survey, the average electricity expenditure per square foot for outpatient

healthcare buildings was \$1.77 for 2012⁴. With no inflation between 2012 and 2019, the average electricity expense of \$1.77 per SF multiplied by the 57,260 square feet would be \$101,350 for the proposed diagnostic center in 2019. Adjusting the projection at 3% annually would make the Utilities expense \$114,070 for the 3rd Full FY. The \$3,490 projection provided by the applicant is a significant understatement.

Insurance

The applicant projects \$3,490 in insurance expense for the 3rd Full FY of operations for the entire diagnostic center. By comparison, 2019 application J-011800-19 projects insurance expense at \$0.17 per square foot for property and \$5.75 per \$1,000 of valuation for equipment (attachment 8, p.4). Multiplying 57,260 square feet by \$0.17 equates to \$9,734.16 for property insurance. Equipment insurance is \$4,788.07 (total equipment of \$832,707 divided by 1,000 multiplied by \$5.75 = \$4,788.07). By these factors, the total insurance expense would be \$14,522.22 in 2019. Adjusting the \$14,522.22 at 3% annum for inflation per the applicant's assumption results in a 3rd Full FY expense of \$16,344.89. The applicant's \$3,490 projection is an understatement.

Net Operating Loss

Table 3 below shows that the applicant's projected Net Income of \$384,196 for the 3rd Full FY turns into a loss of \$585,663. Through the first three full fiscal years, the cumulative project loss would approximate \$3.0 million. Adjustments in Table 3 are net of the applicant's estimates.

Table 3—Adjustment to Projected Net income

	Interim 2020	SFY21	SFY22	SFY23
Net Income Per F.2	\$ 26,334.00	\$ 168,784.00	\$352,483.00	\$384,196.00
Adjustments(a)				
Depreciation Bldg.	\$(698,568.83)	\$(698,568.83)	\$(698,568.83)	\$(698,568.83)
Equipment Maint	\$(71,604.82)	\$(68,781.89)	\$(65,809.14)	\$(67,296.91)
Utilities	\$(102,516.23)	\$(104,938.94)	\$(107,421.60)	\$(110,580.03)
Insurance	\$(13,083.89)	\$(12,823.62)	\$(12,542.82)	\$(12,854.89)
Housekeeping/Laundry	\$(73,721.92)	\$(75,933.57)	\$(78,211.58)	\$(80,557.93)
Total Adjustments	\$(959,495.68)	\$(961,046.85)	\$(962,553.97)	\$(969,858.57)
Adjusted Net Income/(Loss)	\$(933,161.68)	\$(792,262.85)	\$(610,070.97)	\$(585,662.57)
Cumulative Total		\$(1,725,424.53)	\$(2,335,495.50)	\$(2,921,158.08)

Notes: (a) Adjustments are net of applicant's original estimates. See Table 4 below.

⁴ U.S. Energy Information Administration.
<https://www.eia.gov/consumption/commercial/data/2012/c&e/cfm/c14.php>

Table 4 shows the adjustment calculations, conservatively assuming only one year of inflation between 2019 and the applicant's first full year, because the applicant's fiscal year begins in July. Calculations generously assume that the building has no interest cost. Interest would increase the loss.

The application states on page 60 that Working Capital is not applicable. However, Working Capital would be required to sustain a project that operates at a loss through the full three years. In fact, these adjusted forecasts indicate that the project will require other income sources for many years to come and the application provides no data to indicate such income sources.

Table 4—Adjustment Calculations

Note	Line Item	2019	Inflated (d)			
			Interim 2020	SFY21	SFY22	SFY23
a	Depreciation Bldg.		706,681.83	706,681.83	706,681.83	706,681.83
b	Applicant Form F.3		8,113.00	8,113.00	8,113.00	8,113.00
c	Depreciation Bldg. Adjustment		698,568.83	698,568.83	698,568.83	698,568.83
a	Equipment Maintenance	83,270.70	85,768.82	88,341.89	90,992.14	93,721.91
b	Applicant Form F.3		14,164.00	19,560.00	25,183.00	26,425.00
c	Equipment Maint Adjustment		71,604.82	68,781.89	65,809.14	67,296.91
a	Utilities	101,349.74	104,390.23	107,521.94	110,747.60	114,070.03
b	Applicant Form F.3		1,874.00	2,583.00	3,326.00	3,490.00
c	Utilities Adjustment		102,516.23	104,938.94	107,421.60	110,580.03
a	Insurance	14,522.22	14,957.89	15,406.62	15,868.82	16,344.89
b	Applicant Form F.3		1,874.00	2,583.00	3,326.00	3,490.00
c	Insurance Adjustment		13,083.89	12,823.62	12,542.82	12,854.89
a	Housekeeping/ Laundry	71,574.68	73,721.92	75,933.57	78,211.58	80,557.93
b	Applicant Form F.3		0	0	0	0
c	Housekeeping/ Laundry Adjustment		73,721.92	75,933.57	78,211.58	80,557.93

Notes:

- a. Calculations from paragraphs above.
- b. Application Form F.3 line item
- c. $a - b = c$
- d. By application's annual inflation factor of 3%.

Absent reasonable projections of utilization and costs, the application fails to demonstrate the financial feasibility of the proposed project. For these reasons, the application should be found non-conforming to Criterion 5.

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

Unnecessary Duplication

As discussed, UNCHCS' application does not conform to Criterion 3. This should be sufficient reason to find this project non-conforming to Criterion 6.

By the applicant's own admission, there is an operational diagnostic center, owned by a subsidiary of the applicant, on the first floor of the same building as the proposed diagnostic center. UNCHCS carefully avoids mention of the specific diagnostic equipment located on the first floor. However, the public source website indicates the location offers 3D screening mammography, bone density scan, CT, MRI, ultrasound and general x-ray (attachment 2). Page 66 of UNCHCS' application states "*imaging and diagnostic services...are not reasonably available to the patients of the UNCHCS physicians located at its Panther Creek MOB.*" The application does not explain why a subsidiary of the applicant, Rex Hospital, Inc. would not make services of its own diagnostic project that is located in the same building, only one floor away, available to patients and physicians of UNC Healthcare System. The applicant also neglects to address why the proposed diagnostic center in this application would not result in duplication of these services. This is especially important in light of the applicant's stated intent to continue adding diagnostic equipment to floors two and three (application p.56).

Also, Form A lists Wake Radiology, Cary and Wake Radiology, West Raleigh, as facilities owned by a related entity within the service area. The form also shows that each of these facilities has a nuclear camera. UNCHCS did not provide the nuclear camera utilization for either facility. This leads the reviewer to suspect the applicant intentionally withheld those data because there is available nuclear imaging capacity at either, or both, locations. Raleigh Radiology Blue Ridge, an outpatient diagnostic center, is ACR accredited for nuclear medicine and within the proposed service area. It has one nuclear camera and is operating at approximately 50 percent capacity. Thus; Raleigh Radiology is yet another facility available to serve patients' nuclear imaging needs.

Because the applicant failed to include this information and failed to demonstrate why the proposed project would not unnecessarily duplicate any of the capacity in the service area, this application should be deemed non-conforming to Criterion 6.

- 8. The applicant shall demonstrate that the provider of the proposed services will make available, or otherwise make arrangements for, the provision of the necessary ancillary and support services. The applicant shall also demonstrate that the proposed service will be coordinated with the existing health care system.**

Ancillary

The applicant not only failed to identify the necessary ancillary and support services for each service component proposed in this application, but also failed to explain how each ancillary and support service is or will be made available and failed to provide any supporting documentation in an Exhibit.

UNCHCS claims “support services for the proposed diagnostic center may include housekeeping, security, maintenance, registration and administration, among others” (p.70). They also assert that these existing services will “be sufficient to support the proposed diagnostic center” (p.70). However, the applicant did not provide means for obtaining the radiopharmaceuticals required for the nuclear camera, how it will be safely stored, or explain how radioactive waste will be handled.

The applicant does not identify qualified essential providers who will interpret the images associated with the proposed equipment. No letters of agreement to interpret are included in the application.

For these reasons, the application should be found non-conforming to Criterion 8.

- 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.**

Construction

The application does not explain how the facility will provide protection measures specific to nuclear medicine, including, but not limited to, radiation shielding, hot lab structures, or a restricted patient toilet for radioactive waste elimination. UNCHCS also failed to define what type of equipment it proposes to acquire (a “nuclear camera” could be a SPECT or a Gamma camera). The application fails to identify the renovation contract, who is responsible for the renovation, and the architect or engineering company providing the cost estimate. The architect signature on the provided cost estimate is unintelligible. Without vendor quotes for the proposed equipment or mention of responsible parties, there is no way to determine if the construction related costs of the proposed project are reasonable.

Also, it is impossible to tie the provided floor plan to the discussed clinics or equipment without speculation. The floor plan is labeled inconsistently with the descriptions of the clinics and associated equipment. For example, there is no dedicated space on the floor plan for the urgent care EKG, orthopedic ultrasound, or fetal ultrasound. The applicant explains this absence by claiming these pieces of equipment are portable and, *“as such, there is no dedicated space...identified on the line drawings”* (pp.26-27). This is an illogical argument. The aforementioned equipment must be stored somewhere when it is not in use. Furthermore, according to the provided floor plan, the proposed diagnostic center includes over 57,000 square feet on two floors.

