

## REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conforming as Conditioned

NC = Nonconforming

NA = Not Applicable

Decision Date: August 29, 2024

Findings Date: August 29, 2024

Project Analyst: Yolanda W. Jackson

Co-Signer: Gloria C. Hale

Project ID #: J-12521-24

Facility: University of North Carolina Medical Center

FID #: 923517

County: Orange

Applicant(s): University of North Carolina Hospitals at Chapel Hill

Project: Change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop no more than 26 additional acute care beds pursuant to the 2024 SMFP need determination for a total of no more than 752 non-neonatal acute care beds on that campus upon completion of this project and Project ID #J-11337-17 (develop 9 acute care beds), and a total of no more than 885 acute care beds, including neonatal beds, on the hospital license

## REVIEW CRITERIA

G.S. 131E-183(a): The Department shall review all applications utilizing the criteria outlined in this subsection and shall determine that an application is either consistent with or not in conflict with these criteria before a certificate of need for the proposed project shall be issued.

- (1) The proposed project shall be consistent with applicable policies and need determinations in the State Medical Facilities Plan, the need determination of which constitutes a determinative limitation on the provision of any health service, health service facility, health service facility beds, dialysis stations, operating rooms, or home health offices that may be approved.

C

The University of North Carolina Hospitals at Chapel Hill (hereinafter “UNC Hospitals” or “the applicant”) proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 additional acute care beds pursuant to the 2024 State Medical Facilities Plan (SMFP) need determination for a total of no more than 752 non-neonatal acute care beds at the University of North Carolina (UNC) Medical Center on the Chapel Hill campus upon completion of this project and Project ID #J-11337-17 (add 9 acute care beds) and a total of 885 acute care beds, including neonatal beds, on the hospital license.

For clarification purposes, any references to acute care beds in these findings mean non-neonatal acute care beds, unless otherwise specified.

UNC Hospitals operates two hospitals on its license: UNC Medical Center in Chapel Hill and UNC Hospitals – Hillsborough. Both hospital campuses are located in Orange County. Upon completion of the proposed project, Project ID #J-11337-17 (add 9 acute care beds) on the Chapel Hill campus, Project ID #J-12320-23 (develop 24 Level IV NICU beds) on the Chapel Hill campus, and Project ID #J-11163-16 (develop 29 acute care beds) on the Hillsborough campus, UNC Hospitals will have a total of 885 acute care beds, including neonatal beds, on its license.

A certificate of need was issued on July 28, 2016, for Project ID #J-11164-16, to develop 55 additional acute care beds which authorized a capital expenditure of \$28,842,730. The current application proposes a cost increase of \$61,128,270 (a 112% increase) over the previously approved capital expenditure for a total combined capital expenditure of \$89,971,000. The applicant states that the costs of the application are due to updated market pricing related to the costs of the previously approved project and also include the costs of development of the proposed additional 26 acute care beds.

### **Need Determination**

Chapter 5 of the 2024 State Medical Facilities Plan (SMFP) includes a methodology for determining the need for additional acute care beds in North Carolina by service area. The State Health Coordinating Council (SHCC) approved an adjusted need determination for 26 acute care beds in the Orange County service area.

Pages 34-35 of the 2024 SMFP state:

*“A person who proposes to operate additional acute care beds in a hospital must show that the hospital will provide:*

- 1. a 24-hour emergency services department; and*
- 2. inpatient medical services to both surgical and non-surgical patients; and*
- 3. if proposing a new licensed hospital, medical and surgical services on a daily basis within at least five of the following major diagnostic categories (MDC) recognized by the Centers for Medicare & Medicaid services (CMS) listed below... [listed on pages 34-35 of the 2024 SFMP].”*

The applicant does not propose to develop more acute care beds than are determined to be needed in the Orange County service area. In Section B, page 25, the applicant adequately demonstrates that it meets the requirements imposed on persons proposing to operate additional acute care beds in a hospital as outlined in Chapter 5 of the 2024 SMFP.

### **Policies**

There are two policies in the 2024 SMFP applicable to this review. *Policy GEN-3: Basic Principles* and *Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities*.

*Policy GEN-3: Basic Principles*, on page 29 of the 2024 SMFP, states:

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

Promote Safety and Quality: The applicant describes how it believes the proposed project would promote safety and quality in Section B, pages 27-29 and Exhibit B.20-1 “Improvement and Safety Plan FY2024.” UNC Hospitals earned a 5-star rating from the Centers for Medicare and Medicaid Services, denoting its hospital quality and safety, in 2023. The information provided by the applicant is reasonable and adequately supports the determination of that the applicant’s proposal would promote safety and quality.

Promote Equitable Access: The applicant describes how it believes the proposed project would promote equitable access in Section B, pages 29-30 and referenced exhibits including Exhibit B.20-5 “Assuring Access at UNC Health Care” and Exhibit B.20-6 and “Patient Financial Assistance.” UNC Hospitals was recognized as a “Best Regional Hospital for Equitable Access” by *U.S. News and World Report* in 2024. The information provided by the applicant is reasonable and adequately supports the determination that the applicant’s proposal would promote equitable access.

Maximize Healthcare Value: The applicant describes how it believes the proposed project would maximize health care value in Section B, pages 30-31.

On pages 30-31 the applicant states,

*“Further, UNC Hospitals, as a member of the larger UNC Health system, benefits from 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 and efficient utilization of existing resources.”*

The information provided by the applicant is reasonable and adequately supports the determination that the applicant’s proposal will maximize health care value and that the

applicant's projected volumes incorporate the concepts of quality, equitable access and maximum value for resources expended in meeting the need identified in the 2024 SMFP. Therefore, the application is consistent with *Policy GEN-3*.

*Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities*, on page 30 of the 2024 SMFP, states:

*“Any person proposing a capital expenditure greater than \$4 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, pages 13-14, 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. Therefore, the application is consistent with *Policy GEN-4*.

## **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 based on the following:

- The applicant does not propose to develop more acute care beds than are determined to be needed in Orange County and meets the requirements imposed on persons proposing to add additional acute care beds to a hospital as described in Chapter 5 of the 2024 SMFP.
  - The applicant adequately demonstrates that the proposal is consistent with *Policy GEN-3* for the following reasons:
    - The applicant adequately documents how the project will promote safety and quality in the delivery of acute care bed services in Orange County.
    - The applicant adequately documents how the project will promote equitable access to acute care bed services in Orange County.
    - The applicant adequately documents how the project will maximize healthcare value for the resources expended.
  - The applicant adequately demonstrates that the proposal is consistent with *Policy GEN-4* because 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, ... persons [with disabilities], the elderly, and other underserved groups are likely to have access to the services proposed.

C

The applicant proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 additional acute care beds pursuant to the 2024 SMFP need determination.

A certificate of need was issued on July 28, 2016, for Project ID #J-11164-16 and authorized a capital expenditure of \$28,842,730. The current application proposes a capital cost increase of \$61,128,270 (a 112% increase) over the previously approved capital expenditure for a total combined capital expenditure of \$89,971,000. The applicant states that this cost overrun application is necessary due to updated market pricing for materials, labor, medical equipment, furniture, and associated fees from 2016 to present and to develop the proposed additional 26 acute care beds.

