

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: May 25, 2018

Findings Date: May 25, 2018

Project Analyst: Bernetta Thorne-Williams

Assistant Chief: Lisa Pittman

Project ID #: P-11458-18

Facility: Wayne Memorial Hospital

FID #: 933535

County: Wayne

Applicant: Wayne Memorial Hospital, Inc.

Project: Cost overrun of Project I.D. # P-11050-15 (expand and renovate surgical and endoscopy services including one dedicated C-section OR, one hybrid OR, two outpatient ORs and ten shared ORs) and Project I.D. # P-7554-06 develop a multi-specialty ambulatory surgical facility with 3 ORs (one new OR and two ORs relocated from the hospital)

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, Wayne Memorial Hospital, Inc. (WMH) proposes a cost overrun (COR) for Project I.D. # P-11050-15 which authorized the facility to expand and renovate space at its main hospital campus related to the provision of surgical and endoscopy services which was a change of scope for Project I.D. #P-7554-06 (add one operating room) and develop two new hybrid operating rooms. The certificate of need (CON) for Project I.D. # P-11050-15

authorized a capital cost of \$34,413,233. The proposed COR application is for a capital cost of \$13,580,577 for a total combined capital cost of \$47,993,810.

In Project I.D. # P-11050-15, the applicant projected occupancy and offering of services by September 15, 2018. In the cost overrun application, the applicant projects occupancy and offering of services by September 15, 2019. There is no material change in scope from the originally approved project in this application, however, the applicant is developing only one hybrid OR, not two as originally approved in Project I.D. # P-11050-15.

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 2018 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 2018 SMFP is not applicable to this review nor was it applicable in Project I.D. # P-11050-15. However, there is one policy in the 2018 SMFP which is applicable to this review and it was also applicable in # P-11050-15, Policy GEN-4, on page 33 of the 2018 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 \$5 million.

In Section B.11, page 29, the applicant states, “*Wayne UNC is committed to energy efficiency and sustainability that balances the need for healthcare services and environmental sustainability in the communities it serves. The project’s plan to assure improved energy and water conservation in accordance with Policy GEN-4 requirements is discussed below.*” See pages 29-30, for a detailed discussion of the applicant’s energy efficiency and water conservation plan. The applicant adequately demonstrates that the application includes a written statement describing the project’s plan to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion because the applicant demonstrates conformity with Policy GEN-4.

- (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

Effective November 17, 2015, Wayne Memorial Hospital was issued a CON for Project I.D. #P-11050-15 which authorized the hospital to expand and renovate space at its main hospital campus related to the provision of surgical and endoscopy services. This project was a change of scope from Project I.D. # P-7554-06 (develop a multi-specialty ambulatory surgical facility with three operating rooms (ORs) (1 new OR and 2 ORs relocated from the hospital) with a certificate of need effective date of March 30, 20017. Pursuant to a declaratory ruling dated November 29, 2011, the one new OR would be developed at the Wayne Memorial Hospital.

Project I.D. # P-11050-15 was approved for a total capital cost of \$34,413,233. The applicant projected offering of services by September 15, 2018. In the current application, the applicant projects offering of services by September 15, 2019 which is one year after the identified operational date in Project I.D. P-11050-15.

The current CON application is for a cost overrun of Project I.D. # P-11050-15. The total capital cost is now projected to be \$47,993,810 which is an increase of \$13,580,577 [$\$47,993,810 - \$34,413,233 = \$13,580,577$] or 139.46% [$\$47,993,810/\$34,413,233 = 139.46\%$] of the approved capital cost.

Patient Origin

In Project I.D. # P-11050-15, the applicant proposed to expand and renovate space at its main hospital campus related to the provision of surgical and gastrointestinal (GI) endoscopy services. This proposal also involved a change of scope for Project ID#P-7554-06 (add one operating room) and the acquisition of two angiographic endovascular imaging systems to develop two hybrid ORs in renovated OR space and new construction on the ground floor of WMH.

In Project I.D. #P-11050-15 the applicant identified the projected patient origin for the proposed services in Section III.5(c), page 84, as illustrated below.

