

VIRGINIA DEPARTMENT OF HEALTH
Office of Licensure and Certification
Division of Certificate of Public Need
Staff Analysis

February 22, 2022

COPN Request No. VA-8605

Encompass Health Rehabilitation Hospital of Northern Virginia, LLC
Aldie, Virginia

Add 20 Inpatient Rehabilitation Beds to Encompass Health Rehabilitation Hospital of Northern Virginia

Applicant

Encompass Health Rehabilitation Hospital of Northern Virginia, LLC, or Encompass Northern Virginia (ENV) is a wholly-owned subsidiary of Encompass Health Owned Hospitals Holdings, LLC, which is, in turn, wholly-owned by Encompass Health Corporation. ENV is the licensed operator of the existing hospital and thus, will be the licensed operator of the 20-bed addition proposed in this application. ENV leases the hospital building, land, and site improvements (including the proposed 20-bed addition) from Encompass Health Virginia Real Estate, LLC. Encompass Health Corporation, the parent entity to ENV and Encompass Health Virginia Real Estate, LLC, will fund the project. Situated in the Aldie area of Loudoun County, Virginia, ENV is located in Planning District (PD) 8, Health Planning Region (HPR) II.

Background

As demonstrated in **Table 1** below, five facilities in PD 8 offer inpatient rehabilitation services — four located in community hospitals, and one in a freestanding specialty hospital. According to 2019 Virginia Health Information (VHI) data, the most recent year for which such data is available, the 190 medical rehabilitation beds operational in PD 8 operated at a collective utilization of 79.7%, falling just short of the State Medical Facilities Plan (SMFP) expansion threshold of 80%. Additionally, DCOPN notes that when PD 8 occupancy is adjusted to reflect an additional 4,380 available patient days authorized by COPN No. VA-04742, to be available at Reston Hospital Center in 2023, assuming there is no increase in the number of medical rehabilitation patients treated in PD 8, collective PD 8 occupancy would decrease slightly to approximately 74.8%. However, DCOPN notes that the 25-bed inpatient rehabilitation service at Inova Fairfax Hospital did not become operational until May of 2019 and accordingly, utilization data for that facility reflects only eight months of operation—a start-up period in which utilization is expected to be low. Accordingly, DCOPN contends that collective PD 8 occupancy for 2020 was likely higher than was reported for 2019.

Table 1. Licensed Inpatient Medical Rehabilitation Beds in PD 8

Facility	Licensed Beds	Licensed Bed Available Days	Patient Days	Occupancy ¹
Encompass Health Rehab Hospital of Northern Virginia	60	21,900	19,538	89.2%
Inova Fairfax Hospital*	25	6,125	1,461	23.9%
Inova Mount Vernon Hospital	67	24,455	20,429	83.5%
Reston Hospital Center**	30	6,570	5,013	76.3%
Virginia Hospital Center	20	7,300	6,472	88.7%
Total/Average	202²	66,350	52,913	79.7%

Source: 2019 VHI data and DCOPN records

*Service became operational in May 2019 and therefore, VHI data is not conclusive as it does not reflect a full year of operation.

**COPN No. VA-04742, issued on March 15, 2021, authorized the addition of 12 inpatient medical rehabilitation beds.

With regard to ENV specifically, in 2019, the 60 authorized rehabilitation beds operated at a collective utilization of 89.2%, well above the SMFP threshold for expansion. Furthermore, as will be discussed in more detail throughout this staff analysis report, information provided by the applicant indicates that the existing medical rehabilitation bed inventory at ENV operated at 88% utilization in 2020 and at 97% in 2021. While DCOPN cannot quantifiably confirm this data, it notes that because the applicant is required to submit this data to VHI, it has relied upon it for purposes of analyzing this Certificate of Public Need (COPN) request.

Proposed Project

The applicant cites an institutional need to expand its existing medical rehabilitation capacity by 20 beds. To accommodate the additional beds, the applicant proposes to construct a one-story expansion of the existing hospital. As with the current 60-bed facility, the proposed 20-bed addition will consist of all private rooms with private baths. The expansion, as well as additional parking, will be built on available land on the existing site. Construction for the proposed project is expected to begin on August 1, 2023 and to be complete by May 1, 2024. The applicant anticipates patient service for the additional 20 beds to begin on June 1, 2024.

The projected capital cost of the proposed project totals \$16,241,268 (**Table 2**), the entirety of which will be funded using the accumulated reserves of the applicant. Accordingly, there are no financing costs associated with this project.

¹ Occupancy calculated using 2019 VHI data.

² Although not used to calculate overall utilization, this number reflects the current PD 8 inventory and accounts for all additions made subsequent to 2019.