**Patient Origin**

On page 31, the 2024 SMFP defines the service area for acute care beds as “... *the single or multicounty grouping shown in Figure 5.1.*” Figure 5.1, on page 36, shows Orange County as its own acute care bed service area. Thus, the service area for this facility is Orange County. Facilities may also serve residents of counties not included in their service area.

The following table illustrates current and projected patient origin for acute care beds.

<b>UNC Medical Center – Acute Care Beds</b>				
County	Historical 7/1/2022 – 6/30/2023		Third Full FY of Operation following Project Completion 7/1/2030 – 6/30/2031	
	# of Patients	% of Total	# of Patients	% of Total
Orange	4,427	14.6%	4,894	14.6%
Wake	4,033	13.3%	4,458	13.3%
Alamance	2,638	8.7%	2,916	8.7%
Durham	1,940	6.4%	2,145	6.4%
Chatham	1,880	6.2%	2,078	6.2%
Cumberland	1,213	4.0%	1,341	4.0%
Lee	1,182	3.9%	1,307	3.9%
Harnett	1,061	3.5%	1,173	3.5%
Johnston	849	2.8%	939	2.8%
Robeson	819	2.7%	905	2.7%
Moore	606	2.0%	670	2.0%
Sampson	576	1.9%	637	1.9%
Nash	546	1.8%	603	1.8%
Other^	8,550	28.2%	9,453	28.2%
<b>Total</b>	<b>30,320</b>	<b>100.0%</b>	<b>33,519</b>	<b>100.0%</b>

Source: Section C, pages 39 and 42

^Other NC counties as well as other states

In Section C, page 41, the applicant provides the assumptions and methodology used to project its patient origin. The applicant’s assumptions are reasonable and adequately supported because the projected patient origin is based on the facility’s FY 2023 patient origin.

**Analysis of Need**

In Section Q, Form F.1b, the applicant provides a summary of the capital cost approved in Project ID #J-11164-16, the changes proposed in this application, and the new total projected capital cost, as shown in the table below.

<b>UNC Medical Center - Previously Approved and Proposed Capital Cost</b>			
	Previously Approved (J-11164-16)	Projected Changes to Capital Cost (J-12521-24)	New Total Projected Capital Cost
Construction/Renovation Contract(s)	\$18,833,000	\$29,030,000	\$47,863,000
Architect/Engineering Fees	\$3,200,000	2,654,000	\$5,854,000
Medical Equipment	\$2,389,930	\$5,013,590	\$7,403,520
Furniture	\$1,841,800	\$3,231,878	\$5,073,678
Consultant Fees (CON, Legal, Other)	\$0	\$237,768	\$237,768
Other (Contingency, IT Costs)	\$2,578,000	\$20,961,034	\$23,539,034
<b>Total Capital Cost</b>	<b>\$28,842,730</b>	<b>\$61,128,270</b>	<b>\$89,971,000</b>

Source: Section Q, Form F1.b.

In Section C, pages 75-76, the applicant explains why the proposed increase in capital cost is necessary to develop the proposed project:

- The applicant states that the proposed new capital cost includes the cost overrun for Project ID #J-11164-16 and the proposed development of 26 additional acute care beds pursuant to the 2024 SMFP need determination.
- Construction/Renovation Contracts increased by \$29,030,000 from the approved project. This was due to the additional scope of the renovation required at both 7 Bed Tower and 4 West, and updated market pricing for materials and labor from 2016 to 2024.
- Medical equipment increased by \$5,013,590 due to updated market pricing for all relevant equipment as well as additional equipment needed to fully equip both 7 Bed Tower and 4 West, including the proposed 26 additional acute care beds.
- Furniture increased by \$3,231,878 due to updated market pricing for furniture as well as additional furniture needed to fully equip both 7 Bed Tower and 4 West, including the proposed 26 additional acute care beds.
- Architect/Engineering Fees increased by \$2,654,000 due to updated market conditions for labor, as well as additional renovation planning needed for 7 Bed Tower and 4 West to account for the proposed 26 additional acute care beds.
- Consultant Fees and Other Fees (including Contingency, IT Costs) increased by a total of \$21,198,802 due to additional needs at UNC Medical Center from 2016 to present day. The additional contingency amount is due to the proposed additional 26 acute care beds.
- The proposed project is in response to a need determination in the 2024 SMFP for 26 additional acute care beds in Orange County. On page 41, of the 2024 SMFP, the State Health Coordinating Council (SHCC), using the SMFP methodology, projected that UNC Hospitals in 2026 would account for 252,540 projected days of care, equating to an average daily census of 691 patients, and a need for a total of 885 acute care beds.
- The applicant states that the acute care beds are needed because of the projected growth rate for Orange County's population age 65 and older. By 2029, nearly 20 percent of Orange County's population is projected to be age 65 or older and this is significant because older residents utilize healthcare services more frequently.
- The applicant states that the utilization of its services has been increasing historically through multiple metrics and this growing utilization points to the need for additional resources including the proposed 26 additional acute care beds.
- The applicant states that there has been increased growth in observation patients at UNC Medical Center and while the acute care bed methodology does not account for these patients, the applicant states that it is an important factor to consider when assessing bed capacity. The applicant states that the observation patients are not patients being observed

post procedure or emergency department patients; rather, patients that have a condition that merit an overnight stay and these patients are typically housed in acute care beds.

- The applicant states that there has been an increase in emergency department (ED) utilization and additional acute care beds will be needed to treat inpatients admitted through the ED.

The information is reasonable and supported for the following reasons:

- There is a need determination in the 2024 SMFP for 26 additional acute care beds in Orange County. The applicant is the only hospital provider of acute care services in Orange County.
- The applicant adequately explains why additional costs are necessary to develop the proposed project.
- The applicant provides a letter in Exhibit F.1 from a licensed architect which certifies the proposed total capital cost of the project.
- The applicant provides reliable data, makes reasonable statements about the data, and uses reasonable assumptions about the data to demonstrate the projected population growth in the area and the projected growth of the population age 65 and older in the area.
- Increases in the facility’s historical utilization, occupancy and Case Mix Index data support the need for additional acute care beds.
- The applicant provides evidence of challenges in patient care it experiences as the result of existing capacity constraints.

Projected Utilization

In Section Q, Form C.1a and Form C.1b, the applicant provides historical and projected utilization, as illustrated in the following tables.

<b>UNC Medical Center Historical and Interim Facility Bed Utilization</b>					
	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>
# of Beds*	666	666	726	726	726
# of Discharges	29,432	30,149	30,149	30,149	30,149
# of Patient Days	216,325	221,593	221,593	221,593	221,593
Average Length of Stay	7.3	7.3	7.3	7.3	7.3
Occupancy Rate	89.0%	91.2%	83.6%	83.6%	83.6%

\*Excludes neonatal beds

<b>UNC Medical Center Projected Utilization upon Project Completion</b>				
	<b>Interim FY</b>	<b>1st Full FY</b>	<b>2nd Full FY</b>	<b>3rd Full FY</b>
	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>
# of Beds*	752	752	752	752
# of Discharges	30,149	30,758	31,379	32,013
# of Patient Days	221,593	226,069	230,636	235,295
Average Length of Stay	7.3	7.3	7.3	7.3
Occupancy Rate	80.7%	82.4%	84.0%	85.7%

\*Excludes neonatal beds

In Section Q, following Form C.1b, the applicant provides the assumptions and methodology used to project utilization, which is summarized below.