WMH Projected Patient Origin OR and GI Endoscopy Project Years 1 & 2		
County	Projected OR Patient Origin (PY 1 & 2)	Projected GI Endoscopy Patient Origin (PY 1 & 2)
Wayne	78.2%	86.0%
Lenoir	7.2%	3.6%
Johnston	5.0%	2.7%
Duplin	3.2%	2.8%
Sampson	2.5%	2.2%
Other*	3.8%	2.7%
Total	100.0%	100.0%
*Other includes additional counties in North Carolina and other states as listed in Section III.5(c), page 84. Note: totals may not foot due to rounding.		

On page 38 of the current application, the applicant projects no change in the population projected to be served from its original application, Project I.D. #P-11050-15.

Analysis of Need

The following table compares the previously approved capital cost and the proposed capital cost, as reported in Section C, pages 40-41 and in Section Q, of this application.

Wayne Memorial Hospital PREVIOUSLY APPROVED AND PROPOSED CAPITAL COSTS			
	Previously Approved Cost	Proposed Cost	Difference
Site Preparation Costs	\$661,500	\$1,529,600	\$868,100
Construction Costs	\$20,975,031	\$27,461,641	\$6,486,610
Miscellaneous Costs (includes):	\$1,361,304	\$1,350,304	(\$11,000)
Site Inspection/Survey	\$15,000	\$7,600	(\$7,400)
Legal Fees/Subsoil Investigation	\$6,900	\$3,300	(\$3,600)
Architect/Engineering Fees	\$1,339,404	\$1,339,404	\$0
Fixed Equipment	\$6,830,372	\$10,487,767	\$3,657,395
Movable Equipment	\$1,128,756	\$1,865,373	\$736,617
Furniture	\$1,057,145	\$1,000,000	(\$57,145)
Financing Costs	\$586,450	\$586,450	\$0
Interest During Construction	\$1,812,675	\$1,812,675	\$0
Contingency		\$1,900,000	\$1,900,000
Total Capital Costs	\$34,413,233	\$47,993,810	\$13,580,577

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 40, the applicant discusses the reasons for the increase in construction costs, as follows:

“[T]he primary factor contributing to the cost overrun is an underestimation of construction costs in the architect’s certified cost estimates in the previously approved CON application. Specifically, the architect estimated construction costs at \$235 per square foot when the actual cost is now expected to be approximately \$308 per square foot. As a result, construction costs in the previously approved application were estimated by the architect to total \$20,975,031 and are now estimated to total \$27,461,641. Estimated construction costs have increased due in part to additional electrical and infrastructure requirements ... Additionally, soil borings identified unforeseen needs for enhancements to the structural system, including deeper foundations, grade beams, and additional concrete for lateral support in crawl space.”

On page 40, the applicant states the reason for an increase in medical equipment costs, as discussed below:

“Specifically, since approval of the original application, Wayne UNC became a managed entity within the UNC Health Care System and determined that it was prudent to convert to EPIC for its EMR system, which is used throughout the UNC Health Care System, in order to enhance the exchange of information and continuity of care. ... Wayne UNC determined that to provide the most flexibility and operational efficiency in the surgical suite, it was prudent to equip all 13 operating rooms, rather than only two as proposed in the previously approved project, with surgical integration technology ... so that all rooms can be used interchangeably. ... [S]ince the original application, Wayne UNC finalized a decision to provide 100 percent cardiac monitoring in the PACU and Day Surgery areas in order to provide the most flexibility and operational efficiency.”

Additionally, on page 41, the applicant identifies the reason for installing fixed imaging equipment in one OR to be used as a hybrid OR instead of two ORs as proposed in the previously approved application. The applicant states,

“Wayne UNC proposes to purchase and install fixed imaging (hybrid OR) equipment in only one existing operating room as opposed to two as proposed in the previously approved application. The combined impact of these decreases and increases in equipment costs is an increase of \$4,394,012 over the previously approved costs. A project contingency allowance has been added ... to account for any unforeseen costs during completion of the project.”

