

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: September 27, 2018

Findings Date: September 27, 2018

Project Analyst: Mike McKillip

Team Leader: Gloria Hale

Project ID #: J-11534-18

Facility: University of North Carolina Hospitals-Blue Ridge Road

FID #: 180320

County: Wake

Applicant: University of North Carolina Hospitals at Chapel Hill

Project: Renovate an existing medical office building at 2801 Blue Ridge Road for hospital-based pediatric specialty clinics

### 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

University of North Carolina Hospitals at Chapel Hill [**UNCH-CH**] proposes to renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics.

#### **Need Determination**

There are no need determinations in the 2018 State Medical Facilities Plan (SMFP) applicable to the development of hospital outpatient clinics. Therefore, this criterion is not applicable to this review.

#### **Policies**

There is one policy in the 2018 SMFP which is applicable to this review: Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities.

#### **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 is required to submit a plan for 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 project is greater than \$5 million. In Section B.10, page 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.”*

The applicant adequately demonstrates that the application includes a written statement describing the project’s plans to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4, subject to Condition (4) of Criterion (4).

#### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation.

- (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 applicant, UNCH-CH, proposes to renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics. In Section C.1, pages 31-33, the applicant describes the project as follows:

*“The proposed project involves the renovation of an existing medical office building (MOB) at 2801 Blue Ridge Road in Raleigh across from the campus of UNC REX Hospitals pediatric specialty physician clinics, including but not limited to, surgical, endocrinology, GI and feeding, allergy and pulmonology, mental and behavioral health, and oncology and infusion. The land and existing building are owned by UNC Health Care System. ... Pursuant to a CON-exempt project (see Exhibit C.1), UNC Health Care System is renovating the entire shell and core of the building and intends to lease space in the building to UNC Hospitals to accommodate the pediatric specialty physician offices....*

*As shown on the project line drawings included in Exhibit C.1, the MOB will consist of three floors in approximately 50,000 square feet of space. ... The hospital-based services provided on the ground floor will consist of lab and diagnostic imaging services, including one unit each of new X-ray and ultrasound equipment, as well as a main lobby, patient registration and waiting, and other necessary support spaces.*

*The first floor will house clinic space for surgical, GI and feeding, endocrinology, and allergy and pulmonology specialists. The second floor will include space for an oncology clinic and infusion therapy services, a mental and behavioral health clinic, and a rotating specialty clinic. ... Finally, the second floor will house a pharmacy, staff lockers and break rooms, and other necessary support space.”*

### **Patient Origin**

N.C. Gen. Stat. §131E-176(24a) states, “Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility.” The 2018 SMFP does not define a service area for hospital-based outpatient clinics nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient clinics. Thus, the service area in this review is as defined by the applicant.

In Section C.3, page 35, the applicant provides a table showing its projected patient origin for the UNC Children’s Specialty Clinics for the first three operating years (FY2020-FY2022) of the proposed project, as summarized in the following table:

<b>County of Origin</b>	<b>Percent of Total Patients</b>
Wake	26.3%
Orange	7.9%
Cumberland	7.1%
Alamance	6.6%
Durham	4.6%
Lee	3.9%
Johnston	3.8%
Harnett	3.6%
Moore	3.1%
Guilford	3.1%
Chatham	2.8%
Onslow	2.1%
Robeson	2.0%
Other*	23.1%
<b>Total</b>	<b>100.0%</b>

Source: Table on page 35 of the application.

\*Includes other counties listed in the table and other counties and states included in the “Other” category (each <2% of total) on page 35 of the application.

Note: UNC Children’s Specialty Clinics include Chapel Hill and Raleigh locations.

In Section C.3, page 36, the applicant states projected patient origin is based on the historical (FY2017) patient origin for UNC Children’s Specialty Clinics. The applicant’s assumptions are reasonable and adequately supported.

