

VIRGINIA DEPARTMENT OF HEALTH

Office of Licensure and Certification

Division of Certificate of Public Need

Staff Analysis

February 18, 2020

COPN Request No. VA-8478

HCA Health Services of Virginia, Inc. d/b/a Henrico Doctors' Hospital

Richmond, Virginia

Add 16 inpatient rehabilitation beds at Parham Doctors' Hospital

Applicant

HCA Health Services of Virginia, Inc. (HCA Virginia) is a for-profit, Virginia stock corporation. HCA Healthcare, Inc., headquartered in Nashville, Tennessee, is the ultimate corporate parent of HCA Virginia. Henrico Doctors' Hospital (HDH) is an affiliate of HCA Virginia. Parham Doctors' Hospital (PDH) is a campus of HDH and is located in Henrico County, Health Planning Region (HPR) IV, Planning District (PD) 15.

Background

As shown in **Table 1**, there are six Inpatient Rehabilitation Facilities (IRF) in PD 15, Encompass Health Rehabilitation Hospital of Richmond (formerly HealthSouth Rehabilitation Hospital of Virginia), PDH, Johnston-Willis Hospital, Sheltering Arms Hospital, Sheltering Arms Hospital – South and VCU Health System. Collectively, they are licensed and COPN authorized to provide 234 acute inpatient medical rehabilitation beds.

DCOPN notes that on March 14, 2017, pursuant to COPN No. VA-04555, the State Health Commissioner (Commissioner) granted Rehab JV, LLC d/b/a Sheltering Arms Rehab Institute's (Sheltering Arms Rehab Institute) request to consolidate 114 medical rehabilitation beds from Sheltering Arms Hospital – Hanover, Sheltering Arms Hospital – South and VCU Health System Rehabilitation Unit into a new freestanding hospital in eastern Goochland county. Sheltering Arms Hospital has 55% ownership and VCU Health System Authority has 45% ownership of Rehab JV, LLC. The proposed project will be located in eastern Goochland County, in Planning District (15) within Health Planning Region (HPR) IV and is expected to open July 1, 2020.

According to Virginia Health Information (VHI), in 2017, the most recent year for which data is available, 230 of the 234 or 98% of the licensed medical rehabilitation beds in PD 15 were staffed. In 2017, the occupancy of staffed medical rehabilitation beds in PD 15 ranged from 65.8% at Johnston-Willis Hospital to 91.5% at Sheltering Arms Hospital, with an average occupancy of 74.6%. This overall occupancy percentage for PD 15 is slightly below the State

Medical Facilities Plan (SMFP) standard of 80% occupancy for inpatient medical rehabilitation beds.

Table 1: Licensed Inpatient Medical Rehabilitation Beds in PD 15 in 2017

Facility	Licensed Beds	Staffed Beds	Licensed Bed Available Days	Patient Days	Occupancy
Encompass Health Rehabilitation Hospital of Richmond *	40	40	14,600	9,645	66.1%
Henrico Doctor's Hospital - Parham Doctors' Hospital	36	36	13,140	10,044	76.4%
Johnston-Willis Hospital	44	44	16,060	10,575	65.8%
Sheltering Arms Hospital	40	40	14,600	13,359	91.5%
Sheltering Arms Hospital - South	28	28	10,220	7,922	77.5%
VCU Health System	46	42	15,330	11,067	72.2%
Total/ Average Occupancy	234	230	83,950	62,612	74.6%

Source: VHI Data (2017)

* Formerly HealthSouth Rehabilitation Hospital of Virginia

As shown in **Table 2**, PDH’s patient days have increased steadily in the four-year period ending in 2018. PDH’s 36 medical rehabilitation beds operated at a low of 66% in 2016 and a high of 84.4% in 2018

Table 2. PDH Medical Rehabilitation Utilization: 2015-2018

Year	Licensed Beds	Patient Days	Occupancy
2015	36	8,850	67.4%
2016	36	8,693	66%
2017	36	10,044	76.4%
2018	36	11,088	84.4%

Source: VHI Data (2015-2018)

Proposed Project

PDH cites an institutional need to expand its medical rehabilitation capacity by converting 16 existing psychiatric beds to inpatient medical rehabilitation beds. PDH proposes to add these medical rehabilitation beds to a new, 16-bed specialized unit for patients suffering from neurological and traumatic brain injuries (TBI). The new inpatient rehabilitation unit will be located in the space currently used for PDH’s psychiatric unit, which consists of 24 psychiatric beds and is equipped with security, including locked doors and controlled access. According to the applicant, patients suffering from TBI often experience amnesia with accompanying aggression and anxiety, and benefit from a structured consistent environment during recovery. Consequently, use of the existing psychiatric unit is appropriate for use as a specialized unit for

patients suffering from TBI, because the unit is already designed to meet their unique medical and safety needs. Additionally, in an effort to consolidate its inpatient psychiatric services, in the next applicable application cycle, HDH will apply for a COPN to relocate the 24 psychiatric beds from PDH to Retreat Doctors' Hospital (RDH), which is located in the City of Richmond, and is also a campus of HDH. If the Commissioner approves the forthcoming project, RDH will also close 24 medical/surgical beds.

In summary, if the Commissioner approves the project that is the subject of the staff analysis report, PDH will convert 16 of the 24 psychiatric beds to inpatient medical rehabilitation beds and eight of the psychiatric beds to medical/surgical beds.

