

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: September 12, 2012

PROJECT ANALYST: Gloria C. Hale

ASSISTANT CHIEF: Craig R. Smith

PROJECT I.D. NUMBER: J-8840-12/ University of North Carolina Hospitals/Consolidate Children's Sedation and Children's Surgery into a combined Children's Surgery and Sedation Center/ Orange County

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

G.S. 131E-183(a) The Department shall review all applications utilizing the criteria outlined in this subsection and shall determine that an application is either consistent with or not in conflict with these criteria before a certificate of need for the proposed project shall be issued.

- (1) The proposed project shall be consistent with applicable policies and need determinations in the State Medical Facilities Plan, the need determination of which constitutes a determinative limitation on the provision of any health service, health service facility, health service facility beds, dialysis stations, operating rooms, or home health offices that may be approved.

C

The University of North Carolina Hospitals proposes to consolidate children's surgery and sedation services into a combined Children's Surgery and Sedation Center. The proposed renovation will allow for an overall increase from one to two sedation rooms and from 10 to 14 pre/post-op recovery bays. The applicant does not propose to develop beds or services or acquire equipment for which there is a need determination in the 2012 State Medical Facilities Plan (SMFP). However, Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities, on page 40 of the 2012 SMFP, is applicable to the review of this proposal. Policy GEN-4 states:

"Any person proposing a capital expenditure greater than \$2 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178 shall include in its certificate of need application a written statement describing the project's plan to assure improved energy efficiency and water conservation.

In approving a certificate of need proposing an expenditure greater than \$5 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178, the Certificate of Need Section shall impose a condition requiring the applicant to

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develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4.

Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan of energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4. The plan shall not adversely affect patient or resident health, safety or infection control."

In Section XI.7, page 92, the applicant states that their Plant Engineering Department monitors the existing facilities and any renovation projects on an ongoing basis to find ways to create energy efficiencies and contain utility costs. A number of ongoing examples are provided that have shown "a reasonable payback", including, among others, variable volume air conditioning systems, energy efficient motors, energy efficient light fixtures, and air side economizers. The applicant lists several specific cost saving initiatives that have been accomplished as follows:

- *"Projects now include lighting controls for bi-level lighting and occupancy sensors.*
- *Redesign of the hospital chilled water loop in order to more efficiently use the available chiller capacity and reduce utility consumption at the chiller plants.*
- *Installation of energy efficient chillers at the chiller plants.*
- *Retrofit of lighting and electronic ballast project.*
- *Completion of Duke Power survey and implementation of the recommendations.*
- *Developing protocols for purchasing/ordering energy efficient equipment.*
- *Retrofit valves to two-way valves rather than three-way valves in the chilled water system in order to use variable speed pumps.*
- *Study the use of insulated windows, window tinting, and other load reducing strategies to lessen air conditioning load in the existing facility."*

The applicant states in Section III.2, page 32:

"UNC Hospitals will develop and implement an Energy Efficiency and Sustainability plan for the project that conforms to or exceeds the energy efficiency and water conservation standards incorporated in the latest editions of the NC State Building Codes. The plan shall not adversely affect patient or resident health, safety or infection control."

The plan will specifically address the following features:

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Lighting systems, water systems, and heating, ventilation and air conditioning systems *“will be renovated, added and upgrades as needed within the scope of the areas of renovations for the project to provide higher energy efficiency in accordance with energy efficiency and water conservation standards incorporated in the latest editions of the NC State Building Codes.”*

In addition, ice machines will be evaluated based on energy efficiency and water conservation standards prior to purchase and any *“other potential energy conservation measures for the project will be researched and evaluated by the project engineer and architect as well as UNCH administration.”*

The applicant adequately demonstrates that the proposal includes improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4 and is conforming to this criterion.

- (2) Repealed effective July 1, 1987.
- (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.

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The applicant, University of North Carolina Hospitals, proposes to consolidate children's surgery and sedation services into a combined Children's Surgery and Sedation Center. The proposed renovation will allow for an overall increase from one to two sedation rooms and from 10 to 14 pre/post-op recovery bays.

Population to be Served

The following table illustrates current and projected patient origin for 2011 and project years one and two for UNC Hospitals' Combined Children's Surgery and Sedation Center as provided in Sections III.4(b) and III.5(c), pages 35-38.