### **Analysis of Need**

In Section C.4, pages 36-41, the applicant explains why it believes the population projected to utilize the proposed pediatric specialty clinics needs the proposed services, including:

- The need to improve geographic access by relocating services to more convenient locations and to “decompress” the hospital’s main campus in Chapel Hill (pp. 38-39).

- The projected growth in the pediatric and total population of the Wake County service area (pp. 40-41).

The information provided by the applicant in the pages referenced above is reasonable and adequately supported for the following reasons:

- The applicant provides information regarding the historical utilization of the hospital's pediatric specialty clinics by Wake County residents, and reports that 75 percent of its pediatric specialty clinic patients have historically originated from areas that are closer to the proposed Raleigh location than to the existing pediatric specialty clinics in Chapel Hill.
- The applicant provides data regarding the pediatric and total population projections for the Wake County service area.

Projected Utilization

In Section Q, Form C, the applicant provides projected utilization for the proposed UNC Children's Specialty Clinics Raleigh through the first three full fiscal years (FFY2020-FFY2022) as summarized in the following table:

<b>UNC Children's Specialty Clinics - Raleigh</b>			
	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>
Physician Visits	21,956	22,723	23,546
Infusion Therapy	3,359	3,703	4,084
X-ray scans	1,386	1,435	1,487
Ultrasound Scans	1,892	1,958	2,029

Source: Form C, Section Q of the application.

The applicant provides its assumptions and methodology for projecting utilization for its proposed services in Section Q, Form C, pages 1-5, which is summarized as follows:

Physician Visits - The applicant states that projected utilization for physician visits is based on the historical utilization of the pediatric specialty clinics in Raleigh and Chapel Hill from FY2015 to FY2017. Physician visits at the existing Raleigh location grew by an average annual rate of 21.0 percent during that time period, and the applicant assumes physician visits will grow by an average annual rate of 8.0 percent through the first three operating years of the proposed project, from FY2018 to FY2022.

Infusion Therapy - The applicant states that projected utilization of infusion therapy is based on the historical utilization of the infusion therapy services at the pediatric specialty clinics in Chapel Hill from FY2015 to FY2017. Infusion therapy at the existing Chapel Hill location grew by an average annual rate of 33.6 percent for non-oncologic infusion and 33.1 percent for oncologic infusion during that time period, and the applicant assumes infusion therapy will grow by an average annual rate of 12.0 percent for non-oncologic infusion and 7.5 percent for oncologic infusion through the first three operating years of the proposed project, from FY2018 to FY2022.

X-ray and Ultrasound - The applicant states that projected utilization of X-ray and ultrasound is based on its historical (FY2017) experience with regard to the ratio of X-ray scans and ultrasound scans to physician visits for patients of UNC Children’s Specialty Clinics. Based on its experience, the applicant projects a ratio of 0.06 X-ray scans and 0.09 ultrasound scans per visit for each of the first three operating years of the proposed project, from FY2020 to FY2022.

Projected utilization is reasonable and adequately supported for the following reasons:

- The applicant’s utilization projections for the physician visits and infusion therapies are supported by the historical utilization of those services at the applicant’s existing clinics from FY2015 to FY2017.
- The applicant’s utilization projections for X-ray and ultrasound are based on its historical (FY2017) experience with regard to the ratio of X-ray and ultrasound procedures to physician visits for patients of UNC’s Children’s Specialty Clinics.

**Access**

In Section C.11, page 46, the applicant states UNC Hospitals will continue provide services to all patients regardless of income, racial/ethnic origin, gender, physical or mental condition, age, ability to pay, or any other factor. In Section L.3, page 84, the applicant projects the following payor mix for UNC Hospitals and the UNC Children’s Specialty Clinics (all locations) during the second year of operation (FY2021) following completion of the project, as shown in the following table.

<b>Payor Source</b>	<b>UNC Hospitals</b>	<b>UNC Children’s Specialty Clinics</b>
Self-Pay	6.5%	1.3%
Medicare	36.3%	0.6%
Medicaid	20.4%	46.6%
Insurance	31.7%	41.5%
Other (Other Gov’t, Workers Comp)	5.2%	10.1%
<b>Total*</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Table on page 84 of the application.