The projected capital costs of the proposed project total \$4,927,475, 77% of which represent direct construction costs (Table 3). The applicant will fund the project using the internal resources of HCA Healthcare, Inc. Accordingly, there are no financing costs associated with this project.

Table 3. Parham Doctors' Hospital Projected Capital Costs

Direct Construction Costs	\$3,811,339
Equipment Not Included in Construction Contract	\$807,236
Architectural and Engineering Fees	\$308,900
TOTAL Capital Costs	\$4,927,475

Source: COPN Request No. VA-8478

The applicant projects that construction on the proposed project will begin four months after COPN approval, and will be complete eight months after COPN approval. The applicant anticipates a target date of opening nine months after COPN approval.

Project Definition

Section 32.1-102.1 of the Code of Virginia (the Code) defines a project, in part, as the “conversion of beds in an existing medical care facility to medical rehabilitation beds...”

Section 32.1-102.1 of the Code of Virginia defines a medical care facility, in part, as “general hospitals...”

Required Considerations

Pursuant to Section 32.1-102.3 of the Code of Virginia, in determining whether a public need for a project exists, the following factors shall be considered:

- 1. The extent to which the proposed service or facility will provide or increase access to needed services for residents of the area to be served, and the effects that the proposed service or facility will have on access to needed services in areas having distinct and unique geographic, socioeconomic, cultural, transportation, and other barriers to care;**

Geographically, PDH is located at 7700 East Parham Road, Richmond, Virginia and is readily accessible to residents of PD 15 through several means of transportation. PDH is located less than

three miles from Interstate 64. PDH is also accessible by public transportation. The Greater Richmond Transit Company (GRTC) provides ADA-compliant curb-to-curb transportation to PDH through its CARE paratransit service. Additionally, GRTC serves PDH via a commuter shuttle and operates several public bus routes along Broad Street, a major east-west artery located approximately a half of a mile from PDH.

Table 4 shows projected population growth in PD 15 through 2030. As depicted in **Table 4**, at an average annual growth rate of 1.01%, PD 15's population growth rate from 2010-2020 is well above the state's average annual growth rate of 0.77%. Overall, the planning district is projected to add an estimated 108,937 people in the 10-year period ending in 2020—an approximate 11% increase with an average increase of 10,893 people annually. In the 10-year period ending in 2030, the planning district is projected to add an estimated 108,303 people – an approximate 10% increase with an average increase of 10,830 people annually.

Regarding the 65+ age group for PD 15, Weldon-Cooper projects a more rapid increase in population growth (an approximate 48% increase from 2010 to 2020 and approximately 30% from 2020 to 2030). This is significant, as this population group typically uses health care resources, including medical rehabilitation services, at a rate much higher than those individuals under the age of 65. Weldon-Cooper further projects that statewide, the 65+ age cohort population will increase at a rate of approximately 38% from 2010 to 2030 and approximately 27% from 2020 to 2030.

Table 4. Population Projections for PD 15, 2010-2030

Locality	2010	2020	% Change 2010-2020	Avg Ann % Change 2010-2020	2030	% Change 2020-2030	Avg Ann % Change 2020-2030
Charles City	7,256	6,982	-3.78%	-1.51%	6,941	-0.59%	0.06%
Chesterfield	316,236	353,841	11.89%	1.10%	396,647	12.10%	1.15%
Goochland	21,717	23,547	8.43%	0.79%	26,702	13.40%	1.27%
Hanover	99,863	109,244	9.39%	0.88%	119,360	9.26%	0.89%
Henrico	306,935	332,103	8.20%	0.77%	363,259	9.38%	0.90%
New Kent	18,429	23,474	27.38%	2.39%	28,104	19.72%	1.82%
Powhatan	28,046	29,909	6.64%	0.63%	33,440	11.81%	1.12%
Richmond city	204,214	232,533	13.87%	1.28%	245,483	5.57%	0.54%
Total PD 15	1,002,696	1,111,633	10.86%	1.01%	1,219,936	9.74%	0.93%
PD 15 65+	116,609	172,249	47.72%	3.88%	224,417	30.29%	2.68%
Virginia	8,001,024	8,655,021	9.30%	0.77%	9,331,666	7.82%	0.76%
Virginia 65+	976,937	1,352,448	38.44%	3.22%	1,723,382	27.43%	2.45%

Source: U.S. Census, Weldon Cooper Center Projections (June 2019) and DCOPN (interpolations)

According to regional and statewide data regularly collected by VHI, for 2018, the most recent year for which such data is available, the average amount of charity care provided by HPR IV facilities was 3.7% of all reported total gross patient revenues (**Table 5**). In that same year, HDH, of which PDH is a campus, provided 2.17% of its gross patient revenue in the form of charity care. The applicant asserts that it will comply with any charity care condition imposed by the Commissioner. Should the Commissioner approve the proposed project, DCOPN recommends a charity care condition no less than the 3.7% HPR IV average.

