



COMMONWEALTH of VIRGINIA

Department of Health
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August 7, 2025

By Email

Emily W. G. Towey, Esquire
Hancock Daniel
4701 Cox Road
Post Office Box 72050
Richmond, Virginia 23225-2050

RE: Certificate of Public Need (COPN)
Request Number VA-8763
Carilion Rehabilitative Services, and
Carilion Clinic (“Carilion”)
Roanoke, Virginia
Planning District (PD) 5
Health Planning Region III
Establishment of 50-Bed
Medical Rehabilitation Hospital

Dear Ms. Towey:

In accordance with Article 1.1 of Chapter 4 of Title 32.1 (§ 32.1-102.1 *et seq.*) of the Code of Virginia (the “COPN Law”), I have reviewed the application captioned above. As required by Subsection B of Virginia Code § 32.1-102.3, I have considered all matters, listed therein, in making a determination of public need under the COPN law.

I have reviewed and adopted the enclosed findings, conclusions and recommended decision of the adjudication officer that convened the informal fact-finding conference on the application in accordance with the Virginia Administrative Process Act, Virginia Code § 2.2-4000 *et seq.*

Based on my review of the application and on the recommended decisions of the adjudication officer, I am approving the application from Carilion – as proposed to consist of a 50-bed facility, with a condition addressing charity care. I find that this project would meet a public need.

Emily Towey, Esquire

August 7, 2025

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cc (via email, cont'd):

Vanessa C. MacLeod, JD
Adjudication Officer

Erik O. Bodin, III
Director, Division of Certificate of Public Need

Douglas R. Harris, JD
Adjudication Officer

COMMONWEALTH OF VIRGINIA
DEPARTMENT OF HEALTH
MEDICAL CARE FACILITIES CERTIFICATE OF PUBLIC NEED

THIS CERTIFIES THAT Carilion Rehabilitation Services, LLC and Carilion Clinic is authorized to initiate the proposal as described below.

NAME OF FACILITY: Carilion Rehabilitation Hospital

LOCATION: Block 1900 9th Street SE, Roanoke, Virginia 24013

OWNERSHIP AND CONTROL: Carilion Rehabilitation Services, LLC and Carilion Clinic

SCOPE OF PROJECT: Establish a 50-bed medical rehabilitation hospital through the relocation of 34 beds from Carilion Roanoke Community Hospital (leaving six medical/surgical beds and no medical rehabilitation beds) and the addition of 16 new beds in accordance with specifications and representations made during the course of review and adjudication. Capital costs authorized for this project total \$112,259,205. The project is expected to be completed by May 30, 2027. This certificate is issued with the condition that appears on its reverse.



Pursuant to Chapter 4, Article 11 of Title 32.1, Sections 32.1-102.1 through 32.1-102.12 of the Code of Virginia (1950), as amended and the policies and procedures promulgated thereunder, this Medical Care Facilities Certificate of Public Need is issued contingent upon substantial and continuing progress towards implementation of the proposal within twelve (12) months from the date of issuance. A progress report shall be submitted to the State Health Commissioner within twelve (12) months from the date of issuance along with adequate assurance of completion within a reasonable time period. The Commissioner reserves the right not to renew this Certificate in the event the applicant fails to fulfill these conditions. This Certificate is non-transferable and is limited to the location, ownership, control and scope of the project shown herein.

Certificate Number: VA-04945

Date of Issuance: July 14, 2025

Expiration Date: July 13, 2026

D. Shelton MD

Karen Shelton, MD, State Health Commissioner

Carilion Rehabilitation Services, LLC d/b/a Carilion Rehabilitation Hospital 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 0.6% of Carilion Rehabilitation Services, LLC d/b/a Carilion Rehabilitation Hospital'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 Carilion Rehabilitation Services, LLC d/b/a Carilion Rehabilitation 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.

Carilion Rehabilitation Services, LLC d/b/a Carilion Rehabilitation Hospital will provide inpatient 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 Carilion Rehabilitation Services, LLC d/b/a Carilion Rehabilitation Hospital will facilitate the development and operation of primary and specialty medical care services in designated medically underserved areas of the applicant's service area.

