

VIRGINIA DEPARTMENT OF HEALTH

Office of Licensure and Certification

Division of Certificate of Public Need

Staff Analysis

August 21, 2023

COPN Request No. VA-8708

Rehab JV, LLC d/b/a Sheltering Arms Institute

Richmond, Virginia

Add 30 medical rehabilitation beds

Applicant

Rehab JV, LLC d/b/a Sheltering Arms Institute (SAI) is a Virginia limited liability company which was established on April 29, 2016. It is a 501 (c)(3) not-for-profit company. Rehab JV, LLC d/b/a Sheltering Arms Institute is a joint venture whose members include The Sheltering Arms Hospital and Virginia Commonwealth University Health Systems Authority. SAI is located in eastern Goochland County, in Planning District (15) within Health Planning Region (HPR) IV.

Background

According to the 2021 Virginia Health Information (VHI) data, the most recent year for which such data is available, and Division of Certificate of Public Need (DCOPN) records, there are currently four providers of medical rehabilitation services in PD 15 with 234 licensed beds (**Table 1**). In 2021, 217 of the 234 licensed beds were staffed (93%) (**Table 1**). Furthermore, for that same year, PD 15's licensed medical rehabilitation beds operated at an 80.3% occupancy rate.

Table 1: Licensed Inpatient Medical Rehabilitation Beds in PD 15 and 2021 Utilization

Facility	Licensed Beds	Staffed Beds	Available Days	Patient Days	Occupancy
Encompass Health Rehabilitation Hospital of Richmond	40	40	14,600	11,859	81.23%
Henrico Doctor's Hospital - Parham Doctors' Hospital	36 ¹	36	13,140	10,344	78.72%
Johnston-Willis Hospital	44	44	16,060	12,586	78.37%
Sheltering Arms Institute	114	97	41,610	33,794	81.22%
Total/ Average Occupancy	234	217	85,410	68,583	80.30%

Source: DCOPN Records and VHI Data (2021)

¹ COPN No. VA-04702 authorized HCA Health Services of Virginia, Inc. to add 16 inpatient medical rehabilitation beds at Parham Doctors' Hospital (PDH). In February, 2023, the applicant reported in its Annual Extension Request that the project was delayed due to the COVID-19 pandemic with no anticipated completion date. When the project is complete, PDH will have a total complement of 52 medical rehabilitation beds. The additional 16 medical rehabilitation beds are not included in **Table 1**.

Proposed Project

SAI cites an institutional need to expand its medical rehabilitation bed capacity by adding 30 beds. SAI proposes to add these beds to an already shelled fourth floor in its existing facility. According to the applicant, because of this original design, the addition of the 30 beds will be cost-efficient and minimally disruptive to ongoing patient care. The applicant explains that SAI planned for future vertical expansion during its initial construction, resulting in an entirely empty fourth floor that only requires the installation of interior finishes such as walls, lighting, plumbing and fixtures. Additionally, the site has already been designed to accommodate the full build out, such that SAI already has in place sufficient parking, vehicle access points, and internal elevators and stairways.

The projected capital costs of the proposed project total \$24,991,457, 8% of which represent direct construction costs (**Table 2**). As discussed, construction costs are low because SAI planned for future expansion when designing the existing fourth floor of its building. The majority of the costs represent the lease expenses for the fourth floor, as displayed in the “Site Acquisition Costs” in **Table 2** below. The applicant will fund the project using its accumulated reserves, member contributions and operational cash flow. Accordingly, there are no financing costs associated with this project.

Table 2. Sheltering Arms’ Projected Capital Costs

Direct Construction Costs	\$2,000,000
Equipment Not Included in Construction Contract	\$3,625,000
Site Acquisition Costs	\$19,366,457
Total Capital Costs	\$24,991,457

Source: COPN Request No. VA-8708

The applicant projects that construction on the proposed project will begin on April 30, 2024, and will be complete on April 30, 2025. The applicant anticipates a target opening date of August 1, 2025.