Table 5. HPR IV 2018 Charity Care Contributions

Health Planning Region IV			
2018 Charity Care Contributions at or below 200% of Federal Poverty Level			
Hospital	Gross Patient Revenues	Adjusted Charity Care Contribution	Percent of Gross Patient Revenue
Bon Secours Richmond Community Hospital	\$674,969,731	\$42,666,943	6.32%
VCU Health System	\$5,621,665,960	\$352,825,510	6.28%
Southside Community Hospital	\$293,702,705	\$14,237,351	4.85%
Bon Secours St. Francis Medical Center	\$970,223,902	\$43,084,096	4.44%
Bon Secours Memorial Regional Medical Center	\$1,552,613,092	\$68,611,063	4.42%
Bon Secours St. Mary's Hospital	\$2,176,359,866	\$77,859,815	3.58%
Sentara Halifax Regional Hospital	\$294,576,590	\$9,953,244	3.38%
Southside Regional Medical Center	\$1,956,522,794	\$63,281,154	3.23%
VCU Community Memorial Hospital	\$260,605,004	\$7,269,351	2.79%
CJW Medical Center	\$6,586,796,429	\$176,068,998	2.67%
Henrico Doctors' Hospital	\$4,501,141,313	\$97,784,217	2.17%
Southern Virginia Regional Medical Center	\$208,002,057	\$4,386,121	2.11%
John Randolph Medical Center	\$839,825,455	\$17,429,142	2.08%
Vibra Hospital of Richmond LLC	\$120,847,463	\$0	0.00%
Cumberland Hospital for Children and Adolescents	\$60,602,814	\$0	0.00%
Total Facilities			15
Median			3.2%
Total \$ & Mean %	\$26,118,455,175	\$975,457,005	3.7%

Source: VHI (2018)

2. The extent to which the project will meet the needs of the residents of the area to be served, as demonstrated by each of the following:

- (i) the level of community support for the project demonstrated by citizens, businesses, and governmental leaders representing the area to be served;**

DCOPN received four letters of support for the proposed project from members of the local medical community. Collectively, these letters articulated:

- The benefits of a specialized, secured space for brain injury patients to recover because of the symptoms these patients experience, such as memory loss or aggression.
- The need for more medical rehabilitation beds at PDH. Between January and September of 2019, PDH had to turn away 45 inpatient medical rehabilitation patients because of a lack of an available and appropriate bed.
- The efficiency of converting the existing psychiatric unit to a secured medical rehabilitation unit for patients suffering from TBI.
- The benefits of a predictable and structured routine for patients suffering from TBI.

- The availability of additional capacity in the existing rehabilitation unit for non-TBI patients.

DCOPN did not receive any letters in opposition to the proposed project.

Public Hearing

DCOPN conducted the required public hearing for the proposed project on February 7, 2020 at the Twin Hickory Branch of the Henrico County Public Library. Seven individuals signed in, all of whom indicated that they were affiliated with HCA Virginia and were in support of the proposed project. A representative for the applicant presented the proposed project.

Additionally, two physicians from HDH spoke, Dr. Roger Giordano, the inpatient rehabilitation medical director at PDH, and Dr. Marsh Cuttino, the system medical director of emergency medicine at HDH. They highlighted the benefits of the proposed project, including:

- Patients enjoy a higher level of success in the unique setting that the proposed project would offer, such as higher likelihood of discharge to the community, greater functional improvement and less instances of transfer to acute care.
- The current psychiatric unit is an environmentally specialized area that offers greater safety for patients who may experience symptoms such as amnesia or aggression and allows the staff to manage pharmacology.
- PDH is restraint free and will remain so if the proposed project is approved.
- The positive effect that unified service among the emergency room and other hospital departments and the medical rehabilitation unit has on a patient's outcome.

(ii) the availability of reasonable alternatives to the proposed service or facility that would meet the needs of the population in a less costly, more efficient, or more effective manner;

Neither the applicant nor DCOPN identified any reasonable alternatives to the proposed project, which would meet the needs of the population in a less costly, more efficient, or more effective manner. As will be discussed in more detail later in this staff analysis report, DCOPN has calculated a net surplus of 33 medical rehabilitation beds in PD 15 for the 2025 planning year. However, as will be discussed in greater detail later in this staff analysis report, PDH cites an institutional need to add 16 medical rehabilitation beds. With a utilization rate of 76.4% in 2017 and 84.4% in 2018, the utilization data confirms that PDH's current capacity demonstrates an institutional need for expansion. For these reasons, DCOPN concludes that the status quo is not a reasonable alternative to the proposed project because it will not alleviate the current overutilization of the 36 medical rehabilitation beds at PDH.

(iii) any recommendation or report of the regional health planning agency regarding an application for a certificate of public need that is required to be submitted to the Commissioner pursuant to subsection B of 32.1-102.6;

Currently, there is no organization in HPR IV designated by the Virginia Department of Health to serve as the regional health planning agency for PD 15. Accordingly, this consideration is not applicable to the review of the proposed project.

(iv) any costs and benefits of the project;

As shown in **Table 3**, the estimated capital costs of the proposed project are \$4,927,475. If the proposed project is approved, the applicant will fund the entire project using the internal resources of HCA Healthcare, Inc. Accordingly, there are no financing costs associated with this project. DCOPN concludes that when compared to similar PD 15 projects, these costs are reasonable. For example, COPN No. VA-03833 issued to Sheltering Arms Hospital – South to establish a 28-bed inpatient rehabilitation hospital on the Bon Secours St. Francis Medical Center Campus, which cost approximately \$2,946,237.

The applicant identified numerous benefits to the proposed project, including:

- The current psychiatric unit at PDH offers a specialized, secured space that meets the unique medical and safety needs for brain injury patients to recover.
- TBI patients experience symptoms such as memory loss or aggression, which are best treated in a secure environment. Converting the existing psychiatric unit to a secured medical rehabilitation unit is an efficient way to achieve this security.
- The overutilization of the existing 36 medical rehabilitation beds at PDH.
- The benefits of a predictable and structured routine for patients suffering from TBI.
- The availability of additional capacity in the existing rehabilitation unit for non-TBI patients if the proposed project is approved.

