

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: July 22, 2020

Findings Date: July 22, 2020

Project Analyst: Mike McKillip

Team Leader: Gloria C. Hale

Project ID #: J-11897-20

Facility: University of North Carolina Hospitals Hillsborough Campus

FID #: 090274

County: Orange

Applicant: University of North Carolina Hospitals at Chapel Hill

Project: Develop 10 additional inpatient rehabilitation beds on the Hillsborough campus pursuant to Policy AC-3 for a total of 40 inpatient rehabilitation beds upon project completion

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 (hereinafter referred to as UNC Hospitals or “the applicant”) proposes to develop 10 additional inpatient rehabilitation beds on the Hillsborough campus pursuant to Policy AC-3 for a total of 40 inpatient rehabilitation beds upon project completion.

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 2020 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations applicable to this review.

Policies

There are two policies in the 2020 SMFP applicable to this review: *Policy AC-3: Exemption from Plan Provisions for Certain Academic Medical Center Teaching Hospital Projects* and *Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities*.

Policy AC-3

Policy AC-3: Exemption from Plan Provisions for Certain Academic Medical Center Teaching Hospital Projects, on pages 17-19 of the 2020 SMFP, states:

“Projects for which certificates of need are sought by Academic Medical Center Teaching Hospitals may qualify for exemption from the need determinations of this document. The Healthcare Planning and Certificate of Need Section shall designate as an Academic Medical Center Teaching Hospital any facility whose application for such designation demonstrates the following characteristics of the hospital:

- 1. Serves as a primary teaching site for a school of medicine and at least one other health professional school, providing undergraduate, graduate and postgraduate education.*
- 2. Houses extensive basic medical science and clinical research programs, patients and equipment.*
- 3. Serves the treatment needs of patients from a broad geographic area through multiple medical specialties.*

[Note: The following paragraph is the second paragraph referenced in the questions that follow this policy.]

Exemption from the provisions of need determinations of the North Carolina State Medical Facilities Plan shall be granted to projects submitted by Academic Medical Center Teaching Hospitals designated prior to January 1, 1990 provided the projects are necessary to meet one of the following unique academic medical needs:

- 1. Necessary to complement a specified and approved expansion of the number or types of students, residents or faculty that are specifically required for an expansion of students or residents, as certified by the head of the relevant associated professional school; the applicant shall provide documentation that the project is consistent with any relevant standards, recommendations or guidance from specialty education accrediting bodies; or*
- 2. With respect to the acquisition of equipment, is necessary to accommodate the recruitment or retention of a full-time faculty member who will devote a majority of his or her time to the combined activities of teaching (including teaching within the*

clinical setting), research, administrative or other academic responsibilities within the academic medical center teaching hospital or medical school; or

3. Necessary to accommodate patients, staff or equipment for a specified and approved expansion of research activities, as certified by the head of the entity sponsoring the research; and including, to the extent applicable, documentation pertaining to grants, funding, accrediting or other requirements, and any proposed clinical application of the asset; or

4. Necessary to accommodate changes in requirements of specialty education accrediting bodies, as evidenced by copies of documents issued by such bodies.

A project submitted by an Academic Medical Center Teaching Hospital under this policy that meets one of the above conditions shall demonstrate that the Academic Medical Center Teaching Hospital's teaching or research need for the proposed project cannot be achieved effectively at any non-Academic Medical Center Teaching Hospital provider which currently offers and has capacity within the service for which the exemption is requested and which is within 20 miles of the Academic Medical Center Teaching Hospital.

The Academic Medical Center Teaching Hospital shall include in its application an analysis of the cost, benefits and feasibility of engaging that provider in a collaborative effort that achieves the academic goals of the project as compared with the certificate of need application proposal. The Academic Medical Center Teaching Hospital shall also provide a summary of a discussion or documentation of its attempt to engage the provider in discussion regarding its analysis and conclusions.

The Academic Medical Center Teaching Hospital shall include in its application a discussion of any similar assets within 20 miles that are under the control of the applicant or the associated professional school and the feasibility of using those assets to meet the unique teaching or research needs of the Academic Medical Center Teaching Hospital.