Exhibit C.1-3 of the application floor dimensions 214 x 147.3 SF per floor. By deduction from the dimensions, on Exhibit C.1-3, Raleigh Orthopedic’s second floor clinic space is approximately 3,975 SF. The laboratory space on the second floor is approximately 1,800 SF. We derived the area of the proposed diagnostic center by subtracting Raleigh Orthopedic’s clinic and laboratory space from the total area of the two floors ($[(214 \times 147.3 \times 2) - 3,975 - 1,800] \approx 57,260$ SF).

For the identified 10 pieces of equipment, 57,000+SF is not an effective use of space; in fact, it is excessive. The applicant could fit the equipment in a significantly smaller space, which would be a more cost-effective and reasonable alternative. The application infers in several places that the proposed equipment requires only 512 SF (p.73)

Thus, UNCHCS did not demonstrate that the cost, design, and means of construction proposed in its application represents the most reasonable alternative, and should be found non-conforming to Criterion 12.

ATTACHMENTS: Table of Contents

1. Comments on J-011865-20, University of North Carolina Health Care System (above)
2. Services offered at WR Imaging, Panther Creek, per UNC REX website
3. Inventory of nuclear cameras within UNCHCS' proposed service area, by type
4. ACR accredited facilities for nuclear medicine within UNC Panther Creek's Proposed Service Area
5. Material Compliance Filed by Rex Hospitals, Inc. on February 1, 2019, Re: CON J-8263-08
6. Excerpts from the No Reviews filed by Rex Hospital, Inc. to develop urgent care and laboratory services separately from their original CON project J-0118263-08
7. Rex Hospital, Inc. Form 990 Tax ID
8. Excerpts from CON applications G-11725-19 and J-11800-19, proformas
9. Letter Re: WR Imaging, LLC Diagnostic Imaging Center in Cary, Wake County, Health Service Area IV; CON Project ID Number: J-8263-08
10. CON Application J-8265-08, p.5
11. Revised CON Issued to WR Imaging, LLC on February 21, 2019

Services Offered at
WR Imaging, Panther Creek

Panther Creek – New!

Our Wake Radiology UNC REX Healthcare Panther Creek office is located just off of Highway 55 in West Cary. You'll find our office in the new UNC REX medical building on McCrimmon Parkway. Our suite offers comprehensive screening and diagnostic outpatient medical imaging.

Our Morrisville location has moved and joined our Panther Creek locations! Visit our new location that offers 3D screening mammography and many additional services.

Services available at the Panther Creek office

- 3D screening mammography
- Bone density scan (DXA)
- CT
- MRI
- Ultrasound
- Walk-in general x-ray

Contact our Scheduling Team at 919-232-4700 to make an appointment or visit our [Contact Us page](#) for help with other questions. You can also [request a screening mammogram appointment online](#). Check out our other convenient [medical imaging locations](#) near where you live and work.

LOCATIONS

APPOINTMENTS
919.232.4700
PATIENT LOGIN
MAKE PAYMENT
Cary
Chapel Hill

PATIENT SERVICES

APPOINTMENTS
919.232.4700
PATIENT LOGIN
MAKE PAYMENT
Make an Appointment



Inventory of Nuclear Cameras within
UNCHCS' Proposed Service Area, by Type

Nuclear Cameras within UNC Panther Creek MOB Service Area, by Type

County	Facility	Distance from Proposed Site	Type of Facility		Gamma Cameras				SPECT				Source
			Hospital	Freestanding Outpatient	Units	Inpatient	Outpatient	Total	Units	Inpatient	Outpatient	Total	
Wake	Wake Radiology Cary	11.9 mi		x	-	-	-	-	-	-	-	-	a
Wake	WakeMed Cary	12.2 mi	x		-	-	-	-	2	385	1,552	1,937	b
Wake	Rex Hospital	14.2 mi	x		1	499	2,104	2,603	2	230	651	881	b
Wake	Raleigh Radiology Blue Ridge	14.6 mi		x	-	-	-	-	1	-	422	422	a
Wake	Wake Radiology West Raleigh	14.6 mi		x	-	-	-	-	-	-	-	-	a
Durham	Duke University Hospital	16.8 mi	x		9	1,228	9,152	10,380	-	-	-	-	b
Orange	UNC Hospitals	18.0 mi	x		7	382	2,718	3,100	6	83	1,978	2,061	a,c
Durham	Duke Regional Hospital	18.5 mi	x		3	527	1,718	2,245	-	-	-	-	b
Wake	WakeMed Heart &Vascular (Six Forks Rd.)	19.3 mi		x	-	-	-	-	-	-	-	-	a
Wake	Duke Raleigh Hospital	19.7 mi	x		-	-	-	-	2	459	1,861	2,320	b
Orange	UNC Hospitals Hillsborough	22.5 mi	x		1	22	391	413	-	-	-	-	a,c
Wake	WakeMed Heart &Vascular (New Bern Ave.)	23.6 mi		x	-	-	-	-	-	-	-	-	a
Wake	WakeMed Raleigh	24.9 mi	x		-	-	-	-	4	995	3,474	4,469	b
Harnett	Central Harnett Hospital	34.2 mi	x		-	-	-	-	1	147	298	445	a,c
Johnston	Johnston Health-Clayton	36.3 mi	x		1	186	401	587	-	-	-	-	c
Chatham	Chatham Hospital	40.2 mi	x		2	88	763	851	3	62	450	512	b
Harnett	Betsey Johnson Hospital	48.0 mi	x		2	197	487	684	-	-	-	-	a,c
Johnston	Johnston Health-Smithfield	51.3 mi	x		2	536	1,074	1,610	-	-	-	-	c
	Total Owned by UNCHCS or Related Entity		6	2	14				11				
	Grand Total		13	5	28	3,665	18,808	22,473	21	2,361	10,686	13,047	

Sources: a ACR Accredited Facility for Nuclear Medicine, <https://www.acraccreditation.org/accredited-facility-search>
b UNCHCS Panther Creek Diagnostic Center Exhibit G.2
c 2019 License Renewal Application

American College of Radiology Accredited
Facilities for Nuclear Medicine within UNC
Panther Creek Service Area



[MODALITIES](#) | [ACCREDITED FACILITY SEARCH](#) | [FEES](#) | [RESOURCES](#)

Accredited Facility Search

Use the search form below to find imaging facilities accredited by the American College of Radiology. Facilities: To verify the accreditation status of specific units within your imaging facility, please call 1-800-770-0145.

Find by:

Modality:

Download a list of all ACR-accredited facilities

This list covers all modalities and includes facilities whose applications for accreditation are still under review. It provides patients, providers and third-party payers with information critical to selecting appropriate facilities for imaging needs. It is not intended as nor should this list be used for marketing or research purposes.

15 Accredited facilities | 0 Facilities in process

1) Wake Radiology Diagnostic Imaging

300 Ashville Avenue Suites 100, 160, 180, and 260
Cary, NC 27518
[View Map](#) | [Get Directions](#)
919-233-5338(1915)



Expiration: 08/13/2022

Module: Planar

Other Modalities Offered: Breast MRI, Breast US, CT, MRI, PET, Stereo, US

2) Wakemed Cary Hospital

1900 Kildaire Farm Road
Cary, NC 27518
[View Map](#) | [Get Directions](#)
919-350-7000



Expiration: 03/02/2022

Module: Nuclear-Cardiology, Planar, SPECT

Other Modalities Offered: Breast MRI, CT, MRI, US

3) University of North Carolina Hospitals

101 Manning Drive Radiology Administration, Campus Box 7600
Chapel Hill, NC 27514
[View Map](#) | [Get Directions](#)
984-974-9392



Expiration: 12/29/2021

Module: Nuclear-Cardiology, Planar, SPECT

Other Modalities Offered: Breast MRI, CT, MRI, PET, US

4) Rex Healthcare

4420 Lake Boone Trail
Raleigh, NC 27607
[View Map](#) | [Get Directions](#)
919-784-3419



Expiration: 04/11/2022

Module: Nuclear-Cardiology, Planar, SPECT

Other Modalities Offered: Breast MRI, MRI, PET, US

5) Wake Radiology-West Raleigh

4301 Lake Boone Trail Suites 104, 103, 100
Raleigh, NC 27607
[View Map](#) | [Get Directions](#)
919-781-6707(2051)

Expiration: 08/29/2022

Module: Planar

Other Modalities Offered: CT, US

6) Raleigh Radiology Blue Ridge

3200 Blue Ridge Road Suite 100
Raleigh, NC 27612
[View Map](#) | [Get Directions](#)
919-781-1437

Expiration: 07/08/2022

Module: Planar

Other Modalities Offered: Breast MRI, CT, MRI, US

7) Duke University Medical Center

Department of Radiology 2301 Erwin Road
Durham, NC 27710
[View Map](#) | [Get Directions](#)
919-684-7289