(v) the financial accessibility of the project to the residents of the area to be served, including indigent residents; and

The Pro Forma Income Statement (**Table 6**) provided by the applicant includes as a placeholder the provision of 3.5% charity care in (reflected in the “Charity” line item) based on gross patient services revenue. However, DCOPN notes that according to VHI data from 2018, the most recent year for which such data is available, the average amount of charity care provided by HPR IV facilities was 3.7% of all reported total gross patient revenues (**Table 5**). In that same year, HDH, of which PDH is a campus, provided 2.17% of its gross patient revenue in the form of charity care. The applicant asserts that it will comply with any charity care condition imposed by the Commissioner. Should the Commissioner approve the proposed project, DCOPN recommends a charity care condition of no less than the 3.7% HPR IV average.

Table 6. PDH Pro Forma Income Statement

	Year 1	Year 2
Gross Revenue	\$19,174,799	\$22,603,785
Charity	(\$671,118)	(\$791,132)
Bad Debt	(\$176,408)	(\$207,955)
Other Revenue Deductions	(\$15,036,877)	(\$17,725,888)
Net Patient Services Revenue	\$4,985,448	\$5,876,984
Total Operating Expenses	\$4,481,052	\$5,243,643
Net Income	\$504,396	\$633,341

Source: COPN Request No. VA-8478

(vi) at the discretion of the Commissioner, any other factors as may be relevant to the determination of the public need for a project.

As previously discussed, if the Commissioner approves the project that is the subject of this staff analysis report, HDH will apply for a COPN to relocate 24 psychiatric beds from PDH to RDH and will close 24 medical/surgical beds at RDH. Consequently, if the project is approved, there will be downtime for 24 psychiatric beds in PD 15 for some period of time. According to VHI data, the 2017 utilization of psychiatric beds in PD 15 was 68.4%. Removing the 24 psychiatric beds at PDH increases that utilization to 71.4%. Therefore, PD 15 will be able to absorb patients needing inpatient psychiatric services during the potential downtime.

3. The extent to which the application is consistent with the State Medical Facilities Plan;

The State Medical Facilities Plan (SMFP) contains standards and criteria for the establishment of a medical rehabilitation hospital. They are as follows:

Part XI Medical Rehabilitation

12VAC5-230-800. Travel Time.

Medical rehabilitation services should be available within 60 minutes driving time one way under normal conditions of 95% of the population of the health planning district using mapping software as determined by the commissioner.

The heavy black line in **Figure 1** shows the boundary of PD 15. Currently, there are six acute care rehabilitation providers in PD 15, which are marked by blue “H” signs. The shading illustrates the area that is within a 60-minute driving time of the existing rehabilitation facilities in PD 15. Based on the shaded area in **Figure 1**, it is reasonable to conclude that 95% of the population of PD 15 is within 60 minutes driving-time one-way under normal traffic conditions of inpatient medical rehabilitation services. As shown in **Figure 1**, the current distribution of inpatient medical rehabilitation services in PD 15 is consistent with this standard of the SMFP. Furthermore, DCOPN concludes that approval of the proposed project will not increase access to medical rehabilitation services in PD 15 because the area within 60 minutes driving-time-one-way under normal traffic conditions is already covered by existing medical rehabilitation providers, including the applicant.

As previously discussed, on March 14, 2017, pursuant to COPN No. VA-04555, the Commissioner granted Sheltering Arms Rehab Institute’s request to consolidate 114 medical rehabilitation beds from Sheltering Arms Hospital – Hanover, Sheltering Arms Hospital – South and VCU Health System Rehabilitation Unit into a new freestanding hospital in eastern Goochland county. The three existing facilities that will be closed are labeled by name in **Figure 1**.

Figure 2 shows the location of the medical rehabilitation providers in PD 15 following the opening of Sheltering Arms Rehab Institute and the relocation of all rehabilitation beds from VCU Health System, Sheltering Arms Hospital-Hanover, and Sheltering Arms Hospital-South.