For each of the first five years of operation the approved applicant shall submit to Certificate of Need a detailed description of how the project achieves the academic requirements of the appropriate section(s) of Policy AC-3, paragraph 2 [items 1 through 4] as proposed in the certificate of need application.

Applicants who are approved for Policy AC-3 projects after January 1, 2012 shall report those Policy AC-3 assets (including beds, operating rooms and equipment) on the appropriate annual license renewal application or registration form for the asset. The information to be reported for the Policy AC-3 assets shall include: (a) inventory or number of units of AC-3 Certificate of Need-approved assets (including all beds, operating rooms and equipment); (b) the annual volume of days, cases or procedures performed for the reporting year on the Policy AC-3 approved asset; and (c) the patient origin by county. Except for operating rooms, neither the assets

under (a) above nor the utilization from (b) above shall be used in the annual State Medical Facilities Plan need determination formulas, but both the assets and the utilization will be available for informational purposes to users of the State Medical Facilities Plan. Operating rooms approved under Policy AC-3 and their utilization shall be reported on the license renewal application and included in the inventory, regardless of the date of Certificate of Need approval.

This policy does not apply to a proposed project or the portion thereof that is based solely upon the inability of the State Medical Facilities Plan methodology to accurately project need for the proposed service(s), due to documented differences in patient treatment times that are attributed to education or research components in the delivery of patient care or to differences in patient acuity or case mix that are related to the applicant's academic mission. However, the applicant may submit a petition pursuant to the State Medical Facilities Plan Petitions for Adjustments to Need Determinations process to meet that need or portion thereof.

Policy AC-3 projects are required to materially comply with representations made in the certificate of need application regarding academic based need. If an asset originally developed or acquired pursuant to Policy AC-3 is no longer used for research and/or teaching, the Academic Medical Center Teaching Hospital shall surrender the certificate of need.”

The Division of Health Service Regulation designated UNC Hospitals as an academic medical center teaching hospital prior to January 1, 1990. In Section B.3, pages 13-16, and Exhibits B.4-1 and B.4-2, the applicant provides documentation that the proposed development of 10 additional inpatient rehabilitation beds is necessary to meet the relevant training requirements set forth by the Accreditation Council for Graduate Medical Education (ACGME) and the American Board of Physical Medicine and Rehabilitation (ABPMR) to support one additional resident at UNC Hospitals Department of Physical Medicine and Rehabilitation (PM&R), annually, and that there are no non-academic medical center teaching hospital providers within 20 miles that offer inpatient rehabilitation services that could effectively meet teaching need for the proposed project. The applicant adequately demonstrates that the proposed project is consistent with the requirements of Policy AC-3.

Policy GEN-4

Policy GEN-4, on page 31 of the 2020 SMFP, 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 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 project is greater than \$5 million. In Section B.4, pages 10-11, the applicant describes the project's plan to improve energy efficiency and conserve water. The applicant adequately demonstrates that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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 proposal is consistent with Policy AC-3 and Policy GEN-4 for the following reasons:
 - The applicant adequately documents that the proposed development of 10 additional inpatient rehabilitation beds is necessary to meet the relevant training requirements of the ACGME and the ABPMR to support one additional resident at UNC Hospitals Department of Physical Medicine and Rehabilitation.
 - The applicant adequately documents there are no non-academic medical center teaching hospital providers within 20 miles that offer inpatient rehabilitation services that could effectively meet teaching need for the proposed project.
 - The applicant adequately 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

UNC Hospitals proposes to develop 10 additional inpatient rehabilitation beds on the Hillsborough campus pursuant to Policy AC-3 for a total of 40 inpatient rehabilitation beds upon project completion. In Section C.1, page 19, the applicant describes the project as follows:

“As previously noted, as a result of two approved CON projects (Project IDs # J-11163-16 and J-11338-17), UNC Hospitals is currently developing a second bed tower on its Hillsborough Campus, including the development of additional acute care beds and the relocation of its 30 existing inpatient rehabilitation beds from the Main Campus. The new bed tower is currently designed with four floors, each to include a 20-bed unit. The initial plans included the development of 20 of the relocated inpatient rehabilitation beds on the fourth floor of the new bed tower, with the remaining 10 to be developed on the third floor and the remaining 10 bed spaces on the third floor to house acute care beds (please note that the design for these remaining 10 bed spaces in the initial plans meets the standards for acute care and inpatient rehabilitation beds). However, as discussed throughout this application, UNC Hospitals has identified a need to expand its inpatient rehabilitation bed capacity by 10 beds for a total of 40 following completion of the proposed project. For clinical continuity and operational efficiencies, the most ideal design is to colocate the 10 additional inpatient rehabilitation beds with the 10 that are currently slated for the third floor of the new bed tower (Bed Tower 2), resulting in the third and fourth floors of the tower being fully occupied by the 40 inpatient rehabilitation beds (30 existing plus 10 proposed in this application).”

Patient Origin

N.C.G.S. §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.” On page 107, the 2020 SMFP states, “A rehabilitation bed’s service area is the Health Service Area (HSA) in which the beds are located.” Appendix A, page 447 of the 2020 SMFP, contains a map of the state which shows the counties within each of the state’s six HSAs. HSA IV contains the following counties: Chatham, Durham, Franklin, Granville, Johnston, Lee, Person, Orange, Vance, Wake and Warren. Thus, for this review, the service area is HSA IV.

In Sections C.2 and C.3, pages 21-22, the applicant provides the historical (FY2019) patient origin for inpatient rehabilitation services at UNC Hospitals, and the projected patient origin for the first three full fiscal years of operation (FY2023-FY2025) of the proposed project, as shown in the following tables:

**Historical Patient Origin
 UNC Hospitals Inpatient Rehabilitation Services FY2019**

COUNTY	LAST FULL FY (7/1/18 – 6/30/19)	
	# PATIENTS	% OF TOTAL
Orange	93	14.4%
Wake	74	11.5%
Alamance	49	7.5%
Chatham	47	7.2%
Lee	43	6.8%
Cumberland	40	6.3%
Durham	27	4.2%
Harnett	21	3.3%
Moore	19	3.0%
Robeson	19	3.0%
Johnston	16	2.5%
Richmond	15	2.4%
Sampson	12	1.9%
Randolph	11	1.7%
Onslow	8	1.3%
Hoke	8	1.3%
Granville	8	1.3%
Nash	8	1.3%
Other*	124	19.3%
Total	644	100.0%

Source: Table on page 21 of the application.

*Applicant states the "Other" category includes Anson, Beaufort, Bladen, Brunswick, Burke, Caldwell, Carteret, Caswell, Catawba, Columbus, Duplin, Edgecombe, Forsyth, Franklin, Gaston, Guilford, Halifax, Henderson, Hertford, Lenoir, Macon, Madison, Martin, Mecklenburg, Montgomery, New Hanover, Northampton, Pender, Rockingham, Rowan, Rutherford, Scotland, Union, Vance, Warren, Wayne, Wilson, and Yancey counties, as well as other states.

**Projected Patient Origin
 UNC Hospitals Inpatient Rehabilitation Services**

COUNTY	1 st Full FY FY2023		2 nd Full FY FY2024		3 rd Full FY FY2025	
	# Pts	% of Total	# Pts	% of Total	# Pts	% of Total
Orange	111	14.4%	124	14.4%	131	14.4%
Wake	88	11.5%	98	11.5%	104	11.5%
Alamance	58	7.5%	64	7.5%	68	7.5%
Chatham	55	7.2%	62	7.2%	65	7.2%
Lee	52	6.8%	58	6.8%	61	6.8%
Cumberland	48	6.3%	54	6.3%	57	6.3%
Durham	33	4.2%	36	4.2%	38	4.2%
Harnett	25	3.3%	28	3.3%	30	3.3%
Moore	23	3.0%	26	3.0%	27	3.0%
Robeson	23	3.0%	26	3.0%	27	3.0%
Johnston	19	2.5%	21	2.5%	23	2.5%
Richmond	18	2.4%	20	2.4%	21	2.4%
Sampson	14	1.9%	16	1.9%	17	1.9%
Randolph	13	1.7%	15	1.7%	16	1.7%
Onslow	10	1.3%	11	1.3%	11	1.3%
Hoke	10	1.3%	11	1.3%	11	1.3%
Granville	10	1.3%	11	1.3%	11	1.3%
Nash	10	1.3%	11	1.3%	11	1.3%
Other*	148	19.3%	165	19.3%	175	19.3%
Total	767	100%	856	100%	907	100%

Source: Table on page 22 of the application.