*Historical Utilization*

The applicant begins with the historical utilization for the UNC Hospitals license which includes UNC Medical Center in Chapel Hill and UNC Hospitals Hillsborough Campus in Hillsborough.

<b>Table 1: UNC Hospitals Historical Non-Neonatal Acute Care Days by Campus</b>							
	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024(A)*</b>	<b>CAGR**</b>
UNC Medical Center	209,056	198,968	207,998	210,414	216,325	221,593	1.2%
UNC Hospitals Hillsborough Campus	18,851	21,203	23,408	20,616	24,586	23,672	4.7%
<b>Total Non-Neonatal Acute Care Days</b>	<b>227,907</b>	<b>220,171</b>	<b>231,406</b>	<b>231,030</b>	<b>240,911</b>	<b>245,265</b>	<b>1.5%</b>

Source: Section Q, page 2

\*FY2024 figures annualized from seasonal trends of FY2023 (July-February).

\*\*Compound annual growth rate.

As illustrated above, the total non-neonatal acute bed days on the UNC Hospital license grew significantly from FY 2019 to FY 2024, annualized. The applicant further states that these acute care day increases correlated with significant occupancy strains at UNC Medical Center and were high enough to trigger a need for temporary bed overflow at UNC Medical Center, as illustrated in the following table.

<b>Table 2: UNC Medical Center Historical Non-Neonatal Acute Care Occupancy Percentages</b>		
	<b>FY2023</b>	<b>FY2024(A)*</b>
Non-Neonatal Acute Care Days	216,325	221,593
Licensed Non-Neonatal Acute Care Beds	666	666
Occupancy %	89.0%	91.2%

Source: Section Q, page 2

\*FY2024 figures annualized from seasonal trends of FY2023 (July-February).

*Projected Utilization*

In Section Q, Form C.1b, the applicant provides the historical and projected utilization for acute care beds at UNC Medical Center.

<b>UNC Medical Center Projected Acute Care Bed Utilization</b>				
	<b>Interim FY</b>	<b>1st Full FY</b>	<b>2nd Full FY</b>	<b>3rd Full FY</b>
	<b>FY2028</b>	<b>FY2029</b>	<b>FY 2030</b>	<b>FY 2031</b>
<b># of Patient Days</b>	221,593	226,069	230,636	235,295

Step 1: the applicant projects that the total number of acute care days in FY 2024, annualized – 221,593 – will remain flat through FY 2028, the fiscal year before the first full fiscal year of the project. After that, the applicant projects that the number of acute care days will grow at a compound annual growth rate (CAGR) of 2.02 percent through FY 2031, the third full fiscal year of the project. The rate of growth equals the county growth rate multiplier (CGRM) for Orange County as shown in the 2024 SMFP. The applicant believes that this rate of growth is reasonable given the methodology used by the State Health Coordinating Council (SHCC), historical acute care growth trends, and the projected population growth and aging in Chapel Hill and Orange County. The application of the growth rate is shown in the following table:

<b>Table 4: UNC Medical Center Projected Acute Care Days</b>									
	<b>FY2024(A)*</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>	<b>CAGR</b>
Acute Care Days	221,593	221,593	221,593	221,593	221,593	226,069	230,636	235,295	0.9%
Annual Growth Rate		0.0%	0.0%	0.0%	0.0%	2.02%	2.02%	2.02%	

Source: Section Q, page 4

\*FY2024 figures annualized from seasonal trends of FY2023 (July-February).

Next, the applicant applied the FY 2019 through FY 2024 annualized historical CAGR of 4.7% to non-neonatal acute care days at UNC Hospitals Hillsborough Campus to project acute care days through FY 2031, the third full fiscal year of the project, which is shown below.

<b>Table 5: UNC Hospitals Hillsborough Projected Acute Care Days</b>								
<b>FY2024(A)*</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>	<b>CAGR</b>
23,672	24,775	25,929	27,137	28,402	29,725	31,110	32,560	4.7%

Source: Section Q, page 4

\*FY2024 figures annualized from seasonal trends of FY2023 (July-February).

The applicant combines its projected utilization for its two campuses as follows:

<b>Table 6: UNC Hospitals Projected Acute Care Days</b>								
	<b>FY2024 (A)*</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>
UNC Medical Center	221,593	221,593	221,593	221,593	221,593	226,069	230,636	235,295
UNC Hospitals Hillsborough Campus	23,672	24,775	25,929	27,137	28,402	29,725	31,110	32,560
<b>Total Acute Care Days</b>	<b>245,265</b>	<b>246,368</b>	<b>247,522</b>	<b>248,730</b>	<b>249,995</b>	<b>255,794</b>	<b>261,746</b>	<b>267,854</b>

Source: Section Q, page 5

\*FY2024 figures annualized from seasonal trends of FY2023 (July-February).

The 2024 SMFP projects a total of 252,250 acute care days for UNC Hospitals in 2026. The applicant projects only 247,522 patients in FY 2026 and does not project reaching the SMFP projections until FY 2029.

Next, the applicant provides its projected occupancy rates for its existing and projected acute care beds on its license as follows:

<b>Table 7: UNC Hospitals License Projected Acute Care Occupancy Percentages</b>			
	<b>FY2029 (PY1)</b>	<b>FY2030 (PY2)</b>	<b>FY2031 (PY3)</b>
<b>UNC Medical Center</b>			
Acute Care Days	226,069	230,636	235,295
Licensed Acute Care Beds *	752	752	752
Average Daily Census	619.4	631.9	644.6
Occupancy %	82.4%	84.0%	85.7%
<b>UNC Hospitals Hillsborough Campus</b>			
Acute Care Days	29,725	31,110	32,560
Licensed Acute Care Beds**	133	133	133
Average Daily Census	81.4	85.3	89.2
Occupancy %	61.2%	64.1%	67.1%
<b>UNC Hospitals License</b>			
Acute Care Days	255,794	261,746	267,854
Licensed Acute Care Beds	885	885	885
Average Daily Census	700.9	716.9	733.7
<b>Occupancy %</b>	<b>79.2%</b>	<b>81.0%</b>	<b>82.9%</b>

Source: Section Q, page 6, UNC Hospitals internal data.

\*This total includes 666 acute care beds currently licensed at UNC Medical Center as well as 51 acute care beds under development pursuant to Project ID #J-11164-16, nine acute care beds under development pursuant to Project ID # J-11337-17, and the 26 acute care beds proposed as part of this application (666 + 51 + 9 +26 = 752).

\*\*This total includes 123 acute care bds currently licensed at UNC Hospitals Hillsborough Campus, as well as 10 acute care beds under development pursuant to Project ID # J-11163-16 (123 + 10 = 133).