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UNC Hospitals – Combined Children’s Surgery and Sedation Center
 Patient Origin by County of Residence

County	FY 2011 % Total	Project Year 1 % Total	Project Year 2 % Total
ALAMANCE	4.9%	4.9%	4.9%
CHATHAM	3.0%	3.0%	3.0%
CUMBERLAND	7.6%	7.6%	7.6%
DURHAM	4.3%	4.3%	4.3%
GUILFORD	3.2%	3.2%	3.2%
HARNETT	3.2%	3.2%	3.2%
JOHNSON	2.8%	2.8%	2.8%
LEE	3.6%	3.6%	3.6%
ONSLow	3.9%	3.9%	3.9%
ORANGE	7.1%	7.1%	7.1%
ROBESON	3.3%	3.3%	3.3%
WAKE	17.0%	17.0%	17.0%
OTHER*	36.1%	33.6%	33.6%
TOTAL	100.00%	100.00%	100.00%

*This category includes all other NC counties that account for less than 3.0% each of UNC Hospitals’ patient origin in addition to other US patient origins.

The applicant states in Section III.5(d), page 38:

“The methodology for projecting patient origin was based on FY 11 actual data from UNC Hospitals’ case mix system. Since patient origin has historically remained consistent with respect to utilization trends, the same patient origin mix is projected forward. No material change in the patient origin is expected for any service.”

The applicant addresses access to the medically underserved in Section VI.2, page 61, as follows:

“As North Carolina’s only state-owned comprehensive, full-service hospital based program, UNC Hospitals has the obligation to accept any North Carolina citizen requiring medically necessary treatment. No North Carolina citizen is presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance.”

In addition, the facility is following the latest State of North Carolina and Federal guidelines for handicapped accessibility in addition to all applicable provisions of the Americans with Disabilities Act.

The applicant adequately identified the population it proposes to serve.

Need for the Proposed Project

In Section III.1(a)(b), pages 22-24, the applicant states that it continues to see “growth in the number of pediatric patients it serves, the volume of cases, and the number and type of procedures performed in the hospital.” In regard to pediatric surgical and sedation services in particular, the applicant states:

- *“The demand for pediatric surgical services (involving pre-op and post-op recovery care) is increasing, as is the demand for sedation services for diagnostic and therapeutic service;*
- *The “sedation” medication is preferably administered in a sedation room, but often times must occur in another room in another area of the facility due to the inadequate organization of the space which hinders the number of useable areas. Sedation is a preferred method of medicating children as opposed to general anesthesia, as general anesthesia often has greater risks for the child than sedation. Due to the overall volume of pediatric sedation required, there are some children's procedures currently being performed without sedation because we do not have enough physical capacity to accommodate them. These patients are either provided a smaller dose of medication to help them “forget” the procedures or the child is scheduled for general anesthesia. Currently there are some patients who have to go to the OR (which incurs greater expense, stress and risk for the patient) when they could potentially receive moderate sedation instead. This reconfigured space in the proposed renovation will help address some of these issues;*
- *...the sedation nurses and sedation team must travel throughout the facilities and provide the service in other locations. ...the rooms the sedation teams must utilize are spread throughout the facility within other clinics and programs. This decreases the efficiency of the procedure (i.e. it adds time to the procedure), potentially increases the risk to the patient, and places the sedation team in a more remote location with varying degrees of available backup staff. Also, many areas are not physically conducive to sedating pediatric patients due to noise levels, as well as other patients and staff having to using [sic] the same area for other purposes;*
- *The time required to get the child initially sedated has increased due to the physicians switching to a safer sedation medication for the patient. At the same time, the incremental recovery time for the child has also increase [sic], sometime [sic] tripling the required sedation recovery time.*
- *Administrative support for scheduling of patients is crucial and currently is inefficient in that it is not a single portal for requests for all children's sedation services. The proposed renovation will allow for space to provide a single portal of scheduling.*
- *These factors, coupled with the need to centralized [sic] pediatric sedations within the Children's Sedation service and sedation teams, all have contributed to the need for the renovation of this space and creation [sic] additional rooms/bays.”*

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The applicant states, in Section III, page 25, that the Children’s Surgery area has six dedicated children’s operating rooms and nine bays for pre-op and post-op recovery. There is also a dedicated pediatric bronchoscopy room immediately adjacent to the pre-op and post-op recovery rooms. The renovation would allow for an additional bay to support the surgery service and the existing dedicated pediatric bronchoscopy room to “provide better design efficiencies and the ability for more collaboration between the areas.” Furthermore, the space for the Children’s Sedation was previously occupied by Women’s Pre-op and Post-op/Recovery which allowed for very separate types of patients with no collaboration between the areas.