Recommended Case Decision
Certificate of Public Need (COPN)
Request Number VA-8763
Carilion Rehabilitation Service, LLC
d/b/a Carilion Rehabilitation Hospital, and
Carilion Clinic
Establishment of a
50-Bed Medical Rehabilitation Hospital
Roanoke, Virginia
Planning District (PD) 5
Health Planning Region III

This is a recommended decision submitted to the State Health Commissioner (“Commissioner”) for her consideration and adoption. This recommended decision follows the convening of an informal fact-finding conference (IFFC)¹ conducted in accordance with the Virginia Administrative Process Act (VAPA),² as well as the performance of a full review of the entire administrative record.

Authority

Article 1 of Chapter 4 of Title 32.1 (§ 32.1-102.1 *et seq.*) of the Virginia Code (“COPN Law”) addresses medical care facilities and provides that “[n]o person shall undertake a project described in [this Article] or regulations of the [State] Board [of Health] at or on behalf of a medical care facility . . . without first obtaining a certificate [of public need] from the Commissioner.”³

The endeavor proposed in the above-referenced application falls within the statutory definition of “project” contained in the COPN Law, and, thereby, requires a certificate of public need (COPN, or “Certificate”) to be issued to the applicant before the planned project, or the endeavor, may be undertaken.⁴

Factual Background

1. Carilion Rehabilitation Services, LLC, is a Virginia limited liability company whose sole member is Carilion Clinic.

¹ The IFFC was convened by the undersigned and held on April 25, 2025. The applicant appeared through officers and by counsel. The administrative record includes a certified transcript of the IFFC.

² Va. Code § 2.2-4000 *et seq.*

³ Va. Code § 32.1-102.1:2 (A).

⁴ Va. Code § 32.1-102.1.

The Focus and Context of this Adjudication

DCOPN made a staff recommendation of partial approval in this case, *i.e.*, in response to the filing of COPN Request No. VA-8763, in which Carilion seeks approval of a project to establish a 50-bed medical rehabilitation hospital in PD 5. DCOPN's recommendation contains two parts: i.) A recommendation that the Commissioner approve a partially-included project within the proposed project, *i.e.*, a theoretical relocation of 34 beds to a hospital structure that would be built as part of the project; and ii) A recommendation that the Commissioner deny the remainder of the proposed project, *i.e.*, the addition of 16 new-to-the-inventory medical rehabilitation beds because a surplus and opposition to the overall project exists.

As Carilion observes, DCOPN "does not dispute the need to relocate Carilion's medical rehabilitation service from its current location to a new state-of-the-art, freestanding medical rehabilitation hospital."⁹ The physical plant and facility space now housing Carilion's 34 medical rehabilitation beds is aged, and the small patient rooms constrain services, often preventing use of modern rehabilitative equipment and care. Construction and introduction of contemporary, well-designed specialty facilities, structure, and infrastructure can directly lead to effective operation of processes and medical care, and improve patient restorative outcomes.

After reviewing the record, I find it contains ample evidence supporting DCOPN's staff recommendation of partial approval. I agree with DCOPN's conclusions and recommendation, so far as it goes.

In light of the clear ability of the establishment of a new medical rehabilitation hospital to meet a public need, the only matter remaining for adjudication – the focus and context here – is whether the new rehabilitation hospital should have a complement of 34 or 50 beds. The discussion below addresses the proposed project, as a whole, while also providing, ultimately, demonstration of the public need for and practical reasonableness of the additional 16 beds Carilion seeks.

Analysis and Conclusions Relating to the Proposed Project

Salient analysis and conclusions regarding the Carilion project and relating directly to the eight considerations of public need contained in the COPN law (the "statutory considerations"¹⁰ appearing in bold type), are set forth in relation to each statutory consideration below.

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.**

⁹ Transcript at 102, Proposed Findings and Conclusions at 2.