\*Totals may not foot due to rounding.

The projected payor mix is reasonable and adequately supported.

**Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- 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.
- The applicant adequately explains why the population to be served needs the services proposed in this application.
- Projected utilization is reasonable and adequately supported.
- 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.

### C

The applicant, UNCH-CH, proposes to renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics. The only service that the applicant proposes to relocate as part of the proposed project is non-oncologic infusion therapy, which will be relocated from the UNC Hospitals' Medical Center campus in Chapel Hill to the proposed Blue Ridge Road site in Raleigh. In Section D.2, page 51, the applicant explains why it believes the needs of the population presently utilizing the services to be relocated will be adequately met following completion of the project. On page 51, the applicant states:

*“The proposed project will continue to meet the needs of patients currently utilizing UNC Children’s Specialty Clinics by providing more convenient and expanded access. ... Specifically, given the increased convenience and capacity at the proposed MOB, UNC Hospitals believes the relocation of pediatric non-oncologic infusion therapy will benefit patients. Note, UNC Hospitals does not propose to relocate all pediatric oncologic infusion therapy services; these services will continue to be provided at the Children’s Specialty Clinic location on the UNC Hospitals’ Medical Center campus in order to accommodate those pediatric oncologic infusion therapy patients that also may need the acute care hospital services available there. By contrast, pediatric non-oncologic infusion therapy patients do not require the same proximity to acute care services, thus, these patients will be better served at the proposed MOB.”*

In Section Q, the applicant provides projected utilization as illustrated in the following table.

	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Non-oncologic infusion-Chapel Hill	1,633	1,829	0	0	0
Oncologic Infusion-Chapel Hill	1,829	1,966	803	863	928
Infusion Therapy-Chapel Hill	3,462	3,795	803	863	928
Non-oncologic Infusion-Blue Ridge Road MOB	NA	NA	2,048	2,294	2,569
Oncologic Infusion-Blue Ridge Road MOB	NA	NA	1,310	1,408	1,514
Infusion Therapy-Blue Ridge Road MOB	NA	NA	3,359	3,703	4,084

Source: Section Q, page 5.

In Section Q, the applicant provides the assumptions and methodology used to project utilization, which is summarized below.

On page 3 of Section Q, the applicant states,

*“Based on discussion with administrators and clinical leadership, UNC Hospitals proposes to shift those oncologic infusion patients that would be more conveniently served in Raleigh to the proposed MOB. Based on an analysis of historical patient origin for oncologic infusion therapy patients, UNC conservatively assumes that 62 percent of the projected number of oncologic infusion therapy patients for these clinics will be served at the proposed MOB and the remainder will be served in Chapel Hill. ... Based on discussions with administrators and clinical leadership, UNC Hospitals proposes to shift 100 percent of non-oncologic infusion patients, regardless of their geographic location, to the proposed MOB.”*

Projected utilization is reasonable and adequately supported based on the following:

- The applicant’s utilization projections for the infusion therapies are supported by the historical utilization of those services at the applicant’s existing clinics from FY2015 to FY2017.
- The applicant states the utilization projections are based on and supported by “discussions with administrators and clinical leadership” for the UNC Hospitals Children’s Specialty Clinics.

In Section D.5, page 54, the applicant states,

*“The proposed project will continue to meet the needs of patients currently utilizing UNC Children’s Specialty Clinics services, including the medically underserved, by providing more convenient and expanded access. ...As shown in Section L.3, the majority of the patients to be served at the proposed MOB are Medicaid recipients; as such, the proposed project will enhance access to the underserved. Additionally, the proposed location will be closer for 75 percent of UNC Children’s patients, which will enhance access for these pediatric patients and their families.”*

**Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicant adequately demonstrates that:

- The needs of the population currently using the services to be reduced, eliminated or relocated will be adequately met following project completion.
- The project will not adversely impact the ability of underserved groups to access these services following project completion.