In summary, the applicant states in Section III.1(b), page 28, that “...the renovation of the existing space will allow for more efficient design and a slight increase in the number of sedation rooms and pre/post bays for our pediatric surgical and sedation patients.”

In Section IV, pages 43 - 45, the applicant provides tables, summarized below, that provide the number of Combined Children’s Surgery and Sedation Center services, by sedation type, for two fiscal years prior to the proposed project (2010 and 2011), for three fiscal years during project development (2012, 2013, 2014), and for three fiscal years following project completion (2015, 2016, 2017).

Combined Children’s Surgery and Sedation Services
 All Inpatients and Outpatients

Service	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
CH Surgery Conscious Sedation	4,427	4,504	4,566	4,744	5,099	5,315	5,540	5,776
CH Surgery – Bronch Sedations	1,637	1,700	1,760	1,797	1,832	1,869	1,906	1,945
CH Sedation Conscious Sedation	1,027	1,150	1,434	1,414	1,496	1,583	1,675	1,773
CH Sedation – Radiology Sedations	849	891	937	984	1,033	1,085	1,139	1,196
Total	7,940	8,245	8,697	8,939	9,461	9,851	10,260	10,690

In Section IV, page 45, the applicant provides the assumptions used in calculating the utilization depicted above:

“Assumptions: Actual CAGR from FY 09 thru annualized FY 12 is approximately 4% annual growth. Projected growth for the Interim period FY 13 is a moderate 3.1% as the space is reaching maximum capacity. Initial occupancy of renovated unit is initially anticipated to increase at approximately 6.7% for FY 14 since additional spaces will be

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available to meet pent up demand. The following FY's thereafter are expected to grow between 4.4% and 4.5% annually. The IP and OP split is not expected to change significantly during this time. It is believed that these projections are conservative because when the CSSC renovations are complete, and as the benefits of centralize [sic] children's sedations becomes more integrated into all programs and services, there will likely be other conscious sedations cases that physicians and programs will relocate to the CSSC. This will have to be addressed at a later date. Projected seasonal variations are the same as those actually experienced."

The applicant explains, in Section IV, page 46, that the projections provided are conservative due to the use of the hospital's patient billing system to derive volumes. The billing system involves "bundling" of services for reimbursement. Sedation services would be tied into the bundle for the episode of care. Therefore, some children's sedation services are not able to be billed since they are not assigned billing codes. Examples of these types of sedation services include renal biopsy and PICC line insertion in children less than five years of age. These would not be accounted for in the volumes depicted.

Projected utilization is based on reasonable and supported assumptions.

In summary, the applicant adequately identified the population to be served and identified the need the population has for the services proposed. Therefore, the application is conforming to this criterion.

- (3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA

- (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.

CA

In Section III.3, pages 33-34, the applicant describes two alternatives considered in addition to the proposed project. The first of these is maintaining the status quo, while the other is maintaining the status quo and using bays within the Children's Short Stay Unit. The applicant describes the first alternative of maintaining the status quo as being "*operationally complex and logistically challenging.*" This is due to the current configuration of services for Children's Surgery and Children's Sedation Services being scattered in many locations throughout the hospital, the small size of the existing space, and the non-contiguous physical arrangement of

the current space. The second alternative would continue to use the existing one sedation room and one bay, with the additional use of shared space, if available, in the Children's Short Stay Unit. The Children's Short Stay Unit only has open bay beds with no walls providing separation. This space could not be used for patients needing private space, such as those with infections, and could only be used for sedation recovery and not the administration of sedation. It is also two floors below the Children's Operating Rooms which would result in continued scattering of staff. Due to the sharing of this space with child patients needing less than 23 hours of nursing care, it would also not be expected to accommodate increases in volumes for sedation services.