¹⁰ See Subsection B of Virginia Code § 32.1-102.3.

Approval of the Carilion project would increase access to medical rehabilitation services through construction of a state-of-the-art medical rehabilitation hospital with specialty rehabilitation services in PD 5, where the population cohort of those age 65 and over is expected to grow nearly 45 percent by 2030.

Deployment of the SMFP's computational methodology indicates that the PD 5 inventory of 69 medical rehabilitation beds includes a surplus of 11 beds. Carilion disputes the magnitude of the surplus, maintaining it consists of only five beds.

Regardless, the future need for medical rehabilitation services in PD 5 will increase in the coming years. Curtailing a project that has been envisioned to operate with and include 50 iterations of a regulated resource based on past utilization of existing beds would be unnecessarily controlling and parsimonious in this case.

The Carilion project, at the scale Carilion has envisioned it (to consist of 50 beds), with a therapy gym, would serve public need, including the access-related intent and purposes underlying this statutory consideration.

Roanoke is an established metropolitan area and an recognized locus for various health care resources serving PD 5 and beyond, including tertiary and quaternary services, that would be appropriately augmented by the state-of-the-art facility Carilion proposes.

Carilion references recent industry trends in the growth and development of freestanding medical rehabilitation hospitals, and observes DCOPN has acknowledged that a capacity of 50 beds for a freestanding medical rehabilitation hospital is appropriate and cost effective: This scale of operation "provides the lowest cost care," and may avoid the need for expansion "at inflated construction costs in the future."¹¹

The Commissioner may reasonably find a sufficient basis to conclude that the Carilion project, as proposed, is consistent with this statutory consideration.

2. The extent to which the proposed project will meet the needs of 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; (ii) the availability of reasonable alternatives to the proposed project that would meet the needs of people in the area to be served in a less costly, more efficient, or more effective manner; (iii) any recommendation or report of the regional health planning agency regarding an application for a certificate [*i.e.*, Certificate] that is required to be submitted to the Commissioner pursuant to subsection B of § 32.1-102.6;¹² (iv) any costs and benefits of the proposed project; (v) the financial accessibility of the proposed project to people in the area to be served, including indigent people; and (vi) at the discretion of

¹¹ Quoted in Letter from E. Towey to E. Bodin dated July 25, 2024 (Carilion IFFC Exhibit 8H) at 4.

¹² No regional health planning agency currently exists to report on projects proposed in Health Planning Region (HPR) I, which includes PD 5 and the City of Roanoke.

the Commissioner, any other factors as may be relevant to the determination of public need for a proposed project.

Community support for the Carilion project exists. But LewisGale Medical Center (“LewisGale”), which operates the only other complement of medical rehabilitation beds in PD 5, opposes the project.¹³

No alternative to the Carilion project has been identified. Only the project, as proposed, would address and avoid the infrastructural deficiencies that are encountered daily in the aged and constrained space in which Carilion currently operates 34 medical rehabilitation beds.

Capital costs for the Carilion project total \$112,259,205. DCOPN concludes these costs are reasonable. The benefits of the project are manifold, consisting mainly of a total enhancement and modernization of the physical plant and structure in which Carilion provides medical rehabilitation services. Carilion is a major provider of charity care in HPR III, so the services provided in the envisioned rehabilitation hospital would be financially accessible to residents.

The warranted and well-timed replacement of medical physical plants has historically been a stated and observable goal of the COPN Law and program. General observation, and the evidence in the record, indicates that efficacious deployment of medical rehabilitation, as a vital part of the care spectrum and when provided in modern, specialty-commodious settings, can benefit public health by better transitioning and preparing former-acute care patients for an effective discharge to home, and by helping stem patient returns to acute care settings. The Carilion project bears the potential to considerably improve the general quality of medical rehabilitation services in PD 5. I believe this observation, or factor, should be considered and given appropriate weight by the Commissioner.