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 an existing medical care facility as described in subsection A.” A medical care facility is defined, in part, as “Any facility licensed as a hospital, as defined in § 32.1-123.”

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, SAI is located at 2000 Wilkes Ridge Drive, Richmond, Virginia and is accessible via Interstate-288, Interstate-64, Interstate-295 and West Broad Street. The Greater Richmond Transit Company has a stop 0.4 miles from SAI’s front door on West Broad Street. The applicant reports that the SAI care management team also works with patient families to address any transportation issues.

Table 3 shows projected population growth in PD 15 through 2030. As depicted in **Table 3**, at an average annual growth rate of 1.01%, PD 15’s population growth rate from 2010-2020 was well above the state’s average annual growth rate of 0.77%. Overall, the PD was 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 10,894 people annually. In the 10-year period ending in 2030, the PD 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 projected a more rapid increase in population growth (an estimated 108,937 people from 2010 to 2020, an approximate 48% increase and an estimated 108,303 people from 2020-2030, an approximately 30% increase). 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. 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. SAI reports that the average age of its patients from 2020-2022 was 65 years of age.

Table 3. Population Projections for PD 15, 2010-2030

Locality	2010	2020	2010 - 2020		2030	2020 - 2030	
			% Change	Avg Ann % Change		% Change	Avg Ann % Change
Charles City	7,256	6,982	-0.38%	-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	8.17%	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)

Regarding socioeconomic barriers to access to the applicant’s services, according to regional and statewide data regularly collected by VHI, for 2021, the most recent year for which such data is available, the average amount of charity care provided by HPR IV facilities was 1.0% of all reported total gross patient revenues (**Table 4**). Pursuant to § 32.1-102.4B of the Code of Virginia DCOPN must now place a charity care condition on every applicant seeking a COPN. Accordingly, should the State Health Commissioner (Commissioner) approve the proposed

project, DCOPN recommends a charity care condition of no less than the 1.0% HPR IV average, in addition to any new requirements as found in the revised § 32.1-102.4B of the Code of Virginia.

Table 4. HPR IV Charity Care Contributions: 2021

2021 Charity Care Contributions at or below 200% of Federal Poverty Level			
HPR IV	Gross Patient Revenues	Adjusted Charity Care Contribution	Percent of Gross Patient Revenue
Encompass Health Rehab Hosp of Petersburg	\$26,851,240	\$1,046,165	3.9%
Southern Virginia Regional Medical Center	\$193,424,382	\$6,462,541	3.3%
Sentara Halifax Regional Hospital	\$305,216,000	\$5,567,790	1.8%
Bon Secours St. Francis Medical Center	\$1,075,574,864	\$15,314,171	1.4%
Southside Regional Medical Center	\$2,000,593,397	\$27,695,403	1.4%
Bon Secours Richmond Community Hospital	\$991,036,257	\$11,039,087	1.1%
CJW Medical Center	\$8,975,939,621	\$87,710,457	1.0%
Henrico Doctors' Hospital	\$5,763,604,659	\$52,734,748	0.9%
VCU Health System	\$6,809,570,615	\$61,295,221	0.9%
Bon Secours St. Mary's Hospital	\$2,358,088,813	\$20,998,912	0.9%
TriCities Hospital	\$1,324,643,208	\$9,600,576	0.7%
Sheltering Arms Institute	\$137,252,572	\$970,918	0.7%
Bon Secours Memorial Regional Medical Center	\$1,614,325,924	\$9,753,218	0.6%
Community Memorial Hospital	\$343,583,756	\$1,572,169	0.5%
Encompass Health Rehab Hosp of Virginia	\$25,150,781	\$107,359	0.4%
Southside Community Hospital	\$383,098,711	\$1,431,006	0.4%
Cumberland Hospital for Children and Adolescents	\$39,513,361	\$0	0.0%
Select Specialty Hospital - Richmond	\$141,742,321	\$0	0.0%
Total Inpatient Hospitals:			18
HPR IV Inpatient Hospital Median			1.1%
HPR IV Total Inpatient \$ & Mean %	\$32,509,210,482	\$313,299,741	1.0%

Source: VHI (2021)

DCOPN is not aware of any other distinct and unique geographic, socioeconomic, cultural, transportation, or other barriers to care that this project would address.