*Applicant states the "Other" category includes Anson, Beaufort, Bladen, Brunswick, Burke, Caldwell, Carteret, Caswell, Catawba, Columbus, Duplin, Edgecombe, Forsyth, Franklin, Gaston, Guilford, Halifax, Henderson, Hertford, Lenoir, Macon, Madison, Martin, Mecklenburg, Montgomery, New Hanover, Northampton, Pender, Rockingham, Rowan, Rutherford, Scotland, Union, Vance, Warren, Wayne, Wilson, and Yancey counties, as well as other states.

In Section C.3(c), page 22, the applicant states that the projected patient origin is based on the historical patient origin for inpatient rehabilitation services at UNC Hospitals. The applicant's assumptions are reasonable and adequately supported.

Analysis of Need

In Section C.4, pages 23-27, the applicant explains why it believes the population projected to utilize the proposed services needs the proposed services, as summarized below:

- The need for additional inpatient rehabilitation beds to expand the PM&R department's residency program (pages 23-24).
- The historical growth in utilization and capacity constraints of the hospital's existing inpatient rehabilitation beds from FY2017 to FY2020 (pages 24-25).
- The projected growth and aging of the Orange County service area population (pages 26-27).

The information is reasonable and adequately supported for the following reasons:

- The applicant provides reasonable and adequately supported information to support its assertions regarding the need to develop additional inpatient rehabilitation beds in order to expand the PM&R residency program.
- The applicant provides historical data to support its assumptions regarding the projected utilization of UNC Hospital’s inpatient rehabilitation services by the proposed service area.

Projected Utilization

In Section Q, Form C, the applicant provides projected utilization for the first three project years, as summarized in the following table.

UNC Hospitals			
Inpatient Rehabilitation Services Projected Utilization			
	PY 1 FY2023	PY 2 FY2024	PY 3 FY2025
Beds	40	40	40
Admissions	767	856	907
Total Days of Care	11,245	12,543	13,290
Average Length of Stay	14.7	14.7	14.7
Occupancy Rate	77.0%	85.9%	91.0%

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

Project future growth in inpatient rehabilitation utilization based on historical utilization growth - The applicant states that it calculated the average annual growth rate of 6.0 percent for inpatient rehabilitation services based on data from FY2017 to FY2020, and assumes the future average annual growth of the hospital’s inpatient rehabilitation services will be equal to that rate through the first three operating years of the proposed project.

Project utilization of UNC Hospital’s inpatient rehabilitation beds based on projected demand and capacity by year - The applicant states that capacity constraints will prevent the hospital from serving the projected demand for inpatient rehabilitation services until the additional 10 inpatient rehabilitation beds become operational in FY2023. The applicant states,

As discussed above, the existing 30-bed rehabilitation unit has reached maximum effective capacity; thus, UNC Hospitals assumes that it will only be able to provide 9,949 days of care annually until the proposed additional 10 inpatient rehabilitation beds become operational in SFY 2023. Thus, UNC Hospitals will only be able to partially meet the patient demand projected in SFY 2021 and SFY 2022. Once the proposed additional beds become operational, UNC Hospitals expects to be able to serve 95 percent of patient demand in SFY 2023, ramping up to 100 percent of patient demand in in SFY 2024 and SFY 2025, as shown below.

UNC Hospitals Projected Inpatient Rehabilitation Days of Care

	SFY21	SFY22	SFY23	SFY24	SFY25
<i>Total Days of Care</i>	10,542	11,171	11,837	12,543	13,290
<i>Percent of Patient Demand Served</i>	94%	89%	95%	100%	100%
<i>Projected Inpatient Rehabilitation Days of Care</i>	9,949	9,949	11,245	12,543	13,290

Project average daily census and total admissions based on projected days of care and historical average length of stay - The applicant states that it calculated the average length of stay (ALOS) of 14.7 days based on historical utilization data from FY2020, and assumes the ALOS will remain constant at 14.7 days through the first three full years of operation. Based on the projected patient days and ALOS, the applicant projects the average daily census and admissions to the inpatient rehabilitation beds through the first three operating years of the project.