The applicant states that the proposed renovation as described in the application is the preferred option as summarized below:

"...which will allow the hospital and physician staff to coordinate care in a more efficient manner. This alternative was determined to be the least costly, most effective alternative at this time. ...it would provide the following:

- *Increase the number of sedation rooms from 1 to 2*
- *Increase the size and functionality of both sedation rooms*
- *Increase by 4 the rooms for recovering patients post sedation (i.e. 1 additional for Children's Surgery and 3 additional for Children's Sedation)*
- *Consolidate services in one area in close proximity to anesthesia coverage*
- *Provide identifiable area for single portal of entrance for all procedures requiring pediatric sedation whether a surgical case or other procedure; currently this is very fragmented with patients going to multiple sites for registration.*
- *Provide both services the ability to overflow back and forth as needed*
- *Allow both staff to better work together in a consolidated, more efficient and more effectively designed space*
- *Allow Children's Sedation to become less migratory and enable teams better control over spaces used for sedation and recovery*
- *Allow Children's Surgery to also increase is [sic] number of pre and post-op bays"*

The applicant adequately demonstrates that neither of the alternatives is as effective as the proposed alternative for meeting the need described. Furthermore, the application is conforming to all other applicable statutory review criteria as conditioned. The applicant adequately demonstrates that its proposal is the least costly or most effective alternative as conditioned. Therefore, the application is conforming to this criterion and approved subject to the following conditions.

- 1. The University of North Carolina Hospitals shall materially comply with all representations made in its certificate of need application.**

- 2. The University of North Carolina Hospitals shall not acquire, as part of this project, any equipment that is not included in the project's proposed capital expenditure in Section VIII of the application and which would otherwise require a certificate of need.**
 - 3. The University of North Carolina Hospitals shall develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant's representations in the written statement as described in paragraph one of Policy GEN-4.**
 - 4. Prior to issuance of the certificate of need, The University of North Carolina Hospitals shall acknowledge acceptance of and agree to comply with all conditions stated herein in writing to the Certificate of Need Section.**
- (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.

C

In Section VIII.2, page 77, the applicant states that the total capital cost of the project will be \$2,820,184, including \$1,919,940 for the construction contract and \$900,244 in miscellaneous project costs, which includes \$512,704 for equipment and furniture, \$213,000 for architect and engineering fees, and \$174,540 for project contingency. In Section VIII.3, page 78, the applicant states that the capital cost of the project will be funded by accumulated reserves. Exhibit 14 of the application contains a letter from UNC Hospitals Senior Vice President and Chief Financial Officer that indicates the availability of the funds for this project. It states:

"This letter is to confirm the availability of funding in excess of \$2,820,184 specifically for use for the capital costs associated with the development of the above referenced project. Attached is a copy of our most recent audited financial statement for the fiscal years ending June 30, 2011. You can find disclosed in the "Current Assets" section of the "Statements of Net Assets" in the fiscal year 2011 audited financial statement, listed as line item 'Cash and Cash Equivalents' in the statement's Exhibit A-1, funds in excess of this amount which are available for this project."

Exhibit 15, page 79, of the application contains a FY 2011 audited financial statement for UNC Hospitals. As of June 30, 2011, the applicant had \$1,627,765,197 in total assets and \$1,126,731,376 in net assets (total assets less total liabilities). Cash and cash equivalents were available in the amount of \$119,165,388. The applicant adequately provided information that documented its financial status.

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The applicant provided pro forma financial statements for the two years prior to the proposed project start date, for three interim years that the project would be under development, and for the first two years of the project after completion, for the entire hospital and for the proposed project. The applicant projects that operating expenses of the Combined Children's Surgery and Sedation Center will exceed revenues in each of the seven operating years provided for the time period, June 1, 2009 through June 30, 2016. However, the applicant projects a positive net operating income for the entire hospital in each of the seven corresponding years provided. The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable. See the financial plan assumptions following the pro formas. The applicant adequately demonstrates that the financial feasibility of the proposal is based upon reasonable projections of costs and revenues. Therefore, the application is conforming to this criterion.

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

C

The applicant, University of North Carolina Hospitals, proposes to renovate existing space in its Children's Hospital to combine the currently-separated spaces for children's surgery (pre and post-op) and children's sedation to allow flow from one space to another, allow for larger sedation rooms, three additional recovery rooms and additional pre/post-op recovery space for the Combined Children's Surgery and Sedation Center. According to additional information provided by the applicant, the proposed renovation will take place on the second floor. The applicant does not propose any new services or additional inpatient beds or equipment. Rather, existing services will be combined in renovated space. As discussed in Section IV, pages 43-45, the number of cases is projected to increase from 8,245 in FY2011 to 10,690 in FY 2017. The applicant adequately demonstrated that the proposal would not result in an unnecessary duplication of existing and approved services. Therefore, the application is conforming to this criterion.

- (7) The applicant shall show evidence of the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided.