Table 2. ENV Projected Capital Costs

Direct Construction Costs	\$9,751,486
Equipment Not Included in Construction Contract	\$1,200,000
Site Acquisition Costs	\$3,000,000
Site Preparation Costs	\$1,297,285
Architectural and Engineering Fees	\$706,899
Other Consultant Fees	\$285,598
TOTAL Capital Costs	\$16,241,268

Source: COPN Request No. VA-8605

With respect to the collective PD 8 medical rehabilitation complement, approval of the proposed project would result in 222 beds, an increase of approximately 10%. With regard to ENV specifically, approval would increase the medical rehabilitation inventory to 80 beds, an approximate 33% increase.

Project Definition

Section 32.1-102.1:3 of the Code of Virginia defines a project, in part, as “An increase in the total number of beds...in a medical care facility described in subsection A.” A medical care facility includes “Any facility licensed as a hospital, as defined in § 32.1-123.”

Required Considerations -- § 32.1-102.3, of the Code of Virginia

In determining whether a public need exists for a proposed project, the following factors shall be taken into account when applicable.

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

Geographically, ENV is located along U.S. Highway 50, a major east/west thoroughfare through northern Virginia. With the hospital’s proximity to Dulles International Airport, a robust network of roadways surrounds the campus. U.S. Highway 15 and Route 28 both provide north/south access to the hospital. Additionally, Interstate 66, which travels from Washington, D.C. through northern Virginia, is just minutes away from the hospital. ENV is served by Loudoun County Transit’s commuter bus service, which has a stop across the street from the campus. Additionally, Virginia Regional Transit provides on-demand, paratransit, ADA-accessible, curb-to-curb bus service for riders throughout Loudoun County. As will be discussed in more detail later in this staff analysis report, at least 95% of the population of PD 8 is within a 60 minute drive time, one way, under normal driving conditions of existing inpatient medical rehabilitation services. However, as the applicant cites an institutional need for the proposed expansion, ENV asserts that geographic access is not the factor that prohibits access to services for patients in PD 8.

Regarding socioeconomic barriers to access to the applicant’s services, the applicant has provided assurances that it would accept all patients in need of medical rehabilitation services

without regard to ability to pay or payment source. Additionally, the Pro Forma Income Statement provided by the applicant anticipates a charity care contribution equal to approximately 3.9% of gross patient services revenue derived from medical rehabilitation services (reflected in the “Deductions from Revenue” line) (**Table 3**). While this amount is directly in line with the 3.9% HPR II average (**Table 4**), DCOPN notes that pursuant to the recent change to §32.1-102.4B of the Code of Virginia, DCOPN is now required to place a charity condition on all applicants seeking a COPN. Accordingly, should the State Health Commissioner (Commissioner) approve the proposed project, DCOPN recommends a charity care condition consistent with the 3.9% HPR II average. DCOPN notes that its recommendation includes a provision allowing for the reassessment of the charity rate once more reliable data regarding the full impact of Medicaid expansion in the Commonwealth becomes available.

Table 3. ENV Pro Forma Income Statement

	Year 1	Year 2
Gross Patient Revenue	\$54,162,200	\$58,050,400
Deductions from Revenue	\$8,379,800	\$8,612,600
Net Revenue	\$45,782,400	\$49,437,800
Operating Expenses	\$38,654,000	\$41,593,200
Net Income	\$7,128,400	\$7,844,600

Source: COPN Request No. VA-8605

Table 4. 2019 HPR II Charity Care Contributions

Hospital	Gross Patient Revenues	Adjusted Charity Care Contribution	Percent of Gross Patient Revenue:
Inova Mount Vernon Hospital	\$522,179,824	\$37,645,405	7.21%
Inova Alexandria Hospital	\$1,024,263,648	\$64,990,632	6.35%
Sentara Northern Virginia Medical Center	\$843,370,034	\$52,990,724	6.28%
UVA Health System Prince William Medical Center	\$538,358,330	\$26,511,528	4.92%
Inova Loudoun Hospital	\$833,003,930	\$39,556,258	4.75%
Inova Fairfax Hospital	\$3,871,812,346	\$156,045,238	4.03%
Inova Fair Oaks Hospital	\$726,706,638	\$27,651,318	3.81%
Virginia Hospital Center	\$1,571,698,958	\$34,673,062	2.21%
UVA Health System Haymarket Medical Center	\$289,627,681	\$5,624,171	1.94%
Reston Hospital Center	\$1,491,147,173	\$19,004,683	1.27%
StoneSprings Hospital Center	\$231,498,142	\$1,337,917	0.58%
Total Facilities			11
Median			4.1%
Total \$ & Mean %	\$11,943,666,704	\$466,030,936	3.9%

Source: VHI (2019)

Also with regard to socioeconomic barriers to access to services, DCOPN notes that, according to the most recent U.S. Census data, Loudoun County, the locality in which ENV is located, has a poverty rate of only 3.2%, a percentage far lower than the 9.2% statewide average (**Table 5**). DCOPN also notes that within PD 8, only two of nine localities had poverty rates equal to or higher than the statewide average.