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

- Projected utilization is based on historical utilization of UNC Hospital’s inpatient rehabilitation services, and the projected population growth and aging for the Orange County service area.
- The applicant provides reasonable and adequately supported information to justify the need for the 10 additional inpatient rehabilitation beds.

Access

In Section C.7, pages 28-29, the applicant states it will 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 59, the applicant projects the following payor mix for UNC Hospitals’ inpatient rehabilitation services during the third year of operation (FY2025) following completion of the project, as shown in the following table.

Payment Source	Percent of Total Days of Care for Inpatient Rehabilitation
Self Pay	9.3%
Insurance^	26.5%
Medicare^	41.6%
Medicaid^	20.1%
Other*	2.5%
Total**	100.0%

Source: Table on page 59 of the application.

*The applicant states the “Other” category includes Workers Compensation and other government payors.

**Totals may not foot due to rounding.

^Includes any managed care plans.

The projected payor mix is reasonable and adequately supported.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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.

NA

The applicant does not propose the reduction or elimination of a service. 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

UNC Hospitals proposes to develop 10 additional inpatient rehabilitation beds on the Hillsborough campus pursuant to Policy AC-3 for a total of 40 inpatient rehabilitation beds upon project completion.

In Section E, pages 36-37, 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 option is not an effective alternative because it would not permit the hospital to accommodate increasing patient demand and it would also be unable to support additional PM&R residents.

Apply for a different number of inpatient rehabilitation beds: The applicant states it considered this alternative, but determined that it was less effective because ten additional inpatient rehabilitation beds is the number of additional beds required to support the addition of a fourth residency position in the PM&R department, and can be accomplished in a “*resource-responsible*” and cost-effective manner within the expansion plans at the Hillsborough campus.

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 application is conforming to all statutory and regulatory criteria.
- The applicant provides credible information to explain why it believes the proposed project is the most effective alternative.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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 develop no more than ten additional inpatient rehabilitation beds on the Hillsborough campus for a total of no more than 40 inpatient rehabilitation beds upon project completion.**
- 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 Q of the application and that would otherwise require a certificate of need.**
- 4. For each of the first five years of operation, University of North Carolina Hospitals at Chapel Hill shall submit to the Healthcare Planning and Certificate of Need Section a detailed description of how the project achieves the academic requirements of the appropriate sections of Policy AC-3, paragraph 2 [items 1 through 4] as proposed in the certificate of need application.**
- 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. 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.**
- 7. 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

UNC Hospitals proposes to develop 10 additional inpatient rehabilitation beds on the Hillsborough campus pursuant to Policy AC-3 for a total of 40 inpatient rehabilitation beds upon project completion.

Capital and Working Capital Costs

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

Site Preparation	\$417,591
Construction/Renovation Costs	\$9,719,429
Landscaping	\$81,609
Architectural/Engineering Fees	\$678,625
Medical Equipment Costs	\$512,135
Furniture	\$236,980
Consultant Fees	\$27,861
Other Costs	\$367,034
Total	\$12,068,264

In Section Q, Form F.1(a), the applicant provides the assumptions used to project the capital cost.

In Section F.3, page 40, the applicant projects there will be no start-up costs or initial operating expenses associated with the proposed project because it is not a new service.

Availability of Funds

In Section F.2, page 38, the applicant states that the capital cost will be funded as shown in the table below.

Sources of Capital Cost Financing		
Type	UNC Hospitals	Total
Loans	\$0	\$0
Accumulated reserves or OE *	\$12,068,264	\$12,068,264
Bonds	\$0	\$0
Other	\$0	\$0
Total Financing	\$12,068,264	\$12,068,264

* OE = Owner's Equity

In Exhibit F.2-1, the applicant provides a letter dated April 15, 2020, from the Chief Financial Officer for UNC Hospitals documenting its intention to provide accumulated reserves to finance the proposed project. Exhibit F.2-2 contains a copy of the audited financial statements for UNC Hospitals for the year ended June 30, 2019 which indicate that UNC Hospitals had \$241 million in cash and cash equivalents as of June 30, 2019. The applicant adequately demonstrates that sufficient funds will be available for the capital needs of the project.