- (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

The applicant, UNCH-CH, proposes to renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics.

In Section E.2, pages 56-57, the applicant describes the alternatives it considered and explains why each alternative is either more costly or less effective than the alternative proposed in this application to meet the need. The alternatives considered were:

- Maintain the status quo – The applicant states this was not an effective alternative due to the fact that it would not address the capacity constraints at the Chapel Hill campus and would provide expanded space and improved access to the pediatric specialty clinics.
- Develop the project at another location – The applicant states this was not an effective alternative because the proposed site is in a building already owned by UNC Health Care System, will be closer for 75 percent of UNC Hospitals Children’s Specialty Clinics patients, and will be located very near UNC REX Hospital on Blue Ridge Road, with convenient parking and easy access for patient and families.

On page 57, the applicant states that its proposal is the most effective alternative because it “*will provide sufficient capacity and convenient access to its services*” and will allow the applicant to accommodate projected future growth.

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 alternative will meet the need for additional space and improved access to pediatric specialty care services.
- The alternative meets the need to “*decompress*” the main campus and relieve existing capacity constraints at the Chapel Hill pediatric clinics.

## **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- 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. University of North Carolina Hospitals at Chapel Hill shall materially comply with all representations made in the certificate of need application.**
- 2. University of North Carolina Hospitals at Chapel Hill shall renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics.**
- 3. University of North Carolina Hospitals at Chapel Hill, as part of this project, shall not acquire any equipment that is not included in the project's proposed capital expenditures in Section F of the application and 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, University of North Carolina Hospitals at Chapel Hill 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. University of North Carolina Hospitals at Chapel Hill shall develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes.**
- 6. 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 insurance 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 applicant, UNCH-CH, proposes to renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics.

**Capital and Working Capital Costs**

In Section Q, Form F.1a, the applicant projects the total capital cost of the project as shown in the table below.

Construction Costs	\$4,466,805
Miscellaneous Costs	\$2,421,846
<b>Total</b>	<b>\$6,888,651</b>

In Section Q, the applicant provides the assumptions used to project the capital cost.

In Section F.3, pages 60-61, the applicant states the projects does not involve a new service and there will be no start-up costs or initial operating expenses required.

**Availability of Funds**

In Section F, page 59, the applicant states that the capital cost will be funded as shown in the table below.

<b>Sources of Capital Cost Financing</b>		
<b>Type</b>	<b>UNC Hospitals</b>	<b>Total</b>
Loans	\$	\$
Accumulated reserves or OE *	\$6,888,651	\$6,888,651
Bonds	\$	\$
Other (Specify)	\$	\$
<b>Total Financing</b>	<b>\$6,888,651</b>	<b>\$6,888,651</b>

\* OE = Owner's Equity

Exhibit F.2 contains a letter dated June 15, 2018 from the Executive Vice President and Chief Financial Officer of UNC Hospitals documenting its intention to provide accumulated reserves for the capital needs of the proposed project. Exhibit F.2 contains the audited financial statements of UNC Hospitals which show that as of June 30, 2016, the applicant had \$190 million in cash and cash equivalents, \$2.1 billion in total assets, and \$1.3 billion in net assets (total assets less total liabilities).

**Financial Feasibility**

The applicant provided pro forma financial statements for UNC Hospitals for the first three full fiscal years of operation following completion of the project. In Form F.3, the applicant projects that revenues will exceed operating expenses in the first three operating years of the project, as shown in the table below.