Expiration: 10/21/2021

Module: Nuclear-Cardiology, Planar, SPECT

Other Modalities Offered: Breast MRI, CT, MRI, PET, US

8) Duke Regional Hospital

3643 N. Roxboro Road
Durham, NC 27704
[View Map](#) | [Get Directions](#)
919-470-8629

Expiration: 08/01/2022

Module: Nuclear-Cardiology, Planar

Other Modalities Offered: CT, MRI, US

9) Wake Physician Practices - Carolina Cardiology

Expiration: 12/16/2020

Module: Nuclear-Cardiology

3324 Six Forks Road Suite 3324
Raleigh, NC 27609
[View Map](#) | [Get Directions](#)
919-781-7772

10) Duke Raleigh Hospital

Expiration: 07/29/2022

Module: Planar, SPECT

Other Modalities Offered: Breast MRI, MRI, US

3400 Wake Forest Road
Raleigh, NC 27609
[View Map](#) | [Get Directions](#)
919-954-3653



11) WakeMed H&V Cardiology

Expiration: 10/18/2020

Module: Nuclear-Cardiology

3000 New Bern Avenue Suite G-100
Raleigh, NC 27610
[View Map](#) | [Get Directions](#)
919-231-6132

12) WakeMed Health & Hospitals

Expiration: 10/18/2020

Module: Nuclear-Cardiology, Planar, SPECT

3000 New Bern Avenue
Raleigh, NC 27610
[View Map](#) | [Get Directions](#)
919-350-4576



13) UNC Hospital Hillsborough Campus

Expiration: 07/25/2022

Module: Nuclear-Cardiology, Planar

Other Modalities Offered: CT, MRI

430 Waterstone Drive
Hillsborough, NC 27278
[View Map](#) | [Get Directions](#)
984-215-2259

14) Harnett Health System - Central Harnett Hospital

Expiration: 11/25/2022

Module: Nuclear-Cardiology, Planar

Other Modalities Offered: CT, MRI, US

215 Brightwater Drive
Lillington, NC 27546
[View Map](#) | [Get Directions](#)
910-892-1000(4172)

15) Harnett Health System - Betsy Johnson Hospital

Expiration: 03/16/2023

Module: Nuclear-Cardiology, Planar

Other Modalities Offered: MRI, US

800 Tilghman Drive
Dunn, NC 28335
[View Map](#) | [Get Directions](#)
910-892-1000(4172)

WHAT DO THE SEALS MEAN?

Certain facilities have been awarded special recognition. Look for the following seals in your search results.



A facility with this logo has been designated an ACR Breast Imaging Center of Excellence by achieving accreditation in all breast imaging modalities.



The ACR Diagnostic Imaging Center of Excellence™ logo indicates that a facility delivers the highest levels of imaging quality, safety and care by surpassing standard accreditation requirements.

Material Compliance filed by Rex Hospital, Inc.
Re: Panther Creek Project (CON ID J-8263-08)



NC DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
MARK PAYNE • Director, Division of Health Service Regulation

February 12, 2019

Gary S. Qualls
K&L Gates, LLP
430 Davis Drive, Suite 400
Morrisville NC 27560

Material Compliance Approval

Project ID #: J-8263-08
Facility: Rex Healthcare of Panther Creek
Project Description: Develop a hospital-based outpatient care center including urgent care and diagnostic services in the Panther Creek area of Cary
County: Wake
FID #: 080825

Dear Mr. Qualls:

The Healthcare Planning and Certificate of Need Section, Division of Health Service Regulation (Agency) has determined that the change proposed in your letter of February 1, 2019 is in material compliance with representations made in the application. These changes include the acquisition of a new CT scanner, rather than relocating an existing CT scanner from Rex Healthcare of Cary. Also, the urgent care and laboratory services will be developed and operated separately by Rex Hospital, Inc. However, you should contact the Agency's Construction and Acute and Home Care Licensure and Certification Sections to determine if they have any requirements pertinent to the proposed change.

It should be noted that the Agency's position is based solely on the facts represented by you and that any change in facts as represented would require further consideration by this office and a separate determination.

If you have any questions concerning this matter, please feel free to contact this office. Please refer to the Project ID # and Facility ID # (FID) in all correspondence.

Sincerely,

Handwritten signature of Michael J. McKillip
Michael J. McKillip
Project Analyst

Handwritten signature of Martha J. Frisone
Martha J. Frisone
Chief, Healthcare Planning and Certificate of Need Section

cc: Construction Section, DHSR
Acute and Home Care Licensure and Certification Section, DHSR
Melinda Boyette, Administrative Assistant, Healthcare Planning, DHSR

NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • DIVISION OF HEALTH SERVICE REGULATION
HEALTHCARE PLANNING AND CERTIFICATE OF NEED SECTION

LOCATION: 809 Ruggles Drive, Edgerton Building, Raleigh, NC 27603
MAILING ADDRESS: 809 Ruggles Drive, 2704 Mail Service Center, Raleigh, NC 27699-2704
www.ncdhs.gov/dhsr • TEL: 919-855-3873



NC DEPARTMENT OF
**HEALTH AND
HUMAN SERVICES**

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
MARK PAYNE • Director, Division of Health Service Regulation

February 12, 2019

Gary S. Qualls
K&L Gates, LLP
430 Davis Drive, Suite 400
Morrisville NC 27560

Material Compliance Approval - Transfer for Good Cause

Project ID #: J-8263-08
Facility: Rex Healthcare of Panther Creek
Project Description: **Develop a hospital-based outpatient care center** including urgent care and diagnostic services in the Panther Creek area of Cary
County: Wake
FID #: 080825
Approved Applicant: Rex Hospital, Inc.
New Owner: WR Imaging, LLC

Dear Mr. Qualls:

The Healthcare Planning and Certificate of Need Section, Division of Health Service Regulation (Agency) received your correspondence of February 1, 2019, in which you requested approval of a transfer of ownership or control for good cause for the above referenced project. The Agency has determined that good cause exists based on finding that the joint venture, WR Imaging, LLC, to which ownership will transfer, includes Wake Radiology Services, LLC, and the original applicant, Rex Hospital, Inc. Consequently, the Agency shall not withdraw the certificate of need as a result of this transfer. However, you should contact the Agency's Acute and Home Care Licensure and Certification Section to determine if they have any special requirements regarding the proposed transfer of ownership or control.

Please be advised that pursuant to N.C. Gen. Stat. §131E-181(b), any person who subsequently acquires a certificate of need is required to materially comply with the representations made in the application that was submitted to the Agency for the project. Further, in accordance with N.C. Gen. Stat. §131E-190(i), the Agency may bring action in Superior Court for injunctive relief requiring the successor to operate the service in material compliance with those representations.

It should be noted that this Agency's position is based solely on the facts represented by you and that any change in facts as represented would require further consideration by this office and a separate determination. If you have any questions concerning this matter, please feel free to contact this office.

Please refer to the Project ID # and Facility ID # (FID) in all correspondence.

NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • DIVISION OF HEALTH SERVICE REGULATION
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www.ncdhhs.gov/dhsr • TEL: 919-855-3873

AN EQUAL OPPORTUNITY / AFFIRMATIVE ACTION EMPLOYER

Sincerely,



Michael J. McKillip
Project Analyst



Martha J. Frisone, Chief
Health Care Planning and Certificate of Need Section

cc: Construction Section, DHSR
Acute and Home Care Licensure and Certification Section, DHSR
Melinda Boyette, Administrative Assistant, Healthcare Planning, DHSR

February 1, 2019



Gary S. Qualls
D 919.466.1182
F 919.516.2182
gary.qualls@klgates.com

Via Hand Delivery

Martha J. Frisone, Chief
Healthcare Planning and Certificate of Need Section
Division of Health Service Regulation
N.C. Department of Health and Human Services
809 Ruggles Drive
Raleigh, NC 27603

RE: Good Cause Transfer and Material Compliance Request regarding Rex Hospital, Inc.'s Panther Creek Project (Project ID J-8263-08), Wake County

Dear Ms. Frisone:

We are filing this Good Cause Transfer and Material Compliance Request on behalf of my client, Rex Hospital, Inc. ("Rex"), along with Frank Kirschbaum who is counsel for WR Imaging, LLC ("WR Imaging"), and Wake Radiology Services, LLC ("WRS"). As you are aware, WR Imaging will be a joint venture owned by Rex and WRS physicians (the "Joint Venture"). We are filing this Good Cause Transfer and Material Compliance Request in order to obtain approval of Rex's plans with respect to the Joint Venture as they relate to Rex's 2008 Panther Creek Urgent Care and Diagnostics CON Project, Project ID #J-8263-08 (the "Panther Creek Project"), the CON for which was originally issued on July 27, 2010.

We believe the updated proposal for the Panther Creek Project described in this Request materially complies with the representations in the Panther Creek Project Application and the conditions in the resulting Certificate of Need ("CON"). We also request approval of a good cause transfer for the transaction described in this Request. Specifically, the purpose of this request is:

1. To inform the North Carolina Department of Health and Human Services, Division of Health Service Regulation, Healthcare Planning and Certificate of Need Section (the "Agency") of an updated proposal pertaining to the Panther Creek Project, which includes its relationship to the Joint Venture;
2. To seek the Agency's approval of a good cause transfer of ownership of the Diagnostic Component of the Panther Creek Project to WR Imaging as a result of the Joint Venture; and

3. To seek the Agency's confirmation that proposed modifications to the Panther Creek Project materially comply with the representations in Rex's Panther Creek Project Application, and that such modifications are not subject to CON review.

As discussed below, this Material Compliance and Good Cause Transfer Request is being submitted in conjunction with two No Review Requests related to other components of the original Panther Creek Project (Lab and Urgent Care), which will not be part of the JV Transaction.

I. BACKGROUND

The Panther Creek Project was originally approved by virtue of a settlement agreement between Rex and the Agency, dated July 20, 2010, whereby Rex was awarded a CON to develop a provider-based outpatient care center called Rex Healthcare of Panther Creek. See Exhibit 1 (CON for original Panther Creek Project). The Panther Creek Project was approved to be developed in an exempt physician office building (the "Exempt Office Building") in Cary, North Carolina, at the corner of McCrimmon Parkway and N.C. Highway 55.

