

VIRGINIA DEPARTMENT OF HEALTH

Office of Licensure and Certification

Division of Certificate of Public Need

Staff Analysis

August 19, 2024

COPN Request No. VA-8763

Carilion Rehabilitation Services and Carilion Clinic

Roanoke, Virginia

Establish a 50 Bed medical rehabilitation hospital

Applicant

Carilion Clinic is a 501(c)(3) Virginia non-stock corporation located in Roanoke, Virginia. Carilion Clinic's subsidiaries include Carilion Medical Center, Carilion Franklin Memorial Hospital, Carilion Giles Community Hospital, Carilion Tazewell Community Hospital and Carilion New River Valley Medical Center. Carilion Rehabilitation Services (CRS) is a Virginia limited liability company formed in 2024. Carilion Clinic is the sole member of CRS. CRS does not have any subsidiaries. Carilion Clinic is the sole member of CRS. Carilion Clinic and CRS propose to establish Carilion Rehabilitation Hospital (CRH), which will be located in Roanoke, Virginia, in Planning District (5) within Health Planning Region (HPR) III.

Background

According to Division of Certificate of Public Need (DCOPN) records, there are currently two providers of medical rehabilitation services in PD 5 with 69 licensed beds (**Table 1**). Furthermore, according to the 2022 Virginia Health Information (VHI) data, the most recent year for which such data is available 47 of the 69 licensed beds were staffed (68%) (**Table 1**). Furthermore, for that same year, PD 5's licensed medical rehabilitation beds operated at an 66% occupancy rate.

Table 1: Licensed Inpatient Medical Rehabilitation Beds in PD 5 and 2022 Utilization

Facility	Licensed Beds	Staffed Beds	Available Days	Patient Days	Occupancy
Carilion Roanoke Community Hospital	34	28	12,410	9,710	78%
LewisGale Medical Center	35	19	12,775	6,901	54%
Total/ Average Occupancy	69	47	25,185	16,611	66%

Source: DCOPN Records and VHI Data (2022)

Proposed Project

The applicants propose to establish a new freestanding medical rehabilitation hospital, CRH, through the relocation of 34 medical rehabilitation beds from Carilion Roanoke Community Hospital (CRCH) and propose to add 16 new medical rehabilitation beds, bringing the total licensed bed count at CRH to 50 medical rehabilitation beds. CRH will be located approximately 1.6 miles from CRCH. Additionally, with regard to the vacated space at CRCH, the applicant explains “[i]n a separate COPN application, which will be submitted in the August 10, 2024 Batch Review Cycle, CRCH will seek COPN approval to add 12 medical – surgical beds at its facility, which will be used for post-surgical recovery and other related inpatient services.”

The projected capital costs of the proposed project total \$112,259,205 (**Table 2**). Carilion Clinic will not incur any financing costs associated with construction of the facility because it will be leasing the land and building. Direct construction costs, site preparation costs, architectural and engineering fees, other consultant fees, and taxes during construction are included in leasehold expenses. The applicant will use \$6,340,000 of accumulated reserves to fund the non-construction costs of the project and will fund the remaining \$105,919,205 of costs with revenue from operations.

Table 2. CRH Projected Capital Costs

Direct Construction Costs	\$0 ¹
Equipment Not Included in Construction Contract	\$4,840,000
Site Acquisition Costs	\$105,919,205
Architectural and Engineering Fees	\$1,500,000
Total Capital Costs	\$112,259,205

Source: COPN Request No. VA-8763

The applicant projects that construction on the proposed project will begin in December 2025 and will be complete in March 2027. The applicant anticipates a target opening date in May 2027.

Project Definition

Section 32.1-102.1:3 of the Code of Virginia defines a project, in part, as the “[e]stablishment of a medical care facility.” A medical care facility includes “[a]ny 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 Direct construction costs, site preparation costs, architectural and engineering fees, other consultant fees, and taxes during construction are included in leasehold expenses.

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, CRH will be located at Block 1900, 9th Street SE, Roanoke, Virginia in the Riverdale development. The proposed location is located less than two miles from Interstate 581. Additionally, the Valley Metro bus system travels the Riverdale development with Route 41 and Route 42, making stops at 9th and Industry and 9th and River.

The population of PD 5 is projected to be 284,571 by 2030 and it is projected to grow by 1% during the 2020 to 2030 decade, a significantly lower rate of growth than the projected growth for Virginia which is 5.8% during the same period (**Table 3**). The population over age 65 is projected to grow faster than the overall population, about 45%, in PD 5 during the same decade, compared with 26.3% across Virginia (**Table 3**).