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 six letters of support for the proposed project from members of the local medical community and former patients of SAI, which addressed:

- SAI provides the highest quality rehabilitation care to patients in Richmond and the surrounding areas.
- Because of its ability to treat complex neurological and orthopedic patients, patients from throughout the Commonwealth and Mid-Atlantic Region travel to SAI for their inpatient rehabilitation program. As a result, SAI experiences very high utilization and needs additional beds to help ensure it has the capacity to treat patients in need of its services.
- Beginning in 2021, SAI's first full year of operation, it has averaged greater than 80% occupancy of its 114 beds. These high occupancy rates demonstrate the need for comprehensive inpatient rehabilitation services, a need which will only continue to increase as the population ages. To ensure that SAI's inpatient services will remain available and accessible, SAI requires an additional 30 beds.
- The shell space on the fourth floor will allow SAI to expand in an expeditious and cost-effective manner with little interruptions to ongoing patient care.

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

Public Hearing

Section 32.1-102.6 B of the Code of Virginia directs DCOPN to hold one public hearing on each application 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, the Commissioner, the applicant, or a member of the public. COPN Request No. VA-8708 is not competing with another project in this batch cycle and DCOPN did not 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 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 need for 16 medical rehabilitation beds in PD 15 for the 2028 planning year. Additionally, as will be discussed in greater detail later in this staff analysis report, SAI has shown an institutional need to add 30 medical rehabilitation beds. With a utilization rate of 81.2% in 2021 and a reported occupancy of 81.6% in 2022, the utilization data confirms that SAI's current capacity demonstrates an institutional need for expansion.

Moreover, because of the existing shell space in SAI's building, the expansion is the most cost-effective way to add increased capacity. The applicant asserts that is considered a build out of less than 30 medical rehabilitation beds but determined that this would result in construction inefficiencies, operational inefficiencies, prolonged disruptions, and increased costs. Specifically, the applicant explains:

- The 30 beds will be located on the fourth floor in existing shell space that will be finished out during this project. The fourth-floor plate was designed such that the patient room modules could be directly replicated above the patient unit on the floor below, making the extension of plumbing risers very efficient and with reduced interruption to the occupied unit. Because of the design of this floor plate, SAI cannot reconfigure the fourth floor to have fewer than 30 rooms without significant added expense in design and construction.
- When SAI first constructed the hospital, it determined that 30-bed floors would produce the most efficient design from a staffing and operational perspective. It also determined that the inpatient units should be designed to maximize nursing efficiency and eliminate errors by creating inpatient units and patient bedrooms with identical layouts and configurations, allowing for cross-trained staff to flex from unit to unit as needed. For these reasons, the fourth floor should be identical to the second and third floors, each of which have 30 beds. Including any fewer beds on the fourth floor would, therefore, create operational inefficiencies.
- While SAI believes it can minimize disruption to ongoing operations when completing the fourth floor, there are always disruptions and inconveniences that occur with any construction project. If SAI were to only partially finish the fourth floor, it would have to endure a second construction cycle on the heels of the first given its historic growth and projections.
- If it were to complete only half of the fourth floor and then complete the rest in a subsequent project, there would be significant cost inefficiencies associated with buying materials, securing labor, obtaining permits and general project management. In addition, with inflation, waiting to complete a portion of the project is likely to result in higher overall costs.

