

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: May 4, 2017

Findings Date: May 4, 2017

Project Analyst: Bernetta Thorne-Williams

Team Leader: Fatimah Wilson

Project ID #: J-11297-17

Facility: UNC Hospitals Radiology Oncology Hillsborough Campus

FID #: 090274

County: Orange

Applicant: University of North Carolina Hospitals at Chapel Hill

Project: Relocate one existing linear accelerator from the main campus to the Hillsborough campus, which is a cost overrun of Project I.D. #J-11035-15

### 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.

NA

The applicant, University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) proposes a cost overrun (COR) for Project I.D. #J-11035-15 which authorized the facility to relocate one existing linear accelerator from the main campus in Chapel Hill to its satellite campus in Hillsborough (both campuses are in Orange County). The certificate of need (CON) for Project I.D. #J-11035-15 authorized a capital cost of \$2,839,864. The proposed COR application is for a capital cost of \$4,227,714 for a total combined capital cost of \$7,067,578.

In Project I.D. #J-11035-15, the applicant projected occupancy and offering of services by July 1, 2017. In the cost overrun application, the applicant projects occupancy and offering of services by July 1, 2019. There is no material change in scope from the originally approved project in this application.

### **Need Determination**

The proposed project does not involve the addition of any new health service facility beds, services or equipment for which there is a need determination in the 2017 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations applicable to this review.

### **Policies**

Policy GEN-3: BASIC PRINCIPLES, page 33, of the 2017 SMFP is not applicable to this review nor was it applicable in Project I.D. # J-11035-15. However, there is one policy in the 2017 SMFP which is applicable to this review, Policy GEN-4, on page 33 of the 2017 SMFP. 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, Certificate of Need shall impose a condition requiring the applicant to 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.”*

The proposed capital expenditure for this cost overrun project is greater than \$2 million and less than \$5 million.

In Section B.11, pages 29-30, the applicant states:

*“UNC Hospitals will develop and implement an Energy Efficiency and Sustainability plan for the proposed 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.”*

See page 30, for a detailed discussion of the applicant’s energy efficiency and water conservation plan. Additionally, the application was consistent with Policy GEN-4 in Project I.D. #J-11035-15. The applicant proposes no changes in the current application that would affect that determination.

### **Conclusion**

In summary, the proposed project does not involve the addition of any new health service facility beds, services or equipment for which there is a need determination in the 2017 State SMFP. The applicant adequately demonstrates that the proposal is consistent with Policy GEN-4. 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 application for Project I.D. #J-11035-15 was initially denied on August 25, 2015 which led to a subsequent appeal. After receiving supplemental information from the applicant, the Agency entered into a settlement agreement and the petition was withdrawn. Effective October 1, 2015, UNC Hospitals was issued a CON for Project I.D. #J-11035-15 which authorized the hospital to relocate one existing linear accelerator from the main campus to the Hillsborough campus. This project was a change of scope from Project I.D. # J-8330-09. Project I.D. #J-11035-15 was approved for a total capital cost of \$2,839,864. The applicant projected offering of services by July 1, 2017 for the relocated linear accelerator. In the current application, the applicant projects the linear accelerator to be operational on March 1, 2019 which is approximately two years after the identified operational date in Project I.D. #J-11035-15.

The current CON application is for a cost overrun. The total capital cost is now projected to be \$7,067,578 which is an increase of \$4,227,714 [ $\$7,067,578 - \$2,839,864 = \$4,227,714$ ] or 148.87% [ $\$4,227,714/\$2,839,864 = 148.87\%$ ] of the approved capital cost.

**Patient Origin**

On page 125, the 2017 SMFP states: “A linear accelerator’s service area is the linear accelerator planning area in which the linear accelerator is located.” Orange County is located in Service Area 14 which also includes Chatham County. (See page 133 of the 2017 SMFP). Thus, the service area for this project consists of Orange County. Facilities may also serve residents of counties not included in their service area. The applicant projects no change in the population projected to be served from its original application, Project I.D. #J-11035-15.

**Analysis of Need**

The following table compares the previously approved capital cost and the proposed capital cost, as reported in Section C, pages 39-41 and in Section Q, of this application.