3. The extent to which the proposed project is consistent with the State Health Services Plan [*i.e.*, *de facto*, the SMFP].¹⁴

The COPN law requires that “[a]ny decision to issue . . . a [COPN] shall be consistent with the most recent applicable provisions of the [SMFP]”¹⁵ The SMFP, contained in the Virginia Administrative Code (VAC), includes provisions applicable to projects proposing the establishment of renal transplant services.

¹³ See Letter from T. Stallings to K. Shelton dated July 2, 2024 for LewisGale’s points of opposition; see also Letter from E. Towey to E. Bodin dated July 25, 2024, for Carilion’s responses to LewisGale’s points of opposition. Both letters are thoroughly discussed in the DCOPN Staff Report at 4-6.

¹⁴ 12 Virginia Administrative Code (VAC) 5-230-10 *et seq.* While Senate Bill 764 (Acts of Assembly, c. 1271, 2020) calls for promulgation and adoption of a State Health Services Plan (SHSP) to replace the SMFP, the process for developing the SHSP has not been completed. Therefore, the SMFP remains in effect as regulatory guidance in reviewing applications for a COPN.

¹⁵ Va. Code § 32.1-102.3 (B).

The SMFP computational methodology for determining a PD's need for medical rehabilitation beds, indicates that PD 5 has a surplus of 11 beds.¹⁶ Carilion elected to deploy an "updated age-specific SMFP formula" that, it maintains, demonstrates a surplus of just four beds.¹⁷ Further, Carilion draws attention to an analysis of its own system's acute patient discharge data to identify patients with diagnoses amenable to medical rehabilitation,¹⁸ suggesting some suppression of past PD 5 rehabilitation occupancy due to possible patient outmigration or election of service forbearance.

Evidence in the record strongly indicates that the envisioned medical rehabilitation hospital has been appropriately sized to meet future need, regardless of whether past utilization, which may have been suppressed due to outdated resources, indicates that a nominal surplus of beds in PD 5.

I conclude that sufficient data and information weigh in favor of and substantiate a determination that the Carilion project is consistent with the SMFP, or in harmony or in general agreement with the SMFP or with the public policies, interests and purposes to which the SMFP and the COPN Law are dedicated.¹⁹

Virginia courts have long recognized that the Commissioner has specialized competence in making determinations of public need. In this case, I believe the Commissioner may readily exercise such competence in finding that the Carilion project, as proposed, is consistent with the SMFP.

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.

Carilion is one of two existing providers of medical rehabilitation services in PD 5. The Carilion project, as proposed to include 50 beds, would dramatically improve the quality of existing beds through replacement and add a modicum of new beds. The project would enhance Carilion's ability to continue providing health care services to residents of PD 5, as well as residents across HPR III. DCOPN concludes that "[t]he proposed project is unlikely to foster institutional competition."²⁰

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.

Carilion is an established medical system, known for its regional-destination presence in and beyond Southwest Virginia. Carilion offers myriad health services, including vital primary, secondary, tertiary and quaternary services. Carilion Medical

¹⁶ DCOPN Staff Report at 12-13.

¹⁷ Carilion Proposed Findings and Conclusions at 23.

¹⁸ DCOPN Staff Report on VA-8677, Centra (2/21/2023), at 11 (Carilion IFFC Exhibit 29B).

¹⁹ See *Roanoke Mem. Hosp. v. Kenley*, 3 Va. App. 599, 352 S.E.2d 525 (1987).

²⁰ DCOPN Staff Report at 15.

Center, the primary hospital at the system's core in Roanoke, contributes over 44 percent of the total amount of adjusted charity care provided in HPR III.²¹ The population age 65 and older in PD 5 is projected to grow 45 percent from 2020 to 2030, and importantly, to demand greater amounts of services from PD 5's medical rehabilitation resources.

DCOPN concluded that the approval and establishment of a 34-bed medical rehabilitation hospital is "not likely to have a significant negative impact on the staffing or utilization of existing PD providers of medical rehabilitation services."²² Further, Carilion argues that it has an institutional need for the additional 16 beds it currently seeks, based on its claim of full bed complement staffing and high utilization since September of 2024.²³ Normally, such a need might better be shown by a longer, established history and duration of solid, full staffing and utilization. Regardless, the additional beds are very likely to be needed soon, due largely to population aging.