Table 5. Statewide and PD 8 Poverty Rates

Locality	Poverty Rate
Virginia	9.2%
Arlington	6.8%
Fairfax County	5.3%
Loudoun	3.2%
Prince William	4.9%
Alexandria City	10.3%
Fairfax City	9.3%
Falls Church City	3.2%
Manassas City	8.0%
Manassas Park City	6.4%

Source: U.S. Census Data (census.gov).

The most recent Weldon-Cooper data projects a total PD 8 population of 2,937,128 by 2030 (Table 6). This represents an approximate 31.7% increase in total population from 2010-2030. Comparatively, Weldon-Cooper projects the total population of Virginia to increase by only 16.6% for the same period. With regard to Loudoun County specifically, Weldon-Cooper projects a total population growth increase of 77.6% from 2010 to 2030, an increase rate nearly five times that of Virginia as a whole. Regarding the 65 and older age cohort, Weldon-Cooper projects a much more rapid increase in population growth. With regard to PD 8 collectively, a 114.6% increase is projected, while an increase of only 76.4% is expected statewide. This is significant, as this population group typically uses health care resources, including inpatient medical rehabilitation services, at a rate much higher than those individuals under the age of 65.

Table 6. Statewide and PD 8 Population Projections, 2010-2030

Locality	2010	2020	% Change	2030	% Change	2010-2030 % Change
Virginia	8,001,024	865,5021	8.2%	9,331,666	7.8%	16.6%
Arlington	207,627	249,298	20.1%	274,339	10.0%	32.1%
Fairfax County	1,081,726	1,162,504	7.5%	1,244,025	7.0%	15.0%
Loudoun	312,311	430,584	37.9%	554,808	28.9%	77.6%
Prince William	402,002	478,134	18.9%	571,844	19.6%	42.2%
Alexandria City	139,966	166,261	18.8%	182,067	9.5%	30.1%
Fairfax City	22,565	25,047	11.0%	26,397	5.4%	17.0%
Falls Church City	12,332	14,988	21.5%	17,032	13.6%	38.1%
Manassas City	37,821	43,099	14.0%	46,332	7.5%	22.5%
Manassas Park City	14,273	17,086	19.7%	20,284	18.7%	42.1%
Total PD 8	2,230,623	2,587,000	16.0%	2,937,128	13.5%	31.7%
PD 8 65+	192,589	300,491	56.0%	413,269	37.5%	114.6%
Virginia 65+	976,937	1,352,448	38.4%	1,723,382	27.4%	76.4%

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

DCOPN did not identify any other unique geographic, socioeconomic, cultural, transportation, or other barriers to care in the planning district which are not discussed elsewhere in this staff analysis report.

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

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

The applicant provided numerous letters of support for the proposed project. Collectively, these letters addressed the following:

- If ENV had more beds, delays in admissions could be avoided, patients could begin treatment sooner, and more patients could benefit from the outstanding care available at ENV.
- ENV plays an important role in the continuum of care for seniors and others in need of inpatient rehabilitation services. ENV is well-known in the community for its extraordinary patient care and excellent clinical outcomes, especially the high percentage of patients discharged to their home following treatment. Due to capacity constraints, ENV cannot currently serve all patients who would benefit from their specialized expertise and experience. Approval of the COPN application would allow ENV to meet the substantial demand for its services.
- The existing 60 beds are highly utilized, operating at 97% occupancy in the first eight months of 2021. Operating at such high capacity inevitably means that some patients must wait longer for rehabilitation services, which can adversely affect a patient's recovery time and prognosis.

DCOPN is unaware of any opposition to the proposed project.

§32.1-102.6B of the Code of Virginia directs that a public hearing on each application be held in a location in the county or city in which the project is proposed or a contiguous county or city in the case of competing applications; or in response to a written request by an elected local government representative, a member of the General Assembly, Commissioner, the applicant, or a member of the public. COPN Request No. VA-8605 is not competing with another project in this batch cycle nor did the Health Systems Agency of Northern Virginia (HSANV) receive a request to conduct a public hearing for the proposed project. Thus, no public hearing was held.

- (ii) The availability of reasonable alternatives to the proposed project that would meet the needs of the people in the area to be served in a less costly, more efficient, or more effective manner;**

As previously discussed, the applicant's existing medical rehabilitation bed inventory operated at a utilization rate of 89.2% in 2019, far exceeding the 80% expansion threshold found in the SMFP. According to the applicant, utilization increased to 97% in 2021. Accordingly, maintaining the status quo is not a viable option. Furthermore, as the applicant is not part of a health system, there is no excess capacity available for transfer. Accordingly, DCOPN concludes that no reasonable alternative

to the project exists and that the applicant has adequately demonstrated a unique institutional need for the proposed expansion.