The original Panther Creek Project included the following components:

1. Diagnostic services, including x-ray, mammography, ultrasound, computerized tomography ("CT"), and bone densitometry components, with associated equipment ("Diagnostic Component"). See Exhibit 2 (Findings). Included within the CON-Regulated Diagnostic Component was a proposal to replace and relocate an existing CT scanner from Rex Healthcare of Cary to the Panther Creek Project.
2. Urgent care services, and related equipment ("Urgent Care Component"); and
3. Laboratory services, and related equipment ("Lab Component").

See Exhibit 3 (Section II of 2008 Panther Creek Project Application).

The Panther Creek Project is not yet developed. As described in Rex's progress reports to the Agency, after obtaining CON approval, Rex re-evaluated the development plan for the Panther Creek Project to ensure that it would be implemented in the most cost-effective manner.

Consistent with that goal, Rex is preparing to participate in the Joint Venture with WRS, and proposes to update the Panther Creek Project in a manner that will consist of WR Imaging developing, owning and operating the CON-regulated Diagnostic Component ("Updated Diagnostic Project").

The updated proposal for the Panther Creek Project involves the following changes in the development plan from the originally approved proposal, described in more detail below:

1. The Updated Diagnostic Project will now be developed, owned and operated by WR Imaging;
2. WR Imaging proposes to acquire a new CT scanner for less than \$750,000 to develop and operate as part of the Updated Diagnostic Project, rather than replacing and relocating an existing CT scanner from Rex Healthcare of Cary as originally proposed;
3. The layout, square footage, and equipment that will comprise the Updated Diagnostic Project have been updated; and
4. As discussed in companion No Review Requests submitted concurrently with this Request, the Urgent Care and Lab Components of the Panther Creek Project will not be part of the Joint Venture, but instead will be developed and operated by Rex as freestanding, non-CON regulated projects.

As discussed below, the parties believe that this updated development plan materially complies with the representations in the Panther Creek Project CON Application and are in compliance with the issued CON. Further, these changes will not result in a cost overrun. In fact, capital costs will be substantially reduced.

II. Good Cause Transfer Request

The Panther Creek Project was originally identified by the Agency as follows:

J-8263-08/Rex Hospital, Inc./Develop a hospital-based outpatient care center, Rex Healthcare of Panther Creek, to include urgent care and diagnostic services, and the replacement and relocation of one existing CT scanner.

See Exhibit 1 (CON for Panther Creek Project).

To the extent that the establishment of the Joint Venture is considered to be a transfer of the Panther Creek Project CON, we are requesting approval for a “good cause” transfer of this CON under N.C. Gen. Stat. § 131E-189 and 10A N.C.A.C. 14C.0502. We believe that good cause exists for such a transfer. The Joint Venture will result in an optimal ownership structure and will reduce costs to consumers. The Agency has already approved various Rex Hospital diagnostic projects to be included in the Joint Venture for similar reasons. See e.g., Exhibit 4A (March 3, 2017 CON Exemption Approval of Rex Radiology of Holly Springs, without exhibits) and Exhibit 4B (April 19, 2017 CON Findings Approving JV Diagnostic Center). In Exhibits 4A and 4B, WR Imaging was called Browning Equipment SPE, LLC prior to the Joint Venture name being determined.

Moreover, nothing about the Joint Venture will affect WR Imaging’s ability to materially comply with any material representations in the Panther Creek Project CON Application or the CON conditions placed on the Panther Creek Project, as further discussed below. In all material respects, the operations and development of this joint venture component of the Panther Creek Project will be the same as represented in the Panther Creek Project CON Application and in compliance with this issued CON.

III. Material Compliance Request

A. Revised Square Footage and Capital Costs for the CON Project

The approved Panther Creek Project CON included 16,363 square feet of clinical and mechanical space on the first floor of the Panther Creek Medical Office Building (“MOB”) at a capital cost of \$7,294,590. See Exhibit 1 (CON for Panther Creek Project). The updated development plan for all aspects of the original Panther Creek Project calls for 14,440 square feet of clinical and mechanical space, allocated across the 1st and 2nd floors of the approved Exempt Office Building. The previously approved floor plan and new proposed floor plan covering all aspects of the original Panther Creek Project are attached as Exhibit 5 and 6, respectively.

This revised square footage amount includes the square footage both for the Updated Diagnostic Center Project, as well as the Urgent Care and Lab Components that will be separately developed by Rex (and are the subjects of separate requests). The square footage dedicated specifically to this Updated Diagnostic Project is only 8,332 square feet.

The total capital costs for the Updated Diagnostic Project will be \$4,135,013.26, as shown on the table below. This is far less than the capital cost maximum approved for the Panther Creek Project CON. See Exhibit 1.

The total capital costs for the Updated Diagnostic Center Project are set forth below:

Updated Diagnostic Project Capital Costs	
Total Construction and Design Costs	\$1,269,784.70
Equipment, Furniture, and Fixture Costs (less CT scanner)	\$2,175,541.56
CT scanner	\$689,687
Total Capital Costs	\$4,135,013.26

See Exhibit 7, (Quote for the CT scanner line item).

B. Updated Equipment Proposal

Due to advancements in technology and other operational advantages, the parties propose to update certain lower-cost equipment items proposed for the Updated Diagnostic Project. However, the scope of services provided within the Diagnostic Component of the CON Project is not changing. The parties still intend to provide x-ray, mammography, ultrasound, CT, and bone densitometry services.

The Panther Creek Project CON originally called for an existing 4-slice CT scanner at Rex Healthcare of Cary to be relocated and replaced by a 64-slice CT scanner. The updated development plan calls instead for WR Imaging to purchase a new CT scanner as part of the Updated Diagnostic Project. The total projected cost of acquiring this new CT scanner and making it operational is \$689,687, which will not exceed the \$750,000 major medical equipment threshold. See Exhibit 7. Therefore, this CT scanner will not be “major medical equipment” as that term is defined at N.C. Gen. Stat. § 131E-176(14o), and acquiring and developing this CT scanner does not constitute a “new institutional health service” subject to CON review. See N.C. Gen. Stat. § 131E-176(16).

C. Analogous Material Compliance Determinations

In the past, the Agency has approved this type of material compliance request involving the downsizing and reduced capital costs of a project. For example, on January 27, 2010, Rex submitted a request for a material compliance determination regarding CON Project ID# J-8053-08. This project, as originally proposed, involved Rex relocating eight (8) operating rooms and four (4) minor procedure rooms from Rex main campus to the Macon Pond Road outpatient facility. By letter dated March 22, 2010, the Agency approved that material compliance request, and affirmed that Rex’s proposal to decrease the amount of construction and associated capital costs was not a material change to the project as originally approved. See the original request and subsequent approval in Exhibits 8 and 9, respectively.

IV. Conclusion

WR Imaging will deliver the highest quality care to its patients, just as Rex originally proposed to do as a hospital-based project. The updated changes will not result in a cost overrun, additional health services, or higher patient charges. In fact, the change from provider-based diagnostic services (as originally proposed) to freestanding outpatient diagnostic services should result in lower patient costs.

Martha J. Frisone, Chief

February 1, 2019

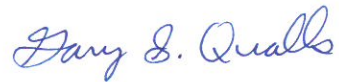
Page 6

We therefore ask the Agency to verify that the proposed changes to the Panther Creek Project described above:

1. result in the good cause transfer of ownership of the Diagnostic Component of the Panther Creek Project to WR Imaging as a result of the establishment of the Joint Venture; and
2. materially comply with the representations in Rex's Panther Creek Project Application and the conditions in the resulting CON.

Thank you for your assistance in regard to this matter. If you have any questions or need further information, please feel free to contact me at the number above.

Sincerely,

A handwritten signature in blue ink that reads "Gary S. Qualls". The signature is written in a cursive, flowing style.

