

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: August 14, 2017

Findings Date: August 14, 2017

Project Analyst: Bernetta Thorne-Williams

Team Leader: Lisa Pittman

Project ID #: J-11350-17

Facility: Holly Hill Specialty Hospital

FID #: 160196

County: Wake

Applicant(s): Holly Hill Hospital, LLC

Holly Hill Real Estate, LLC

Universal Health Services, Inc.

Project: Add 25 adult inpatient psychiatric beds on the Michael J. Smith campus pursuant to the need determination in the 2017 State Medical Facilities Plan for a total of 197 adult inpatient psychiatric, 60 child/adolescent inpatient psychiatric and 28 substance abuse beds upon completion of this project and Project I.D. # J-11168-16

### REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

N.C. Gen. Stat. §131E-183(a) The Agency 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 applicants, Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. (HHH) propose to develop 25 additional adult inpatient psychiatric beds at Holly Hill Specialty Hospital which is Holly Hill Hospital's Michael J. Smith campus, located on Michael J. Smith Lane, in Raleigh upon completion of this project and Project I.D. # J-11168-16.

The 2017 State Medical Facilities Plan (SMFP) contains a need methodology for determining the number of new adult psychiatric inpatient beds needed by service area. Application of the need methodology in the 2017 SMFP identified a need for 25 additional adult psychiatric inpatient beds in the area served by the Alliance Behavioral Healthcare local management entity-managed care organization (LME-MCO), which includes HSA IV and V and encompasses Cumberland, Durham, Johnston and Wake counties. The applicants do not propose to add more than 25 beds; therefore, the application is conforming to the need determination in the 2017 SMFP.

### **Policies**

There are two policies in the 2017 SMFP which are applicable to this review: Policy MH-1: Linkages between Treatment Settings and Policy GEN-3: Basic Principles.

*Policy MH-1*, states:

*“An applicant for a certificate of need for psychiatric, substance use disorder, or intermediate care facilities for individuals with intellectual disabilities (ICF/IID) beds shall document that the affected local management entity-managed care organization has been contacted and invited to comment on the proposed services.”*

Exhibit 4 contains a copy of a letter, dated April 24, 2017, from the Chief Executive Officer of Alliance Behavior Healthcare, the LME-MCO, supporting the proposed project. Therefore, application is conforming to Policy MH-1.

*Policy GEN-3: Basic Principles*, states:

*“A certificate of need applicant applying to develop or offer a new institutional health service for which there is a need determination in the North Carolina State Medical Facilities Plan shall demonstrate how the project will promote safety and quality in the delivery of health care services while promoting equitable access and maximizing healthcare value for resources expended. A certificate of need applicant shall document its plans for providing access to services for patients with limited financial resources and demonstrate the availability of capacity to provide these services. A certificate of need applicant shall also document how its projected volumes incorporate these concepts in meeting the need identified in the State Medical Facilities Plan as well as addressing the needs of all residents in the proposed service area.”*

### **Promote Safety and Quality**

In Section II.11, pages 26-27, and Section III.2, page 51, the applicants discuss how the project will promote safety and quality. Exhibit 10 contains a copy of the applicants' quality and safety related policies and procedures. The applicants adequately demonstrate how the proposal will promote safety and quality in the delivery of inpatient psychiatric services.

### Promote Equitable Access

In Section III.2, page 51, and Section VI, pages 62-66, the applicants discuss how the project will promote equitable access to psychiatric services. The applicants adequately demonstrate that the proposal will promote equitable access for medically underserved populations.

### Maximizing Healthcare Value

In Section III.2, page 52, the applicants state:

*“HHH will alleviate capacity constraints and reduce patient wait times in the community. Additional access to psychiatric inpatient beds will also reduce the strain on local emergency departments. Instead of languishing in an emergency department or observation unit, psychiatric patients can be appropriately admitted to an inpatient bed in a timelier manner. This reduces the total resources expended for each patient.*

*The proposed project is cost effective in that it leverages some of HHH’s existing staff and infrastructure to facilitate economies of scale.”*

The applicants adequately demonstrate the proposal will maximize healthcare value. See Criterion (3) for discussion regarding the need for the project which is incorporated herein by reference. See Criterion (5) for discussion regarding revenues and costs which is incorporated herein by reference. The application is conforming to Policy GEN-3.

### Conclusion

In summary, the application is conforming to Policy MH-1, Policy GEN-3, and the need determination in the 2017 SMFP for new adult psychiatric inpatient beds in the Alliance Behavioral Healthcare LME-MCO area (HSA IV and V). Therefore, the application 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.

### C

The applicants propose to develop 25 additional adult inpatient psychiatric beds on the Michael J. Smith campus, located on Michael J. Smith Lane, in Raleigh pursuant to the need determination in the 2017 SMFP upon completion of this project and Project I.D. # J-11168-16.

**Patient Origin**

On page 382, the 2017 SMFP defines the service area for psychiatric inpatient beds as “*the catchment area for the LME-MCO for mental health, developmental disabilities and substance use disorder services in which the bed is located.*” The LME-MCO for this project is Alliance Behavioral Healthcare which includes Cumberland, Durham, Johnston and Wake counties. Facilities may also serve residents of counties not included in their service area.

In Section III.4, page 55 and Section III.5, page 56, the applicants provide the current and projected patient origin, respectively, for adult psychiatric inpatient services during fiscal year (FY) 2016 and for the first two full fiscal years following project completion, as summarized below in the table.