Projected Utilization

In the current application, Section Q, the applicant states the following:

“[T]he proposed project is expected to become operational in September 2019, which is nearly one year later than the operational date identified in the previously approved application. The projected utilization adjusts for this change in operational date and has been updated to reflect the utilization that has occurred during the intervening years since the previously approved application was submitted. Notably the actual surgical utilization in these intervening years has been fairly consistent with the projected utilization for those same years ... No other changes have occurred since the approval of the original application that impact projected utilization.”

In Section Q, page 1, the applicant provides a comparison of the previously used methodology and assumptions with those used in the current application, as illustrated below:

	Previously Approved	Current Application
Fiscal Year	October to September	July to June (consistent with UNC Health Care)
Baseline Growth	Wayne Co. population growth rate 2015-2021	Wayne Co, population growth rate 2017-2023
Baseline Existing Surgical Volume	Federal Fiscal Year 2015 Volume	State Fiscal Year 2017 Volume
Impact of Hybrid ORs	Historical cases performed in Radiology	No change
Impact of Neurosurgeon recruitment	Projected cases added in subsequent year	Not included as already included in historical volume
Impact of Vascular Surgeon recruitment	Projected cases added once hybrid ORs operational	No change
Impact of General Surgeon Recruitment	Projected cases added once the replacement ORs operational	No change

The applicant provides its projected utilization in Section Q for inpatient (IP) and outpatient (OP) surgical services, as illustrated below.

Projected Surgical Cases

	FY17	FY18	FY19	FY20	FY210	FY22	FY23	CAGR
IP cases (excluding C-Section)	2,565	2,586	2,607	2,628	2,649	2,671	2,693	0.81%
OP cases	7,197	7,255	7,314	7,374	7,434	7,949	7,555	0.81%
Total Surgical Cases	9,762	9,841	9,921	10,002	10,083	10,165	10,248	0.81%

FY= July 1 to June 30

The applicant proposes a decrease in the number of hybrid ORs from the previous application from two hybrid ORs to one hybrid OR. The applicant states in Section Q, page 2,

“[A] portion of the surgical volume that will be performed in the proposed hybrid operating room is currently performed in the radiology department ... and is not included

in Wayne UNC's reported operating room volumes on its Hospital License Renewal Application. These hybrid operating room appropriate cases were historically performed in an invasive radiology procedure room, and are expected to shift to the proposed hybrid operating- room in April 2018. Consistent with the previously approved methodology, Wayne UNC projected 25 cases per month (40 percent inpatient and 60 percent outpatient) operating- room cases to shift from the radiology department.

In Section Q, page 3, the applicant provides the projected utilization for the one hybrid OR, as illustrated below.

	FY18	FY19	FY20	FY210	FY22	FY23	CAGR
Total surgical cases	300	302	305	307	310	312	0.81%
Ramp up	25%	100%	100%	100%	100%	100%	
IP cases (40%)	30	121	122	123	124	125	
OP cases (60%)	45	181	183	184	186	187	

FY= July 1 to June 30

The applicant reports in Section Q, that the utilization illustrated above represents only a portion of the volume that will be performed in the hybrid OR because those procedures represent only the volume that is projected to shift for the radiology department. The applicant provides a summary table of the projected utilization of its ORs, including the hybrid OR and the total number or protected cases due to new physician recruitment in Section Q, page 5.

The applicant reports that its projected endoscopy utilization is consistent with the utilization projected in I.D. # P-11050-15. The applicant projects to perform 2,795 procedures by project year (PY) 3, as illustrated below.

	FY17	FY18	FY19	FY20	FY210	FY22	FY23	CAGR
GI Endoscopy Procedures	2,663	2,685	2,706	2,728	2,751	2,773	2,795	0.81%

FY= July 1 to June 30

The applicant stated on page 6, that WMH transitioned from using conscious sedation to general anesthesia in FY2017 which caused a decline in GI endoscopy procedures. The applicant states the change is expected to improve quality of care and efficiencies. WMH believes that GI utilization will rebound and continue to grow.