Regarding the timing of the proposed project, the applicant asserts:

At only 80% utilization, not all of SAI's existing patient rooms are being utilized. As a result, during construction, SAI will have the opportunity to strategically place patients in rooms such that they will not be impacted by the construction. For instance, during the fit-out of the fourth floor, it may be necessary to work on plumbing and electrical connections in the ceiling of the third floor. Because SAI is not yet at 90-100% utilization, it can ensure that patients are not in those third-floor rooms where work is being done in the ceiling and will likely be heard in the room. Given SAI's growth projections, delaying this project will result in higher occupancy during construction, which will result in a higher likelihood of disruptions in the patient care environment. As a result, it is critical that SAI undertake this expansion now while its utilization is just above 80%.

It is also notable that this need for expansion is reflected in the Weldon Cooper population data in regard 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. As

previously discussed, the applicant reports that the average age of its patients was 65 years of age from 2020-2022.

For these reasons, DCOPN concludes that the status quo is not a reasonable alternative to the proposed project and that the proposed project is the most cost-effective way to address the applicant's institutional need.

(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 2**, the estimated capital costs of the proposed project are \$24,991,457, 8% of which represent direct construction costs (**Table 2**). The majority of the costs represent the lease costs for the fourth floor, as displayed in the "Site Acquisition Costs" in **Table 2**. The applicant will fund the project using its accumulated reserves, member contributions and operational cash flow. Accordingly, there are no financing costs associated with this project. As noted, the majority of the capital costs originate from the lease costs for the fourth floor. When focusing on the direct construction and equipment costs of \$5,625,000, DCOPN concludes that when compared to similar PD 15 projects, these costs are reasonable. For example, COPN No. VA-04702 issued to HCA Health Services of Virginia, Inc. to add 16 inpatient rehabilitation beds in existing inpatient space on the Parham Doctors Hospital campus, which is projected to cost approximately \$4,927,475.

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

- While SAI does not have a formal written long-range plan, adding 30 beds to expand its capacity and the accessibility of its services is fully consistent with its mission.
- All patient beds in the current 114 bed hospital, and the proposed 30 additional beds, are and will be in single, private patient rooms. Such accommodations, and the ability to have family present in the room, have been shown to increase patient satisfaction and reduce patients' length of stay.
- SAI planned for potential future vertical expansion during its initial construction. This has resulted in having an entirely empty fourth floor within its existing complex that only requires the installation of interior finishes such as walls, lighting, plumbing and fixtures. The fourth-floor plate was designed such that the patient room modules could be directly replicated above the patient unit on the floor below, making the extension of plumbing risers very efficient and with reduced interruption to the occupied unit.

- The site has already been designed to accommodate the full build out, such that SAI already has in place sufficient parking, vehicle access points, and internal elevators and stairways that do not need to be expanded upon or constructed to facilitate the increased patient flow.
- Based on its historic growth, the aging PD 15 population and general industry trends promoting early access to inpatient rehabilitation to improve long term outcomes, SAI projects that it will operate at 80% utilization of its 144 beds by 2028, its second full year of operation with the fourth-floor expansion.

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

As previously discussed, pursuant to § 32.1-102.4B of the Code of Virginia DCOPN must now place a charity care condition on every applicant seeking a COPN. Accordingly, should the Commissioner approve the proposed project, DCOPN recommends a charity care condition of no less than the 1.0% HPR IV average, in addition to any new requirements as found in the revised § 32.1-102.4B of the Code of Virginia.

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

The applicant explains that SAI currently treats more trauma and medically complex patients than many other rehabilitation hospitals. Additionally, SAI is one of just eight hospital partnerships in the nation that have both spinal cord injury and traumatic brain injury model systems. Regarding the unique nature of the treatments available at SAI, the applicant says:

SAI encourages the Commissioner to consider SAI's unique role as a statewide and regional referral center for complex medical rehabilitation patients. Since opening, SAI has provided care to patients from over 20 states and continues to receive referrals of patients from outside of the Commonwealth with regularity, including 60 patients in the last year.