<b>HHH Adult Psychiatric Inpatient Beds</b>		
	<b>Current Patient Origin FY 2016</b>	<b>Projected Patient Origin CY 2018 &amp; CY 2019</b>
<b>County</b>	<b>Percent of Total Patients</b>	<b>Percent of Total Patients</b>
Wake	49.6%	49.6%
Franklin	2.4%	2.4%
Mecklenburg	2.3%	2.3%
Harnett	2.2%	2.2%
Durham	2.3%	2.3%
Cabarrus	2.2%	2.2%
New Hanover	2.0%	2.0%
Cumberland	1.6%	1.6%
Davidson	1.4%	1.4%
Johnston	1.2%	1.2%
Vance	1.1%	1.1%
Lee	1.0%	1.0%
Granville	0.7%	0.7%
Other*	30.1%	30.1%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

\*The applicants provide a list of the counties included in the “Other” category (<1% patient origin) on page 55 of the application.

The applicants state on page 57, that projected patient origin is based on the most recent patient origin for adult inpatient psychiatric services at HHH. The applicants further state on page 57, that it does not anticipate a significant change in patient origin as a result of the proposed project.

The applicants adequately identify the population they propose to serve.

**Analysis of Need**

In Section III.1(a) and (b) of the application, pages 30-46 the applicants describe the factors which they state support the need for the proposed project, as follows:

- The 2017 SMFP need determination for 25 new adult psychiatric inpatient beds in the service area. (page 30)
- Psychiatric hospital bed reduction in North Carolina. State operated inpatient psychiatric beds decreased from 1,755 beds in FY 2001 to 892 in FY 2016. The applicants report that approximately 500 of the 863 (1,755 – 892 = 863) beds closure were part of an initiative to transfer beds from state operated facilities to less restrictive facilities within the community. (pages 30-31)
- Psychiatric patients receiving care in emergency departments has increased due to the decrease of state-operated adult psychiatric beds and the increase in the population for the area served by Alliance Behavioral Healthcare LME (Cumberland, Durham, Johnston and Wake counties). The average wait time for a person in the emergency department waiting to be transferred into a state operated hospital was 122.93 hours or 5.12 days in FY2017. The wait time for the Alliance Behavioral Healthcare LME service area was identified as being higher than the statewide average of 116.05 hours or 4.84 days. (page 32)
- Alliance Behavior Healthcare (ABH) LME-MCO catchment area includes Cumberland, Durham, Johnston and Wake counties which are high population-growth areas with large medical centers. As such, the area draws patients from outside the catchment area and many of the existing psychiatric inpatients facilities in the ABH area treat patients from outside the catchment area of Cumberland, Durham, Johnston and Wake counties. (page 33)

On page 34, the applicants provide a table which illustrates the four year compound average growth rate (CAGR) for adult psychiatric inpatient days of care at ABH LME-MCO facilities, as illustrated below.

<b>Fiscal Year</b>	<b>Adult Inpatient Days of Care</b>
2011	45,160
2012	65,542
2013	75,222
2014	90,295
2015	96,630
<b>4 year CAGR</b>	<b>20.9%</b>

The applicants state on page 34, that the waitlist for adult admissions to HHH varies between 15-40 patients per day. The average waitlist has about 20 patients per day. The applicants state this can vary also depending on gender and if a specific type of service is required. In 2016, HHH had to deflect 1,487 adult patients because an inpatient bed was not available.

- North Carolina’s mental health ranking. According to Mental Health America (MHA), North Carolina is ranked below the 50% percentile for key measures of mental illness prevalence and access. (page 38)
- High level of adult inpatient psychiatric utilization at HHH which has exceeded 100% occupancy since 2009, as illustrated below. (page 46)

On page 46, concerning adult psychiatric utilization at HHH, the applicants state the following:

*“The most recent four-year compound annual growth rate (CY12-CY16) for HHH’s adult inpatient (IP) psychiatric admissions is 19.6 percent. Despite development of 16 additional IP beds in CY2013 and 37 additional adult IP beds in 2015, HHH’s adult occupancy rate remained above 100 percent occupancy through CY 2015.*

*... HHH added 23 new adult IP beds in January 2016 (CON Project I.D. # J-10276-14). HHH’s adult inpatient capacity maxed out immediately upon implementation of these additional beds. ... In 2016, HHH deflected 1,487 adult patients because an inpatient bed was not available, which equates to an ADC of 35 patients not able to be admitted during the year...”*

In Section IV(a), page 58, the applicants provide historical utilization for the adult psychiatric inpatient beds for the six months immediately preceding the submittal of the application, as shown in the table.

<b>HHH ADULT PSYCHIATRIC INPATIENT BEDS MOST RECENT SIX MONTH UTILIZATION</b>			
<b>Month-Year</b>	<b>Beds</b>	<b>Days of Care</b>	<b>Occupancy</b>
November 2016	140	4,319	102.8%
December 2016	140	4,375	100.8%
January 2017	140	4,534	104.5%
February 2017	140	4,112	104.9%
March 2017	140	4,374	100.8%
April 2017	140	4,341	103.4%

As illustrated above, the applicants had a utilization of over 100% from November 2016 through April 2017. In Section II, page 29, the applicants state that the occupancy rate for all of its inpatient psychiatric beds (child/adolescent and adult) during the most recent six months (April 2016 – April 2017) was 100.5%. This exceeds the 75% utilization threshold required in 10A NCAC 14C .2603(a). (36,391 days of care / 181 days / 200 beds = 100.5% occupancy).