Figure 1: Map of Medical Rehabilitation Services in PD 15

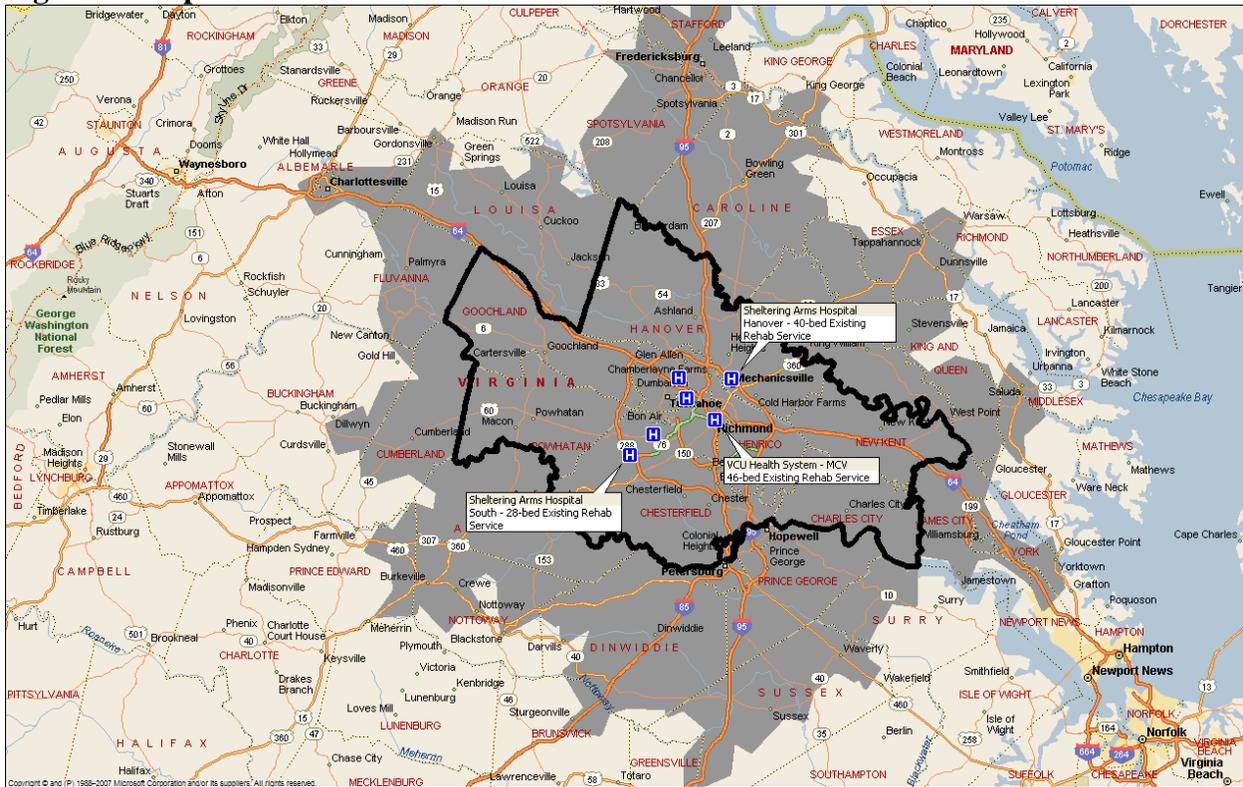
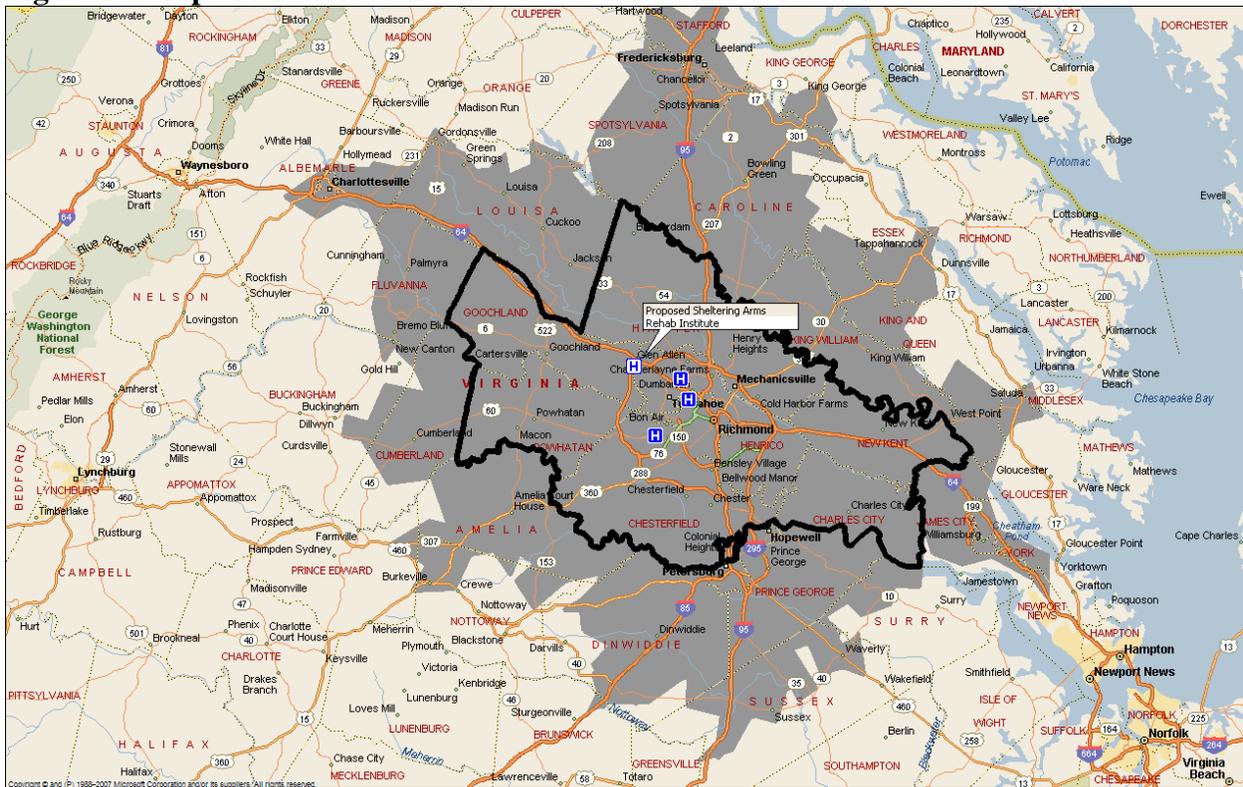


Figure 2: Map of Medical Rehabilitation Services in PD 15 with COPN VA-04555



12VAC5-230-810. Need for New Service.