The occupancy rates for acute care beds at UNC Medical Center and UNC Hospitals license are projected to exceed the performance standard target occupancy of 78 percent in FY 2029 through FY 2031, the project’s first three full fiscal years. During that period, the Average Daily Census (ADC) for UNC Medical Center and UNC Hospitals license is projected to be greater than 400.

*Projected Discharges*

The applicant projects the discharges for UNC Medical Center and UNC Hospitals. The applicant uses its average length of stay (ALOS) for all acute care days, including neonatal acute care days, at UNC Medical Center as recorded on its 2024 hospital license renewal application for FY 2023. These values were 7.7 days for UNC Medical Center and 7.5 days for UNC Hospitals two campuses combined. The applicant states that acute care services are increasing at UNC Medical Center, and the acuity of services provided there is also increasing, which is likely to increase length of stay in the future.

<b>Table 12: UNC Medical Center Projected Discharges</b>									
	<b>FY2023</b>	<b>FY2024 (A) *</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029 (PY1)</b>	<b>FY2030 (PY2)</b>	<b>FY2031 (PY3)</b>
UNC Medical Center Total Acute Care Days	233,181	243,881	243,881	243,881	243,881	243,881	248,425	253,060	257,787
ALOS	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7
<b>Total Discharges**</b>	<b>30,320</b>	<b>31,711</b>	<b>31,711</b>	<b>31,711</b>	<b>31,711</b>	<b>31,711</b>	<b>32,302</b>	<b>32,905</b>	<b>33,519</b>

Source: Section Q, page 9

\*FY 2024 figures annualized from seasonal trends of FY 2023 data (July – February).

\*\*Total Discharges = Total Acute Care Days ÷ Average Length of Stay.

<b>Table 13: UNC Hospitals Projected Discharges</b>									
	<b>FY23</b>	<b>FY24 (A) *</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29 (PY1)</b>	<b>FY30 (PY2)</b>	<b>FY31 (PY3)</b>
UNC Hospitals Total Acute Care Days	257,767	267,552	268,655	269,810	271,018	272,282	278,150	284,170	290,346
ALOS	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
<b>Total Discharges</b>	<b>34,339</b> [34,369]	<b>35,643</b> [35,674]	<b>35,790</b> [35,821]	<b>35,943</b> [35,975]	<b>36,104</b> [36,136]	<b>36,273</b> [36,304]	<b>37,054</b> [37,087]	<b>37,856</b> [37,889]	<b>38,679</b> [38,713]

Source: Section Q, page 9

\*FY 2024 figures annualized from seasonal trends of FY 2023 data (July – February).

Note: Project Analyst’s corrections are in brackets.

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

- The applicant’s historical growth in utilization created the current need determination for 26 additional acute care beds in the 2024 SMFP for the Orange County Acute Care Bed Service Area. The applicant’s two hospital campuses, UNC Medical Center Chapel Hill and UNC Hospitals Hillsborough Campus, are the only hospitals operating in Orange County.
- The applicant projects its acute care bed utilization at UNC Medical Center Chapel Hill to grow at a CAGR of 2.02 percent through FY 2031 which equals the CGRM for Orange County as shown in the 2024 SMFP.
- The applicant projects acute care bed days at UNC Hospitals Hillsborough Campus based on historical growth over a 5-year period.

- The projected utilization of the applicant’s existing, approved, and proposed acute care beds meets the Performance Standard in 10A NCAC 14C .3803.

**Access to Medically Underserved Groups**

In Section B, page 29, the applicant states:

*“As North Carolina’s only state-owned, comprehensive, full-service hospital system, UNC Hospitals has the obligation to accept any North Carolina citizen requiring medically necessary treatment. No North Carolina citizen is presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status, or lack of medical insurance ...*

...

*UNC Hospitals regularly receives patients in need of care from across the state, many of whom are medically underserved. As such, the expansion proposed in this application will enable it to continue serving all patients in need of acute care, including the medically underserved.”*

The applicant provides the estimated percentage of total patients for each medically underserved group during the third full fiscal year, as shown in the following table.

<b>Medically Underserved Groups</b>	<b>Estimated % of Total Patients in 3<sup>rd</sup> Full FY</b>
Low income persons	
Racial and ethnic minorities	36.1%
Women	57.3%
Persons with disabilities	
Persons 65 and older	32.0%
Medicare beneficiaries	35.9%
Medicaid recipients	18.5%

Source: Section C, page 71.

In Section C, page 71, the applicant states that it does not maintain data on the number of low-income persons and disabled persons it serves and cannot reasonably estimate their percentage of total patients; however, the applicant also states neither low-income persons nor disabled persons are denied access to services.

The applicant adequately describes the extent to which all residents of the service area, including underserved groups, are likely to have access to the proposed services based on the following:

- The applicant provides a statement saying it will provide service to all residents of the service area, including underserved groups, without regard for anything other than the need for acute care bed services.
- The applicant provides documentation of its existing policies regarding non-discrimination and financial access in Exhibits B.20-5 and B.20-6.

## **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 all the reasons described above.

- (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, ... persons [with disabilities], and other underserved groups and the elderly to obtain needed health care.

NA

The applicant does not propose to reduce a service, eliminate a service or relocate a facility or 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.

C

The applicant proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 acute care beds in Orange County pursuant to the 2024 SMFP need determination.

In Section E, pages 84-85, 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 where:

Develop Additional Beds at UNC Hospitals Hillsborough Campus – The applicant considered developing some or all of the 26 acute care beds allocated in the 2024 SMFP need determination for Orange County at UNC Hospitals Hillsborough Campus. UNC Medical Center’s historical acute care bed utilization is high. Utilization at the UNC Hospitals Hillsborough Campus is growing; however, it is expected to have more capacity than UNC Medical Center for the next few years. Therefore, this alternative was less effective in terms of providing the most accessible care to patients in Orange County and the entire state of North Carolina.

Develop a New Acute Care Hospital – The applicant considered developing an entirely new acute care hospital to include the 26 acute care beds in the 2024 SMFP need determination for Orange County. This alternative would be more costly than the proposed project to develop 26 acute care beds at UNC Medical Center. While the proposed project requires renovation costs in order to create the necessary space for the proposed acute care beds, these costs are much lower than the anticipated cost of building a new hospital campus. The applicant states that 94 percent of the total Orange County population is within 15 minutes of one of its acute care facilities in Orange County - UNC Medical Center or UNC Hospital Hillsborough Campus. The applicant states that an additional hospital would require the duplication of services, such as ancillary and support services, which do not need to be duplicated in order to develop the proposed 26 acute care beds. Therefore, this alternative is less effective and more costly than the proposed project.

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

- There is a 2024 SMFP need determination for 26 acute care beds in Orange County.
- The applicant provides reasonable information to explain why it believes the proposed project is the most effective alternative.
- The application is conforming to all other statutory and regulatory review criteria. Therefore, the application can be approved.