	<b>1<sup>st</sup> Fiscal Year</b>	<b>2<sup>nd</sup> Fiscal Year</b>	<b>3<sup>rd</sup> Fiscal Year</b>
Total Patients	918,538	952,248	987,196
Total Gross Revenues (Charges)	\$5,126,747,563	\$5,474,346,175	\$5,845,512,320
Total Net Revenue	\$2,059,127,673	\$2,195,636,923	\$2,341,401,638
Net Revenue per Patient	\$2,242	\$2,306	\$2,372
Total Operating Expenses (Costs)	\$1,840,667,288	\$1,967,249,203	\$2,118,834,025
Operating Expense per Patient	\$2,004	\$2,066	\$2,146
Net Income	\$218,460,385	\$228,387,720	\$222,567,613

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

The applicant, UNCH-CH, proposes to renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics.

N.C. Gen. Stat. §131E-176(24a) states, “Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility.” The 2018 SMFP does not define a service area for hospital-based outpatient clinics nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient clinics. Thus, the service area in this review is as defined by the applicant.

In Section G.1, page 67, the applicant provides a table listing the existing Wake County hospitals. There are four existing hospitals and one approved hospital, Rex Hospital Holly Springs, located in Wake County, as shown in the table below:

Hospital	Licensed Acute Care Beds	FY2016 Patient Days of Care	Percent Occupancy
Duke Raleigh Hospital	186	38,773	57.1%
Rex Hospital	433	110,540	69.9%
Rex Hospital Holly Springs	50	NA	NA
WakeMed (Inc. WakeMed North)	628	157,938	68.9%
WakeMed Cary Hospital	156	37,623	66.1%

Source: 2018 State Medical Facilities Plan, Table 5A: Acute Care Bed Need Projections.

In Section G.3, pages 67-68, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved services in the Wake County service area. The applicant states:

*“The need for the proposed project is based on the need for UNC Hospitals to enhance access to, and develop sufficient capacity for, UNC Hospitals’ Children’s Specialty Clinics. UNC Children’s existing space in Raleigh at NC State Park Scholars Children’s Specialty Clinic restrains the ability of UNC Hospitals to provide adequate access to a broad range of specialties and physicians. ... No other provider can meet these needs at UNC Hospitals. Further, though other imaging and diagnostic services may be available in the service area, they are not reasonably available to the patients of UNC Hospitals’ hospital-based physician practices. Specifically, use of such equipment would require leaving the physician office building, registering as a patient at another hospital, waiting hours, days or weeks for an available appointment, then having to return to the UNC Hospitals hospital-based practice. Compared to the availability of the service within the same building, typically on the same day as the office visit, the use of other capacity in the service area is ineffective at providing sufficient access to patients.”*

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 pediatric specialty clinics are needed in addition to the existing or approved services.

## **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 Q, Form H, the applicant provides projected full-time equivalent (FTE) staffing in the first three operating years (FY2020-FY2022) for the proposed services as shown in the following table.

Position	Projected		
	1 <sup>st</sup> Full Fiscal Year	2 <sup>nd</sup> Full Fiscal Year	3 <sup>rd</sup> Full Fiscal Year
<b>Physician Clinic</b>			
Patient Services Manager	1.00	1.00	1.00
Clinical Nurse II	8.93	8.93	8.93
Clinical Nurse III	1.60	1.60	1.60
Nursing Assistant	0.00	0.00	0.00
Clinical Support Tech	3.80	3.80	3.80
Nursing Assistant-PD	0.00	0.00	0.00
Clinical Nurse-PD	0.96	0.96	0.96
<b>Total Physician Clinic</b>	<b>16.29</b>	<b>16.29</b>	<b>16.29</b>
<b>Imaging</b>			
Patient Services Manager III	0.50	0.50	0.50
Phlebotomist	1.25	1.25	1.25
Ultrasound Tech	1.25	1.25	1.25
Radiology Tech	1.25	1.25	1.25
Pharmacy Tech	2.00	2.00	2.00
Pharmacist	1.00	1.00	1.00
<b>Total Imaging</b>	<b>7.25</b>	<b>7.25</b>	<b>7.25</b>
<b>Infusion Therapy</b>			
Administrative Associate	2.05	2.05	2.05
Administrative Specialist	0.99	0.99	0.99
Clinical Nurse II	7.00	7.00	7.00
Clinical Nurse III	1.00	1.00	1.00
Clinical Nurse IV	1.02	1.02	1.02
Clinical Nurse-PD	0.50	0.50	0.50
Clinical Support Tech II	2.01	2.01	2.01
Patient Services Manager	0.50	0.50	0.50
<b>Total Infusion</b>	<b>15.07</b>	<b>15.07</b>	<b>15.07</b>
<b>TOTAL</b>	<b>38.61</b>	<b>38.61</b>	<b>38.61</b>