Financial Feasibility

The applicant provided pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.2, the applicant projects that revenues will exceed operating expenses in the second and third full fiscal years of the project, as shown in the table below.

UNC Hospitals Inpatient Rehabilitation Revenue and Expenses			
	PY 1 (FY2023)	PY 2 (FY2024)	PY 3 (FY2025)
Patient Days of Care	11,245	12,543	13,290
Total Gross Revenues (Charges)	\$23,513,463	\$27,013,638	\$29,483,207
Total Net Revenue	\$11,599,659	\$13,326,388	\$14,544,652
Net Revenue/Day of Care	\$1,032	\$1,062	\$1,094
Total Operating Expenses (Costs)	\$11,782,700	\$13,206,063	\$14,211,903
Operating Cost/Day of Care	\$1,047	\$1,053	\$1,069
Net Income / (Loss)	(\$183,041)	\$120,325	\$332,749

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

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

UNC Hospitals proposes to develop 10 additional inpatient rehabilitation beds on the Hillsborough campus pursuant to Policy AC-3 for a total of 40 inpatient rehabilitation beds upon project completion.

N.C.G.S. §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.*” On page 107, the 2020 SMFP states, “*A rehabilitation bed’s service area is the Health Service Area (HSA) in which the beds are located.*” Appendix A, page 447 of the 2020 SMFP, contains a map of the state which shows the counties within each of the state’s six HSAs. HSA IV contains the following counties: Chatham, Durham, Franklin, Granville, Johnston, Lee, Person, Orange, Vance, Wake and Warren. Thus, for this review, the service area is HSA IV.

The following table shows the existing and approved inpatient rehabilitation beds in HSA IV.

Provider	Beds	FY2019 Days of Care	FY2019 Utilization Rate
Duke Raleigh Hospital	12	0	0.0%
Duke Regional Hospital	30	7,704	70.3%
Maria Parham Health	11	1,901	47.3%
University of North Carolina Hospitals	30	9,373	85.5%
WakeMed	106	27,065	69.9%
Total	189	46,043	66.7%

Source: Proposed 2021 State Medical Facilities Plan, Table 8A.

In Section G.3, pages 44-45, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved services in the proposed service area. The applicant states:

“As discussed in Section C.4, UNC Hospitals is the only provider of inpatient rehabilitation beds in Orange County and the rehabilitation unit has reached its functional capacity with a wait list for a bed. Further, none of the other existing inpatient rehabilitation units can support the educational and training goals of the proposed project, particularly given the physician supervision and educational capacity necessary to meet all applicable requirements and industry guidelines. In addition, as discussed previously, 20 beds were approved subsequent to the 2012 SMFP, but have yet to be developed and remain unavailable for patient care. As such, the proposed additional 10 inpatient rehabilitation beds will not result in any unnecessary duplication of services, but rather, will serve to improve access, patient care, and resident training capabilities.”

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 10 additional inpatient rehabilitation beds are needed and that there are no other existing providers of inpatient rehabilitation services in the proposed service area to meet the identified need.

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.

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

In Section Q, Form H, the applicant provides the current and projected full-time equivalent (FTE) staffing for the proposed services as shown in the following table.

UNC Hospitals Inpatient Rehabilitation Services Staffing (FTE)				
Position	Current (FY2019)	FY1 (FY2023)	FY2 (FY2024)	FY3 (FY2025)
Program Manager/Administrator	1.0	1.0	1.0	1.0
Registered Nurses	28.6	35.6	39.7	42.0
Nursing Assistant/Aides	11.5	14.2	15.9	16.8
Clinical Support Technicians	8.4	10.4	11.6	12.3
Total*	49.4	61.2	68.1	72.2

Source: Form H in Section Q of the application.

*Totals may not foot due to rounding

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 46-47, 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 47, the applicant identifies the physician that will continue to serve as medical director for inpatient rehabilitation services at UNC Hospitals. In Exhibit H.4, the applicant provides supporting documentation.