C

In Section VII.1(a)(b), pages 69-70, the applicant provides both the current and proposed staffing for UNC Hospitals Children's Surgery and Sedation Services. The proposed staffing for the renovated Children's Surgery and Sedation Services will utilize 23.05 FTEs, 20.05 FTEs of which will be existing staff for these services. Therefore, the proposed project will increase total FTEs by 3.00 FTEs upon completion. Two new FTEs will be added, one 0.6 FTE will increase to 1 FTE and become a different position, and one 0.4 FTE will increase to 1 FTE. Proposed salary figures for FY 2016 reflect a 2.5 percent increase per year. The staffing for UNC Hospitals Children's Surgery and Sedation Services, both current and proposed, is displayed in tables in Sections VII.1(a) and VII.1(b), pages 69-70, respectively, and is compiled in one table as follows:

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Current Staffing FY 2011			Proposed Staffing FY 2016	
UNCH JOB TITLE	TOTAL # OF FTE POSITIONS EMPLOYED	AVERAGE ANNUAL SALARY PER FTE POSITION	TOTAL # OF FTE POSITIONS EMPLOYED	AVERAGE ANNUAL SALARY PER FTE POSITION
Children's Sedation				
Clinical Nurse II/Tier II	9.15	\$62,088	10.15	\$68,534
Clinical Nurse III/Tier III	0	N/A	1	\$80,426
Clinical Nurse IV/Tier IV	0.9	\$78,249	0.9	\$86,372
Clinical Support Technician (2011)/Admin Coordinator (2016)	0.6	\$31,717	1	\$40,000
Clinical Nurse II/Tier I	0.4	\$54,500	1	\$60,158
Children's Surgery				
Clinical Nurse III/Tier III	1	\$72,862	1	\$80,426
Clinical Nurse II/Tier II	4	\$62,088	4	\$68,534
Nursing Assistant	2	\$26,187	2	\$28,906
Medical Support Assist II	2	\$33,883	2	\$37,345
Total	20.05		23.05	

In Section VII.6(a), page 72, the applicant describes its recruitment and staff retention plan. A variety of strategies and venues are used to recruit new staff. These include: job postings via UNC Healthcare's website, career fairs, and advertisements in print media such as newspapers and professional journals. In addition, individual departments within UNC Hospitals use their own unique methods for recruiting qualified staff, often through clinical education experiences, through guest lectures at various college campuses, and through workshop and conference presentations which enhance the reputation of UNC Hospitals. Retention of staff is accomplished through numerous strategies such as shadowing opportunities, career ladders, flexible scheduling, and comprehensive benefit packages, among others.

The applicant demonstrated the availability of adequate of health manpower and management personnel to provide the proposed Children's Surgery and Sedation Services. Therefore, the application is conforming to this criterion.

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- (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.

C

In Section II.2(a), pages 16-17, the applicant provides a comprehensive listing of ancillary and support services currently provided in support of the existing services and states that they will continue to be provided with the proposed renovations at the main campus. In addition, Exhibit 2 contains a letter from the Executive Vice President and Chief Operating Officer of UNC Hospitals which includes a listing of a wide variety of ancillary and support services considered required to support the Children's Services. In regard to these services, the letter states:

“In support of this renovation, I understand that UNC Hospitals must commit to the continued availability of these resources. Each of the above resources has been provided continuously throughout the past several years. As these resources are available today in support of the services proposed in this CON application, and are considered necessities for the care of all of UNC Hospitals' patients, I am most comfortable committing these resources with the renovation of the Children's Surgery and Sedation Center.”

UNC Hospitals provides educational programming for trainees as part of its primary mission. The applicant states in Section V.1(a)(b), page 48, that *“The clinical components of the project currently serve, and will continue to serve, as resources for undergraduate, graduate and post graduate medical and other health science education programs for the University of North Carolina – Chapel Hill.”* This includes the five health professional schools of the University of North Carolina – Chapel Hill. In addition, UNC Hospitals has transfer or affiliation agreements with other hospitals, long term care and life care facilities in the state. A listing of these hospitals and facilities is provided in Section V.2(c), pages 52-54. Moreover, UNC Hospitals continues to have informal working agreements with other services for patient referrals, such as County Social Services Departments, County Public Health Departments, and State Hospital Facilities.