Projected utilization in Project I.D. # P-11050-15 was found to be based on reasonable and supported assumptions and the applicant proposes no significant 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 101, 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. In the previously approved application, in Section VI.14(b), page 109, the applicant projects that 61.8% of patients to be served will be Medicare beneficiaries and 12.2% will be Medicaid recipients. In Section L, page 67, of the current application, the applicant states that the information concerning access differs slightly from the previously approved application due to “small changes” in payor mix at Wayne UNC in fiscal year 2017, as illustrated below.

FY2017 Projected Payor Mix

	Percentage of Total	Percentage of Total	Percentage of Total
	Entire Facility	OR Cases	GI Endoscopy
Medicare	58.5%	59.1%	59.1%
Medicaid	17.3%	9.8%	9.8%
Commercial/Managed Care	18.6%	26.1%	26.1%
Other Government	0.2%	0.2%	0.2%
Self Pay	5.4%	4.7%	4.7^
Total	100.0%	100.0%	100.0%

As illustrated above, the actual number of Medicare patients served by the entire hospital was 58.5% and 17.3% were Medicaid recipients. The applicant states on page 67, that projected payor mix is projected to be consistent with FY2017 payor mix.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately identifies the population to be served in Project I.D # P-11050-15 and the applicant does not project a change in that population.
- Projected utilization was deemed reasonable and adequately supported in Project I.D. # P-11050-15 and the applicant does not project any significant changes.

- The applicant projects the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately supports its assumptions.

(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

In Project I.D # P-11050-15, the applicant did not propose a reduction or elimination of a service or the relocation of a service. Nor does the applicant propose a reduction, elimination or a relocation of services in this application. Therefore, Criterion (3a) is not applicable to this review.

(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 40-41, the applicant discusses the need for the cost overrun application. In Section E, page 46, the applicant discusses the alternatives considered prior to the submission of this application, which include:

- Not Developing the Project – The applicant states this was not a viable option because not developing the project as previously approved and which is well underway would not be consistent with Wayne UNC’s mission to provide quality care. Therefore, this option was not considered to be an effective alternative.
- Submit the COR Application – The applicant determined this was its most effective and least costly alternative to ensure Wayne UNC, *“remedy age-related facility deficiencies and increase the efficiency of the surgical and endoscopy program.”*

On page 46, the applicant states that its cost overrun proposal is the most effective alternative because construction is approximately 50 percent complete. The applicant further states that the, *“delays in the project have resulted from additional and unforeseen construction requirements have only exacerbated the need.”*

The applicant provides supporting documentation in Exhibit C.13-1.

The applicant adequately demonstrates that the alternative proposed in this application is the most effective alternative to meet the need for the following reasons:

- The applicant was approved in Project I.D # P-11050-15 to develop the project as proposed.
- The project, as proposed in Project I.D # P-11050-15, is approximately 50 percent complete.
- Wayne UNC's goal remains modernizing and renovating space for the provision of surgical and endoscopy services in order to remedy age-related facility deficiencies for which they were approved in Project I.D # P-11050-15,

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above. Therefore, the application is approved subject to the following conditions:

- 1. Wayne Memorial Hospital, Inc. shall materially comply with the representations in this application and representations in Project I.D. # P-11050-15. Where representations conflict, Wayne Memorial Hospital, Inc. shall materially comply with the last made representation.**
- 2. The total approved capital expenditure for both Project I.D. # P-11050-15 and Project I.D. # P-11458-18 is \$47,993,810.**
- 3. Wayne Memorial Hospital, Inc. 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. No later than three months after the last day of each of the first three full years of operation following initiation of the services authorized by this certificate of need, Wayne Memorial Hospital, Inc. shall submit, on the form provided by the Healthcare Planning and Certificate of Need Section, an annual report containing the:**
 - a. Payor mix for the services authorized in this certificate of need.**
 - b. Utilization of the services authorized in this certificate of need.**
 - c. Revenues and operating costs for the services authorized in this certificate of need.**
 - d. Average gross revenue per unit of service.**
 - e. Average net revenue per unit of service.**

f. Average operating cost per unit of service.