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

Section 32.1-102.2:1 of the Code of Virginia calls for the State Health Services Plan Task Force to develop recommendations for a comprehensive State Health Services Plan (SHSP). In the interim, DCOPN will consider the consistency of the proposed project with the predecessor of the SHSP, the SMFP. They are as follows:

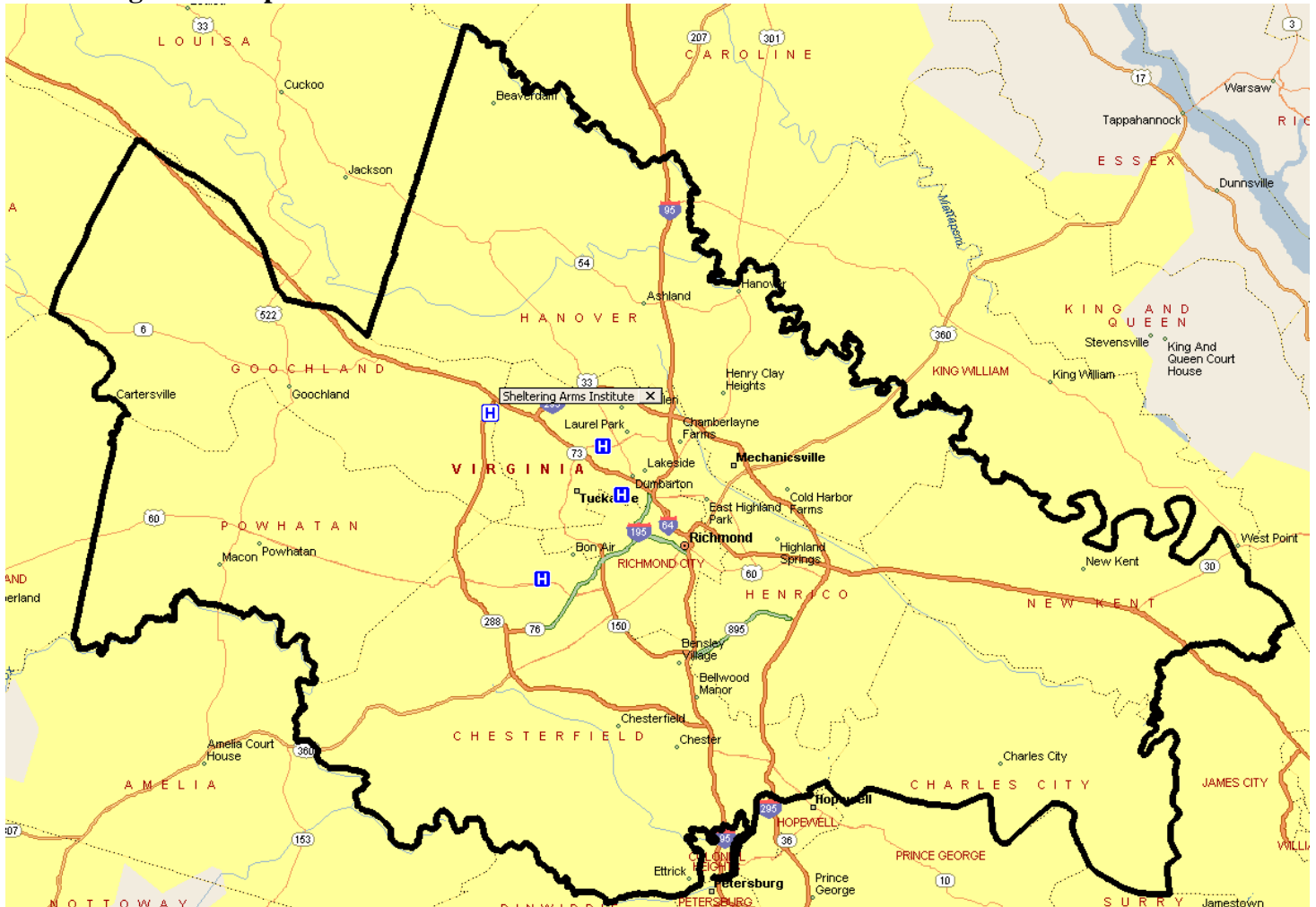
Part XI Medical Rehabilitation

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. The blue “H” symbols mark the locations of existing medical rehabilitation providers in PD 15. The white “H” symbol marks the location of the proposed project. The yellow 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.