The applicant adequately demonstrated the availability of the necessary ancillary and support services and that the proposed services would be coordinated with the existing health care system. Therefore, the application is conforming to this criterion.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

- (10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates: (a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and (b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers:
- (i) would be available under a contract of at least 5 years duration;
 - (ii) would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
 - (iii) would cost no more than if the services were provided by the HMO; and
 - (iv) would be available in a manner which is administratively feasible to the HMO.

NA

- (11) Repealed effective July 1, 1987.
- (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.

NA

- (13) The applicant shall demonstrate the contribution of the proposed service in meeting the health-related needs of the elderly and of members of medically underserved groups, such as medically indigent or low income persons, Medicaid and Medicare recipients, racial and ethnic minorities, women, and handicapped persons, which have traditionally experienced difficulties in obtaining equal access to the proposed services, particularly those needs identified in the State Health Plan as deserving of priority. For the purpose of determining the extent to which the proposed service will be accessible, the applicant shall show:
- (a) The extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved;

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In Sections VI.12 and VI.13, pages 66-67, the applicant provides the payor mix for fiscal year 2011 for both the entire hospital and for Combined Children's Surgery and Sedation Center cases, as illustrated in the table below:

UNC Hospitals FY 2011 Payor Mix % of Inpatient Days As Percent of Total Utilization		
	Entire Facility	Combined Children's Surgery and Sedation Center Cases
Self Pay / Indigent/Charity	6.4%	1.2%
Medicare/Medicare Managed Care	29.7%	0.3%
Medicaid	30.3%	49.7%
Commercial Insurance	1.0%	0.4%
Managed Care	26.4%	32.7%
Other	6.2%	15.7%
Total	100.0%	100.0%

In Sections VI.14 and VI.15, pages 67-68, the applicant provides the projected payor mix during the second full fiscal year of operation following completion of the proposed project. The following table shows the projected payor mix for fiscal year 2016 for both the entire hospital and for Combined Children's Surgery and Sedation Center cases, as illustrated in the following table:

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UNC Hospitals FY 2016 Payor Mix % of Inpatient Days As Percent of Total Utilization		
	Entire Facility	Combined Children’s Surgery and Sedation Center Cases
Self Pay / Indigent/Charity	6.4%	1.2%
Medicare/Medicare Managed Care	29.7%	0.3%
Medicaid	30.3%	49.7%
Commercial Insurance	1.0%	0.4%
Managed Care	26.4%	32.7%
Other	6.2%	15.7%
Total	100.0%	100.0%

In Section VI.11, page 66, the applicant states:

“UNC Hospitals has long since satisfied its “free care” obligation under the Hill-Burton Act. Charity care provided by UNC Hospitals for the year ending June 30, 2011 was \$133,844,195 (13.23% of net revenue). UNC Hospitals provides care to all persons based only on their need for care, and without regard to minority status or handicap/disability.”

The Division of Medical Assistance (DMA) maintains a website which offers information regarding the number of persons eligible for Medicaid assistance and estimates of the percentage of uninsured for each county in North Carolina. The following table illustrates those percentages for the three counties with the highest utilization of UNC Hospitals Combined Children’s Surgery and Sedation Center services for the years indicated. The data in the table was obtained on August 7, 2012. More current data, particularly with regard to the estimated percentages of the uninsured, was not available.

	Total # of Medicaid Eligibles as % of Total Population, June 2010	Total # of Medicaid Eligibles Less than Age 21 as % of Total Population, June 2010	% Uninsured CY 2008-CY2009 (Estimate by Cecil G. Sheps Center)
Wake County	10.0%	6.0%	18.4%
Cumberland County	18.0%	11.0%	20.3%
Orange County	9.0%	5.0%	18.9%
Statewide	17.0%	10.0%	19.7%

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The majority of Medicaid eligibles are children under the age of 21. The UNC Hospitals Combined Children's Surgery and Sedation Center's patients are children. In Sections III.4(b) and III.5(c), pages 35-38, the applicant lists the numbers and percentages of patients utilizing these services by county of origin. Most patients are from Wake County (17.0%), followed by Cumberland County (7.6%), and Orange County (7.1%).

The number of persons eligible for Medicaid may be greater than the number of Medicaid eligibles who actually utilize health services. However, for the proposed project, the percentage of Medicaid eligible children served by UNC Hospitals is greater than the percentage of children eligible for Medicaid in North Carolina and in each of the primary counties served by the UNC Hospitals Combined Children's Surgery and Sedation Center, as depicted in the two previous tables provided herein.