- 5. Wayne Memorial Hospital, Inc. 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. # P-11050-15. The total capital cost is now projected to be \$47,993,810 which is an increase of \$13,580,577 [$\$47,993,810 - \$34,413,233 = \$13,580,577$] or 139.46% [$\$47,993,810/\$34,413,233 = 139.46\%$] 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. # P-11050-15 nor does the applicant project those charges in this application as Wayne UNC is an existing facility.

Availability of Funds

In Section F, page 53, the applicant states that the total capital cost will be funded by accumulated reserves/owner's equity in the amount of \$9,993,810 and bond financing totaling \$38,000,000 which is consistent with the previously approved application. Exhibit F.5.1 contains a February 15, 2018 letter signed by the Senior Vice President of Finance and Chief Financial Officer for Wayne UNC Health, which states:

“... The total capital expenditure for this project is now estimated to be approximately \$48.0 million. The capital costs specifically attributable to this cost overrun application are estimated to be \$13,580,577. There are no start-up costs related to this project.

Consistent with the previously approved application, the project in its entirety will be funded jointly through accumulated reserves of Wayne UNC Health Care and bond financing.”

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. # P-11050-15, Form C of the pro forma financial statements, pages 150-153, applicant projected revenues would exceed operating expenses in each of the first three project years for both surgical and endoscopy services, as illustrated in the tables below.

Surgical Services	Project Year 1 2019	Project Year 2 2020	Project Year 3 2021
Projected # of procedures	11,344	11,757	11,819
Projected Average Charge (Gross Patient Revenue / Projected # of procedures)	\$14,689	\$15,130	\$15,584
Gross Patient Revenue	\$166,630,731	\$177,883,617	\$184,183,913
Deductions from Gross Patient Revenue	\$99,076,283	\$105,767,091	\$109,513,158
Net Patient Revenue	\$67,554,447	\$72,116,526	\$74,670,755
Total Expenses	\$45,268,780	\$47,467,892	\$48,971,378
Net Income	\$22,285,667	\$24,648,634	\$25,699,377

GI Endoscopy Services	Project Year 1 2019	Project Year 2 2020	Project Year 3 2021
Projected # of procedures	3,781	3,801	3,821
Projected Average Charge (Gross Patient Revenue / Projected # of procedures)	\$2,395	\$2,467	\$2,541
Gross Patient Revenue	\$9,056,699	\$9,377,470	\$9,709,602
Deductions from Gross Patient Revenue	\$5,214,754	\$5,399,450	\$5,590,688
Net Patient Revenue	\$3,841,945	\$3,978,019	\$4,118,913
Total Expenses	\$2,567,538	\$2,639,979	\$2,714,742
Net Income	\$1,274,407	\$1,338,041	\$1,404,171

In Section Q, Form F.4 of the current application, the applicant projects that revenues will exceed operating expenses in the first three operating years of the project for its surgical services. However, the applicant projects that operating expenses will exceed revenues for its endoscopy services in the first three operating years, as shown in the tables below.

Surgical Services	1st Full Fiscal Year 2021	2nd Full Fiscal Year 2022	3rd Full Fiscal Year 2023

Total Procedures	11,825	11,921	12,018
Total Gross Revenues (Charges)	\$204,285,112	\$212,123,238	\$220,262,102
Total Net Revenue	\$68,812,868	\$71,453,119	\$74,194,672
Average Net Revenue per procedure	\$5,819	\$5,994	\$6,174
Total Operating Expenses (Costs)	\$64,792,585	\$66,969,768	\$69,224,947
Average Operating Expense per procedure	\$5,479	\$5,618	\$5,760
Net Income	\$4,020,283	\$4,483,351	\$4,969,725

Endoscopy Services	1st Full Fiscal Year 2021	2nd Full Fiscal Year 2022	3rd Full Fiscal Year 2023
Total Procedures	2,751	2,773	2,795
Total Gross Revenues (Charges)	\$7,399,953	\$7,683,879	\$7,978,698
Total Net Revenue	\$2,402,635	\$2,494,821	\$2,590,544
Average Net Revenue per procedure	\$873	\$900	\$927
Total Operating Expenses (Costs)	\$3,570,958	\$3,666,804	\$3,765,916
Average Operating Expense per procedure	\$1,298	\$1,322	\$1,347
Net Income	(\$1,168,322)	(\$1,171,983)	(\$1,175,372)

The applicant also projects a positive net income for the entire hospital 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 Section Q 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.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicant adequately demonstrates that the capital and working capital costs are based on reasonable and adequately supported assumptions.
- The applicant adequately demonstrates availability of sufficient funds for the capital and working capital needs of the proposal.