Gary S. Qualls

2018 06 22 - BOMA METHOD A REVIEW

LEVEL 01

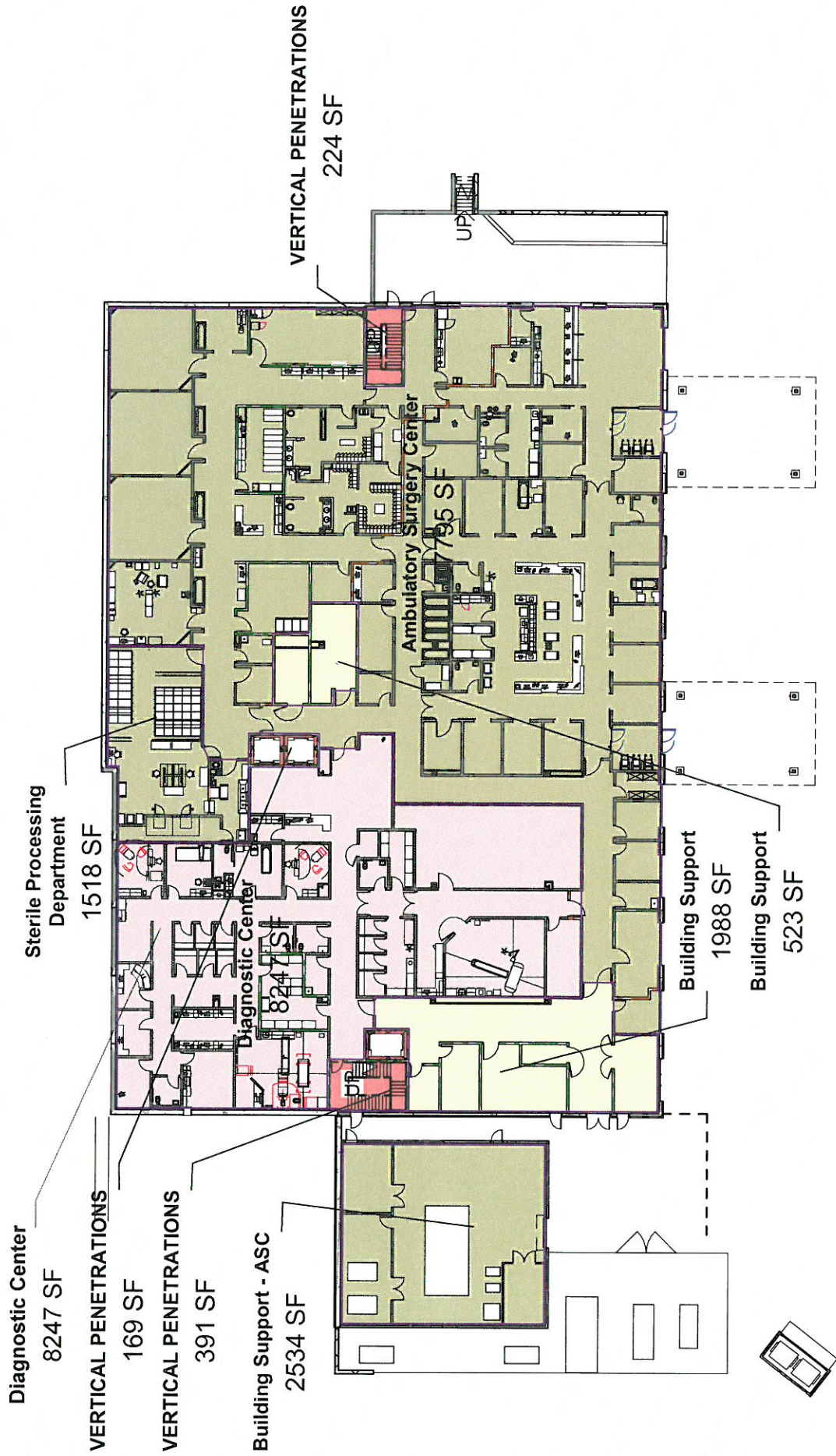
OVERALL MOB: 30,855 SF

MEP OUTBUILDING: 2,534 SF

LEVEL 01, SUB-TOTAL: 33,389 SF

□ : Diagnostic Center

ASC was proposed
in Project ID# J-11554-18
That project was denied
on 1/28/19 FW



2018 06 22 - BOMA METHOD A REVIEW

LEVEL 02

OVERALL MOB: 31,218 SF

□ : Laboratory

■ : Urgent Care



Excerpts from No Review Filed to Develop Urgent Care
Services at Rex Health Care at Panther Creek



NC DEPARTMENT OF
**HEALTH AND
HUMAN SERVICES**

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
MARK PAYNE • Director, Division of Health Service Regulation

February 12, 2019

Gary S. Qualls
K&L Gates, LLP
430 Davis Drive, Suite 400
Morrisville NC 27560

No Review

Record #: 2867
Facility Name: Rex Healthcare at Panther Creek
FID #: 080825
Business Name: Rex Hospital, Inc.
Business #: 1554
Project Description: Develop urgent care services at a physician office building in Cary
County: Wake

Dear Mr. Qualls:

The Healthcare Planning and Certificate of Need Section, Division of Health Service Regulation (Agency) received your correspondence regarding the above referenced proposal. Based on the CON law **in effect on the date of this response to your request**, the proposal described in that correspondence is not governed by, and therefore, does not currently require a certificate of need. If the CON law is subsequently amended such that the above referenced proposal would require a certificate of need, this determination does not authorize you to proceed to develop the above referenced proposal when the new law becomes effective.

You may need to contact the Agency's Construction and Acute and Home Care Licensure and Certification Sections to determine if they have any requirements for development of the proposed project.

This determination is binding only for the facts represented in your correspondence. If changes are made in the project or in the facts provided in the correspondence referenced above, a new determination as to whether a certificate of need is required would need to be made by this office.

Please do not hesitate to contact this office if you have any questions.

Sincerely,

Michael J. McKillip
Project Analyst

Martha J. Frisone, Chief
Healthcare Planning and Certificate of Need Section

cc: Construction Section, DHSR
Acute and Home Care Licensure and Certification Section, DHSR
Melinda Boyette, Administrative Assistant, Healthcare Planning, DHSR

NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • DIVISION OF HEALTH SERVICE REGULATION

HEALTHCARE PLANNING AND CERTIFICATE OF NEED SECTION

LOCATION: 809 Ruggles Drive, Edgerton Building, Raleigh, NC 27603
MAILING ADDRESS: 809 Ruggles Drive, 2704 Mail Service Center, Raleigh, NC 27699-2704
www.ncdhhs.gov/dhsr • TEL: 919-855-3873

February 1, 2019



Gary S. Qualls
D 919.466.1182
F 919.516.2182
gary.qualls@klgates.com

Via Hand Delivery

Martha J. Frisone, Chief
Healthcare Planning and Certificate of Need Section
Division of Health Service Regulation
N.C. Department of Health and Human Services
809 Ruggles Drive
Raleigh, NC 27603

RE: Rex Hospital, Inc.’s No Review Request Regarding Urgent Care Clinic at Rex Panther Creek, Wake County

Dear Ms. Frisone:

On behalf of our client, Rex Hospital, Inc. d/b/a UNC REX (“Rex”), we are providing written notice of Rex’s intent to develop an urgent care clinic at an exempt physician office building being developed at the corner of McCrimmon Parkway and N.C. Highway 55 in Cary, Wake County (“Urgent Care Project” or “Urgent Care Component”). Rex requests a determination that the proposed development of this Urgent Care Project by itself -- and separate from the Panther Creek CON Project -- is not subject to review under North Carolina’s Certificate of Need (“CON”) laws because the Urgent Care Project does not constitute the development of a “new institutional health service” under as defined by N.C. Gen. Stat. §131E-176(16)(a)-(v).

Background

The Urgent Care Project was originally part of a larger proposed project to develop a diagnostic center and urgent care clinic with laboratory services pursuant to CON Project ID #J-8263-08 (“Panther Creek Project”). A CON was awarded to Rex to develop the Panther Creek Project by virtue of a settlement agreement between Rex and the Agency, dated July 20, 2010. See Exhibit 1, CON for Panther Creek Project.

As discussed in the Material Compliance Request submitted to the Agency concurrently with this No Review Request by Rex, Wake Radiology Services, LLC (“WRS”), and their Joint Venture entity WR Imaging, LLC (“WR Imaging”), the CON-regulated components of the Panther Creek Project are now proposed to be developed through the WR Imaging Joint Venture pursuant to an updated proposal.

However, Rex and WRS will not be developing the Urgent Care Project as part of Rex’s Joint Venture with WRS. Instead, Rex will continue to develop the Urgent Care Project

independently from Rex’s Joint Venture with WRS. Rex will develop the Urgent Care Project at the same location as originally proposed, as a freestanding urgent care physician practice, although the layout and floorplan of the urgent care center have changed from the initial proposal. See Exhibit 2 (Original Floor Plan) and Exhibit 3 (Revised Floor Plan). As discussed below, now that the Urgent Care Project is being developed separately from the Panther Creek Project (which is subject to CON), no part of the Urgent Care Project is subject to CON review.

Analysis

None of the services offered in the Urgent Care Project are “new institutional health services” as that term is defined in N.C. Gen. Stat. § 131E-176(16). The term “new institutional health service” is defined in numerous ways in N.C. Gen. Stat. § 131E-176(16). Among these definitions is N.C. Gen. Stat. § 131E-176(16)(b), which defines a “new institutional health service” to include:

. . . [T]he obligation by any person of a capital expenditure exceeding two million dollars (\$2,000,000) to develop or expand a health service or a health service facility, or which relates to the provision of a health service

See N.C. Gen. Stat. § 131E-176(16)(b).

The total capital expense allocated to develop this project is estimated to be \$720,158.77, as shown in the table below. This is well below the \$2,000,000 capital cost threshold contained at N.C. Gen. Stat. § 131E-176(16)(b) for the development or expansion of new health services not otherwise subject to CON review.

In addition, the cost of all equipment (including furniture and fixtures) to be acquired for the Urgent Care Project is estimated as \$438,215.00, below the \$750,000 threshold contained at N.C. Gen. Stat. §131E-176(14o), and thus no major medical equipment will be acquired in the development of this project. In addition, none of the equipment in the Urgent Care Project is *per se* reviewable equipment pursuant to N.C. Gen. Stat. §131E-176(16)(f1).

Urgent Care Project Capital Costs	
Total Construction and Design Costs	\$281,943.77
Equipment, Furniture, and Fixture Costs	\$438,215.00
Total Capital Costs	\$720,158.77

Because no beds are involved, development of the Urgent Care Project does not constitute a “change in bed capacity” under N.C. Gen. Stat. § 131E-176(16)(c). Because no operating rooms are involved, development of the Urgent Care Project does not implicate N.C. Gen. Stat. § 131E-176(16)(u). Nor does the Urgent Care Project constitute a “new institutional health service” under any other CON trigger in N.C. Gen. Stat. § 131E-176(16).