In Section IV.1(c), page 60, the applicants provide projected utilization for the 197 adult psychiatric inpatient beds (includes the current 140 beds, the 32 previously approved, but not yet operational beds in Project # I.D. #J-11168-16, and the 25 proposed beds) through the first two years of operation following completion of the project (CY2018-CY2019), which is summarized in the following tables.

<b>HHH ADULT PSYCHIATRIC INPATIENT BEDS PROJECTED UTILIZATION OY1 – CY2018</b>					
	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>	<b>Qtr 4</b>	<b>Total</b>
Licensed IP Psychiatric Beds	197	197	197	197	197
Admissions	1,685	1,685	1,685	1,685	6,740
Discharges	1,681	1,681	1,681	1,681	6,724
Patient Days of Care	14,295	14,295	14,295	14,295	57,178
Average Length of Stay (ALOS)	8.5	8.5	8.5	8.5	8.5
<b>Occupancy Rate</b>	<b>79.5%</b>	<b>79.5%</b>	<b>79.5%</b>	<b>79.5%</b>	<b>79.5%</b>
Total discharged patients readmitted at a later date					8.2%

<b>HHH ADULT PSYCHIATRIC INPATIENT BEDS PROJECTED UTILIZATION OY2 – CY2019</b>					
	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>	<b>Qtr 4</b>	<b>Total</b>
Licensed IP Psychiatric Beds	197	197	197	197	197
Admissions	1,780	1,780	1,780	1,780	7,120
Discharges	1,776	1,776	1,776	1,776	7,104
Patient Days of Care	15,100	15,100	15,100	15,100	60,400
Average Length of Stay (ALOS)	8.5	8.5	8.5	8.5	8.5
<b>Occupancy Rate</b>	<b>84.0%</b>	<b>84.0%</b>	<b>84.0%</b>	<b>84.0%</b>	<b>84.0%</b>
Total discharged patients readmitted at a later date					8.2%

As shown in the above table, the applicants project they will have an occupancy rate of 84.0% in OY2. Furthermore, in the pro forma assumptions, the applicants show that occupancy for the total licensed psychiatric beds is projected to be 89.0% no later than the fourth quarter of the second operating year (CY2019) which exceeds the utilization standards required in 10A NCAC 14C .2603(b). (197 adult beds + 60 child/adolescent beds = 257 beds; 257 beds x 365 days = 93,805 days. 83,522 days /93,805 days = 89.0% occupancy in OY2)

The applicants provide their three-step methodology in Section III.1, pages 47-50, as follows.

*“Step 1: Review Historical Utilization at HHH*

*[T]he utilization of adult psychiatric beds at HHH has exceeded 100 percent occupancy since 2009, ... as shown below.*

**HOLLY HILL HOSPITAL  
 ADULT INPATIENT PSYCHIATRIC UTILIZATION**

	<b>CY2009</b>	<b>CY2010</b>	<b>CY2011</b>	<b>CY2012</b>	<b>CY2013</b>	<b>CY2014</b>	<b>CY2015</b>	<b>CY2016</b>
Licensed Adult IP Beds	64	64	64	64	80	80	117	140
Admissions	2,888	3,098	3,097	3,235	3,930	5,152	5,325	6,041
Discharges	2,891	3,114	3,032	3,200	3,927	5,138	5,326	6,027
Patient Days	24,766	26,639	26,253	27,669	35,592	43,882	46,068	51,243
ALOS	8.6	8.6	8.7	8.6	9.1	8.5	8.6	8.5
% Occupancy	106.0%	114.0%	112.4%	118.4%	121.9%	150.3%	107.9%	100.3%

The applicants state that the demand for HHH’s adult inpatient services far exceeds the supply of inpatient beds. The applicants state that 32 additional approved adult beds are expected to be operational in January 2018. HHH’s CY2016 capacity based on its total number of licensed an approved beds would still be considered high at 81.6 percent ( $51,243 \div 365 \div (140 + 32) = 81.6\%$ ).

**Step 2: Project Utilization During Interim Project Years**

To project utilization during CY2017, the applicants project admissions will increase based on one-third of its four-year compound annual growth rate ( $16.9 \div 3 = 5.6$ ), which is reasonable when compared to the historical growth for HHH’s adult psychiatric inpatient services. On page 48 the applicants state it is reasonable to project that HHH will continue to operate above 100 percent occupancy based on its historical growth rate for inpatient psychiatric services.

HHH projects adult psychiatric ALOS based on CY2016 average length of stay for HHH patients which is 8.5 days. HHH calculates ALOS by dividing days of care by discharges, as shown below.

**Holly Hill Hospital  
 Interim Year Utilization – Adult Psychiatric Beds**

<b>Adult IP Psychiatric Beds</b>	<b>CY2017</b>
# Licensed Adult IP Psych Beds	140
Total # patients admitted	6,381
Total # patients discharged	6,366
Total # patient days of care	54,129
ALOS	8.5
% of Occupancy	105.9%

**Step 3: Project Utilization During Project Years**

The applicants state that HHH is the largest provider of inpatient psychiatric beds in Wake County and a lifeline for many patient and families in crisis. Based on its historical utilization for adult inpatient psychiatric services. HHH projects adult psychiatric inpatient admissions will increase based on one-third of its four-year compound annual growth rate of 5.6% during the initial three project years.

The following table shows a projected occupancy rate of 84% at HHH for project year (PY) 2, CY20219.