The Office of State Budget & Management (OSBM) maintains a website which provides historical and projected population data for each county in North Carolina. Certified county level data on this website shows that Wake County had a total population of 907,314 in 2010. Twenty-nine percent of Wake County's total population was under age 20. Cumberland County had a total population of 326,673 in 2010 and 30% of its population was under age 20. Orange County had a total population of 134,325 in 2010 and 26% of its population was under age 20. Population estimates were available by age, race and gender by county, however a direct comparison to the applicant's current payor mix would be of little value. The population data by age, race or gender does not include information on the number of elderly, minorities or women utilizing health services. Furthermore, OSBM's website does not include information on the number of handicapped persons.

The applicant demonstrated that medically underserved populations currently have adequate access to UNC Hospitals. Therefore, the application is conforming to this criterion.

- (b) Its past performance in meeting its obligation, if any, under any applicable regulations requiring provision of uncompensated care, community service, or access by minorities and handicapped persons to programs receiving federal assistance, including the existence of any civil rights access complaints against the applicant;

C

In Section VI.2, page 61, the applicant states,

“As North Carolina's only state-owned comprehensive, full-service hospital based program, UNC Hospitals has the obligation to accept any North Carolina citizen requiring medically necessary treatment. No North Carolina citizen is presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status or lack of medical insurance.”

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The applicant further states that its facility is handicapped accessible, following the most current state and federal guidelines and that the proposed project “*incorporates all applicable provisions of the Americans with Disabilities Act.*” To further illustrate UNC Hospitals’ accessibility to all citizens, the following table is provided from Section VI.2, page 61:

FY 11	Low Income	Racial & Ethnic Minorities	Female	Elderly	Other Underserved
UNC Hospitals	16.4%	35.6%	59.0%	21.9%	10.3%
Pediatrics	57.2%	53.2%	41.7%	-	-

The applicant indicates, in Section VI.2, page 63, it will use UNC Hospitals’ existing policies and procedures in regard to assuring access regardless of ability to pay and for credit collection procedures referenced in Exhibits 9 and 10.

During the last full fiscal year, 2011, UNC Hospitals provided charity care amounting to \$133,844,195, or 13.23% of net revenue. In the same year, it had bad debt amounting to \$66,058,900, or 6.53% of net revenue. The following table depicts the applicant’s estimated amounts of charity care and bad debt for the first two fiscal years of operation of the project, from Section VI.8, pages 63-64:

**UNC Hospitals Projected Charity Care and Bad Debt
 FY 2015 & 2016**

	FY 2015	FY 2016
Charity Care Amount	\$168,112,000	\$178,281,000
Charity Care Percent of Net Revenue	12.36%	12.30%
Bad Debt Amount	\$81,098,000	\$86,003,000
Bad Debt Percent of Net Revenue	5.96%	5.94%

In addition, the applicant states that neither UNC Hospitals nor any facilities or services owned by them within the past five years have been notified of any civil rights equal access complaints that had been filed.

The application is conforming to this criterion.

- (c) That the elderly and the medically underserved groups identified in this subdivision will be served by the applicant's proposed services and the extent to which each of these groups is expected to utilize the proposed services; and

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Due to the nature of the services involved in the proposed renovation, UNC Hospitals Children’s Surgery and Sedation Services, the criteria regarding access to these services by the elderly is not applicable. In regard to medically underserved groups, however, the applicant illustrates accessibility through its payor mix for these services in FY 2011 and as projected for FY 2016 in Section VI.13 and 14, page 67, as depicted in the following table:

UNC Hospitals Payor Mix		
% of Inpatient Days		
As Percent of Total Utilization		
	Combined Children’s Surgery and Sedation Center Cases FY 2011	Combined Children’s Surgery and Sedation Center Cases FY 2016
Self Pay / Indigent/Charity	1.2%	1.2%
Medicare/Medicare Managed Care	0.3%	0.3%
Medicaid	49.7%	49.7%
Commercial Insurance	0.4%	0.4%
Managed Care	32.7%	32.7%
Other	15.7%	15.7%
Total	100.0%	100.0%

Moreover, the applicant provides a copy of UNC Hospitals policy document entitled, “Patient Financial Assistance” in Exhibit 9 which states, in part, *“As part of its mission, UNC HCS provides care for residents of North Carolina who are uninsured or underinsured and do not have the ability to pay for medically necessary healthcare services.”*

The applicant demonstrated that medically underserved populations will have adequate access to the proposed services. Therefore, the application is conforming to this criterion.