Excerpts from No Review Filed to Develop Laboratory
Services at Rex Health Care at Panther Creek



NC DEPARTMENT OF
HEALTH AND
HUMAN SERVICES

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
MARK PAYNE • Director, Division of Health Service Regulation

February 12, 2019

Gary S. Qualls
K&L Gates, LLP
430 Davis Drive, Suite 400
Morrisville NC 27560

No Review

Record #: 2865
Facility Name: Rex Healthcare at Panther Creek
FID #: 080825
Business Name: Rex Hospital, Inc.
Business #: 1554
Project Description: Develop laboratory services at a physician office building in Cary
County: Wake

Dear Mr. Qualls:

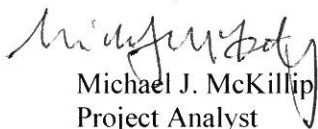
The Healthcare Planning and Certificate of Need Section, Division of Health Service Regulation (Agency) received your correspondence regarding the above referenced proposal. Based on the CON law **in effect on the date of this response to your request**, the proposal described in that correspondence is not governed by, and therefore, does not currently require a certificate of need. If the CON law is subsequently amended such that the above referenced proposal would require a certificate of need, this determination does not authorize you to proceed to develop the above referenced proposal when the new law becomes effective.

You may need to contact the Agency's Construction and Acute and Home Care Licensure and Certification Sections to determine if they have any requirements for development of the proposed project.

This determination is binding only for the facts represented in your correspondence. If changes are made in the project or in the facts provided in the correspondence referenced above, a new determination as to whether a certificate of need is required would need to be made by this office.

Please do not hesitate to contact this office if you have any questions.

Sincerely,


Michael J. McKillip
Project Analyst


Martha J. Frisone, Chief
Healthcare Planning and Certificate of Need Section

cc: Construction Section, DHSR
Acute and Home Care Licensure and Certification Section, DHSR
Melinda Boyette, Administrative Assistant, Healthcare Planning, DHSR

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February 1, 2019



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Via Hand Delivery

Martha J. Frisone, Chief
Healthcare Planning and Certificate of Need Section
Division of Health Service Regulation
N.C. Department of Health and Human Services
809 Ruggles Drive
Raleigh, NC 27603

RE: Rex Hospital, Inc.’s No Review Request Regarding Laboratory Services at Rex Panther Creek, Wake County

Dear Ms. Frisone:

On behalf of our client, Rex Hospital, Inc. d/b/a UNC REX (“Rex”), we are providing written notice of Rex’s intent to develop laboratory equipment and space at an exempt physician office building being developed at the corner of McCrimmon Parkway and N.C. Highway 55 in Cary, Wake County (“Lab Project” or “Lab Component”). Rex requests a determination that the proposed development of this Lab Project by itself -- and separate from the Panther Creek CON Project -- is not subject to review under North Carolina’s Certificate of Need (“CON”) laws because the Lab Project does not constitute the development of a “new institutional health service” as defined by N.C. Gen. Stat. §131E-176(16)(a)-(v).

Background

The Lab Project was originally part of a larger proposed project to develop a diagnostic center and urgent care clinic with laboratory services pursuant to CON Project ID #J-8263-08 (“Panther Creek Project”). A CON was awarded to Rex to develop the Panther Creek Project by virtue of a settlement agreement between Rex and the Agency, dated July 20, 2010. See Exhibit 1, CON for Panther Creek Project.

As discussed in the Material Compliance Request submitted to the Agency concurrently with this No Review Request by Rex, Wake Radiology Services, LLC (“WRS”), and their Joint Venture entity WR Imaging, LLC (“WR Imaging”), the CON-regulated components of the Panther Creek Project are now proposed to be developed through the WR Imaging Joint Venture pursuant to an updated proposal.

However, Rex and WRS will not be developing the Lab Project as part of the planned joint venture. Instead, Rex will develop the Lab Project independently from Rex’s Joint Venture with WRS. The Lab Project will be developed at the same location as originally proposed, although the layout and floorplan of the Lab Project have changed from the initial proposal. See Exhibit 2 (Original Floor Plan) and Exhibit 3 (Revised Floor Plan). As discussed below, now that the Lab Project is developed separately from the Panther Creek Project (which is subject to CON), no part of the Lab Project is subject to CON review.

Analysis

None of the services offered in the Lab Project are “new institutional health services” as that term is defined in N.C. Gen. Stat. § 131E-176(16). The term “new institutional health service” is defined in numerous ways in N.C. Gen. Stat. § 131E-176(16). Among these definitions is N.C. Gen. Stat. § 131E-176(16)(b), which defines a “new institutional health service” to include:

. . . [T]he obligation by any person of a capital expenditure exceeding two million dollars (\$2,000,000) to develop or expand a health service or a health service facility, or which relates to the provision of a health service . .

See N.C. Gen. Stat. § 131E-176(16)(b).

The total capital expense allocated to develop this project is well below the \$2,000,000 capital cost threshold contained at N.C. Gen. Stat. § 131E-176(16)(b) for the development or expansion of new health services not otherwise subject to CON review.

Likewise, the development of the Lab Project will not result in the development of a diagnostic center because the total cost of equipment to be utilized by the facility costing \$10,000 or more, in addition to all costs necessary to make the Project operational, does not exceed the \$500,000 threshold at N.C. Gen. Stat. §131E-176(7a). In fact, as the following table illustrates, the Lab Project’s total capital costs do not exceed \$500,000, even if all equipment costs are counted, regardless of the costs for each equipment item. Therefore, the development of the Lab Project is not the development of a “health service facility” as defined at N.C. Gen. Stat. §131E-176(9b). The costs for the Project are set forth in the table below:

Lab Project Capital Costs	
Total Construction and Design Costs	\$166,356.12
Total Equipment, Furniture, & Fixture Costs	\$301,622.56
Total Capital Costs	\$467,978.68

Form **990**
Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)
Do not enter social security numbers on this form as it may be made public
Information about Form 990 and its instructions is at www.irs.gov/form990

OMB No 1545-0047
2017
Open to Public Inspection

A For the 2017 calendar year, or tax year beginning 07-01-2017, and ending 06-30-2018

- B** Check if applicable
- Address change
 - Name change
 - Initial return
 - Final return/terminated
 - Amended return
 - Application pending

C Name of organization
Rex Hospital Inc

% ANDREW ZUKOWSKI
Doing business as
See Schedule O

Number and street (or P O box if mail is not delivered to street address) Room/suite
4420 Lake Boone Trail

City or town, state or province, country, and ZIP or foreign postal code
Raleigh, NC 27607

F Name and address of principal officer
Stephen Burriss
4420 Lake Boone Trail
Raleigh, NC 27607

D Employer identification number
56-1509260

E Telephone number
(919) 784-3100

G Gross receipts \$ 1,217,362,468

H(a) Is this a group return for subordinates? Yes No

H(b) Are all subordinates included? Yes No
If "No," attach a list (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status 501(c)(3) 501(c) () ◀ (insert no) 4947(a)(1) or 527

J Website: ▶ www.rexhealth.com

K Form of organization Corporation Trust Association Other ▶

L Year of formation 1986

M State of legal domicile NC

Part I Summary

1 Briefly describe the organization's mission or most significant activities
Inspiring hope, improving health and healing communities

2 Check this box if the organization discontinued its operations or disposed of more than 25% of its net assets

3 Number of voting members of the governing body (Part VI, line 1a)	13
4 Number of independent voting members of the governing body (Part VI, line 1b)	9
5 Total number of individuals employed in calendar year 2017 (Part V, line 2a)	7,763
6 Total number of volunteers (estimate if necessary)	1,395
7a Total unrelated business revenue from Part VIII, column (C), line 12	181,514
7b Net unrelated business taxable income from Form 990-T, line 34	-1,640,999

	Prior Year	Current Year
8 Contributions and grants (Part VIII, line 1h)	3,402,553	4,454,519
9 Program service revenue (Part VIII, line 2g)	1,052,634,825	1,138,427,222
10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	18,148,396	4,071,308
11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	1,026,131	1,388,374
12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	1,075,211,905	1,148,341,423
13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)	1,186,134	910,225
14 Benefits paid to or for members (Part IX, column (A), line 4)	0	0
15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	461,400,667	487,912,218
16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
b Total fundraising expenses (Part IX, column (D), line 25) ▶ 0		
17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	539,284,556	619,962,024
18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	1,001,871,357	1,108,784,467
19 Revenue less expenses Subtract line 18 from line 12	73,340,548	39,556,956

	Beginning of Current Year	End of Year
20 Total assets (Part X, line 16)	1,011,503,690	1,054,404,277
21 Total liabilities (Part X, line 26)	524,676,830	505,392,389
22 Net assets or fund balances Subtract line 21 from line 20	486,826,860	549,011,888

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge

Sign Here

Signature of officer _____ Date 2019-05-14

ANDREW ZUKOWSKI CFO
Type or print name and title _____

Paid Preparer Use Only

Print/Type preparer's name Marc Berger	Preparer's signature Marc Berger	Date 2019-05-14	Check <input type="checkbox"/> if self-employed	PTIN P01871563
Firm's name ▶ BDO USA LLP			Firm's EIN ▶	
Firm's address ▶ 421 Fayetteville Street Suite 300 Raleigh, NC 27601			Phone no (919) 278-1936	

Excerpt from G-11725-19 Wake Forest Baptist
Imaging DxCtr Application

**Wake Forest Baptist Imaging
Kernersville Diagnostic Center
Financial Assumptions**

(5)	Indirect Expenses*	2019
	Housekeeping/Laundry**	\$1.10
	Equipment Maintenance**** (10% of equipment cost)	
	Building & Grounds Maintenance***	\$2.00
	Utilities***	\$0.90
	Management & Billing Agreement (10% of net revenues)	
	Professional Fees (17% of global revenue)	
	Facility Lease***	\$18.00
	Other Indirect Expenses/General & Administrative Overhead (5.24% of collections. Includes office & computer supplies, legal & accounting, insurance, food, non-medical supplies, dues/membership, travel & entertainment, continuing education/training, taxes & licenses, other overhead & miscellaneous)	
	Property Tax rate per \$100:	\$1.3209
	Size of Unit:	
	Total Diagnostic Center Square Footage:	4,844 square feet
	sources: WFBI	
	http://forsyth.cc/Tax/taxRates.aspx	
	*indirect expenses increased annually by inflation from 2019 amounts.	
	**cost per imaging exam	
	***cost per square foot	
	****maintenance provided by WFBMC biomedical engineering staff, not equipment manufacturer.	