<b>UNC Hospitals – Hillsborough Campus PREVIOUSLY APPROVED AND PROPOSED CAPITAL COSTS</b>			
	<b>Previously Approved Cost</b>	<b>Proposed Cost</b>	<b>Difference</b>
<b>Site Preparation Costs</b>	\$62,707	\$201,500	\$138,793
<b>Construction Costs</b>	\$2,555,980	\$3,840,433	\$1,284,453
<b>Miscellaneous Costs (includes):</b>	\$221,177	\$897,064	\$675,889
Equipment Relocation	\$70,000	\$50,000	\$-20,000
Landscaping	\$36,177	\$57,000	\$20,823
Architect/Engineering Fees	\$115,000	\$790,064	\$675,064
<b>Medical Equipment</b>	\$0	\$2,100,611	\$2,100,611
<b>Furniture</b>	\$0	\$27,970	\$27,970
<b>Total Capital Costs</b>	<b>\$2,839,864</b>	<b>\$7,067,578</b>	<b>\$4,227,714</b>

The applicant seeks approval for an increased capital cost due to unanticipated cost in several areas including construction and medical equipment costs. In Section C, page 39, the applicant discusses the reasons for the increase in site preparation, construction and landscaping costs, as follows:

*“The previously approved cost ... was based on market conditions at the time. The total ... costs ... in this ... application are based on actual, current bids rather than design estimate.”*

On page 39, the applicant states the reason for an increase in architect/engineering fees is based on actual, current cost of professional fees instead of on an estimate from the project architect. On page 40, the applicant states the following about medical equipment costs:

*“Medical equipment costs were not included in the previously approved application. The total cost for medical equipment (fixed and movable combined) in this cost overrun application is estimated to be \$2,100,611. The previously approved project involved the relocation of one existing linear accelerator from UNC Hospitals’ main campus to UNC Hospitals’ Hillsborough campus. However, the existing Siemens linear accelerator that was slated to be relocated ... has become increasingly unreliable ... to the point that it will almost certainly experience irreparable failure shortly after installation at the Hillsborough campus. Further compounding this concern is the fact that Siemens no longer manufactures linear accelerators and will not guarantee support on existing units of equipment beyond 2020. ...*

*As a result, UNC Hospitals determined that a more effective alternative is to replace the existing Siemens linear accelerator for direct installation on the Hillsborough campus ... As such, the existing Siemens linear accelerator will not be relocated to the Hillsborough campus, but rather will be removed from service when the replacement equipment is acquired and installed in Hillsborough. UNC Hospitals intends to replace the existing Siemens unit with an Elekta Infinity ...*

*The proposed project also involves the acquisition of moveable equipment not included in the previously approved application. ... UNC recognized the need to acquire certain equipment elements required to ensure quality assurance in operating the linear accelerator off-site ... These quality assurance elements include an ionization chamber, solid water, and tools used for daily calibration.”*

Additionally, on page 40, the applicant identifies a need for additional furniture that was not included in Project I.D. # J-11035-15. On page 41, the applicant discusses the \$20,000 decrease in costs for fixed equipment relocation from \$70,000 in the previously approved application to \$50,000 in the current application.

#### Projected Utilization

In the current application, the applicant states the following:

*“The proposed project is expected to become operational on March 1, 2019, or eight months after the start of FY 2019. As a baseline assumption, UNC Hospitals projects FY 2019 patient treatment volume to increase 2.5 percent from FY 2018.*

*UNC Hospitals projected utilization for its Hillsborough campus assuming that it would only serve outpatients (excluding CyberKnife) and that it would begin operation on March 1, 2019. Further, UNC hospitals assumed that in the initial ramp up, the Hillsborough linear accelerator will represent 17 percent of UNC Hospitals’ Orange County linear acceleratory capacity (17 percent = one linear accelerator ÷ six total Orange County linear accelerators). UNC Hospitals believes that outpatient linear accelerator treatments will be generally spread across its Orange County sites based on available capacity such that it is reasonable to assume that 15 percent of outpatient volume will be treated at Hillsborough. Please note that this 15 percent of total distribution to Hillsborough campus is assumed for the initial year and that UNC Hospitals believes that the utilization at its Hillsborough campus will ramp up in subsequent years.”*

The applicant provides its projected utilization in Section Q for the Hillsborough Campus, as illustrated below.

<b>UNCH Hillsborough Campus Projected Linear Accelerator Utilization FY2019-FY2022</b>		
<b>Year</b>	<b># of Units</b>	<b>ESTV* Procedures</b>
FY 2019	1	1,257
FY2020	1	3,913
FY2021	1	4,119
FY2022	1	4,119
*ESTVs = equivalent simple treatment visits.		

As indicated in the table above, the applicant projects it will perform 4,119 ESTVs on its proposed Hillsborough linear accelerator following completion of the project.