<b>HHH Projected Adult Inpatient Utilization</b>			
	<b>CY2018</b>	<b>CY2019</b>	<b>CY2020</b>
Licensed Adult IP Beds	197	197	197
Admissions	6,741	7,120	7,521
Discharges	6,725	7,104	7,504
Patient Days	57,178	60,399	63,801
ALOS	8.5	8.5	8.5
% Occupancy	79.5%	84.0%	88.7%

The applicants further state on page 50:

*“Every day approximately 15-40 adult patients are on the wait list for admission to HHH. ... HHH has continuously operated over 100 percent occupancy since 2009. In 2016, HHH deflected 1,487 adult patients for no bed which equates to an ADC of 35 (1,487 x 8.5 ALOS = 12,640 potential days of care ÷ 365 = 34.6) for the year.*

*In addition to the approved 32 additional psychiatric inpatient beds that are currently being developed, additional capacity is needed at HHH to meet the long term behavioral health needs of Wake County and surrounding communities. HHH has received letters of support from all three hospital providers in Wake County (UNC Rex, WakeMed, and Duke Raleigh Hospital), two other local hospitals, National Alliance on Mental Health (NAMI), local outpatient mental health counselors, State Senators and the Alliance Behavioral Healthcare LME.*

Projected utilization is based on reasonable and adequately supported assumptions. Therefore, the applicants adequately demonstrate the need to develop 25 additional adult psychiatric inpatient beds pursuant to the need determination in the 2017 SMFP.

**Access**

In Section VI.2, pages 67-68, the applicants state that HHH will provide services to all patients who meet the medical criteria and are age appropriate regardless of race, color, religion, sex, national origin, age, handicap or any other factors that would classify a patient as underserved. The applicants further state that in CY2016, Medicare patients represented 20.1% of their inpatient days of care, Medicaid represented 18.6% and self-pay or uninsured patients represented 3.9% (combined adult and child/adolescent). (see page 76)

The applicants adequately demonstrate the extent to which all residents of the area, including underserved groups, are likely to have access to the proposed services.

**Conclusion**

In summary, the applicants adequately identify the population to be served, demonstrate the need the population has for the project and demonstrate the extent to which all residents of the area, including underserved groups, are likely to have access to the proposed services. 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.

C

In Section III.3, pages 52-55, the applicants describe the alternatives considered prior to submitting the application for the proposed project, which include:

- Maintain the Status Quo – The applicants state that maintaining the status quo is not an effective alternative due to the need for community-based adult psychiatric inpatient beds which provide greater potential for patients to reintegrate into the community. The applicants also state that HHH has exceeded 100% occupancy since 2009 and cannot accommodate the growing need for behavioral health services as documented in Section III.1 in the application.
- Develop the Proposed Adult Psychiatric Beds in a Different Location – The applicants state this alternative was rejected because it would be less cost-effective due to land availability and the cost required to purchase additional land.
- Utilize Other IP Psychiatric Beds in Wake County – The applicants state that this not an effective choice to alleviate the need for beds at HHH. The applicants further state that the only other provider of adult IP psychiatric services in Wake County, UNCH WakeBrook, provides primarily intense acute inpatient services, as such HHH and UNCH WakeBrook serve different types of psychiatric patients. The 43 adult inpatient beds at Triangle Springs, are still under development (see Project I.D. # J-11036-15) and as are the 24 adult IP psychiatric beds at Strategic Behavior Center-Garner. (see Project I.D. #J-11030-15) The applicants state that even with the addition of those beds, the capacity will still be insufficient to meet the growing need for IP psychiatric beds in Wake County.
- Develop the Project as Proposed – The applicants conclude that adding an additional 25 adult IP psychiatric beds to the Michael J. Smith Lane campus (see Project I.D. #J-11168-16) is the most cost-effective alternative.

Furthermore, the application is conforming to all other statutory and regulatory review criteria, and thus, is approvable. A project that cannot be approved cannot be an effective alternative.

In summary, the applicants adequately demonstrate that the proposal is the least costly or most effective alternative to meet the identified need. Therefore, the application is conforming to this criterion and approved subject to the following conditions.

1. **Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall materially comply with all representations made in the certificate of need application.**
  2. **Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall develop no more than 25 adult psychiatric inpatient beds for a total of no more than 257 inpatient psychiatric beds (197 adult psychiatric beds and 60 child/adolescent beds) following completion of this project and Project I.D. #J-11168-16.**
  3. **Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall accept patients requiring involuntary admission for inpatient psychiatric services.**
  4. **Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Healthcare Planning and Certificate of Need Section in writing prior to issuance of the certificate of need.**
- (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

The applicants propose to develop 25 additional adult inpatient psychiatric beds on the Michael J. Smith campus, located on Michael J. Smith Lane, in Raleigh pursuant to the need determination in the 2017 SMFP upon completion of this project and Project I.D. # J-11168-16.

**Capital and Working Capital Costs**

In Section VIII, page 91, the applicants project the total capital cost of the proposed project will be \$1,132,494, as shown in the table below:

<b>HOLLY HILL SPECIALTY HOSPITAL PROJECT CAPITAL COST</b>	
<b>Description</b>	<b>Total Costs</b>
Construction Contract	\$578,239
Movable Equipment	\$359,521
Consultant Fees (including A&E)	\$28,180
Administrative & Legal Fees	\$53,000
Other	\$10,600
Contingency	\$102,954
<b>Total Capital Costs</b>	<b>\$1,132,494</b>

The applicants state on page 90, as the proposed 25 beds will occupy space within the Michael J. Smith facility, all site costs and landscaping costs were approved in Project I.D. #J-11168-16. In Section IX, page 96, the applicants state there will be no start-up or initial operating cost associated with the proposed project.