### **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 (hereinafter certificate holder) shall materially comply with all representations made in this application and the representations in Project ID #J-11164-16. Where representations conflict, the certificate holder shall materially comply with the last made representation.**
- 2. The certificate holder shall develop no more than 26 additional non-neonatal acute care beds at UNC Hospitals Chapel Hill campus for a total of no more than 752 non-neonatal acute care beds on that campus. This project would bring the total number of acute care beds for UNC Hospitals to 885 acute care beds, inclusive of neonatal beds, upon completion of this project, Project ID #J-11164-16, Project ID #J-11337-17, Project ID # J-12320-23, Project ID #J-11338-17, and Project ID # J-11163-16.**

- 3. Upon completion of the project, University of North Carolina Hospitals shall be licensed for no more than 885 acute care beds, including any Level II, III, or IV NICU beds.**
  - 4. The certificate holder shall not acquire as part of this project 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.**
  - 5. Progress Reports:**
    - a. Pursuant to G.S. 131E-189(a), the certificate holder shall submit periodic reports on the progress being made to develop the project consistent with the timetable and representations made in the application on the Progress Report form provided by the Healthcare Planning and Certificate of Need Section. The form is available online at: <https://info.ncdhhs.gov/dhsr/coneed/progressreport.html>.**
    - b. The certificate holder shall complete all sections of the Progress Report form.**
    - c. The certificate holder shall describe in detail all steps taken to develop the project since the last progress report and should include documentation to substantiate each step taken as available.**
    - d. The first progress report shall be due on March 3, 2025.**
  - 6. The certificate holder 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.**
  - 7. The certificate holder shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency in writing prior to issuance of the certificate of need.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

The applicant proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 acute care beds in Orange County pursuant to the 2024 SMFP need determination.

**Capital and Working Capital Costs**

On Form F.1b in Section Q, the applicant provides a summary of the capital cost approved in Project ID #J-11164-16, the changes proposed in this application, and the new projected capital cost as shown in the table below.

<b>UNC Medical Center - Previously Approved and Proposed Capital Cost</b>			
	<b>Previously Approved (J-11164-16)</b>	<b>Projected Changes to Capital Cost (J-12521-24)</b>	<b>New Total Projected Capital Cost</b>
Construction/Renovation Contract(s)	\$18,833,000	\$29,030,000	\$47,863,000
Architect/Engineering Fees	\$3,200,000	2,654,000	\$5,854,000
Medical Equipment	\$2,389,930	\$5,013,590	\$7,403,520
Furniture	\$1,841,800	\$3,231,878	\$5,073,678
Consultant Fees (CON, Legal, Other)	\$0	\$237,768	\$237,768
Other (Contingency, IT Costs)	\$2,578,000	\$20,961,034	\$23,539,034
<b>Total Capital Cost</b>	<b>\$28,842,730</b>	<b>\$61,128,270</b>	<b>\$89,971,000</b>

Immediately following Form F.1b in Section Q, the applicant provides the assumptions used to project capital cost. The applicant adequately demonstrates that the project capital cost is based on reasonable and adequately supported assumptions based on the following:

- Construction costs are based on the experience of the project architect and associated professional estimator with similar projects.
- Architect and engineering costs are based on the experience of the project architect and the applicant with similar projects.
- Medical equipment costs and furniture costs are based on previously provided vendor estimates and the experience of the applicant with similar projects.
- Consultant fees and other costs are based on the experience of the applicant with similar projects.

In Section F, pages 88-89, the applicant states there will be no start-up costs or initial operating expenses because acute care bed services already exist at the hospital.

**Availability of Funds**

The current application proposes a capital cost increase of \$61,128,270 over the previously approved capital cost of \$28,842,730 for Project ID #J-11164-16, for a combined total capital cost of \$89,971,000.

In Section F, pages 95-96, the applicant states the increase in projected capital costs will be funded through the accumulated reserves of UNC Hospitals.

Exhibit F.2-1 contains a letter dated June 17, 2024, from the Chief Financial Officer of UNC Hospitals stating that UNC Hospitals will provide the funding for the projected increase in capital costs from accumulated reserves.

Exhibit F.2-2 contains the audited financial statements for UNC Hospitals for the year ending June 30, 2023. As of June 30, 2023, UNC Hospitals had adequate cash and assets to fund the proposed increase in the projected capital cost.

The applicant adequately demonstrates the availability of sufficient funds for the proposed increase in the projected capital cost based on the following:

- The applicant provides a letter from an appropriate company officer confirming the availability of the funding proposed for the capital needs of the project and a commitment to use that funding accordingly.
- The applicant provides adequate documentation of the accumulated reserves it proposes to use to fund the capital needs of the project.

**Financial Feasibility**

In Section Q, Form F.2b, the applicant projects revenues will exceed operating expenses in each of the first three operating years as shown in the table below:

	<b>1<sup>st</sup> Full FY</b>	<b>2<sup>nd</sup> Full FY</b>	<b>3<sup>rd</sup> Full FY</b>
	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>
Total Patient Days	226,069	230,636	235,295
Total Gross Revenue	\$3,068,258,942	\$3,219,266,022	\$3,377,783,503
Total Adjustments to Revenue	\$1,818,732,424	\$1,908,242,951	\$2,002,205,320
Total Net Revenue	\$1,249,526,518	\$1,311,023,072	\$1,375,578,182
Total Net Revenue per Patient Day	\$5,527	\$5,684	\$5,846
Total Operating Costs	\$1,217,355,645	\$1,275,552,358	\$1,336,598,791
Total Operating Costs per Patient Day	\$5,385	\$5,531	\$5,681
Net Income (Loss)	\$32,170,872	\$35,470,713	\$38,979,392

The assumptions used by the applicant in preparation of the pro forma financial statements are provided immediately following Forms F.2b and F.3b in Section Q. The applicant adequately demonstrates that the financial feasibility of the proposal is reasonable and adequately supported based on the following:

- The applicant clearly identifies the sources of data used to project revenues and expenses.
- The applicant makes adjustments to revenues based on an annual inflation rate of 3.0 percent.
- Projected utilization is based on reasonable and adequately supported assumptions. See the discussion regarding projected utilization in Criterion (3) which 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 for all the reasons described above.
  - The applicant adequately demonstrates availability of sufficient funds for the capital needs of the proposal for all the reasons described above.
  - 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 revenues and operating expenses for all the reasons described above.
- (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 proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 acute care beds in Orange County pursuant to the 2024 SMFP need determination.

On page 31, the 2024 SMFP defines the service area for acute care beds as “... *the single or multicounty grouping shown in Figure 5.1.*” Figure 5.1, on page 36, shows Orange County as its own acute care bed service area. Thus, the service area for this facility is Orange County. Facilities may also serve residents of counties not included in their service area.

Table 5A on page 41 of the 2024 SMFP shows that UNC Hospitals is the only facility in Orange County with acute care beds.

In Section G, page 99, the applicant explains why it believes its proposal would not result in the unnecessary duplication of existing or approved acute care bed services in Orange County. On page 99, the applicant states:

*“[T]his application is in response to a need determination in the 2024 SMFP for 26 additional acute care beds in Orange County. As the only existing acute care hospital in Orange County, this need was determined based entirely on the capacity constraints and increasing need for acute care services at UNC Hospitals’ two campuses in Orange County – in particular UNC Medical Center, UNC Hospitals’ main campus that has faced constraints and high utilization as detailed in both Section C.4 and Form C Assumptions and Methodology.”*

The applicant adequately demonstrates that the proposal would not result in an unnecessary duplication of existing or approved services in the service area based on the following:

- There is a need determination in the 2024 SMFP for the proposed acute care beds in Orange County.
- The applicant is the only provider of acute care hospital services in Orange County.
- The applicant adequately demonstrates that the proposed acute care beds are needed in addition to the existing or approved acute care beds.