(6)	Depreciation:	Straight-line
	Building & Site	\$64,000 15 years
	Annual Expense	2021 2022 2023 \$4,267 \$4,267 \$4,267
	Equipment	7 years
	Annual Expense	\$217,850 2021 2022 2023 \$31,121 \$31,121 \$31,121
	Capitalized Fees	5 years
	Annual Expense	\$50,000 2021 2022 2023 \$10,000 \$10,000 \$10,000
	source: WFBI	

Excerpt from J-011800-19 Raleigh Radiology Fuquay
Varina DxCtr Application

Form F.3 Operating Costs

Operating cost for FY 2019 are based on annualized actual expenses through July 2019 .

Unless indicated otherwise, all direct and indirect expenses except salary expenses increase annually by: 2.00%

Salaries: See Form H Staffing

Salaries are projected to increase annually by 3.00%

Salaries and PTO:

	Base Salary Year 1	PTO	Adjusted Salary Year 1
Tech	\$ 64,100	\$ 3,698	\$ 67,798
Reception and administrative support	\$ 35,880	\$ 2,070	\$ 37,950

PTO is estimated at three weeks salary and added to the base salary per FTE. Base salary is based on Raleigh Radiology operating experience of diagnostic centers with a similar mix of imaging modalities

	2020	2021	2022	2023
Employee taxes and benefits are estimated as a percent of total salaries	32.0%	32.0%	31.0%	34.2%

Medical Supplies are estimated as a percent of net revenue based on Raleigh Radiology's historical data and experience operating diagnostic centers with similar imaging modalities in Wake County.

5.6%

Housekeeping / Laundry is estimated as a cost per square foot based on similar imaging facilities operated by the applicant.

The proposed diagnostic center will be \$ 1.25 per sqft

5,588 total sqft

	2020	2021	2022	2023
	\$ 6,985	\$ 7,125	\$ 7,267	\$ 7,413

Equipment Maintenance

	2020	2021	2022	2023
CT	\$ -	\$ 18,000	\$ 72,000	\$ 73,440
Mammography	\$ 36,000	\$ 36,720	\$ 37,454	\$ 38,203
Ultrasound	\$ 24,000	\$ 24,480	\$ 24,970	\$ 25,469
X Ray	\$ 9,000	\$ 9,180	\$ 9,364	\$ 9,551
Dexa	\$ 4,200	\$ 4,284	\$ 4,370	\$ 4,457
Total	\$ 73,200	\$ 92,664	\$ 148,157	\$ 151,120

New equipment will be under warranty for one year.

Based on Raleigh Radiology experience with similar equipment for the proposed imaging modalities

$151,120 / 568,023 = 26.6\%$

Utilities are based on Raleigh Radiology experience with diagnostic imaging centers of similar size operating a similar mix of imaging equipment

Average utility cost per month \$ 3,352

	2020	2021	2022	2023
Utilities	\$ 40,220	\$ 41,024	\$ 41,845	\$ 42,682
Telecom	\$ 4,200	\$ 4,284	\$ 4,500	\$ 4,700
Total	\$ 44,420	\$ 45,308	\$ 46,345	\$ 47,382

Insurance

Insurance Expense for equipment is based on an estimate of \$5.75 per \$1,000 of valuation
Insurance Expense for property is based on an estimate of \$.17 per square foot

	2020	2021	2022	2023
Equipment	\$ 1,715	\$ 3,488	\$ 3,557	\$ 3,629
Property	\$ 950	\$ 969	\$ 988	\$ 1,008
Total	\$ 2,665	\$ 4,457	\$ 4,546	\$ 4,637

Insurance rates are based on other diagnostic center CON applications with similar modalities

Depreciation Expense

	Cost	Useful Life	2020	2021	2022	2023
CT/Injector	\$405,948	5 \$	20,297 \$	81,190 \$	81,190 \$	81,190 \$
Mammography	\$81,300	5 \$	16,260 \$	16,260 \$	16,260 \$	16,260 \$
X Ray	\$42,300	5 \$	8,460 \$	8,460 \$	8,460 \$	8,460 \$
Ultrasound	\$10,375	7 \$	1,482 \$	1,482 \$	1,482 \$	1,482 \$
Dexa	\$28,100	5 \$	5,620 \$	5,620 \$	5,620 \$	5,620 \$
Total	\$568,023	\$	52,120 \$	113,012 \$	113,012 \$	113,012 \$
Non Medical Equipment	\$5,000	10 \$	125 \$	500 \$	500 \$	500 \$
Existing Non Medical Equipment	\$33,525	10 \$	3,353 \$	3,353 \$	3,353 \$	3,353 \$
Total Equipment Depreciation		\$	55,597 \$	116,864 \$	116,864 \$	116,864 \$
Building Upfit/Contingency	\$196,725	30 \$	1,639 \$	6,557 \$	6,557 \$	6,557 \$
Existing Leasehold Improvements	\$333,286	30 \$	11,110 \$	11,110 \$	11,110 \$	11,110 \$
Total Building Depreciation		\$	12,749 \$	17,667 \$	17,667 \$	17,667 \$

Useful Life per AHA Estimated Useful Lives of Depreciable Hospital Assets Revised 2013 Editor American Hospital Association. (2013). Estimated useful lives of depreciable hospital assets 2013. Chicago: Health Forum

Other Expenses

Management services from Raleigh Radiology, LLC to Raleigh Radiology Imaging Network, LLC is estimated as a percent of net revenue based on Raleigh Radiology experience with diagnostic imaging centers operating with a similar mix of imaging modalities. See letter in Exhibit I.1

3.2%

Marketing expenses of \$10,000 pre-opening and \$10,000 in Year 1 is based on Raleigh Radiology experience with opening a diagnostic imaging center in a new market.

MRI Fee: Based on \$2,950 per day; Assume 51 weeks per year

	2020	2021	2022	2023
Days per Week	2	2.5	3.5	3.5
Days per Year	102	127.5	178.5	178.5
MRI Fee	\$ 300,900 \$	376,125 \$	526,575 \$	526,575



March 31, 2020

Ms. Martha Frisone, Chief
Certificate of Need Section
Division of Health Service Regulation
NC Department of Health and Human Services
809 Ruggles Drive
Raleigh, North Carolina 27603

**Re: WR Imaging, LLC Diagnostic Imaging Center in Cary, Wake County, Health Service Area IV; CON
Project ID Number: J-8263-08**

Dear Ms. Frisone,

UNC Health Care System recently submitted a CON application, J-011865-20, requesting Diagnostic Center designation for approximately 57,000 SF on two floors of a medical office building owned by the applicant. On the first floor of that same medical office building, WR Imaging, LLC owns and operates another imaging space that appears to be out of material compliance with a Certificate of Need awarded for that first-floor project ("Diagnostic Project", J-8263-08). On page 5 of J-8263-08 (attachment 10), the project scope indicates:

"Rex proposes to develop a hospital-based outpatient care center including urgent care and diagnostic services, and to relocate and replace CT equipment in the Panther Creek area of Cary, North Carolina [emphasis added]."

However, the first-floor space in question is not a hospital outpatient department. It is not subject to EMTALA rules and, as such, represents a very different project from the project described in CON application J-8263-08. We believe that the first floor is not in material compliance with CON J-8263-08. Per GS 131E-181(a), "A certificate of need shall be valid only for the defined scope."

Gary S. Qualls submitted a request for Material Compliance determination on February 1, 2019. The request did not describe the difference between a hospital outpatient department and a freestanding diagnostic center. It did indicate an intent on the part of WR Imaging, LLC to spend \$4,135,013.26 for the "Diagnostic Project" (attachment 5, p.8), including \$689,687 for a new CT scanner. The identified capital cost is far in excess of the \$500,000 capital limit that defines a diagnostic center (GS 131E-176-16(7a)). Furthermore, an expenditure of that amount would require a Certificate of Need application because a diagnostic center is a "health service facility" (GS 131E-176(9b)) and a "New Institutional Health Service" (GS 131E-176 (16a)).