**Availability of Funds**

In Section VIII.2, page 92, the applicants state that the total capital cost will be funded with Universal Health Services’ (UHS) Revolving Credit Agreement. UHS is the parent company of Holly Hill Hospital, LLC. Exhibit 17 contains a letter dated April 28, 2017 from the Senior Vice President and Treasurer of UHS which documents its commitment to fund the proposed project and the availability of funds in its Revolving Credit Agreement. Exhibit 18 contains the unaudited consolidated financial statements for Universal Health Services, Inc. for the calendar years ending December 31, 2016 and 2015. As of December 31, 2016, UHS had \$33.7 million in cash and cash equivalents, \$10.3 billion in total assets, and \$4.5 billion in equity. The applicants adequately demonstrate the availability of sufficient funds for the capital needs of the project.

**Financial Feasibility**

The applicants provided pro forma financial statements for the first three full fiscal years of operation following completion of the project. In the pro forma financial statement (Form C), the applicants project that revenues will exceed operating expenses in the first three operating years of the project, as shown in the table below.

**Adult Inpatient Psychiatric Beds**

	<b>1<sup>st</sup> Full Fiscal Year CY2018</b>	<b>2<sup>nd</sup> Full Fiscal Year CY2019</b>	<b>3<sup>rd</sup> Full Fiscal Year CY202</b>
Total adult IP days of care	57,178	60,399	63,801
Total Gross Revenues (Charges)	\$91,485,479	\$96,638,679	\$102,082,148
Total Net Revenue	\$54,673,826	\$57,721,066	\$60,939,952
Average Net Revenue per IP day	\$993	\$993	\$993
Total Operating Expenses (Costs)	\$25,898,177	\$27,168,234	\$27,991,442
Average Operating Expense per IP day	\$1,600	\$1,600	\$1,600
Net Income	\$28,775,649	\$30,552,832	\$32,948,510

The assumptions used by the applicants in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See Sections X and XIII of the application for the assumptions used regarding costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. The applicants adequately demonstrate sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

### **Conclusion**

In summary, the applicants adequately demonstrate the financial feasibility of the project is based upon reasonable and adequately supported assumptions regarding projected utilization, revenues (charges) and operating costs. 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 applicants propose to develop 25 additional adult inpatient psychiatric beds on the Michael J. Smith campus, located on Michael J. Smith Lane, in Raleigh pursuant to the need determination in the 2017 SMFP upon completion of this project and Project I.D. # J-11168-16.

On page 382, the 2017 SMFP defines the service area for psychiatric inpatient beds as “*the catchment area for the LME-MCO for mental health, developmental disabilities and substance use disorder services in which the bed is located.*” The LME-MCO for this project is Alliance Behavioral Healthcare which includes Cumberland, Durham, Johnston and Wake counties. Facilities may also serve residents of counties not included in their service area.

According to the inventory of adult psychiatric beds in Table 15A of the 2017 SMFP (pages 3384-385), there are a total of 1,969 licensed adult psychiatric inpatient beds in the state, excluding beds in State Hospitals. In the applicants’ LME-MCO, Alliance Behavioral Health, there are nine hospitals with a total of 223 existing licensed adult psychiatric beds and 134 CON-approved, but not yet operational, adult psychiatric beds for a total of 357 adult inpatient beds, as illustrated below:

<b>ALLIANCE BEHAVIORAL HEALTHCARE LME-MCO ADULT PSYCHIATRIC IN-PATIENT BEDS</b>				
<b>Name of Facility</b>	<b>County</b>	<b>Licensed Beds</b>	<b>License Pending</b>	<b>Total Adult Inventory</b>
Cape Fear Valley Medical Center	Cumberland	28	0	28
Duke Regional Hospital	Durham	23	0	23
Duke University Medical Center	Durham	19	0	19
Veritas Collaborative*	Durham	0	0	0
Johnston Health	Johnston	20	0	20
Holly Hill Hospital	Wake	117	55	172
Strategic Behavioral Center-Garner**	Wake	0	24	24
Triangle Springs	Wake	0	43	43
UNC Hospitals at Wakebrook**	Wake	16	12	28
<b>Totals</b>		<b>223</b>	<b>134</b>	<b>357</b>

Source: 2017 SMFP, Table 15A, page 384.

\*Excludes 25 adult CON-approved beds for eating disorders (page 385 SMFP). These beds are not in the inventory used to project need for adult psychiatric inpatient beds.

\*\* CON - approved beds which are Policy PSY-1 bed transfers from State Psychiatric Hospitals.

In CY2015 utilization of adult psychiatric inpatient beds was 119% in the Alliance Behavioral Healthcare LME-MCO service area (96,630 days of care / 365 / 223 = 1.187 or 119%). See Tables 15A and 15B in the 2017 SMFP.

In Section III.1, pages 30-50, the applicants provide their assumptions and methodology used to project the need for 25 additional adult psychiatric inpatient beds per the need methodology published in the 2017 SMFP. The applicants discuss the psychiatric hospital bed reduction in the state, the increased number of psychiatric patients in hospital emergency departments, the growing population in Wake County, the high level of psychiatric utilization in Wake County and the greater than 100% occupancy at their existing facility. In Section III.1(a), page 30, the applicants state the development of the adult psychiatric inpatient beds as proposed will ease capacity constraints at HHH and improve the quality of behavioral health care in Wake County because the project will expand access to psychiatric inpatient care. In Section III.1(b), page 46, the applicants state that HHH utilization has exceeded 100.0% occupancy since 2009. In Sections V, pages 62-66 and VI, pages 67-71, the applicants discuss accessibility of HHH for medically unserved groups such as low income persons, racial and ethnic minorities, women, handicapped persons, elderly and other underserved persons including the medically indigent, the underinsured and uninsured.