- (d) That the applicant offers a range of means by which a person will have access to its services. Examples of a range of means are outpatient services, admission by house staff, and admission by personal physicians.

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In Section VI.9(a)(b), pages 64-65, the applicant states that patients at UNC Hospitals are *“either self-referred, or referred by their personal physicians or by a member of the medical staff at UNC Hospitals.”* In addition, the applicant provides a table identifying admission referral sources during FY 2011 that illustrates that over 89 percent of

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referrals come from admissions by family physicians, outpatient clinics, or from transfers from other hospitals. Referral sources include not only physicians, but facilities throughout the state as well.

The applicant adequately identified the range of means by which patients will have access to the proposed services. Therefore, the application is conforming to this criterion.

- (14) The applicant shall demonstrate that the proposed health services accommodate the clinical needs of health professional training programs in the area, as applicable.

C

In Section V.1(a), pages 90-91, the applicant provides documentation that UNC Hospitals will continue to serve as a clinical teaching site for a broad range of health care disciplines. The applicant states,

“The University of North Carolina at Chapel Hill is the only Academic Medical Center in North Carolina that has all 5 of the health professional schools with students actively learning at their affiliated teaching hospital. In addition, they serve as major foci for the residency and fellow training programs operated by UNC Hospitals and the School of Medicine at UNC-CH.”

In addition, there are a wide range of educational activities for faculty. These include, but are not limited to, patient rounds, resident-oriented conferences in other departments/schools, and community educational programs. There are also training opportunities for nursing students through the Clinical Partners Program whereby nursing students do clinical rotations. Clinical rotations are also provided for respiratory therapy students from Durham Technical College and Rockingham Community College. Moreover, UNC Hospitals' facilities are used for trainees from other in-state and out of state colleges and are available for community physicians and other allied health professionals to observe.

The information provided is reasonable and credible and supports a finding of conformity with this criterion.

- (15) Repealed effective July 1, 1987.
(16) Repealed effective July 1, 1987.
(17) Repealed effective July 1, 1987.
(18) Repealed effective July 1, 1987.
- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall

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demonstrate that its application is for a service on which competition will not have a favorable impact.

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See Sections II.7, III, V, and VI. In Section V.7, pages 59-60, and Exhibits 9 and 10, UNC Hospitals discusses cost-effectiveness, quality and access as they relate to the proposed project and its impact on competition in the service area. In particular, in Section V.7, pages 59-60, the applicant states how the proposed project will enhance competition in the proposed service area:

“This proposal is not specifically being developed to foster competition, rather the project is required to allow care-givers the opportunity to provide appropriate care to patients in a logical setting, and a more timely and efficient manner. The proposal is also designed to enable UNC Hospitals to continue to provide patient populations the best care possible, while also being responsive in a health care environment that emphasizes cost containment, efficient utilization of existing resources, coordination with managed care, and continued health care system development. Therefore, this proposal is developed to enhance patient care and allow UNC Hospitals to meet the demands encountered in today's environment.”

The information provided by the applicant in those sections is reasonable and credible and adequately demonstrates that the expected effects of the proposal on competition include a positive impact on cost-effectiveness, quality and access to children's surgery and sedation services in Orange County. This determination is based on the information in the application, and the following:

- ◆ The applicant adequately demonstrates the need to renovate existing space to consolidate children's surgery and sedation services at UNC Hospitals and that it is a cost-effective alternative;
- ◆ The applicant has and will continue to provide quality services; and
- ◆ The applicant has and will continue to provide adequate access to medically underserved populations.

Therefore, the application is conforming to this criterion.

- (19) Repealed effective July 1, 1987.
- (20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

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UNC Hospitals is accredited by the Joint Commission and certified for Medicare and Medicaid participation. According to the files in the Acute and Home Care Licensure and Certification

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Section, Division of Health Service Regulation, UNC Hospitals has not had substandard quality of care, nor any civil monetary penalties or administrative actions in the past 18 months immediately preceding the date of this decision. Therefore, the application is conforming to this criterion.

- (21) Repealed effective July 1, 1987.
- (b) The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

NA

The applicant proposes to renovate existing space to consolidate children's surgery and sedation services being provided at UNC Hospitals. No increases in acute care beds are proposed. Therefore, the Criteria and Standards for Acute Care Beds, promulgated in 10A NCAC 14C .3801, are not applicable to this review.