A. The number of comprehensive and specialized rehabilitation beds shall be determined as follows:

$$((UR \times PROPOP)/365)/.80$$

Where:

UR = the use rate expressed as rehabilitation patient days per population in the health planning district as reported by VHI; and

PROPOP = the most recent projected population of the health planning district five years from the current year as published by a demographic entity as determined by the commissioner.

Table 7: Historical Inpatient Medical Rehabilitation Patient Days in PD 15 (2013 – 2017)

Facility Name	2013	2014	2015	2016	2017	Total
HealthSouth Rehabilitation Hospital of Virginia	11,434	9,676	9,170	9,722	9,645	49,647
Henrico Doctor's Hospital - Parham Doctors' Hospital	3,324	4,285	8,850	8,693	10,044	35,196
Johnston-Willis Hospital	8,287	8,554	10,746	10,403	10,575	48,565
Sheltering Arms Hospital	13,402	13,086	12,685	13,126	13,359	65,658
Sheltering Arms Hospital South	8,173	7,947	7,738	7,737	7,922	39,517
VCU Health System	9,226	9,982	9,757	10,178	11,067	50,210
Total	53,846	53,530	58,946	59,859	62,612	288,793

Source: VHI (2013-2017)

Based on population estimates from Weldon Cooper, and using a straight-line, average annual increase of 108,937 from 2010 to 2020, and 108,303 from 2020 to 2030, the cumulative total population of PD 15 for the same historical five-year period as referenced above, 2013-2017, was 7,736,910 while Weldon Cooper projects the population of PD 15 in the year 2025 (PROPOP - five years from the current year) to be 1,653,147.

Table 8: PD 15 Population All Ages

Year	Population
2013	1,329,508
2014	1,438,445
2015	1,547,382
2016	1,656,319
2017	1,765,256
5 Year Total	7,736,910
2025 Projected (PROPOP)	1,653,147

Source: U.S. Census, Weldon Cooper Center Projections (June 2019) and DCOPN (interpolations)

These figures are necessary for the application of the preceding formula, as follows:

Rehabilitation Bed Need = ((UR x PROPOP)/365)/.80

Where:

UR = Patient days in PD 15 IRFs in 2017 / Population of PD 15 in 2017

UR = 62,612 patient days (Table 1) / 1,765, 256 people

UR = 0.0354

PROPOP = Projected Population of PD 15 in 2025

PROPOP = 1,653,147

Rehabilitation Bed Need in PD 15 = (0.0354 x 1,653,147)/365)/0.80

Rehabilitation Bed Need in PD 15 = 200.8 Beds (201)

Rehabilitation Bed Surplus = 33

There is an existing inventory of 234 medical rehabilitation beds in PD 15 (Table 1). Based on the preceding calculation, there will be a projected surplus of 33 medical rehabilitation beds in PD 15 in planning year 2025. Accordingly, there is no calculated need for additional inpatient medical rehabilitation beds in PD 15. However, the applicant is not proposing to establish a new service, but rather, to increase its current medical rehabilitation bed inventory by 16. Accordingly, DCOPN concludes that this provision is not applicable to the proposed project. Furthermore, DCOPN notes, as will be discussed later in this staff analysis report, though the proposed project would add to the existing PD 15 medical rehabilitation bed surplus, PDH's current capacity demonstrates an institutional need for expansion.

B. Proposals for new medical rehabilitation beds should be considered when the applicant can demonstrate that:

- 1. The rehabilitation specialty proposed is not currently offered in the health planning district; and**
- 2. There is a documented need for the service or beds in the health planning district.**

There are five other providers of inpatient medical rehabilitation services in PD 15. The applicant did not identify a rehabilitation specialty that is not currently offered in PD 15.

Based on DCOPN's application of the bed need methodology provided in 12VAC5-230-810, there is no documented need for new medical rehabilitation beds in PD 15. However, as will be discussed later in this staff analysis report, though the proposed project would add to the existing PD 15 medical rehabilitation bed surplus, PDH's current capacity demonstrates an institutional need for expansion.

12VAC5-230-820. Expansion of Services.

No additional rehabilitation beds should be authorized for a health planning district in which existing rehabilitation beds were utilized with an average annual occupancy of less than 80% in the most recently reported year.

Preference may be given to a project to expand rehabilitation beds by converting underutilized medical/surgical beds.

As previously discussed, PDH has cited an institutional need to expand its current medical rehabilitation services. Currently, the applicant operates 36 medical rehabilitation beds at PDH. According to VHI data for 2017, the most recent year for which such data is available, the 36 medical rehabilitation beds at PDH operated at a utilization rate of 76.4 %, with 10,044 patient days and 13,140 available days. Although the 76.4% utilization for 2017 is slightly below the SMFP standard for expansion, the applicant reports and DCOPN confirmed using 2018 VHI data, that PDH operated at a utilization rate of 84.4% in 2018, with 11,088 patient days and 13,140 available days. Consequently, the utilization data demonstrates that PDH's current capacity demonstrates an institutional need for expansion.

12VAC5-230-830. Staffing.

Medical rehabilitation facilities should be under the direction or supervision of one or more qualified physicians.