Therefore, the applicants adequately demonstrate that the proposed project will not result in unnecessary duplication of existing or approved adult inpatient psychiatric services. Consequently, 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.

In Section VII.1, pages 79-80, the applicants state the entire staffing for HHH consists of 316.2 full time equivalent (FTE) staff. In Section VII.2, pages 81-82, the applicants provide the proposed incremental staffing for OY2 (CY2019) for the 57 adult psychiatric inpatient beds (32 beds approved in Project I.D.# J-11168-15 and the 25 beds proposed in the current application) at the Michael J. Smith campus of HHH, as illustrated below.

<b>HHH ADULT INPATIENT PSYCHIATRIC SERVICES CY2019 PROPOSED INCREMENTAL STAFFING</b>	
<b>Position</b>	<b>Proposed FTEs</b>
Nursing Administration	4.20
Psychiatrist*	1.00
Psychiatric Social Workers	2.00
Psychiatric Registered Nurses	8.40
Nursing Assistants/Aides/Orderlies	12.20
Clerical /Unit Secretaries	2.80
Medical Records	1.50
Dietary	1.50
Housekeeping & Laundry	0.70
Engineering/Maintenance	0.10
Security	0.25
Administration	1.99
Admissions/Intake/Remote Triage	1.00
Activity Therapy	0.50
<b>TOTAL</b>	<b>38.14</b>

\*Psychiatrist is on the medical staff, however, not employed by HHH

In Section VII.3, page 83, the applicants describe their experience and process for recruiting and retaining staff. In Section VII.8, page 89, the applicants identify Dr. Thomas Cornwall as the Medical Director for HHH. Dr. Cornwall is certified in psychoanalysis and has served as the Medical Director for HHH since 2007. Exhibit 3 contains a copy of a letter dated April 10, 2017 from Dr. Cornwall expressing his support for the project and willingness to continue to serve as Medical Director. Exhibit 14 of the application contains copies of letters from area physicians and other healthcare providers expressing support for the proposed project. The applicants adequately demonstrate the availability of sufficient health manpower and management personnel to provide the proposed services. Therefore, the application is conforming to this criterion.

- (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

HHH is an existing facility. In Section II.3, page 20, and Section II.9, pages 24-25, the applicants identify the providers of the necessary ancillary and support services. Exhibit 9 contains the applicants' *Plan for Professional Services/Provision of Care*. Exhibit 14 contains

letters of support from physicians and other health care providers. Exhibit 14 also contains letters of support from UNC Hospitals, WakeMed and Duke Raleigh Hospital. The applicants adequately demonstrate that the necessary ancillary and support services are available and that the proposed services will be coordinated with the existing healthcare 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.

C

The applicants propose to develop 25 additional adult inpatient psychiatric beds on the Michael J. Smith campus, in Raleigh pursuant to the need determination in the 2017 SMFP. In Project I.D. # J-11168-16, the applicants were approved to construct a new 44,710 square foot facility to be located at Michael J. Smith Lane in Raleigh. In the current application, the applicants propose to add the additional 25 adult inpatient psychiatric beds to the Michael J. Smith Lane campus with no change in the total square footage of the facility. Exhibit 13 contains the site plans for the Michael J. Smith lane campus, including the 25 additional adult psychiatric

inpatient beds proposed in this application. In Section VIII, page 91, the applicants project a total capital cost of \$1,132,494. Exhibit 12 contains a letter dated May 3, 2017 from an architect that estimates construction costs of \$1,132,494. In Section XI.7, pages 105-106, the applicants describe the methods that will be used by the facility to maintain efficient energy operations and contain the costs of utilities. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference. The applicants adequately demonstrate that the cost, design and means of construction represent the most reasonable alternative, and that the construction cost will not unduly increase costs and charges for health services. Therefore, the application is conforming to this criterion.

(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;

C

In Section VI.11, page 76, the applicants provide the current payor mix for all inpatient psychiatric beds (adult and child/adolescent) during calendar year 2016, as illustrated below.

<b>HHH INPATIENT PSYCHIATRIC BEDS CY2016</b>	
<b>Payor</b>	<b>Patient Days as % of Total</b>
Self-Pay/Indigent/Charity	3.9%
Medicare/Medicare Managed Care	20.1%
Medicaid	18.6%
Commercial Insurance/Managed Care/Blue Cross	39.7%
Local Government	17.7%
Total	100.0%

The United States Census Bureau provides demographic data for North Carolina and all counties in North Carolina. The following table contains relevant demographic statistics for the applicant's service area.

Percent of Population						
County	% 65+	% Female	% Racial & Ethnic Minority*	% Persons in Poverty**	% < Age 65 with a Disability	% < Age 65 without Health Insurance**
Wake	10%	51%	39%	12%	5%	14%
Franklin	15%	50%	37%	15%	11%	19%
Mecklenburg	10%	52%	51%	15%	6%	19%
Harnett	11%	51%	37%	21%	10%	19%
Durham	11%	52%	58%	17%	7%	18%
Cabarrus	13%	51%	31%	12%	7%	16%
New Hanover	16%	52%	23%	18%	9%	19%
Cumberland	11%	51%	55%	18%	11%	16%
Davidson	17%	51%	19%	17%	12%	18%
Johnson	12%	51%	31%	15%	10%	19%
Vance	16%	53%	59%	27%	19%	18%
Lee	15%	51%	42%	19%	10%	21%
Granville	15%	49%	42%	16%	15%	17%
Statewide	15%	51%	36%	17%	10%	15%

Source: <http://www.census.gov/quickfacts/table>, 2014 Estimate as of December 22, 2015.