Source: Form H in Section Q of the application.

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 F.3, which is found in Section Q. In Sections H.2 and H.3, pages 69-70, the applicant describes the methods to be used to recruit or fill new positions and its proposed training and continuing education programs. In Section H.4, page 70, the applicant identifies the proposed medical director.

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
- 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.1, page 72, the applicant states,

*“Patients of the Blue Ridge Road MOB may require ancillary and support services such as pharmacy, lab, diagnostic imaging, housekeeping, maintenance, and administration, among others. ... As discussed in Section C.1, pharmacy, lab, and basic diagnostic imaging services (X-ray and ultrasound) will be provided at the MOB. All necessary support services required for the Blue Ridge Road MOB, including but not limited to billing and collections, contract negotiation, marketing, quality improvement, and human resources will be provided by UNC Hospitals.”*

In Section I.2, pages 72-73, the applicant describes its efforts to develop relationships with other local health care and social service providers and provides supporting documentation in Exhibit I-2.

The applicant adequately demonstrates that the proposed services will be coordinated with the existing health care system.

**Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- 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.

- (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 HSA VI where 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.3, page 75, the applicant states that the project involves up fitting 50,779 square feet of existing space. Line drawings are provided in Exhibit C.1.

In Section K.4, page 76, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal.

In Section K.4. page 76, the applicant adequately explains why the proposal will not unduly increase the costs to the applicant of providing the proposed services or the costs and charges to the public for the proposed services.

In Section K.4, page 77, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans and provides supporting documentation in Exhibit F.1.

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- 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

In Section L.1, page 82, the applicant provides the historical payor mix during FY2017 for the proposed services, as shown in the table below.

Payor Category	UNC Hospitals	UNC Children's Specialty Clinics
Self-Pay	6.5%	1.3%
Medicare	36.3%	0.6%
Medicaid	20.4%	46.6%
Insurance	31.7%	41.5%
Other	5.2%	10.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Table on page 82 of the application.

In Section L.1, page 81, the applicant provides the following comparison.

	Percentage of Total Patients Served by the Facility or Campus during the FY2017	Percentage of the Population of the Wake County Service Area
Female	58.4%	51.9%
Male	41.6%	48.1%
Unknown	NA	0.0%
64 and Younger	73.1%	88.9%
65 and Older	27.0%	11.1%
American Indian	0.6%	1.1%
Asian	1.8%	6.6%
Black or African-American	22.7%	22.2%
Native Hawaiian or Pacific Islander	0.1%	Included in Asian
White or Caucasian	60.7%	67.3%
Other Race	9.0%	2.7%
Declined / Unavailable	5.2%	0.0%

The Agency reviewed the:

- Application
- Exhibits to the application
- 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;

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section L.2, page 83, the applicant states UNC Hospitals has satisfied the requirements of applicable federal regulations to provide a certain amount of uncompensated care, and that UNC Hospitals complies with all the relevant regulatory requirements with regard to uncompensated care, community service and access by minorities and handicapped persons.

In Section L.2, page 83, the applicant states that during the last five years, no patient civil rights access complaints have been filed against UNC Hospitals.

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 Section L.3, page 84, the applicant projects the following payor mix for UNC Hospitals and the UNC Children's Specialty Clinics (all locations) during the second year of operation (FY2021) following completion of the project, as shown in the following table.