**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 all the reasons described 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

The applicant proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 acute care beds in Orange County pursuant to the 2024 SMFP need determination.

In Section Q, page 13, the applicant provides current and projected full-time equivalent (FTE) staffing for the proposed services, as illustrated in the following table.

	Current FTE Staff	Projected FTE Staff		
	As of 06/30/2023	1 <sup>st</sup> Full FY FY 2029	2 <sup>nd</sup> Full FY FY 2030	3 <sup>rd</sup> Full FY FY 2031
Registered Nurses	929.3	990.1	1,008.6	1,027.4
Clinical Support Technicians	238.3	253.9	258.6	263.5
Nursing Assistants	97.6	103.9	105.9	107.9
Health Unit Coordinator	65.8	70.1	71.4	72.8
Patient Service Manager	21.4	22.8	23.2	23.7
Clerical	5.9	6.3	6.4	6.6
Contract Registered Nurses	41.0	43.7	44.5	45.4
<b>Total</b>	<b>1,399.4</b>	<b>1,491.0</b>	<b>1,518.7</b>	<b>1,547.1</b>

The assumptions and methodology used to project staffing are provided in Section Q. Adequate operating expenses for the health manpower and management positions proposed by the applicant are budgeted in Form F.2b. In Section H, pages 101-102, the applicant describes

the methods used to recruit or fill new positions and its existing training and continuing education programs.

The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services based on the following:

- The applicant uses a variety of methods to recruit new staff including the following: job postings on the UNC Health website, internet postings and resume searches, attendance at career fairs at schools and local job fairs, advertisements in local newspapers and professional journals, and international recruitment.
- The applicant has multiple retention strategies including career ladders, flexible scheduling, differentials, comprehensive benefits packages including tuition assistance and longevity bonuses.
- Clinical staff are oriented to clinic specific policies, procedures, and clinic workflow during their orientation to their work setting. Nurses and ancillary clinical staff are also oriented to UNC Hospitals' nursing policies during general nursing orientation. Additional education and training are provided to clinical staff whenever there is a substantive change in policy, practice, or new equipment, based upon a specific request of a nurse manager or clinical staff.

### **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 all the reasons described 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

The applicant proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 acute care beds in Orange County pursuant to the 2024 SMFP need determination.

### **Ancillary and Support Services**

In Section I, page 103, the applicant identifies the necessary ancillary and support services for the proposed services. On page 103, the applicant explains how each ancillary and support service is or will be made available and provides supporting documentation in Exhibit I.1. The applicant adequately demonstrates that the necessary ancillary and support services will be made available because UNC Medical Center is an existing acute care hospital with ancillary and support services already in place to support the addition of the acute care beds.

### **Coordination**

In Section I, page 104, the applicant describes its existing and proposed 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 based on the following:

- UNC Medical Center and UNC Hospitals Hillsborough Campus are the only facilities in Orange County with acute care beds and have established relationships with area healthcare providers.
- In Exhibit I.2, the applicant provides letters from local health care providers stating their support of the proposed project.

### **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 all the reasons described above.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

The applicant does not project to provide the proposed services to a substantial number of persons residing in Health Service Areas (HSAs) that are not adjacent to the HSA in which the services will be offered. Furthermore, the applicant does not project to provide the proposed services to a substantial number of persons residing in other states that are not adjacent to the North Carolina county in which the services will be offered. Therefore, Criterion (9) is not applicable to this review.

- (10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates: (a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and (b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers:
- (i) would be available under a contract of at least 5 years duration;
  - (ii) would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
  - (iii) would cost no more than if the services were provided by the HMO; and
  - (iv) would be available in a manner which is administratively feasible to the HMO.

NA

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

- (11) Repealed effective July 1, 1987.
- (12) Applications involving construction shall demonstrate that the cost, design, and means of construction proposed represent the most reasonable alternative, and that the construction project will not unduly increase the costs of providing health services by the person proposing the construction project or the costs and charges to the public of providing health services by other persons, and that applicable energy saving features have been incorporated into the construction plans.

C

The applicant proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 acute care beds in Orange County pursuant to the 2024 SMFP need determination.

In Section K, page 107, the applicant states that the project involves renovating 52,654 square feet of existing space. The proposed renovations involve 28,100 square feet to develop 26 additional acute care beds pursuant to a 2024 SMFP need determination. This application includes a change of scope and cost overrun for a previously approved project, Project ID J-11164-16, to renovate 24,554 square feet and includes existing space renovated for 38 acute care beds (25 previously approved beds + 13 proposed beds) on the 7th floor of UNC Medical Center's existing bed tower ("7 Bed Tower"), existing space renovated for 13 proposed acute care beds on the 4th floor of UNC Medical Center's West Tower ("4 West") and existing space to accommodate the relocation of a respiratory therapy unit, currently on 4 West, to space on the first floor of UNC Medical Center's existing bed tower ("1 Bed Tower:") Line drawings are provided in Exhibit C.1-2.

On page 108, the applicant adequately explains how the cost, design and means of construction represent the most reasonable alternative for the proposal based on the following:

- The applicant states that the proposed additional acute care beds will contribute to an overall enhancement of the layout and design of UNC Medical Center, thereby ensuring the most accessible and high-quality care for UNC Medical Center patients.

On page 108, 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 based on the following:

- The applicant states that the proposed project will not require new construction, which would likely be more costly than the project as proposed.
- UNC Hospitals, as a member of the larger UNC Health system, benefits from significant cost savings 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.

In Section B, page 32, the applicant identifies any applicable energy saving features that will be incorporated into the construction plans.

- The applicant states that its Energy Efficiency and Sustainability Plan for the proposed project will include lighting systems, water systems, and heating ventilation and air-conditioning (HVAC) systems that will provide higher energy efficiency in accordance with energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes.
- Minor equipment such as ice machines will be evaluated prior to purchase and implementation based on 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 all the reasons described above.

- (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 ... persons [with disabilities], 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, page 111, the applicant provides the historical payor mix during FY 2023 for the proposed services, as shown in the table below.

<b>UNC Medical Center Historical Payor Mix 07/01/2022 to 06/30/2023</b>	
<b>Payor Category</b>	<b>Percentage of Total Patients Served</b>
Self-Pay	7.0%
Charity Care <sup>^</sup>	
Medicare*	35.9%
Medicaid*	15.0%
Insurance*	29.8%
Workers Compensation	
TRICARE <sup>^^</sup>	
Other (TRICARE, Workers Compensation) <sup>^^</sup>	12.3%
<b>Total</b>	<b>100.0%</b>

\* Including any managed care plans.

<sup>^</sup> UNC Health Internal data does not include Charity Care as a payor source for patients. Patients in any payor category can and do receive charity care.