Figure 1: Map of Medical Rehabilitation Services in PD 15



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.

The applicant is not proposing to establish a new service, but rather, to increase its current medical rehabilitation bed inventory by 30. Accordingly, DCOPN concludes that this provision is not applicable to the proposed project. However, DCOPN includes the information below to present a full picture of the medical rehabilitation needs in PD 15.

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

Number of medical rehabilitation patient days in PD 15 in 2021= **68,583**

Population of PD 15 in 2021 = **1,121,051**

$$UR = 68,583/1,121,051 = 0.061$$

$$PROPOP \text{ of PD 15 in 2028} = 1,195,561^2$$

$$\frac{((.061 \times 1,195,561)/365)}{0.80} = \mathbf{249.76 (250) \text{ Medical Rehabilitation Beds Needed}}$$

Rehabilitation Bed Need in PD 15 = 250 Beds

Current Inventory of Rehabilitation Beds in PD 15 = 234

Rehabilitation Bed Need = 16

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 need for 16 medical rehabilitation beds in PD 15 in planning year 2028.

² Population sources: Weldon Cooper and DCOPN interpolations.

- 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.**

Not applicable. SAI is not proposing a new medical rehabilitation service.

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 shown in **Table 1** above, the medical rehabilitation beds in PD 15 operated at 80.3% utilization in 2021. This standard is satisfied.

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 SAI's Chief Medical Officer, Dr. Richard Kunz, a board-certified psychiatrist. 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.**

SAI proposes to add 30 medical rehabilitation beds, resulting in a total complement of 144 medical rehabilitation beds. According to the applicant:

This high level of utilization has an impact on SAI's operations, the accessibility of its services and the operations of those hospitals that transfer patients to SAI for inpatient rehabilitation following an acute care admission. On any given day, SAI receives an estimated 130-140 active referrals from acute care hospitals. SAI estimates that 30-40 of those patient referrals are ready to be transferred the same day, but based on transfer logistics and SAI's capacity, on average, SAI can only admit approximately six-seven patients per day. As a result, many patients in need of SAI's inpatient rehabilitation services remain in the acute care hospitals for longer than needed, are admitted to other inpatient rehabilitation facilities that may not have the same resources and programming available at SAI, are admitted to skilled nursing facilities or forego inpatient rehabilitation care altogether. None of these are optimal outcomes. Adding additional capacity will enhance SAI's ability to quickly admit those in need and reduce the number of these suboptimal circumstances.

While SAI's overall utilization is approximately 81%, its 114 beds are arranged in designated, specialized units, many of which operate above 80% utilization. These specialized units include a secured brain injury unit as well as specialized areas for spinal cord injury, stroke and medically complex patients. If a bed is not available for a patient in need of care in these specialized units, SAI will admit them to a general rehabilitation unit if there is capacity and then later transfer them to the specialized unit when a bed is available. This is not ideal, however, as it creates operational inefficiencies within SAI. The addition of 30 beds will enable SAI to create additional specialized units to increase the likelihood that a bed will be available when needed.

With a utilization rate of 81.2% in 2021 and 81.6% in 2022, the utilization data confirms that SAI's current capacity demonstrates an institutional need for expansion. Furthermore, the applicant has provided data demonstrating that it has experienced an approximate 2% average annual growth rate in patient days, with 33,794 patient days in 2021, 34,079 patient days in 2022 and 35,250 patient days in 2023 (annualized based on January-March 2023). Using this historic growth rate, the aging PD 15 population and industry trends, the applicant projects that it will operate at 80% utilization by 2028 with 41,975 patient days and 144 medical rehabilitation beds. Based on these projections, DCOPN contends that the request for 30 medical rehabilitation beds is reasonable.