- The applicant adequately demonstrates 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.
- (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. # P-11050-15, the applicant proposed to expand and renovate space at its main hospital campus related to the provision of surgical and GI endoscopy services. This proposal also involved a change of scope for Project I.D. # P-7554-06 (add one operating room) and the acquisition of two angiographic endovascular imaging systems to develop two hybrid ORs in renovated OR space and new construction on the ground floor of WMH. This project proposes to develop only one hybrid OR.

The applicant adequately demonstrates that the proposal would not result in an unnecessary duplication of existing or approved services in the service area because the applicant adequately demonstrates that the proposed expansion and renovation of surgical and GI endoscopy services is needed in addition to the existing or approved surgical and GI endoscopy services.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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 57, the applicant states,

“Staffing has been revised from the previously approved application based on changes in historical utilization. Wayne UNC is actively recruiting additional surgeons and staff.”

The response to Section H, 4. (c) has changed from the previously approved application. Dr. Dimitrios Lintzeris is the President of the Medical Staff and Dr. Gregory Nichols is the Chairman of the Department of Surgery. Dr. William Futch is the Chairman of the Endoscopy Committee which is unchanged...

Otherwise, the information that would be provided in response to Section H, Questions 1 through 4 does not differ from the information provided in the previously approved application.”

In the previously approved application in Section VII.6, pages 116-117, the applicant describes its experience and process for recruiting and retaining staff. Exhibit 21 contains copies of letters from Dr. Robert Ottavianti, Chairman of the Department of Surgery and Dr. Stewart Futch, Chairman of the Department of GI Endoscopy expressing their interests in serving as the Medical Directors for the proposed surgical and GI endoscopy services, respectively.

In Section Q, Form H, of the current application, the applicant provides current and projected staffing for the proposed services.

In the previously approved application, the applicant projected a total of 200.02 FTE positions for its surgical services in Project Year (PY2). In the current application, the applicants project to employ 206 FTEs in its surgical services department. Additionally, the applicant also projects a slight increase in the number of FTEs for its GI endoscopy services from 17.4 FTEs in the previous application to 18.00 FTEs positions in the current application for PY2. In Project I.D. # P-11050-15, the applicant projected to employ a total of 217.6 FTE positions in its surgical and GI endoscopy services in PY2 and in the current application, the applicant projects a total of 224 FTE positions for the timeframe for a total increase of 6.4 FTE positions.

The assumptions and methodology used to project staffing are provided in Section Q. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in Form F3, which is found in Section Q.

In Project I.D. # P-11050-15 the application was conforming to this criterion and the applicant proposes only slight changes in the current cost overrun application.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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 58, the applicant states:

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

In Project I.D # P-11050-15 the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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

The applicant does not project to provide the proposed services to a substantial number of persons residing in Health Service Areas (HSAs) that are not adjacent to the HSA in which the services will be offered. Furthermore, the applicant does not project to provide the proposed services to a substantial number of persons residing in other states that are not

adjacent to the North Carolina county in which the services will be offered. Therefore, Criterion (9) is not applicable to this review.

- (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

The applicant is not an HMO. Therefore, Criterion (10) is not applicable to this review.

- (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.7, page 62, the applicant states:

“There have been no material changes ... However... additional electrical and structural construction requirements have been identified since submission of the previously approved application, which resulted in the need to file this cost overrun application.”

In Section XI, page 135, of the previously approved application, the applicant proposed 39,773 square feet of new construction and renovating 49,397 square feet of existing space.