<sup>^^</sup> Workers Compensation and TRICARE included in the Other payor category.

In Section L, page 112, the applicant provides the following comparison.

<b>UNC Medical Center</b>	<b>Last Full FY Before Submission of the Application</b>	
	<b>Percentage of Total Patients Served by the Facility or Campus</b>	<b>Percentage of the Population of the Service Area</b>
Female	57.3%	52.3%
Male	42.5%	47.7%
Unknown	0.3%	0.0%
64 and Younger	68.0%	83.8%
65 and Older	32.0%	16.2%
American Indian	1.0%	0.6%
Asian	2.6%	8.2%
Black or African-American	22.2%	12.0%
Native Hawaiian or Pacific Islander	0.1%	0.1%
White or Caucasian	62.1%	76.3%
Other Race	10.3%	2.8%
Declined/Unavailable	1.8%	0.0%

\* The percentages can be found online using the United States Census Bureau's QuickFacts which is at: <https://www.census.gov/quickfacts/fact/table/US/PST045218>. Just enter in the name of the county.

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 persons with disabilities to programs receiving federal assistance, including the existence of any civil rights access complaints against the applicant;

C

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, in Section L, page 113, the applicant states that it has no obligation to provide uncompensated care, community service, or access by minorities and persons with disabilities.

In Section L, page 114, the applicant states that during the 18 months immediately preceding the application deadline, no patient civil rights access complaints have been filed against any of its facilities.

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, page 114, the applicant projects the following payor mix for the proposed services during the third full fiscal year of operation following completion of the project, as shown in the table below.

<b>UNC Medical Center                      Projected Payor Mix                      3rd Full FY                      07/01/2030 to 06/30/2031</b>	
<b>Payor Category</b>	<b>Percentage of Total Patients Served</b>
Self-Pay	3.5%
Charity Care <sup>^</sup>	
Medicare*	35.9%
Medicaid*	18.5%
Insurance*	29.8%
Workers Compensation <sup>^^</sup>	
TRICARE	
Other (TRICARE, Workers Compensation)	12.3%
<b>Total</b>	<b>100.0%</b>

\* Including any managed care plans.

<sup>^</sup> UNC Health Internal data does not include Charity Care as a payor source for patients. Patients in any payor category can and do receive charity care.

<sup>^^</sup> Workers Compensation and TRICARE included in the Other payor category.

As shown in the table above, during the third full fiscal year of operation, the applicant projects that 3.5% of total services will be provided to self-pay patients, 35.9% to Medicare patients and 18.5% to Medicaid patients.

On page 114, 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 FY 2023 payor mix for UNC Medical Center and its acute care beds and a projected 50 percent shift from Self-Pay to Medicaid for its acute care beds based on the expansion of Medicaid coverage in North Carolina.

The Agency reviewed the:

- Application
- Exhibits to the application

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

- (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, page 116, 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

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

The applicant proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 acute care beds in Orange County pursuant to the 2024 SMFP need determination.

In Section M, pages 117-118, the applicant describes the extent to which health professional training programs in the area have access to the facility for training purposes. The applicant adequately demonstrates that health professional training programs in the area have access to the facility for training purposes based on the following:

- Interested schools are offered the opportunity to take advantage of the many medical and surgical services throughout UNC Hospitals to meet the clinical training needs of their students.
- UNC Hospitals serves as a clinical teaching site for a broad range of healthcare disciplines including medical, dental, public health, pharmacy, and nursing, as well as post-graduate residents and trainees, and students in medical technology, physical therapy, radiologic technology, respiratory care, phlebotomy, occupational therapy, pastoral care.
- Many fellowship-training programs are sponsored through the clinical departments and various divisions.
- UNC Hospitals provides health professional training opportunities on the Chapel Hill campus.

**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 all the reasons described above.

- (15) Repealed effective July 1, 1987.
  - (16) Repealed effective July 1, 1987.
  - (17) Repealed effective July 1, 1987.
  - (18) Repealed effective July 1, 1987.
- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

C

The applicant proposes a change of scope and cost overrun for Project ID #J-11164-16 (develop 55 additional acute care beds) and to develop 26 acute care beds in Orange County pursuant to the 2024 SMFP need determination.

On page 31, the 2024 SMFP defines the service area for acute care beds as “... *the single or multicounty grouping shown in Figure 5.1.*” Figure 5.1, on page 36, shows Orange County as its own acute care bed service area. Thus, the service area for this facility is Orange County. Facilities may also serve residents of counties not included in their service area.

Table 5A on page 41 of the 2024 SMFP shows that UNC Hospitals is the only entity in Orange County licensed to operate acute care beds and has 785 licensed acute care beds, excluding neonatal beds, across two campuses, UNC Medical Center Chapel Hill and UNC Hospitals-Hillsborough.

Regarding the expected effects of the proposal on competition in the service area, in Section N, page 120, the applicant states:

*“The proposed project will enhance competition by ensuring that there are sufficient acute care beds for all patients across North Carolina that choose UNC Hospitals, and UNC Medical Center, for their care. UNC Hospitals has a unique mission to serve patients from across the state, and regularly cares for patients from all 100 counties in North Carolina. The additional acute care beds will improve UNC Hospital’s ability to compete with other providers and will thus conform with the spirit and legislative intent of the Certificate of Need law.”*

Regarding the impact of the proposal on cost effectiveness, in Section B, pages 30-31, the applicant states:

*“The proposed application is indicative of UNC Health’s commitment to containing healthcare costs and maximizing healthcare benefit per dollar expended, while also ensuring that patients have sufficient access to acute care services. ...By expanding the acute care services at this flagship hospital, UNC Hospitals will ensure that as many*

*patients as possible can have equitable access to the services available at UNC Medical Center, through the renovation of existing space to accommodate the additional beds.*

*Further, UNC Hospitals, as a member of the larger UNC Health system, benefits from 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 and efficient utilization of existing resources.”*

See also Sections F and Q of the application and any exhibits.

Regarding the impact of the proposal on quality, in Section B, page 27, the applicant states:

*“UNC Hospitals has a proven record of offering an expansive range of high quality services to the patients it serves. The proposed project will expand patients’ ability to access these services through increasing the overall capacity of UNC Medical Center, the main campus on UNC Hospitals, the flagship campus of UNC Health, and one of the preeminent providers of healthcare services in North Carolina. UNC Health has a demonstrated reputation for providing high quality healthcare services to its patient and is committed to continuing to provide excellent, high quality healthcare. UNC Health, including UNC Hospitals, has earned numerous rankings and awards that demonstrate its ability to provide ongoing quality care.”*

See also Section O of the application and any exhibits.

Regarding the impact of the proposal on access by medically underserved groups, in Section B, page 29, the applicant states:

*“As North Carolina’s only state-owned, comprehensive, full-service hospital system, UNC Hospitals has the obligation to accept any North Carolina citizen requiring medically necessary treatment. No North Carolina citizen is presently denied access to non-elective care because of race, sex, creed, age, handicap, financial status, or lack of medical insurance ...*

*...*

*UNC Hospitals regularly receives patients in need of care from across the state, many of whom are medically underserved. As such, the expansion proposed in this application will enable it to continue serving all patients in need of acute care, including the medically underserved.”*

See also Section L of the application and any exhibits.