Although the applicant is a joint venture with Virginia Commonwealth University Health Systems Authority, it is not part of a health system that operates any underutilized medical rehabilitation beds that would be appropriate for reallocation. Therefore, DCOPN maintains the project warrants approval based on SAI's institutional need.

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 does not foster institutional competition but seeks to expand bed capacity at an existing facility to meet an institutional need.

- 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 demonstrated by **Figure 1**, the current inventory of medical rehabilitation beds in PD 15 is sufficient and adequately distributed geographically. As previously discussed, DCOPN has calculated a need for 16 medical rehabilitation beds in PD 15 for the 2028 planning year. If approved, the proposed project would meet this calculated need. However, as already discussed, the proposed project warrants approval because SAI has demonstrated an institutional need to expand, and the proposed project is more advantageous than the status quo.

- 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 5**) provided by the applicant projects a loss of \$252,305 by the end of the first year of operation but a net profit of \$2,082,539 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 2**, the total projected capital cost of the proposed project is \$24,991,457, which will be funded through accumulated reserves, member contributions and operational cash flow. Accordingly, there are no financing costs associated with the proposed project.

Table 5. SAI Pro Forma Income Statement

	Year 1	Year 2
Gross Inpatient Revenue	\$175,970,483	\$190,182,259
Gross Outpatient Revenue	\$25,056,432	\$25,056,432
Total Patient Revenue	\$201,026,915	\$215,238,691
Contractual Adjustments	(\$113,184,629)	(\$121,172,942)
Charity	(\$902,831)	(\$980,032)
Bad Debt	\$697,379	\$746,681
Net Patient Services Revenue	\$86,242,076	\$92,339,036
Other Operating Income	\$1,213,090	\$1,213,090
Total Operating Revenue	\$87,455,165	\$93,552,125
Total Operating Expenses	\$87,707,470	\$91,523,586
Net Income/(Loss)	(\$252,305)	\$2,028,539

Source: COPN Request No. VA-8708

With regard to staffing, the applicant anticipates the need to hire 89.4 full time equivalent employees (FTEs) to staff the proposed project. These employees are as follows:

- 13 Administration-Business Office
- 20.9 Registered Nurses
- 4.6 Licensed Practical Nurses
- 23.7 Nurses' Aides, Orderlies and Attendants
- 6.7 Occupational Therapists
- 7.2 Physical Therapists
- 1.3 Recreational Therapists
- 2 Medical Social Workers
- 2.5 Speech and Language Pathologists
- 4.6 Clinical Coordinators
- 3.1 Unit Secretaries

The applicant is an established provider of medical rehabilitation services, and provided the following information:

SAI's additional staffing needs will be met through traditional mechanisms, including online job postings, employee referrals, college campus recruiting, professional associations, job fairs, and agency recruiters. This includes schools of nursing and rehabilitative sciences that rely on SAI for clinical training opportunities, such as VCU's Schools of Nursing and College of Health Professions. VCU has over 400 graduate level students in Rehabilitation Sciences including Physical Therapy, Occupational Therapy, Recreational Therapy, and Speech Therapy. SAI is a training location for VCU medical residency programs in Physical Medicine and Rehabilitation. SAI will also continue to provide a clinical rotation setting for other medical students, medical residents, nursing and pharmacy students from VCU, and other programs currently sending students to the facility. As a result of the positive training experience that they receive, many of these students desire to work at SAI following graduation. SAI is also in the beginning stages of an agreement with a global healthcare staffing firm for international nurse recruitment.