This application for a COR seeks approval for increased capital cost of the project, resulting from cost adjustments involving construction/renovation costs and equipment. The original project scope will not change. In Section C, pages 40-41 and in Section Q, of this application the applicant discusses the need for the additional capital cost associated with the proposed

project. The table below shows the previously approved and the proposed capital expenditures and the difference between the previously approved and the proposed application.

Wayne Memorial Hospital PREVIOUSLY APPROVED AND PROPOSED CAPITAL COSTS			
	Previously Approved Cost P-11050-15	Proposed Cost P-11458-18	Difference
Site Preparation Costs	\$661,500	\$1,529,600	\$868,100
Construction Costs	\$20,975,031	\$27,461,641	\$6,486,610
Miscellaneous Costs (includes):	\$1,361,304	\$1,350,304	(\$11,000)
Site Inspection/Survey	\$15,000	\$7,600	(\$7,400)
Legal Fees/Subsoil Investigation	\$6,900	\$3,300	(\$3,600)
Architect/Engineering Fees	\$1,339,404	\$1,339,404	\$0
Fixed Equipment	\$6,830,372	\$10,487,767	\$3,657,395
Movable Equipment	\$1,128,756	\$1,865,373	\$736,617
Furniture	\$1,057,145	\$1,000,000	(\$57,145)
Financing Costs	\$586,450	\$586,450	\$0
Interest During Construction	\$1,812,675	\$1,812,675	\$0
Contingency		\$1,900,000	\$1,900,000
Total Capital Costs	\$34,413,233	\$47,993,810	\$13,580,577

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that 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

The proposed application is a cost overrun to Project I.D. # P-11050-15. In Section L, page 67, the applicant states, “*Current Payor Sources, differs from the information provided in the previously approved application due to small changes in payor mix at Wayne UNC since the submission of the application.*”

In Section L, page 67, the applicant provides the historical payor mix during July 1, 2016 - June 30, 2017 for the proposed services during FY2017, as shown in the table below.

	Percentage of Total	Percentage of Total	Percentage of Total
	Entire Facility	Surgery	GI Endoscopy
Medicare	58.5%	59.1%	59.1%
Medicaid	17.3%	9.8%	9.8%
Commercial/Managed Care	18.6%	26.1%	26.1%
Other	0.2%	0.2%	0.2%
Self Pay	5.4%	4.7%	4.7%
Total	100.0%	100.0%	100.0%

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the applicant adequately documents 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. 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

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, the application was conforming to

this criterion in Project I.D. # J-11035-15 and the applicant proposes no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that 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 Project I.D. # P-11050-15 the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that 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 Project I.D. # P-11050-15 the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that 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 Project I.D. # P-11050-15 the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the applicant adequately demonstrates that the proposed services will accommodate the clinical needs of area health professional training programs, and therefore, the 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

The applicant proposes a COR for Project I.D. # P-11050-15 which authorized the facility to expand and renovate space at its main hospital campus related to the provision of surgical and endoscopy services which was a change of scope for Project I.D. #P-7554-09 (add one operating room) and develop two new hybrid operating rooms.

In Project I.D. # P-11050-15 the application was conforming to this criterion and the applicant proposes no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Remarks made at the public hearing
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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 70, the applicant states Wayne Memorial Hospital, Inc., does not own, operate or manage other healthcare facilities. Wayne Health Corporation is the parent company and sole member of Wayne Memorial Hospital, Inc. In December 2016, Wayne Memorial Hospital signed a Management Services Agreement with UNC Health Care, and subsequently changed its name to Wayne UNC. In addition to Wayne UNC, UNC Health Care operates/owns or manages ten other hospitals, which include the following:

- UNC REX Healthcare
- Chatham Hospital
- Johnston Health
- Pardee Hospital
- High Point Regional
- Caldwell Memorial
- Nash Health Care
- UNC Lenoir Health Care
- UNC Rockingham Hospital

In Section O, page 71, the applicant states that, during the 18 months immediately preceding the submittal of the application, Wayne UNC had two incidents related to quality of care. The

applicant states that all of the problems have been corrected. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, during the 18 months immediately preceding submission of the application through the date of this decision, incidents related to quality of care occurred in one facility. 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 ten facilities, the applicant 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.

NA