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

The HSNV Board of Directors reviewed at its January 24, 2022 board meeting the COPN application filed by ENV seeking authorization for the addition of 20 inpatient medical rehabilitation beds. The Board voted on a motion to recommend approval of the application. The motion passed by a vote of eleven in favor and none opposed. The Board based the recommendation on its review of the application and on the HSNV staff report on the proposal. The Board also based its recommendation on several basic findings and conclusions, including:

1. Northern Virginia hospital rehabilitation services have high use and growing service volumes.
2. ENV has had increasing service volumes and high occupancy for several years. Recent average annual occupancy exceeds 90%.
3. Current and projected service volumes qualify the hospital to seek authorization to add capacity in accordance with the institutional need provision of the Virginia State Medical Facilities Plan.
4. Projected demand based on age-specific use rates, and prospective market conditions, suggest that a substantial number of additional beds will be needed in the region by 2026.
5. Current and projected ENV service volumes indicate the hospital is in an appropriate location to add capacity to meet current and near term regional demand.
6. Projected capital costs are reasonable; within the range reported for comparable hospital expansion projects.
7. The proposal is generally consistent with applicable requirements of the Virginia State Medical Facilities Plan; including the institutional need provision of the plan.

(iv) Any costs and benefits of the proposed project;

As demonstrated by **Table 2**, the projected capital cost of the proposed project totals \$16,241,268, the entirety of which will be funded using the accumulated reserves of the applicant. Accordingly, there are no financing costs associated with this project. DCOPN concludes that while costly, projected costs are reasonable when compared to previously approved PD 8 projects similar in clinical scope (COPN No. VA-04742, issued in 2020, authorized the addition of 12 medical rehabilitation beds and had a capital cost of \$10,087,000; COPN No. VA-04488, issued in 2015, authorized the introduction of medical rehabilitation services with 25 beds and had a capital cost of \$11,427,804; COPN No. VA-04390, issued in 2012, authorized the addition of 15 medical rehabilitation beds and had a capital cost of \$5,500,000).

With regard to benefits of the proposed project, the applicant reiterates that there is a unique institutional need for proposed 20-bed expansion as the existing service operates at maximum capacity. The applicant states that the existing inventory is no longer capable of adequately serving its patient population and that accordingly, approval of the proposed project is necessary in order for ENV to continue to provide timely access to care for its patients.

(v) The financial accessibility of the proposed project to the people in the area to be served, including indigent people; and

The applicant has provided assurances that inpatient medical rehabilitation services will be accessible to all patients, regardless of financial considerations. Furthermore, as previously discussed, the Pro Forma Income Statement provided by the applicant anticipates a charity care contribution equal to 3.9% of total gross patient services revenue, a contribution consistent with the HPR II average. However, as already discussed, recent changes to §32.16-102.4B of the Code of Virginia now require COPN to place a charity care condition on all applicants seeking a COPN. For this reason, DCOPN recommends that the proposed project, if approved, be subject to a 3.9% charity care condition, to be derived from total medical rehabilitation gross patient services revenues, consistent with the HPR II average. DCOPN again notes that its recommendation includes a provision allowing for the reassessment of the charity care rate at such time as more reliable data becomes available regarding the full impact of Medicaid expansion in the Commonwealth.

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

Section 32.1-102.2:1 of the Code of Virginia calls for the State Health Services Plan Task Force to develop, by November 1, 2022, recommendations for a comprehensive State Health Services Plan (SHSP). In the interim, DCOPN will consider the consistency of the proposed projects with the predecessor of the SHSP, the State Medical Facilities Plan (SMFP).

DCOPN did not identify any other discretionary factors, not discussed elsewhere in this staff analysis report, to bring to the attention of the Commissioner as may be relevant in determining a public need for the proposed project.

3. The extent to which the proposed project is consistent with the State Health Services Plan;

Part XI of the State Medical Facilities Plan (SMFP) contains the standards and criteria for the expansion of medical rehabilitation services at an existing facility. They are as follows:

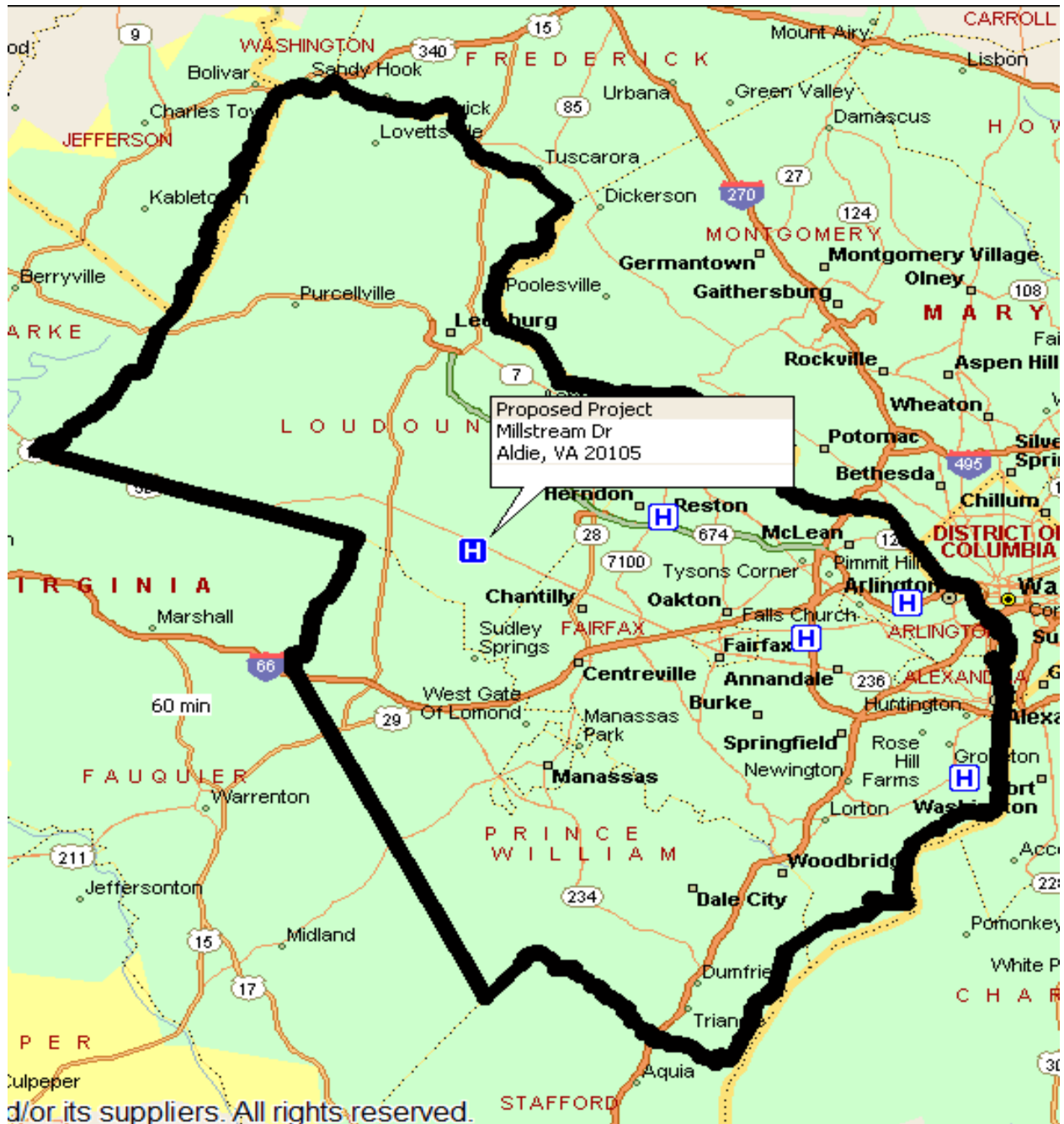
Part XI. Medical Rehabilitation

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** identifies the boundaries of PD 8. The blue “H” sign marks the location of the proposed project, while the white “H” signs mark the locations of all other existing providers of inpatient medical rehabilitation services in PD 8. The green shaded area represents the areas of PD 8 and the surrounding areas that are within a 60 minutes’ drive of existing PD 8 providers of medical rehabilitation services. Based on the amount and location of shading, it is clear that medical rehabilitation services currently exist within a 60 minutes’ drive, one way, under normal conditions of at least 95% of the population of PD 8. Furthermore, as the applicant is a current provider of this service, DCOPN concludes that approval of the proposed project will not improve geographic access to medical rehabilitation services for residents of PD 8 in any meaningful way. However, as the applicant cites an institutional need for the proposed additional 20 beds, DCOPN contends that geographic access is not the factor that prevents the ENV patient population from receiving adequate and timely access to care.

Figure 1.



12VAC5-230-810. Need for new service.

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

$$((UR \times PROPOP) / 365) / 0.80$$

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.

The applicant is a current provider of medical rehabilitation services and therefore, does not propose to establish a new service. Accordingly, this standard is not applicable to the project at hand. However, in the interest of completeness, DCOPN will address this standard.

Based on population estimates from Weldon-Cooper, and using a straight-line, average annual increase of 35,638 from 2010 to 2020 and 35,013 from 2020 to 2030, the projected population of PD 8 in the year 2027 (PROPOP – five years from the current year) is 2,832,090 people. These figures are necessary for the application of the preceding formula, as follows:

$$\text{Rehabilitation Bed Need} = ((UR \times PROPOP) / 365) / 0.80$$

UR = Patient days in PD 8 Inpatient Rehabilitation Facilities in 2019 / Population of PD 8 in 2019

UR = 52,913 patient days / 2,551,362 people

UR = 0.0207

PROPOP = Projected Population of PD 8 2027

PROPOP = 2,832,090

$$\text{Rehabilitation Bed Need in PD 8} = ((0.0207 \times 2,832,090) / 365) / 0.80$$