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

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 48, the applicant states UNC Hospitals currently provides all of the ancillary and support services necessary for the proposed inpatient rehabilitation services. The applicant states,

“As an existing full-service academic medical center, UNC Hospitals has all ancillary and support services in place to support hospital operations, including the existing rehabilitation services at its Hillsborough Campus. These existing ancillary and support services also will support the ten additional rehabilitation beds proposed in this application. Patients may require the use of any of UNC Hospitals’ existing ancillary and support services including laboratory, radiology, pharmacy, dietary, housekeeping, maintenance, and administration, among others.”

In Section I.1, page 48, and Exhibit I.1, the applicant adequately explains how each ancillary and support service will be made available. In Section I.2, page 48, the applicant describes its existing and proposed relationships with other local health care and social service providers. The applicant 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

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 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.2, page 51, the applicant states the project will be located in 7,994 square feet of new space currently under development. Line drawings are provided in Exhibit C.1-2.

In Section K.3, page 51, the applicant adequately explains how the cost, design, and means of construction represent the most reasonable alternative for the proposal.

In Section K.3, page 52, 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.3, page 52, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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 56, the applicant provides the historical payor mix for the hospital's inpatient rehabilitation services for FY2019, as shown in the table below.

Payment Source	Percent of Total Days of Care for Inpatient Rehabilitation
Self Pay	9.3%
Insurance^	26.5%
Medicare^	41.6%
Medicaid^	20.1%
Other*	2.5%
Total**	100.0%

Source: Table on page 56 of the application.
 *The applicant states the "Other" category includes Workers Compensation and other government payors.
 **Totals may not foot due to rounding.
 ^Including any managed care plans.

In Section L.1, page 55, the applicant provides the following comparison.

	Percentage of Total Patients Served by the Facility during the Last Full FY2019	Percentage of the Population of the Service Area
Female	58.4%	52.2%
Male	41.6%	47.8%
Unknown	0.0%	0.0%
64 and Younger	74.2%	86.0%
65 and Older	25.8%	14.0%
American Indian	0.6%	0.6%
Asian	2.0%	8.3%
Black or African-American	22.4%	11.8%
Native Hawaiian or Pacific Islander	0.1%	0.1%
White or Caucasian	61.3%	76.6%
Other Race	9.5%	2.6%
Declined / Unavailable	4.1%	0.0%

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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

Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section L.2, page 56, the applicant states,

“UNC Hospitals has long since satisfied its “free care” obligation under the Hill-Burton Act. Charity care provided by UNC Hospitals for State Fiscal Year 2019 is estimated to be more than \$266 million. UNC Hospitals provides care to all persons based only on their need for care and without regard to minority status or handicap/disability.”

In Section L.2, pages 57-58, the applicant states that during the last five years, five patient civil rights access complaints have been filed against its facilities, including UNC Hospitals, Nash UNC Healthcare, UNC Lenoir Healthcare, UNC Rockingham Hospital and Caldwell Memorial Hospital. The applicant states that two complaints have been resolved and three are still pending.

The Agency reviewed the:

- Application
- Exhibits to the application

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 59, the applicant projects the following payor mix for the hospital's inpatient rehabilitation services during the third year of operation (FY2025) following completion of the project, as shown in the following table.

Payment Source	Percent of Total Days of Care for Inpatient Rehabilitation
Self Pay	9.3%
Insurance^	26.5%
Medicare^	41.6%
Medicaid^	20.1%
Other*	2.5%
Total**	100.0%

Source: Table on page 59 of the application.

*The applicant states the "Other" category includes Workers Compensation and other government payors.

**Totals may not foot due to rounding.

^Includes any managed care plans.

As shown in the table above, during the third full fiscal year of operation, the applicant projects that 9.3 percent of total inpatient rehabilitation services will be provided to self-pay patients, 41.6 percent to Medicare patients, and 20.1 percent to Medicaid patients.

In Section L.3, page 59, the applicant provides the assumptions and methodology used to project payor mix during the third full fiscal year 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.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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 59, the applicant adequately describes the range of means by which patients will have access to the proposed services.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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 61-62, the applicant describes the extent to which health professional training programs in the area have access to the proposed health services for training purposes.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

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

UNC Hospitals proposes to develop 10 additional inpatient rehabilitation beds on the Hillsborough campus pursuant to Policy AC-3 for a total of 40 inpatient rehabilitation beds upon project completion.