The applicant is an existing provider of medical rehabilitation services and has provided assurances that the requested medical rehabilitation beds would be under the direction of Dr. Roger Giordano. Dr. Giordano has been PDH's Rehabilitation Medical Director since 2013. The applicant meets this standard.

Part I
Definitions and General Information

12VAC5-230-80. When Institutional Expansion is Needed.

- A. Notwithstanding any other provisions of this chapter, the commissioner may grant approval for the expansion of services at an existing medical care facility in a health planning district with an excess supply of such services when the proposed expansion can be justified on the basis of a facility's need having exceeded its current service capacity to provide such service or on the geographic remoteness of the facility.**
- B. If a facility with an institutional need to expand is part of a health system, the underutilized services at other facilities within the health system should be reallocated, when appropriate, to the facility with the institutional need to expand before additional services are approved for the applicant. However, underutilized services located at a health system's geographically remote facility may be disregarded when determining institutional need for the proposed project.**
- C. This section is not applicable to nursing facilities pursuant to § 32.1-102.3:1 of the Code of Virginia.**
- D. Applicants shall not use this section to justify a need to establish new services.**

PDH proposes to add 16 medical rehabilitation beds, resulting in a total complement of 52 medical rehabilitation beds. With a utilization rate of 76.4% in 2017 and 84.4% in 2018, the utilization data confirms that PDH's current capacity demonstrates an institutional need for expansion. Consequently, it can be inferred that approval of 16 additional medical rehabilitation beds at PDH can be justified based on the facility's need having exceeded its current service capacity. The applicant is part of the HCA Virginia health system, which also operates 44 medical rehabilitation beds at Johnston Willis Hospital in PD 15. According to VHI data, in 2017, the 44 medical rehabilitation beds at Johnston Willis Hospital operated at a utilization of 65.8%. While this number is below the SMFP standard for expansion, DCOPN concludes that transferring the requested medical rehabilitation beds from Johnston Willis Hospital is not practical, as this would create an immediate institutional need at that facility. Therefore, DCOPN contends that although the proposed project would add to the existing PD 15 surplus of medical rehabilitation beds, the project warrants approval.

Required Considerations Continued

- 4. The extent to which the proposed service or facility fosters institutional competition that benefits the area to be served while improving access to essential health care services for all persons in the area to be served;**

The proposed project is not meant to foster institutional competition that benefits the area to be served while improving access to services, but rather to decompress utilization of the 36 medical rehabilitation beds at PDH. As demonstrated by **Figure 1**, the current inventory of medical rehabilitation beds in PD 15 is sufficient and adequately distributed geographically. Additionally, there is already an existing surplus of medical rehabilitation beds within PD 15. However, as previously discussed, if approved, the proposed project would meet a demonstrated institutional need.

DCOPN notes that Sheltering Arms Rehab Institute's freestanding inpatient medical rehabilitation hospital that is expected to open in July, 2020 will be located approximately seven miles from PDH. In support of the proposed project, PDH asserts that disposition to a medical rehabilitation unit within the hospital at which the patient is already receiving treatment, *i.e.* PDH, allows for a higher level of medical consistency and success, specifically regarding the patient's medical and functional outcomes and likelihood of discharge into the community. As such, the addition of 24 medical rehabilitation beds at PDH is unlikely to significantly affect Sheltering Arms Rehab Institute's medical rehabilitation services utilization because PDH's patients will be distinct from the patient population seeking treatment at Sheltering Arms Rehab Institute in that PDH's patients will likely already be seeking treatment at an HDH facility.

5. The relationship of the project to the existing health care system of the area to be served, including the utilization and efficiency of existing services and facilities;

As previously discussed, DCOPN has calculated a net surplus of 33 medical rehabilitation beds in PD 15 for the 2025 planning year. If approved, the proposed project would add to the surplus. However, as already discussed, DCOPN contends that the proposed project warrants approval despite the calculated surplus because PDH has demonstrated an institutional need to expand. Furthermore, as previously discussed, the applicant is part of the HCA Virginia health system, which also operates 44 medical rehabilitation beds at Johnston Willis Hospital in PD 15, but DCOPN concludes that transferring the requested medical rehabilitation beds from Johnston Willis Hospital is not practical, as this would create an immediate institutional need at that facility.

6. The feasibility of the project, including the financial benefits of the project to the applicant, the cost of construction, the availability of financial and human resources, and the cost of capital;

The Pro Forma Income Statement (**Table 6**) provided by the applicant projects a net profit of \$504,396 by the end of the first year of operation and a net profit of \$633,341 by the end of year two, indicating that the proposed project is financially feasible both in the immediate and the long-term. As previously discussed, and as demonstrated by **Table 3**, the total projected capital cost of the proposed project is \$4,927,475, which will be funded through the internal resources of HCA Healthcare, Inc. Accordingly, there are no financing costs associated with the proposed project.

The applicant anticipates the need to hire 21.5 full time equivalent employees (FTEs) to staff the proposed project. These employees are as follows:

- 3.5 Administration-Business Office
- 6 Registered Nurses
- 2 Licenses Practical Nurses
- 4 Nurses' Aides, Orderlies and Attendants
- 2 Occupational Therapists
- 2 Physical Therapists
- 1 Speech and Language Pathologists

- 1 Medical Case Managers

The applicant is an established provider of medical rehabilitation services, and will implement HCA's multi-faceted approach to recruiting the additional staff required for the proposed project. As such, DCOPN concludes that the applicant will not have difficulty filling the required positions.