Additionally, in Section Q, the applicant provides the projected utilization for all its linear accelerators, as illustrated below:

<b>Patient Treatments for UNC Hospitals Locations</b>							
	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
<b>Chapel Hill</b>	24,713	25,331	25,964	25,387	26,022	26,672	27,339
<b>Hillsborough</b>				1,257	3,913	4,119	4,119
<b>Holly Springs</b>			772	3,498	5,161	6,487	6,649
<b>Total Patient Treatment</b>	24,713	25,331	26,736	30,142	35,095	37,278	38,107
Total ESTVs	34,943	35,816	37,803	42,619	49,622	52,709	53,881

Projected utilization in Project I.D. # J-11035-15 was found to be based on reasonable and supported assumptions and the applicant proposes no changes in the current application that would affect the determinations.

The original project scope will not change nor will the population to be served; including access by underserved groups. The applicant's representations regarding the need for an additional capital expenditure to develop the proposed project is reasonable and adequately supported.

### **Access**

In the previously approved application, Project I.D. # J-11035-15, Section VI.2, page 86, the applicant stated the residents of the service area would have access to the proposed services, including those residents who were low income persons, racial and ethnic minorities, women, handicapped persons, the elderly and other underserved groups. The applicant further stated in Section VI.14, page 96 that 12.2% of its treatments were projected to be provided to Medicaid recipients and 41.5% were projected to be provided to Medicare beneficiaries. In Section L, page 66, of the current application, the applicant states that the information concerning access does not differ from the information provided in the previously approved application.

### **Conclusion**

In summary, in the original application and supplemental materials, the applicant adequately identified the population to be served, demonstrated the need to relocate an existing linear accelerator and the extent to which all residents of the service area, including underserved groups, are likely to have access to its services. However, the applicant underestimated the capital cost necessary to complete the project. In this application, the applicant adequately demonstrates the need for the proposed cost overrun. Consequently, the cost overrun 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 C, pages 39-41, the applicant discusses the need for the cost overrun application. In Section E, page 45, the applicant discusses the alternatives considered prior to the submission of this application, which include:

- 1) Not Developing the Project – The applicant states this was not a viable option because the Hillsborough campus is in need of a linear accelerator in order to expand geographic access to the residents and surrounding communities that lack convenient local access to radiation oncology services. Approval of Project I.D. # J-11035-15 affirmed the need for radiation oncology services in Hillsborough and its surrounding area. Therefore, this option was not considered to be an effective alternative.
- 2) Relocate the linear accelerator without replacing it – the applicant states the current linear accelerator is not reliable. Therefore, this option was not considered to be an effective alternative.
- 3) Submit the COR Application – the applicant determined this was its most effective and least costly alternative to ensure radiation oncology services in Hillsborough and its surrounding area.

The applicant adequately demonstrates that the proposed alternative is the most effective and least costly alternative to meet the previously identified need for a linear acceleratory on the Hillsborough campus.

Furthermore, the application is conforming to all other statutory review criteria. Therefore, the application is approvable. An application that cannot be approved is not an effective alternative.

In summary, the applicant adequately demonstrates that its 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. University of North Carolina Hospitals at Chapel Hill shall materially comply with all the conditions of approval on the certificate of need for Project I.D. #J-11035-15, supplemental materials, and this application. Where representations made in this application and the original application differ, the University of North Carolina Hospitals at Chapel Hill shall materially comply with the representation made in this application.**
- 2. The total approved capital expenditure for both Project I.D. # J-11035-15 and Project I.D. # J-11297-17 is \$7,067,578.**
- 3. University of North Carolina Hospitals at Chapel Hill shall not acquire, as part of this project, any equipment that is not included in the project's proposed capital expenditure in Section Q of the application that would otherwise require a certificate of need.**
- 4. University of North Carolina Hospitals at Chapel Hill shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency 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 proposed project is for a cost overrun for Project I.D. # J-11035-15. The total capital cost is projected to be \$7,067,578 which is an increase of \$4,227,714 [ $\$7,067,578 - \$2,839,864 = \$4,227,714$ ] or 148.87% [ $\$4,227,714 / \$2,839,864 = 148.87\%$ ] of the approved capital cost.

**Capital and Working Capital Costs**

The applicant provides the projected capital cost in Section Q. The applicant did not project start-up expenses or initial operating expenses in Project I.D. # J-11035-15 nor does the applicant project those charges in this application as UNC Hospitals Radiology Oncology, Hillsborough Campus is an existing facility.