DCOPN notes that according to VHI for 2021, the applicant staffed 97 of its 114 licensed beds. With regard to the unstaffed beds for that year, the applicant explains:

For 2022, Sheltering Arms Institute reported 114 staffed beds to VHI. Like many health care providers in 2021, SAI did experience some staffing challenges as a result of COVID. SAI has addressed these challenges and is now fully staffed to support the needs of its patients and the community. Currently, SAI is operating at an average daily census of approximately 100 patients, which would equate to utilization of 88%, well above the 80% threshold for expansion. This high utilization underscores the need for the proposed addition of 30 beds. With the recruiting and retention programs described in Section III.G of the application, SAI does not anticipate any issues staffing the additional beds when they open.

Considering the applicant's robust recruitment and retention program, and its report that all licensed beds were staffed in 2022, 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. The Sheltering Arms Hospital and Virginia Commonwealth University Health Systems Authority is a joint venture whose members include The Sheltering Arms Hospital and Virginia Commonwealth University Health Systems Authority. The applicant explains:

Sheltering Arms Institute is the result of years of extensive discussions, evaluation and planning between The Sheltering Arms Hospital and Virginia Commonwealth University Health System Authority during which the two institutions sought out solutions to best affiliate to bring a state-of-the-science, nationally recognized inpatient rehabilitation hospital to Richmond. SAI's mission is to increase access to innovative rehabilitative care of the highest caliber through a continuum of services that enhances the quality of life for the people we serve.

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.**

With regard to this consideration, the applicant explains:

SAI is a teaching hospital that directly supports and benefits VCUHS' medical education mission for the Schools of Medicine, Nursing, and Allied Health as well as other schools of nursing and rehabilitative sciences that rely on SAI for training. VCU has over 400 graduate level students in Rehabilitation Sciences who benefit from the clinical expertise at SAI. Rehabilitation programs include Physical Therapy, Occupational Therapy, Recreational Therapy, Speech Therapy, and more. SAI is the primary training location for VCU medical residency programs in Physical Medicine and Rehabilitation. SAI also provides a clinical rotation setting for other medical students, medical residents, nursing and pharmacy students from VCU, and other programs.

DCOPN Staff Findings and Conclusions

DCOPN finds that the proposed project to expand medical rehabilitation services at SAI through the addition of 30 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 shown in **Table 1** above, the medical rehabilitation beds in PD 15 operated at 80.3% utilization in 2021. Furthermore, as previously discussed, in 2021, the 114 medical rehabilitation beds at SAI operated at a utilization rate of 81.2 % and operated at a utilization rate of 81.6% in 2022. Therefore, the applicant has demonstrated an institutional specific need to expand. Moreover, DCOPN concludes that the proposed project is more favorable than maintaining the status quo. It is also notable that this need for expansion is reflected in the Weldon Cooper population data with regard to PD 15 residents aged 65 and older. Finally, DCOPN finds that the total capital and financing costs for the project are reasonable.

DCOPN Staff Recommendation

The Division of Certificate of Public Need recommends **conditional approval** of Rehab JV, LLC d/b/a Sheltering Arms Institute's Certificate of Public Need Request number VA-8708 to add 30 medical rehabilitation beds 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. The proposed project will meet a calculated need in PD 15.
4. There is no known opposition to the project.
5. The applicant has adequately demonstrated an institutional need to increase capacity.

DCOPN's recommendation is contingent upon Rehab JV, LLC d/b/a Sheltering Arms Institute's agreement to the following charity care condition:

Rehab JV, LLC d/b/a Sheltering Arms Institute will provide inpatient medical rehabilitation services to all persons in need of these services, 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 1.0% of Rehab JV, LLC d/b/a Sheltering Arms Institute's total patient services revenue derived from inpatient 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. Rehab JV, LLC d/b/a Sheltering Arms Institute 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.

Rehab JV, LLC d/b/a Sheltering Arms Institute will provide inpatient medical rehabilitation care 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 Rehab JV, LLC d/b/a Sheltering Arms Institute will facilitate the development and operation of primary and specialty medical care services in designated medically underserved areas of the applicant's service area.