- 7. The extent to which the project provides improvements or innovations in the financing and delivery of health services, as demonstrated by: (i) The introduction of new technology that promotes quality, cost effectiveness, or both in the delivery of health care services; (ii) The potential for provision of services on an outpatient basis; (iii) Any cooperative efforts to meet regional health care needs; and (iv) At the discretion of the Commissioner, any other factors as may be appropriate.**

The proposal would introduce no new technology that would promote quality or cost effectiveness in the delivery of CT services. No cooperative efforts to meet regional health care needs were addressed by the applicant. DCOPN did not identify any other factors that have not been addressed elsewhere in this staff analysis report to bring to the attention of the commissioner.

- 8. In the case of a project proposed by or affecting a teaching hospital associated with a public institution of higher education or a medical school in the area to be served, (i) the unique research, training, and clinical mission of the teaching hospital or medical school, and (ii) any contribution the teaching hospital or medical school may provide in the delivery, innovation, and improvement of health care for citizens of the Commonwealth, including indigent or underserved populations.**

Not applicable. The applicant is not a teaching hospital and the proposed project will not affect a teaching hospital associated with a public institution of higher education or a medical school in the area to be served.

DCOPN Staff Findings and Conclusions

DCOPN finds that the proposed project to expand medical rehabilitation services at PDH through the addition of 16 medical rehabilitation beds is generally consistent with the applicable criteria and standards of the SMFP and the eight Required Considerations of the Code of Virginia. As previously discussed, in 2017, the 36 medical rehabilitation beds at PDH operated at a utilization rate of 76.4 %, with 10,044 patient days and 13,140 available days and at a utilization rate of 84.4% in 2018, with 11,088 patient days and 13,140 available days. Therefore, the applicant has demonstrated an institutional specific need to expand.

Moreover, DCOPN finds that the proposed project is more advantageous than the status quo. With a utilization rate of 76.4% in 2017 and 84.4% in 2018, the utilization data confirms that PDH's current capacity demonstrates an institutional need for expansion. DCOPN concludes that the status quo is not a reasonable alternative to the proposed project because it will not alleviate the current overutilization of the 36 medical rehabilitation beds at PDH. It is also notable that

this need for expansion is reflected in the Weldon Cooper population data in regards to PD 15 residents aged 65+, who are anticipated to see an increase of approximately 48% from the years 2010-2020 and 30% from 2020-2030. In comparison, throughout Virginia, this population is expected to increase by approximately 38% and 27%, respectively. This is significant, as this population group typically uses health care resources, including medical rehabilitation services, at a rate much higher than those individuals under the age of 65.

Furthermore, there is no known opposition to the proposed project. Finally, DCOPN finds that the total capital and financing costs for the project are reasonable. The projected capital costs for the proposed project are \$4,927,475, which will be funded through the internal resources of HCA Healthcare, Inc. Accordingly, there are no financing costs associated with this project. DCOPN concludes that when compared to similar PD 15 projects, these costs are reasonable. For example, COPN No. VA-03833 issued to Sheltering Arms Hospital – South to establish a 28-bed inpatient rehabilitation hospital on the Bon Secours St. Francis Medical Center Campus, which cost approximately \$2,946,237.

DCOPN Staff Recommendation

The Division of Certificate of Public Need recommends **conditional approval** of HCA Health Services of Virginia, Inc. d/b/a Henrico Doctors' Hospital's request to add 16 medical rehabilitation beds at Parham Doctors' Hospital for the following reasons:

1. The project is generally consistent with the applicable criteria and standards of the State Medical Facilities Plan and the eight Required Considerations of the Code of Virginia.
2. A reasonable, less costly, more efficient alternative to the proposed project does not exist.
3. There is no known opposition to the project.
4. The applicant has adequately demonstrated an institutional need to increase capacity at Parham Doctors Hospital.

DCOPN's recommendation is contingent upon HCA Health Services of Virginia, Inc. d/b/a Henrico Doctors' Hospital's agreement to the following charity care condition:

HCA Health Services of Virginia, Inc. d/b/a Henrico Doctors' Hospital will provide medical rehabilitation services to all persons in need of this service, regardless of their ability to pay, and will provide as charity care to all indigent persons free services or rate reductions in services and facilitate medical rehabilitation services to medically underserved persons in an aggregate amount equal to at least 3.7% of HCA Health Services of Virginia, Inc. d/b/a Henrico Doctors' Hospital total patient services revenue derived from medical rehabilitation services provided at Parham Doctors' Hospital as valued under the provider reimbursement methodology utilized by the Centers for Medicare and Medicaid Services for reimbursement under Title XVIII of the Social Security Act, 42 U.S.C. § 1395 et seq. Compliance with this condition will be documented to the Division of Certificate of Public Need annually by providing audited or otherwise appropriately certified financial statements documenting compliance with the

preceding requirement. HCA Health Services of Virginia, Inc. d/b/a Henrico Doctors' Hospital will accept a revised percentage based on the regional average after such time regional charity care data valued under the provider reimbursement methodology utilized by the Centers for Medicare and Medicaid Services for reimbursement under Title XVIII of the Social Security Act, 42 U.S.C. § 1395 et seq. is available from Virginia Health Information. The value of charity care provided to individuals pursuant to this condition shall be based on the provider reimbursement methodology utilized by the Centers for Medicare and Medicaid Services for reimbursement under Title XVIII of the Social Security Act, 42 U.S.C. § 1395 et seq.