\*Excludes "White alone" who are "not Hispanic or Latino"

\*\*"This geographic level of poverty and health estimates are not comparable to other geographic levels of these estimates. Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable... The vintage year (e.g., V2015) refers to the final year of the series (2010 thru 2015). Different vintage years of estimates are not comparable."

However, a direct comparison to the applicants' 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, women or handicapped persons utilizing health services.

The applicants demonstrate that they currently provide adequate access to medically underserved populations. 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

Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section VI.10, page 75, the applicants state:

*"HHH is a recipient of federal funds, and is compliant with all applicable federal regulations to insure continued access to these funds. HHH does not discriminate based on race, ethnicity, creed, color, gender, age, religion, national origin, disability, or ability to pay."*

In Section VI.9, page 74, the applicants state that no civil rights equal access complaints or violations were filed against HHH in the last five years. Therefore, 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

C

In Section VI.12, page 77, the applicants provide the projected payor mix for adult inpatient psychiatric beds for the second year of operation following project completion, as illustrated below.

<b>HHH ADULT INPATIENT PSYCHIATRIC BEDS CY2019</b>	
<b>Payor</b>	<b>Patient Days as % of Total</b>
Self-Pay/Indigent/Charity	5.5%
Medicare/Medicare Managed Care	28.2%
Medicaid	1.0%
Commercial Insurance/Managed Care/Blue Cross	40.5%
Local Government	24.8%
Total	100.0%

The applicants further state on page 77, that because HHH already offers these services, they project that the payor mix for adult inpatient psychiatric beds will be similar to CY2016 payor mix for those services.

On page 75, the applicants state:

*“HHH provides many community benefits as a corporate citizen. Included in the community benefits is provision of healthcare services without receiving reimbursement for services. HHH experienced write-offs for Medicare, Medicaid, Wake County and charity care patients during CY2016. As previously described, HHH has procedures in place to assist patients who are facing difficulty in paying for healthcare services, due to an absence of medical insurance coverage, or due to medical coverage which provides only minimal benefits.”*

As shown in the table above, the applicants project that 29.2% of all adult psychiatric inpatient days of care will be provided to recipients of Medicare and Medicaid; while another 24.8% of adult psychiatric inpatient days will be paid for by local government.

The applicants adequately demonstrate that the medically underserved population will have access to the services offered at HHH. 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.

C

In Section VI.8, page 73, the applicants describe the range of means by which a person will have access to the services offered at HHH, including physician referral, law enforcement, other medical providers and hospitals. Exhibit 5 contains HHH's *Patient Admission & Exclusion Policies*. The applicants adequately demonstrate that the facility will offer a range of means by which patients will have access to adult inpatient psychiatric 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, page 62, the applicants state that they will continue to accommodate the clinical needs of area health professional training programs. Exhibit 15 contains a copy of a clinical training agreement with Barton College. The applicants state that they have clinical training agreements with the UNC-CH Department of Psychology, Barton College School of Nursing, East Carolina University schools of Nursing and Social Work and ECPI School of Nursing. The information provided is reasonable and credible and supports a finding of conformity to 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 demonstrate that its application is for a service on which competition will not have a favorable impact.

C

The applicants, Holly Hill Hospital, LLC, Holly Hill Real Estate, LLC and Universal Health Services, Inc. (HHH) propose to develop 25 additional adult inpatient psychiatric beds on the Michael J. Smith campus, located on Michael J. Smith Lane, in Raleigh upon completion of this project and Project I.D. # J-11168-16.

On page 382, the 2017 SMFP defines the service area for psychiatric inpatient beds as “the catchment area for the LME-MCO for mental health, developmental disabilities and substance use disorder services in which the bed is located.” The LME-MCO for this project is Alliance Behavioral Healthcare which includes Cumberland, Durham, Johnston and Wake counties. Facilities may also serve residents of counties not included in their service area.

According to the inventory of adult psychiatric beds in Table 15A of the 2017 SMFP (pages 3384-385), there are a total of 1,969 licensed adult psychiatric inpatient beds in the state, excluding beds in State Hospitals. In the applicants’ LME-MCO, Alliance Behavioral Health, there are nine hospitals with a total of 223 existing licensed adult psychiatric beds and 134 CON-approved adult psychiatric beds for a total of 357 adult inpatient beds, as illustrated below:

<b>ALLIANCE BEHAVIORAL HEALTH LME-MCO ADULT PSYCHIATRIC INPATIENT BEDS</b>				
<b>Name of Facility</b>	<b>County</b>	<b>Licensed Beds</b>	<b>License Pending</b>	<b>Total Adult Inventory</b>
Cape Fear Valley Medical Center	Cumberland	28	0	28
Duke Regional Hospital	Durham	23	0	23
Duke University Medical Center	Durham	19	0	19
Veritas Collaborative*	Durham	0	0	0
Johnston Health	Johnston	20	0	20
Holly Hill Hospital	Wake	117	55	172
Strategic Behavioral Center-Garner**	Wake	0	24	24
Triangle Springs	Wake	0	43	43
UNC Hospitals at Wakebrook**	Wake	16	12	28
<b>Totals</b>		<b>223</b>	<b>134</b>	<b>357</b>

Source: 2017 SMFP, Table 15A, page 384.