Rehabilitation Bed Need in PD 8 = 200.8 (201) beds

Current PD 8 Medical Rehabilitation Bed Inventory: 202 beds

Rehabilitation Bed Surplus = 1

As **Table 1** above demonstrates, there is an existing complement of 202 medical rehabilitation beds in PD 8. Based on the preceding calculation, which relied on the most recently available VHI data (2019), there will be a projected surplus of one medical rehabilitation bed in PD 8 in planning year 2027. Accordingly, there is no calculated need for additional inpatient medical rehabilitation beds in PD 8. The proposed project, if approved, would increase this surplus to 21. However, as will be discussed in more detail throughout this staff analysis report, the applicant bases its request upon a unique institutional need to increase its existing medical rehabilitation capacity. DCOPN contends that the applicant has adequately demonstrated this need, and

accordingly, concludes that the proposed project warrants approval despite the applicant not satisfying this standard.

Furthermore, DCOPN has previously recognized that a refinement to the SMFP formula will produce a more accurate projection of future need. In its August 19, 2015 staff report on COPN Request Nos. VA-8167, 8168, and 8169, DCOPN stated the following:

“The existing SMFP methodology for determining the need for medical rehabilitation beds in a planning district is predicated on using the general population as the base for calculating the use rate. This methodology indicates a need for only two (2) beds in PD 8 through 2020. Nonetheless, an update of the SMFP methodology that considers an age breakdown separating the age 15-64 population and the age 65-plus population for determining the use rate for medical rehabilitation beds is a more credible methodology when the age of the patients (i.e., age 65+) that predominately use medical rehabilitation services is considered. Accordingly, the need for medical rehabilitation beds in a planning district may be understated...”

“Representing a total of 48 beds, the three COPN applications, if authorized, would increase the medical rehabilitation bed compliment in PD 8 from 142 to 190 beds. Based on the 2009 SMFP’s computational methodology, there is a need for two medical rehabilitation beds in the planning district through 2020. During the course of the review of these three projects, DCOPN was reminded (by the Inova Health System in particular) that determination of the need for medical rehabilitation beds based on a use-rate predicated on the entire population understates rehabilitation bed need in a planning district. Instead, the need for such beds should be based on a combined use-rate for the population age 15-64 and age 65+. It is important to recognize that the older adult population utilizes these services at a much higher utilization rate than a younger population cohort. The proposed use rate calculation is a credible approach to determining the need for medical rehabilitation beds in a given geographical area.”

This previously-adopted refinement to the SMFP methodology lends further support for the proposed project. As DCOPN and the HSNV have previously recognized, age-specific use rates are most appropriate in this instance because of the relatively high use rate for the 65 and older cohort. As demonstrated in **Tables 7 and 8** below, the use rates for the two distinct age groups are significantly different, with a use rate for residents aged 65 and older nearly 20 times greater than the use rate of the population for those younger than age 65.

Table 7. 2019 PD 8 Rehab Patient Days by Age Cohort

Total Pt Days	<65 Pt Days	65+ Pt Days	% Pt Days <65	% Pt Days 65+
52,913	15,156	37,757	28.6%	71.4%

Source: COPN Request No. VA-8605; 2019 Annual Licensure Surveys and VHHA Patient-Level Database (2019)

Table 8. 2019 PD 8 Rehab Use Rates by Age Cohort

Population Age Group	Pt Days	Population	Use Rate
65+	37,757	287,416	0.1314
64 and Younger	15,156	2,237,458	0.0068

Source: COPN Request No. VA-8605; VHHA Patient-Level Database (2019); Weldon-Cooper.

Tables 9 and 10 below apply the calculated age-specific use rates to the respective population age cohorts to calculate projected 2027 gross bed need in PD 8 for each age group. By applying the more appropriate, age-specific use rates instead of an aggregate use rate, the significant growth in the 65+ population and the high utilization of that age group are accounted for, and thus, the need for rehabilitation beds to serve the aging population is appropriately reflected. As demonstrated below, the formula in 12VAC5-230-810, as refined consistent with the comments in the DCOPN staff reports referenced above, shows a need for 18 additional beds in PD 8, consistent with the 20-bed expansion proposed by the applicant.

Table 9. 2027 PD 8 Projected Rehabilitation Bed Need by Age Cohort

<65 Use Rate	< 65 Population	<65 Bed Need	65+ use Rate	65+ Population	65+ Bed Need
0.0068	2,427,915	56	0.1314	363,808	164

Source: COPN Request No. VA-8605; VHHA Patient-Level Database (2019); Weldon-Cooper

Table 10. 2027 PD 8 Net Rehabilitation Bed Need

<65 Bed Need	65+ Bed Need	Total Bed Need	2021 Complement	Net Bed Need
56	164	220	202	18

Source: COPN Request No. VA-8605; VHHA Patient-Level Database (2019); Weldon-Cooper.