**Availability of Funds**

In Section F, page 51, the applicant states that the total capital cost will be funded by UNC Hospitals' accumulated reserves which is consistent with the previously approved application. Exhibit F.5.1 contains a February 15, 2017 letter signed by the Executive Vice President and Chief Financial Officer for UNC Hospitals, which states:

*"... The total capital expenditure associated with this cost overrun is estimated to be \$4,227,714. ... There are no start-up costs related to this project.*

*UNC Hospitals will fund the capital cost from existing accumulated cash reserves. ..."*  
...

In Section Q.5, the applicant provides the audited financial statements for UNC Hospitals for the year ending June 30, 2016. As of June 30, 2016, UNC Hospitals had \$190,080,877 in cash and cash equivalents and \$1,311,716,613 in total net assets (total assets less total liabilities). The applicant adequately demonstrates the availability of sufficient funds for the capital needs of the cost overrun proposal.

**Financial Feasibility**

In the original application, Project I.D. # J-11035-15, Form C of the pro forma financial statements, pages 128-129, the applicant projected that Radiation Oncology revenues would exceed operating expenses in each of the first three full fiscal years, as illustrated in the table below.

<b>UNC Hospitals - Radiation Oncology Services</b>			
	<b>FY2018 Year 1</b>	<b>FY2019 Year 2</b>	<b>FY2020 Year 3</b>
Total Revenue	\$43,287,507	\$48,459,160	\$52,505,396
Total Expenses	\$24,999,762	\$25,663,823	\$23,319,019
Net Income (Loss)	\$18,287,745	\$22,795,337	\$26,186,377

In Section Q, Form F.4 of the current application, the applicant also projects that revenues for Radiation Oncology Services will exceed operating expenses in each of the first three years of the project, as illustrated in the table below.

<b>UNC Hospitals Radiation Oncology Services</b>	<b>Project Year 1 7/1/19- 6/30/20</b>	<b>Project Year 2 7/1/20- 6/30/21</b>	<b>Project Year 3 7/1/21- 6/30/22</b>
Projected # of Treatments	35,095	37,278	38,107
Projected Average Charge per Treatment	\$ 5,168	\$ 5,426	\$ 5,698
Gross Patient Revenue	\$ 181,369,449	\$ 202,283,698	\$ 217,121,141
Deductions from Gross Patient Revenue	\$ 115,245,281	\$ 128,534,556	\$ 137,962,523
Net Patient Revenue	\$ 66,124,168	\$ 73,749,142	\$ 79,158,618
Total Expenses	\$ 29,752,622	\$ 30,334,067	\$ 30,865,796
Net Income	\$ 36,371,547	\$ 43,415,075	\$ 48,292,822

\* Source: Pro Forma Financial Statements' Form F.4, Form F.5

The applicant also projects a positive net income for the entire UNC Hospitals System in each of the first three operating years of the project as illustrated in Form F.3 in the Pro Forma section of the application.

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See the related assumption notes in the Pro Forma Section for the assumptions regarding costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. The applicant adequately demonstrates the availability of sufficient funds for the operating needs of the project and that the financial feasibility of the proposal is based upon reasonable and adequately supported assumptions regarding projected utilization, revenues (charges), and operating costs.

### **Conclusion**

In summary, the applicant adequately demonstrates that sufficient funds will be available for the capital needs of the project. Furthermore, the applicant adequately demonstrates that the financial feasibility of the proposal 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

In Project I.D. # J-11035-15 and supplemental information, the applicant was approved to relocate one existing linear relocate from the main campus of UNC Hospitals to the Hillsborough campus. In this application, the applicant proposes to replace the existing linear accelerator with new equipment and have it directly installed into the Hillsborough campus facility.

On page 125, the 2017 SMFP states: “*A linear accelerator’s service area is the linear accelerator planning area in which the linear accelerator is located.*” Orange County is located in Service Area 14 which also includes Chatham County. (See page 133 of the 2017 SMFP). Thus, the service area for this project consists of Orange County. Facilities may also serve residents of counties not included in their service area. The applicant projects no change in the population projected to be served from its original application, Project I.D. #J-11035-15.

In Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and no significant changes are proposed in this application that affect that determination. Consequently, the cost overrun 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 H, page 56, the applicant states:

*“The information ... does not differ from the information provided in the previously approved application.”*

In Section VII.1, pages 97-98, of the previously approved application the applicant provided the current staffing for FY 2014 and the projected staffing for its radiation oncology services for operating year 2 (OY) FY2018, as illustrated below.