<b>Payor Category</b>	<b>UNC Children's Specialty Clinics</b>
Self-Pay	1.3%
Medicare	0.6%
Medicaid	46.6%
Insurance	41.5%
Other	10.1%
<b>Total</b>	<b>100.0%</b>

Source: Table on page 84 of the application.

As shown in the table above, during the second full fiscal year of operation, the applicant projects that 1.3% of total services will be provided to self-pay patients, 0.6% to Medicare patients and 46.6% to Medicaid patients.

In Section L.3, page 84, the applicant provides the assumptions and methodology used to project payor mix during the first three full fiscal years of operation following completion of the project. The projected payor mix is reasonable and adequately supported because it is based on the applicant's historical experience.

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 Section L.5, page 85, the applicant adequately describes the range of means by which patients will have access to the proposed services.

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 Section M.1, pages 86-88, the applicant describes the extent to which health professional training programs in the area will have access to the facility for training purposes.

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- 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, UNCH-CH, proposes to renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics.

N.C. Gen. Stat. §131E-176(24a) states, “Service area means the area of the State, as defined in the State Medical Facilities Plan or rules adopted by the Department, which receives services from a health service facility.” The 2018 SMFP does not define a service area for hospital-based outpatient clinics nor are there any applicable rules adopted by the Department that define the service area for hospital-based outpatient clinics. Thus, the service area in this review is as defined by the applicant.

In Section G.1, page 67, the applicant provides a table listing the existing Wake County hospitals. There are four existing hospitals and one approved hospital, Rex Hospital Holly Springs, located in Wake County, as shown in the table below:

Hospital	Licensed Acute Care Beds	FY2016 Patient Days of Care	Percent Occupancy
Duke Raleigh Hospital	186	38,773	57.1%
Rex Hospital	433	110,540	69.9%
Rex Hospital Holly Springs	50	NA	NA
WakeMed (Inc. WakeMed North)	628	157,938	68.9%
WakeMed Cary Hospital	156	37,623	66.1%

Source: 2018 State Medical Facilities Plan, Table 5A: Acute Care Bed Need Projections.

In Section N.2, pages 89-92, the applicant describes the expected effects of the proposed services on competition in the service area and discusses how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed services. On pages 89-90, the applicant states,

*“The proposed project is expected to enhance competition in the service area by promoting cost effectiveness, quality, and access to the proposed services, as discussed in response to Section N.2 below. ... Finally, UNC Hospitals, as a member of the larger UNC Health Care System, benefits from the significant cost saving measures through the consolidation of multiple services and large economies of scale. This efficiency results in lower costs that are passed to patients in the form of lower charges. The proposed project will enable UNC Hospitals to continue to provide its patient population with the best care possible, while also being responsive in a healthcare environment that emphasizes cost containment, efficient utilization of existing resources, coordination with managed care, and continued healthcare system development.”*

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates:

- The cost-effectiveness of the proposal (see Sections F and Q of the application and any exhibits)
- Quality services will be provided (see Section O of the application and any exhibits)
- Access will be provided to underserved groups (see Section L of the application and any exhibits)

### **Conclusion**

The Agency reviewed the:

- Application
- Exhibits to the application
- 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 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.3, page 94, the applicant states that it owns or manages nine licensed healthcare facilities in North Carolina, including UNC Hospitals at Chapel Hill.

In Section O, pages 94-96, the applicant states that, during the 18 months immediately preceding the submittal of the application, incidents related to quality of care occurred at five UNC Health Care System facilities. In Section O.2, page 98, the applicant states that all of the facilities are back in compliance with all Medicare Conditions of Participation. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, all of the facilities are back in compliance with all 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 nine facilities, the applicant provides 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

The applicant proposes to renovate an existing medical office building at 2801 Blue Ridge Road in Raleigh for hospital-based pediatric specialty clinics. There are no administrative rules that are applicable to proposals to develop hospital-based outpatient clinics.