N.C.G.S. §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.” On page 107, the 2020 SMFP states, “A rehabilitation bed’s service area is the Health Service Area (HSA) in which the beds are located.” Appendix A, page 447 of the 2020 SMFP, contains a map of the state which shows the counties within each of the state’s six HSAs. HSA IV contains the following counties: Chatham, Durham, Franklin, Granville, Johnston, Lee, Person, Orange, Vance, Wake and Warren. Thus, for this review, the service area is HSA IV.

The following table shows the existing and approved inpatient rehabilitation beds in HSA IV.

Provider	Beds	FY2019 Days of Care	FY2019 Utilization Rate
Duke Raleigh Hospital	12	0	0.0%
Duke Regional Hospital	30	7,704	70.3%
Maria Parham Hospital	11	1,901	47.3%
University of North Carolina Hospitals	30	9,373	85.5%
WakeMed	106	27,065	69.9%
Total	189	46,043	66.7%

Source: Proposed 2021 State Medical Facilities Plan, Table 8A.

In Section N.1, page 63, 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. The applicant states,

“UNC Hospitals believes that the proposed project will foster competition in the proposed service area. In particular, UNC Hospitals has a unique mission to serve patients from across the state, and regularly cares for patients from all 100 counties. As such, the proposed project will enhance competition by expanding the capacity of inpatient rehabilitation services at UNC Hospitals, which will improve its ability to compete with other providers. The proposed project will enhance the provision of timely, quality patient care, and will assist UNC Hospitals in meeting its four-fold mission of patient care, teaching, research, and community service. UNC Hospitals maintains that the development of additional inpatient rehabilitation capacity in HSA IV at its Hillsborough campus will promote cost-effectiveness, quality, and access to services in the proposed service area and will thus be in compliance with the spirit and legislative intent of the Certificate of Need Law.”

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, K, N and Q of the application and any exhibits).
- Quality services will be provided (see Sections N and O of the application and any exhibits).
- Access will be provided to underserved groups (see Sections C, D, N and 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 A.7, page 8, the applicant identifies three health care facilities owned or managed by UNC Health Care System that provide inpatient rehabilitation services: UNC Hospital Hillsborough Campus, Nash Health Care and UNC Lenoir Health Care.

In Section O.3, pages 67-68, the applicant states that, during the 18 months immediately preceding the submittal of the application, none of the UNC Health Care System facilities that provide inpatient rehabilitation services was out of compliance with CMS conditions of participation. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, all of the UNC Health Care System facilities are in compliance with all CMS 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 UNC Health Care System 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.

C

UNC Hospitals proposes to develop 10 additional inpatient rehabilitation beds on the Hillsborough campus pursuant to Policy AC-3 for a total of 40 inpatient rehabilitation beds upon project completion. The Criteria and Standards for Rehabilitation Services, NCAC 14C .2800, are applicable.

SECTION .2800 – CRITERIA AND STANDARDS FOR REHABILITATION SERVICES

10A NCAC 14C .2803 PERFORMANCE STANDARDS

(a) *An applicant proposing to establish new rehabilitation beds shall not be approved unless the average occupancy, over the nine months immediately preceding the submittal of the application, of the total number of licensed rehabilitation beds within the facility in which the new beds are to be operated was at least 80 percent.*

-C- In Section C.8, page 30, the applicant provides a table showing the average occupancy over the nine months immediately preceding the submittal of the application for the hospital's 30 existing inpatient rehabilitation beds was 88.3 percent. The application is conforming to this Rule.

(b) *An applicant proposing to establish new rehabilitation beds shall not be approved unless occupancy is projected to be 80 percent for the total number of rehabilitation beds to be operated in the facility no later than two years following completion of the proposed project.*

-C- In Section C.8, pages 30-31, the applicant projects average occupancy for the total number of inpatient rehabilitation beds at UNC Hospitals will be 85.9 percent in the second year following completion of the proposed project (FY2024). The application is conforming to this Rule.