\*Excludes 25 adult CON-approved beds for eating disorders (page 385 SMFP). These beds are not in the inventory used to project need for adult psychiatric inpatient beds.

\*\* CON - approved beds which are Policy PSY-1 bed transfers from State Psychiatric Hospitals.

The applicants report on page 46, that HHH’s occupancy rate in CY2016 for the 140 adult psychiatric inpatient beds was 100.3%. Furthermore, in CY2015 utilization of adult psychiatric inpatient beds was 119% in the Alliance Behavioral Healthcare LME-MCO service area (96,630 days of care / 365 / 223 = 1.187 or 119%). See Tables 15A and 15B in the 2017 SMFP.

In Section V.6, pages 64-66, the applicants discuss how any enhanced competition in the service area would have a positive impact on the cost-effectiveness, quality and access to the proposed services. The applicants state:

“... HHH is the largest provider of inpatient behavioral health services in Wake County, and has earned a reputation of being a high-quality health care provider. Additionally, HHH will continue to provide behavioral health services to medically indigent patients.  
 ...

Access - HHH’s behavioral health services are an important resource for medically underserved residents in Wake County and surrounding communities. Many physicians

*refer their patients to HHH who are medically indigent. Please refer to Exhibit 14 for letters of support from many of these physicians.*

*HHH has historically provided substantial care and services to the medically underserved. In particular, low income and medically underinsured persons will continue to have access to all services provided by HHH... Medicare patients represented over 20 percent of HHH inpatient days of care (combined adult and child/adolescent) in CY2016. Medicaid patients represented nearly 19 percent of HHH inpatient days of care (combined adult and child/adolescent) in CY2016. Self-pay or uninsured patients represented 3.9 percent of total patient days of care during CY2016.*

*Quality - ... HHH constantly reviews its data and processes to determine how it can improve the services it provides.*

*... HHH has existing Performance Improvement, Risk Management and Utilization Review Plans that it will continue to utilize upon completion of the proposed project to ensure safety and quality. Please refer to Exhibit 10...*

*Cost Effectiveness – HHH will alleviate capacity constraints and reduce patient wait times in the community. Additional access to psychiatric inpatient beds will also reduce the strain on local emergency departments. ... This reduces the total resources for each patient.*

*The proposed project is cost effective in that it leverages some of HHH's existing staff and infrastructure to facilitate economies of scale."*

See also Sections II, III, V, VI and VII where the applicants discuss the impact of the project on cost-effectiveness, quality and access.

The information in the application is reasonable and credible and adequately demonstrates that any enhanced competition in the service area includes a positive impact on cost-effectiveness, quality and access to the proposed services. This determination is based on the information in the application and the following analysis:

- ◆ The applicants adequately demonstrate the need for the proposed project and that it is a cost-effective alternative. The discussions regarding analysis of need and alternatives found in Criteria (3) and (4), respectively, are incorporated herein by reference.
- ◆ The applicants adequately demonstrate that they will continue to provide quality services. The discussion regarding quality found in Criteria (1) and (20) is incorporated herein by reference.
- ◆ The applicants demonstrate that they will continue to provide access to medically underserved populations. The discussion regarding access found in Criteria (1) and (13) is incorporated herein by reference.

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.

C

In Section II.12(a-c), pages 14-15, the applicants state that Universal Health Services, Inc. is the ultimate parent company of Holly Hill Hospital (Holly Hill Hospital and Holly Hill Child and Adolescent in Raleigh) and Holly Hill Real Estate, LLC, and is also the parent company of the corporate entities owning two other psychiatric facilities in North Carolina. The other two facilities are Brynn Marr Hospital in Jacksonville and Old Vineyard Behavioral Health in Winston-Salem. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, during the 18 months immediately preceding the submittal of the application through the date of the decision none of their facilities were found to be out of compliance with one or more Medicare conditions of participation. After reviewing and considering information provided by the applicant and by the Acute and Home Care Licensure and Certification Section and considering the quality of care provided at all three facilities, the applicants provided sufficient evidence that quality care has been provided in the past. 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.

C

The application is conforming to all applicable Criteria and Standards for Psychiatric Beds promulgated in 10A NCAC 14C .2600. The specific criteria are discussed below.

### **.2603 PERFORMANCE STANDARDS**

- (a) *An applicant proposing to add psychiatric beds in an existing facility shall not be approved unless the average occupancy over the six months immediately preceding the submittal of the application of the total number of licensed psychiatric beds within the facility in which the beds are to be operated was at least 75 percent.*
- C- In Section II, page 29, the applicants provide historical utilization for the total number of licensed psychiatric beds for a six month period from November 2016 to April 2017. HHH had a six-month average occupancy rate of 100.5% which exceeds the 75% average occupancy required by this Rule. This is based on 36,391 days of care / 181 days / by 200 beds (60 child/adolescent beds + 140 adult beds).

- (b) *An applicant proposing to establish new psychiatric beds shall not be approved unless occupancy is projected to be 75% for the total number of licensed psychiatric beds proposed to be operated in the facility no later than the fourth quarter of the second operating year following completion of the project.*
- C- In the pro formas, the applicants provide the projected total number of days for inpatient beds for the second operating year (CY2019) following completion of the project. The applicants' project utilization to be 89.03% during the second operating year (83,522 projected inpatient psychiatric days / (257 beds x 365 days) = 83,522 / 93,805 = 89.03%) which exceeds the 75% average occupancy required by this Rule.

The applicants' assumptions and methodology used to project utilization of the psychiatric beds are provided in Section III.1, pages 30-50. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.