The applicant adequately describes the expected effects of the proposed services on competition in the service area and adequately demonstrates the proposal would have a positive impact on cost-effectiveness, quality, and access because the applicant adequately demonstrates that:

- 1) The proposal is cost effective because the applicant adequately demonstrated: a) the need the population to be served has for the proposal; b) that the proposal would not result in an unnecessary duplication of existing and approved health services; and c) that projected revenues and operating costs are reasonable.
- 2) Quality care would be provided based on the applicant's representations about how it will ensure the quality of the proposed services and & the applicant's record of providing quality care in the past.
- 3) Medically underserved groups will have access to the proposed services based on the applicant's representations about access by medically underserved groups and the projected payor mix.

### **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 based on all the reasons described 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 Q, Form O, page 15, the applicant identifies the acute care hospitals located in North Carolina owned, operated or managed by the applicant or a related entity. The applicant identifies a total of 15 of this type of facility located in North Carolina.

In Section O, page 123, the applicant states that, during the 18 months immediately preceding the submittal of the application, there were no incidents which resulted in a finding of immediate jeopardy at any of the facilities identified in Form O. According to the files in the Acute and Home Care Section Licensure and Certification Section, DHSR, during the 18 months immediately preceding submission of the application through the date of this decision, incidents related to quality of care occurred in two of these facilities, however neither of these were immediate jeopardy violations. One of the facilities is back in compliance and the other is pending re-survey. After reviewing and considering information provided by the applicant and by the Acute and Home Care Section Licensure and Certification Section and considering the quality of care provided at all 15 facilities, the applicant provided sufficient evidence that quality care has been provided in the past. Therefore, the application is conforming to this criterion.

(21) Repealed effective July 1, 1987.

G.S. 131E-183 (b): The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

C

The application is conforming with all applicable Criteria and Standards for &. The specific criteria are discussed below.

The Criteria and Standards for Acute Care Beds promulgated in 10A NCAC 14C .3800 are applicable to this review. The application is conforming to all applicable criteria, as discussed below.

**10 NCAC 14C .3803 PERFORMANCE STANDARDS**

*An applicant proposing to develop new acute care beds in a hospital pursuant to a need determination in the annual State Medical Facilities Plan in effect as of the first day of the review period shall:*

(1) *document that it is a qualified applicant;*

-C- In Section B, page 25, the applicant adequately documents that it is a qualified applicant. The discussion regarding persons who can develop new acute care beds found in Criterion (1) is incorporated herein by reference.

(2) *provide projected utilization of the existing, approved, and proposed acute care beds for the applicant hospital during each of the first three full fiscal years of operation following completion of the project;*

-C- In Section Q, page 4, the applicant provides projected utilization of all existing, approved, and proposed acute care beds for the applicant hospital during each of the first three full fiscal years of operation following completion of the project. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

<b>UNC Medical Center</b>				
<b>Projected Utilization upon Project Completion</b>				
	<b>Interim FY</b>	<b>1st Full FY</b>	<b>2nd Full FY</b>	<b>3rd Full FY</b>
	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>FY31</b>
# of Beds*	752	752	752	752
# of Discharges	30,149	30,758	31,379	32,013
# of Patient Days	221,593	226,069	230,636	235,295
Average Length of Stay	7.3	7.3	7.3	7.3
Occupancy Rate	80.7%	82.4%	84.0%	85.7%

Source Section Q, page 2  
 \*Excludes neonatal beds

- (3) *project an occupancy rate of the existing, approved, and proposed acute care beds for the applicant hospital during the third full fiscal year of operation following completion of the project that equals or exceeds the target occupancy percentage;*
- C- In Section Q, page 4, the applicant projects an occupancy rate of the existing, approved, and proposed acute care beds for the applicant hospital during the third full fiscal year of operation following completion of the project that equals or exceeds the target occupancy percentage. The occupancy rate during the third full fiscal year is projected to be 85.7 percent which exceeds the target occupancy rate of 78 percent. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.
- (4) *provide projected utilization of the existing, approved, and proposed acute care beds for the hospital system during each of the first three full fiscal years of operation following completion of the project;*
- C- In Section Q, page 6, the applicant provides projected utilization of the existing, approved, and proposed acute care beds for the hospital system during each of the first three full fiscal years of operation following completion of the project. This occupancy rate excludes the anticipated 82 neonatal beds on the UNC Hospital license. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

<b>Table 7: UNC Hospitals License Projected Acute Care Occupancy Percentages</b>			
	<b>FY2029 (PY1)</b>	<b>FY2030 (PY2)</b>	<b>FY2031 (PY3)</b>
<b>UNC Medical Center</b>			
Acute Care Days	226,069	230,636	235,295
Licensed Acute Care Beds *	752	752	752
Average Daily Census	619.4	631.9	644.6
Occupancy %	82.4%	84.0%	85.7%
<b>UNC Hospitals Hillsborough Campus</b>			
Acute Care Days	29,725	31,110	32,560
Licensed Acute Care Beds**	133	133	133
Average Daily Census	81.4	85.3	89.2
Occupancy %	61.2%	64.1%	67.1%
<b>UNC Hospitals License</b>			
Acute Care Days	255,794	261,746	267,854
Licensed Acute Care Beds	885	885	885
<b>Average Daily Census</b>	700.9	716.9	733.7
<b>Occupancy %</b>	<b>79.2%</b>	<b>81.0%</b>	<b>82.9%</b>

Source: Section Q, page 6

\*This total includes 666 acute care beds currently licensed at UNC Medical Center as well as 51 acute care beds under development pursuant to Project ID #J-11164-16, nine acute care beds under development pursuant to Project ID # J-11337-17, and the 26 acute care beds proposed as part of this application (666 + 51 + 9 +26 = 752).

\*\*This total includes 123 acute care beds currently licensed at UNC Hospitals Hillsborough Campus, as well as 10 acute care beds under development pursuant to Project ID # J-11163-16 (123 + 10 = 133).

- (5) *project an average occupancy rate of the existing, approved, and proposed acute care beds for the hospital system during the third full fiscal year of operation following completion of the project that equals or exceeds the target occupancy percentage of:*
- (a) *66.7 percent if the ADC is less than 100;*
  - (b) *71.4 percent if the ADC is 100 to 200;*
  - (c) *75.2 percent if the ADC is 201 to 399; or*
  - (d) *78.0 percent if the ADC is greater than 400; and*
- C- In Section Q, page 6, the applicant projects an occupancy rate of 82.9 percent for all existing, approved, and proposed acute care beds in the hospital system during the third full fiscal year of operation following completion of the project. The discussion regarding projected utilization and performance standards found in Criterion (3) is incorporated herein by reference.
- (6) *provide the assumptions and methodology used to project the utilization and occupancy rates required in Items (2), (3), (4), and (5) of this Rule.*
- C- In Section Q, pages 1-9, the applicant provides the assumptions and methodology used to project the utilization and occupancy rates required in Items (2), (3), (4), and (5) of this Rule. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.