B. Proposals for new medical rehabilitation beds should be considered when the application 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.**

As discussed, there are four other providers of inpatient medical rehabilitation services in PD 8. The applicant did not identify a rehabilitation specialty that is not currently offered in the planning district. 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 8. However, as just discussed, when assessing the refined methodology, there is a need for 18 additional beds. Furthermore, as will be discussed in more detail later in this staff analysis report, the applicant’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, the applicant has cited an institutional need to expand its existing medical rehabilitation service. Currently, the applicant operates 60 medical rehabilitation beds, which operated at a utilization rate of 89.2% in 2019, well above the SMFP expansion threshold of 80%. Furthermore, as already discussed, information provided by the applicant indicates that

the existing complement operated at 88% utilization in 2020 and at 97% in 2021. While DCOPN cannot quantifiably confirm this data, it notes that because the applicant is required to submit this data to VHI, it has relied upon it for purposes of analyzing this application.

The collective PD 8 inventory operated at 79.7% occupancy in 2019, just shy of the 80% SMFP expansion threshold. However, DCOPN again notes that collective PD 8 occupancy was likely higher in 2020 as a result of the 25-bed service at Inova Fairfax Hospital being operational for the full year. Furthermore, while there is no calculated need according to the formula found in 12VAC-230-810, for reasons already discussed at length in this staff analysis report, DCOPN concludes that the more appropriate methodology for computing rehabilitation bed need results in a calculated need for 18 medical rehabilitation beds. For the preceding reasons, DCOPN concludes that the applicant has satisfied this standard.

12VAC5-230-830. Staffing.

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

Medical rehabilitation services at ENV are provided under the direction of Shaik Samdani, M.D., a board-certified psychiatrist who was appointed as Medical Director for the hospital in 2011.

The SMFP also contains criteria/standards for when institutional expansion is needed. They are as follows:

12VAC5-230-80. When institutional expansion 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 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 the institutional need for the proposed project.**
- C. This section is not applicable to nursing facilities pursuant to § 32.1-102.3:2 of the Code of Virginia.**
- D. Applicants shall not use this section to justify a need to establish new services.**

The applicant proposes to add 20 medical rehabilitation beds to its existing complement, resulting in 80 beds. With a utilization rate of 89.2% in 2019, 88% in 2020 and 97% in 2021, the utilization data confirms that ENV's current capacity demonstrates an institutional need for expansion. Consequently, it can be inferred that approval of the requested beds can be justified based on the facility's need having exceeded its current service capacity. Furthermore, relocating capacity from another facility is not an option, as the applicant is not part of a health system with available excess capacity for transfer. Accordingly, DCOPN concludes that no reasonable

alternatives to the proposed project exist and thus, the applicant has adequately demonstrated a unique institutional need for the proposed expansion.

Eight Required Considerations Continued

4. The extent to which the proposed project fosters institutional competition that benefits the area to be served while improving access to essential health care services for all people in the area to be served;

The applicant has cited an institutional need to expand its existing medical rehabilitation service in an effort to decompress its current complement. As a result, the primary patient population this project would serve is those patients who have already chosen ENV as their care provider. For this reason, DCOPN contends that the proposed project is not intended to, and is unlikely to, foster institutional competition that would benefit the area to be served, nor is approval likely to have a significant negative impact on other existing providers of medical rehabilitation services in the planning district. Additionally, as the applicant is an established provider of medical rehabilitation services, DCOPN further concludes that approval of the proposed project will not improve geographic access to underserved members of the population of PD 8 in any meaningful way. DCOPN again notes that it is unaware of any opposition to the proposed project.

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

As previously discussed, when applying the formula found in 12VAC5-230-810, DCOPN has calculated a current net surplus of one medical rehabilitation bed in PD 8. However, when the refined, age-based methodology discussed throughout this report is applied, DCOPN calculated a need for 18 additional beds, consistent with ENV's request. Furthermore, DCOPN again notes that while the collective PD 8 inventory operated just shy of the 80% expansion threshold in 2019 (79.7%), utilization was likely higher in 2020 as a result of the new service at Inova Fairfax Hospital being operational for the entire year. Finally, the applicant's existing complement operated well above this threshold in 2019, 2020, and 2021. Accordingly, DCOPN contends that the applicant has adequately demonstrated an institutional need to expand its existing service. Because the application is based on this institutional need, DOPN contends that approval of the proposed project is not likely to have a significant negative impact on existing PD 8 providers of medical rehabilitation services.

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

As already discussed, DCOPN contends that the projected costs for the proposed project, while high, are consistent with previously authorized projects similar in clinical scope. The project will be funded entirely using the accumulated reserves of the applicant and accordingly, there are no financing costs associated with this project. Furthermore, the Pro Forma Income Statement provided by the applicant anticipates a net profit of \$7,128,400 in the first year of operation and

\$7,844,600 by year two, illustrating that the proposed project is financially feasible both in the immediate and the long-term (**Table 3**).