<b>UNC Hospitals - Radiation Oncology Staffing</b>		
<b>Position</b>	<b>Current Staffing</b>	<b>Proposed Staffing Year 2</b>
Administrative Support	11.30	12.7
Clinical Support	1.11	3.04
Dosimetrist	6.93	8.10
Nurse	7.46	9.51
Tech	17.32	20.01
Tech Supervisor	1.00	1.00
Physicist	4.23	4.50
Manager	0.48	1.00
<b>TOTAL</b>	<b>49.83</b>	<b>59.86</b>

In the previously approved application in Section VII.8, page 102, the applicant identified Lawrence B. Marks, M.D. as the Medical Director. Therefore, the applicant adequately demonstrated the availability of sufficient health manpower and management personnel to provide for the proposed services. Thus, in Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination. Consequently, the cost overrun 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

In Section I, page 57, the applicant states:

*“The information ... does not differ from the information provided in the previously approved application.”*

In Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination. Consequently, the cost overrun 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

In Section K, page 62, the applicant states:

*“The information ... does not differ from the information provided in the previously approved application.”*

In Section XI, pages 117-119, of the previously approved application the applicant proposed relocating the Siemens Artiste linear accelerator to its Hillsborough Campus. In this application, due to the age and unreliability of the existing linear accelerator, the applicant proposes replacing the Siemens Artiste linear accelerator with a new Elekta Infinity. See Section C, pages 39-40, for a discussion of the increase in construction/renovation costs and the need to replace the existing linear accelerator associated with this COR application. The replacement linear accelerator will be directly installed in Hillsborough and the existing Siemens Artiste linear accelerator will be removed from service. The discussion regarding the need for this COR application in Criterion (3) is incorporated herein by reference.

This application for a COR seeks approval for increased capital cost of the project only, resulting from cost adjustments involving renovation and equipment replacement. The original project scope will not be changed. In Section C, pages 39-41 and in Section Q, the applicant compares the previously approved capital cost and the proposed capital cost, as illustrated below.

<b>UNC Hospitals – Hillsborough Campus PREVIOUSLY APPROVED AND PROPOSED CAPITAL COSTS</b>			
	<b>Previously Approved Cost</b>	<b>Proposed Cost</b>	<b>Difference</b>
<b>Site Preparation Costs</b>	\$62,707	\$201,500	\$138,793
<b>Construction Costs</b>	\$2,555,980	\$3,840,433	\$1,284,453
<b>Miscellaneous Costs (includes):</b>	\$221,177	\$897,064	\$675,889
Equipment Relocation	\$70,000	\$50,000	\$-20,000
Landscaping	\$36,177	\$57,000	\$20,823
Architect/Engineering Fees	\$115,000	\$790,064	\$675,064
<b>Medical Equipment</b>	\$0	\$2,100,611	\$2,100,611
<b>Furniture</b>	\$0	\$27,970	\$27,970
<b>Total Capital Costs</b>	<b>\$2,839,864</b>	<b>\$7,067,578</b>	<b>\$4,227,714</b>

The applicant adequately demonstrates that the cost, design and means of construction represent the most reasonable alternative and that the construction costs will not unduly increase the costs and charges of the proposed services. The discussion regarding costs and charges in Criterion (5) is incorporated herein by reference. 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 Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination. Consequently, the cost overrun 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 Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination. Consequently, the cost overrun 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 Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination. Consequently, the cost overrun 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 Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination. Consequently, the cost overrun 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 Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination. Consequently, the cost overrun application is conforming 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

In Project I.D. # J-11035-15 and supplemental information the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination. Consequently, the cost overrun 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 O, page 69, the applicant states:

*“The response has not changed from the information provided in the previously approved application.”*

In Project I.D. # # J-11035-15, in Section I.12(c), page 16, the applicant reported that UNC Hospitals currently owns, leases, or manages seven hospitals in North Carolina. In the current application in Exhibit O.2, the applicant provides a letter dated February 15, 2017 from the President of UNC Hospitals, which states:

*“... UNC Hospitals, including its Hillsborough campus, is currently licensed by the North Carolina Department of Health and Human Services, Division of Health Service Regulation, Acute and Home Care Licensure and Certification Section as a general acute care hospital. Please accept this letter as documentation that UNC Hospitals meets all relevant licensure requirements.*

*UNC Hospitals, including its Hillsborough campus, is approved for participation in the Medicare and Medicaid programs. Please accept this letter as documentation that the*

*UNC Hospitals meets all requirements for certification and participation in the Medicare and Medicaid programs.”*

According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents occurred within the eighteen months immediately preceding submission of the application through the date of this decision, for which any sanctions or penalties related to quality of care were imposed by the State on the psychiatric facilities owned and operated by the applicant in North Carolina. 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 the facilities, the applicant provides sufficient evidence that quality care has been provided in the past and adequately demonstrates that there is no pattern of substandard quality of care. 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