5220 Greens Dairy Rd Raleigh, NC 27616

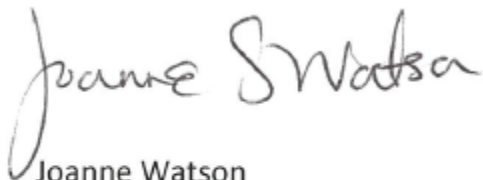
State Of The Art Everything. Straight From The Heart Care.
raleighrad.com

The request was approved on February 12, 2019 to allow the new owner, WR Imaging, LLC, to continue to develop the “hospital-based outpatient care center” described in application J-8263-08 (attachment 11, p.2). WR Imaging, LLC was subsequently issued a revised CON for this project to reflect the new ownership (attachment 11, p.4). The revised CON states the scope of the project is to “develop a diagnostic center.” However, condition two of the revised CON states “WR Imaging, LLC shall...develop **and operate no more than one hospital based outpatient care center,**” as the original J-8263-08 CON authorized (attachment 11, p.5). A diagnostic center and hospital-based outpatient care center are not synonymous. The Material Compliance request submitted by Gary S. Qualls did not mention a change of scope, nor did WR Imaging, LLC submit a CON application for a change of scope. Thus, the conditions of the original CON issued in 2010 should still stand.

Even if Rex Hospital had retained ownership of the Diagnostic Project, the first-floor imaging spaces at UNC Health Panther Creek MOB should be subject to CON, because it is a “freestanding facility.” It is not a hospital outpatient department. WR Imaging, LLC does not hold a hospital license and is not operating the project approved in the application, J-8263-08. Hence, we believe that the WR Imaging, LLC service on the first floor is not operating in material compliance with CON J-8263-08 and sanctions identified in GS 131E-190 should apply. We urge you to carefully investigate what is actually occurring at this address and, with the new information, revisit your determination dated February 12, 2019. Please see attachment 5, page 2 for the letter of approval for the Material Compliance filed on February 1, 2019.

Thank you for your time and consideration. Please do not hesitate to call me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Joanne Watson". The signature is written in a cursive, flowing style.

Joanne Watson
Chief Operating Officer
Raleigh Radiology, LLC

8. Provide a brief project description to identify the basic components of the project including the bed complement and proposed levels of care. This should be a one sentence description for identification purposes only.

Rex proposes to develop a hospital-based outpatient care center including urgent care and diagnostic services, and to relocate and replace CT equipment in the Panther Creek area of Cary, North Carolina.

9. Indicate the type of Construction or Change in Service:
(Check the appropriate boxes)

(a)	<input checked="" type="checkbox"/>	New Facility or Service
(b)	<input type="checkbox"/>	Total Replacement of Existing Facility
(c)	<input type="checkbox"/>	Renovation or Modernization
(d)	<input checked="" type="checkbox"/>	Expansion or Reduction of Services
(e)	<input type="checkbox"/>	Medical Equipment
(f)	<input type="checkbox"/>	Change in Bed Capacity

1.	<input type="checkbox"/>	Number of Beds to be Added
2.	<input type="checkbox"/>	Number of Beds to be Deleted
3.	<input type="checkbox"/>	<u>Total Number of Beds Currently Licensed (by licensure category)</u>
4.	<input type="checkbox"/>	Total Numbers of Beds to Be Licensed After Project Completion
5.	<input type="checkbox"/>	Total Beds Currently Operational

Approval of Material Compliance filed by Rex
Hospital, Inc.
Re: Panther Creek Project (CON ID J-8263-08)



NC DEPARTMENT OF
**HEALTH AND
HUMAN SERVICES**

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
MARK PAYNE • Director, Division of Health Service Regulation

February 12, 2019

Gary S. Qualls
K&L Gates, LLP
430 Davis Drive, Suite 400
Morrisville NC 27560

Material Compliance Approval - Transfer for Good Cause

Project ID #: J-8263-08
Facility: Rex Healthcare of Panther Creek
Project Description: **Develop a hospital-based outpatient care center** including urgent care and diagnostic services in the Panther Creek area of Cary
County: Wake
FID #: 080825
Approved Applicant: Rex Hospital, Inc.
New Owner: WR Imaging, LLC

Dear Mr. Qualls:

The Healthcare Planning and Certificate of Need Section, Division of Health Service Regulation (Agency) received your correspondence of February 1, 2019, in which you requested approval of a transfer of ownership or control for good cause for the above referenced project. The Agency has determined that good cause exists based on finding that the joint venture, WR Imaging, LLC, to which ownership will transfer, includes Wake Radiology Services, LLC, and the original applicant, Rex Hospital, Inc. Consequently, the Agency shall not withdraw the certificate of need as a result of this transfer. However, you should contact the Agency's Acute and Home Care Licensure and Certification Section to determine if they have any special requirements regarding the proposed transfer of ownership or control.

Please be advised that pursuant to N.C. Gen. Stat. §131E-181(b), any person who subsequently acquires a certificate of need is required to materially comply with the representations made in the application that was submitted to the Agency for the project. Further, in accordance with N.C. Gen. Stat. §131E-190(i), the Agency may bring action in Superior Court for injunctive relief requiring the successor to operate the service in material compliance with those representations.

It should be noted that this Agency's position is based solely on the facts represented by you and that any change in facts as represented would require further consideration by this office and a separate determination. If you have any questions concerning this matter, please feel free to contact this office.

Please refer to the Project ID # and Facility ID # (FID) in all correspondence.

NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • DIVISION OF HEALTH SERVICE REGULATION
HEALTHCARE PLANNING AND CERTIFICATE OF NEED SECTION

LOCATION: 809 Ruggles Drive, Edgerton Building, Raleigh, NC 27603
MAILING ADDRESS: 809 Ruggles Drive, 2704 Mail Service Center, Raleigh, NC 27699-2704
www.ncdhhs.gov/dhsr • TEL: 919-855-3873

AN EQUAL OPPORTUNITY / AFFIRMATIVE ACTION EMPLOYER

Revised CON Issued 2/21/19
Re: Panther Creek Project (CON ID J-8263-08)

STATE OF NORTH CAROLINA

*Department of Health and Human Services
Division of Health Service Regulation*

REVISED

CERTIFICATE OF NEED

for

Project ID #: J-8263-08

FID #: 080825

ISSUED TO: WR Imaging, LLC

Pursuant to N.C. Gen. Stat. § 131E-177(6), the North Carolina Department of Health and Human Services hereby authorizes the person or persons named above (the "certificate holder") to develop the certificate of need project described below. The certificate holder shall develop the project in a manner consistent with the representations in the application and with the conditions contained herein and shall make good faith efforts to meet the timetable contained herein, as documented by the periodic progress reports required by 10A NCAC 14C .0209. The certificate holder shall not exceed the maximum capital expenditure amount specified herein during the development of this project, except as provided by N.C. Gen. Stat. § 131E-176(16)e. The certificate holder shall not transfer or assign this certificate to any other person except as provided in N.C. Gen. Stat. § 131E-189(c). This certificate is valid only for the scope, physical location, and person(s) described herein. The Department may withdraw this certificate pursuant to N.C. Gen. Stat. § 131E-189 for any of the reasons provided in that section.

SCOPE: **Shall develop a diagnostic center in the Panther Creek area of Cary/ Wake County**

CONDITIONS: **See Reverse Side**

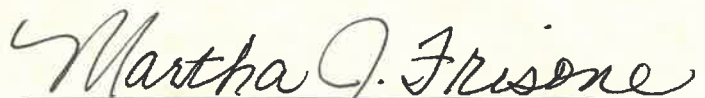
PHYSICAL LOCATION: **Panther Creek Project
McCrimmon Parkway
Cary, NC 27519**

MAXIMUM CAPITAL EXPENDITURE: **\$7,294,590**

TIMETABLE: **See Reverse Side**

FIRST PROGRESS REPORT DUE: **July 1, 2019**

This certificate is effective as of July 27, 2010
Revised certificate issued on February 21, 2019



4 of 5 **Martha J. Frisone, Chief**

CONDITIONS:

1. **WR Imaging, LLC shall materially comply with all representations made in the certificate of need application, identified as Project I.D. No. J-8263-08, and in the supplemental information provided to the Agency on April 16, 2010 and May 4, 2010. In those instances in which any of these representations conflict, WR Imaging, LLC shall materially comply with the last-made representations.**
2. **WR Imaging, LLC shall, as part of this project, develop and operate no more than one hospital based outpatient care center to be located at the site on the southwest corner of McCrimmon Parkway and Highway 55 in Cary, Wake County, as described in the application.**
3. **WR Imaging, LLC shall not acquire, as part of this project or within one year after completion of this project, any equipment that is not included in the project's proposed capital expenditure in Section VIII of the application or that would otherwise require a certificate of need.**
4. **WR Imaging, LLC shall relocate and replace one existing CT scanner from Rex Healthcare of Cary to the Rex Healthcare of Panther Creek, removing from service one existing 4-slice CT scanner.**
5. **WR Imaging, LLC shall not relocate, as part of this project, from its other sites, any existing equipment, which costs \$10,000 or more, within one year after completion of this project.**

TIMETABLE:

- | | | |
|----|--|------------------|
| 1. | Financing Obtained _____ | March 1, 2013 |
| 2. | 50% of Construction/Renovation Completed _____ | November 1, 2013 |
| 3. | Construction/Renovation Completed _____ | May 1, 2014 |
| 4. | Equipment Ordered _____ | January 1, 2014 |
| 5. | Services Offered _____ | July 1, 2014 |