With regard to staffing, the applicant anticipates the need to hire an additional 31.4 full-time employees in order to staff the proposed project. DCOPN notes that this is in addition to the 9.8 positions currently vacant at ENV. However, the applicant is a current provider of medical rehabilitation services with a robust employee recruitment and retention plan. Accordingly, DCOPN does not anticipate that the applicant will have difficulty staffing the proposed project or that doing so will have a significant negative impact on existing PD 8 providers of medical rehabilitation services.

- 7. The extent to which the proposed project provides improvements or innovations in the financing and delivery of health care 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 health care 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; and**

The proposed project does not provide improvements or innovations in the financing and delivery of health services as demonstrated by the introduction of new technology that promotes quality of cost effectiveness, nor does it provide improvements in the potential for provisions of health care services on an outpatient basis. However, the proposed project would improve the delivery of health care services at ENV by addressing the overutilization of the existing medical surgical bed inventory. DCOPN again notes that the applicant bases its application on a unique institutional need for expansion and that accordingly, the patient population to be served is those patients who have already chosen ENV as their care provider. For these reasons, DCOPN concludes that approval of the proposed project would result in timelier patient treatment.

- 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 services for citizens of the Commonwealth, including indigent or underserved populations.**

The applicant is not a teaching hospital associated with a public institution of higher education or a medical school in the area to be served. Accordingly, this standard is not applicable to the proposed project.

DCOPN Staff Findings and Conclusions

Citing an institutional need for expansion, ENV proposes to expand its existing medical rehabilitation service by adding 20 beds. The projected capital costs of the proposed project total \$16,241,268, the entirety of which will be funded using the accumulated reserves of the applicant. Accordingly, there are no financing costs associated with this project. DCOPN finds that the total capital costs, while substantial, are reasonable and consistent with previously

approved projects similar in clinical scope. Additionally, the Pro Forma Income Statement provided by the applicant indicates that the proposed project would contribute to the overall profitability of ENV's medical rehabilitation program both in the immediate and the long-term. The applicant has provided a target opening date of June 1, 2024.

In 2019, ENV's existing 60 beds operated at 89.2% utilization, far exceeding the SMFP expansion threshold of 80%. Furthermore, data provided by the applicant indicates that in 2021, utilization increased to 97%, indicating that the existing service capacity is no longer able to adequately serve the ENV patient population. As ENV is not part of a health system and there is no excess available capacity for transfer, DCOPN contends that no reasonable alternative to the proposed project exists. Accordingly, DCOPN concludes that the applicant has adequately demonstrated a unique institutional need for expansion. Should the Commissioner approve the proposed project, DCOPN recommends a charity care condition equal to 3.9%, consistent with the HPR II average.

DCOPN concludes that ENV's proposed project is generally consistent with the applicable criteria and standards of the SMFP and the Eight Required Considerations of the Code of Virginia. Additionally, DCOPN notes that there is no known opposition to the proposed project and that approval is not likely to have a significant negative impact on the utilization or staffing of existing facilities.

DCOPN Staff Recommendation

The Division of Certificate of Public Need recommends **conditional approval** of Encompass Health Rehabilitation Hospital of Northern Virginia, LLC's request to add 20 inpatient medical rehabilitation beds for the following reasons:

1. The proposed 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. The capital costs are reasonable.
3. The proposed project appears economically viable both in the immediate and in the long-term.
4. No better alternative to the proposed project exists.
5. The applicant has adequately demonstrated a unique institutional need for the additional 20 medical rehabilitation beds.
6. There is no known opposition to the proposed project.
7. Approval of the proposed project is not likely to have a significant negative impact on the staffing or utilization of existing PD 8 providers of medical rehabilitation services.

8. The Health Systems Agency of Northern Virginia recommended approval of the proposed project.

DCOPN's recommendation is contingent upon Encompass Health Rehabilitation Hospital of Northern Virginia, LLC's agreement to the following charity care condition:

Encompass Health Rehabilitation Hospital of Northern Virginia, LLC 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 the development and operation of primary care services to medically underserved persons in an aggregate amount equal to at least 3.9% of Encompass Health Rehabilitation Hospital of Northern Virginia, LLC's total patient services revenue derived from medical rehabilitation services 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. Encompass Health Rehabilitation Hospital of Northern Virginia, LLC 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.

Encompass Health Rehabilitation Hospital of Northern Virginia, LLC will provide medical rehabilitation services to individuals who are eligible for benefits under Title XVIII of the Social Security Act (42 U.S.C. § 1395 et seq.), Title XIX of the Social Security Act (42 U.S.C. § 1396 et seq.), and 10 U.S.C. § 1071 et seq. Additionally, Encompass Health Rehabilitation Hospital of Northern Virginia, LLC will facilitate the development and operation of primary and specialty medical care services in designated medically underserved areas of the applicant's service area.