The Carilion project would bear an entirely appropriate relationship to the existing health care system of the area to be served, and no substantial issues relating to the utilization of existing services have been identified by DCOPN or the person opposing the project.

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.

DCOPN concluded that the Carilion project "appears to be financially viable in the short- and long-term."²⁴ DCOPN concluded the project bears reasonable cost of construction. Financial resources are available to the applicant, and human resources would likely be available or readily recruited for operating the relocated, expanded service. The cost of capital, as that matter is conventionally understood under this statutory consideration, is not an identified or apparent issue.

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.

The Carilion project would provide PD 5, and HPR III, with expanded, state-of-the-art medical rehabilitation services in a structure and with resources designed to be conducive to recovery. The envisioned hospital contrasts sharply with the current infrastructure housing inpatient medical rehabilitation services at Carilion, which are aged,

²¹ DCOPN Staff Report at 4, Table 4.

²² DCOPN Staff Report at 18.

²³ Carilion Proposed Findings and Conclusions at 27.

²⁴ DCOPN Staff Report at 18.

and, as Carilion represents, "cannot support the continued development of a modern, state-of-the-art inpatient rehabilitation program that offers both general and specialized services."²⁵ Carilion states that it has arranged to "offer a full continuum of comprehensive medical rehabilitation services,"²⁶ likely to include outpatient rehabilitation services, as warranted. The new rehabilitation hospital would have the ability to "care for more complex medical rehabilitation patients requiring more specialized care not currently offered at Carilion."²⁷

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.

CRMC is Southwest Virginia's only academic medical center. CRMC is an academic teaching hospital associated with the Virginia Tech Carilion School of Medicine and the Virginia College of Osteopathic Medicine. Approval of the Carilion project stands to improve medical education by providing students additional educational opportunities.

Carilion represents that the establishment of a state-of-the-art medical rehabilitation hospital in Roanoke also stands to facilitate education among other healthcare professionals and practitioners, as Carilion is affiliated with the Radford University Carilion program in which various allied and supporting healthcare professionals receive specific training.²⁸

Conclusion and Recommendation

In application of all eight statutory considerations and upon review of the administrative record compiled in relation to the Carilion project, I conclude that evidence amply supports the conclusion that the Carilion project, as proposed to consist of 50 beds, would meet a public need. The project merits approval. I recommend that the Carilion project be approved, with a routinely-devised condition ensuring charity care.

Specific reasons supporting this recommendation include:

- (i) The Carilion project is consistent with the SMFP, is in harmony or in general agreement with the SMFP or with the public policies, interests and purposes to which the SMFP and the COPN Law are administered;
- (ii) Approval of the project would directly promote access to medical rehabilitation services in a modern, specifically-designed rehabilitative

²⁵ Carilion Application (Administrative Record Exhibit C), at 6.

²⁶ IFFC Transcript at 28.

²⁷ Carilion Proposed Findings and Conclusions at 28.

²⁸ *Id.* at 28-29.

Adjudication Officer's

Recommendation

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setting and improve the quality of medical rehabilitation services by establishing a comprehensive, state-of-the-art rehabilitation hospital, with therapy gym, designed according to contemporary standards to promote and conduct medical rehabilitation and health recovery;

(iii) The infrastructure currently housing Carilion's medical rehabilitation beds and program is aged and cannot house or accommodate the continued development of a modern, contemporary inpatient rehabilitation program needed in PD 5;

(iv) No reasonable alternative exists that would serve the purpose and provide the benefits of replacing an old physical plant with a modern structure that would house and address contemporary standards of medical rehabilitation services to an aging population; and

(v) The total costs of the Carilion project are reasonable and the project, to consist of 50 beds, is feasible in the short- and long-term.

Respectfully submitted,



July 29, 2025

Douglas R. Harris, JD
Adjudication Officer