Table 3. Population by Locality, PD 5

Locality	2020 Population	2030 Projected Population	Projected Growth 2020-2030	Percent Growth 2020-2030	65+ 2020 Population	Projected 65+ 2030 Population	Projected Growth 65+	Percent Growth 65+
Alleghany	15,223	13,993	(1,230)	-8.08%	3,933	5,271	1,338	34.02%
Botetourt	33,596	33,556	(40)	-0.12%	7,882	11,786	3,904	49.53%
Craig	4,892	4,528	(364)	-7.44%	1,124	1,652	528	46.95%
Roanoke County	96,929	100,027	3,098	3.20%	21,449	31,009	9,560	44.57%
Covington city	5,737	5,434	(303)	-5.28%	1,201	1,688	487	40.54%
Roanoke city	100,011	101,514	1,503	1.50%	17,899	26,059	8,160	45.59%
Salem city	25,346	25,519	173	0.68%	5,328	7,653	2,325	43.64%
PD 5	281,734	284,571	2,837	1.01%	58,816	85,118	26,302	44.72%
Virginia	8,631,393	9,129,002	497,609	5.8%	1,395,291	1,762,641	367,350	26.3%

Source: United States Census Bureau at <https://data.census.gov/> and Weldon Cooper Center for Public Service, August 2023.

Regarding socioeconomic barriers to access to the applicant’s services, according to regional and statewide data regularly collected by VHI, for 2022, the most recent year for which such data is available, the average amount of charity care provided by HPR III facilities was 0.6% 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 Commissioner approve the proposed project, DCOPN recommends a charity care condition of no less than the 0.6% HPR III average, in addition to any new requirements as found in the revised § 32.1-102.4B of the Code of Virginia.

Table 4. HPR III Charity Care Contributions

2022 Charity Care Contributions at or below 200% of Federal Poverty Level			
Hospital	Gross Patient Revenues	Adjusted Charity Care Contribution	% of Gross Patient Revenue:
Rehabilitation Hospital of Bristol, LLC	\$17,981,903	\$504,759	2.8%
Centra Specialty Hospital	\$48,716,727	\$1,120,485	2.3%
Carilion Franklin Memorial Hospital	\$216,535,912	\$4,076,850	1.9%
Carilion Tazewell Community Hospital	\$84,561,982	\$1,031,972	1.2%
Carilion Giles Memorial Hospital	\$182,762,966	\$2,056,398	1.1%
Carilion Medical Center	\$4,626,293,362	\$48,146,682	1.0%
Carilion New River Valley Medical Center	\$908,326,659	\$8,974,962	1.0%
LewisGale Hospital-Montgomery	\$945,286,546	\$6,043,431	0.6%
LewisGale Hospital - Alleghany	\$259,238,606	\$1,552,971	0.6%
LewisGale Hospital Pulaski	\$465,079,395	\$2,565,485	0.6%
Lewis-Gale Medical Center	\$2,945,087,457	\$16,161,621	0.5%
Centra Health	\$3,023,784,179	\$10,182,695	0.3%
Smyth County Community Hospital	\$214,723,312	\$630,654	0.3%
Bedford Memorial Hospital	\$175,626,005	\$474,228	0.3%
Norton Community Hospital	\$291,775,554	\$767,018	0.3%
Russell County Medical Center	\$135,556,168	\$330,439	0.2%
Dickenson Community Hospital	\$28,125,420	\$68,308	0.2%
Johnston Memorial Hospital	\$826,084,738	\$1,856,940	0.2%
Wellmont Lonesome Pine Mountain View Hospital	\$779,003,003	\$1,458,898	0.2%
Lee County Community Hospital	\$35,910,227	\$49,714	0.1%
Buchanan General Hospital	\$116,385,318	\$140,702	0.1%
DLP Twin County Regional Healthcare	\$255,330,355	\$293,349	0.1%
Sovah Health-Martinsville	\$677,045,264	\$349,080	0.1%
Clinch Valley Medical Center	\$656,673,348	\$293,630	0.0%
Sovah Health-Danville	\$932,808,724	\$86,078	0.0%
Wythe County Community Hospital	\$292,907,698	\$18,259	0.0%
Ridgeview Pavilion (Bristol Region)	\$7,807,715	\$ -	0.0%
Total Facilities Reporting			27
Median			0.3%
Total \$ & Mean %	\$19,149,418,543	\$109,235,608	0.6%

Source: VHI (2022)

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 two letters of support for the proposed project, which addressed:

- Carilion Clinic offers a range of complex services and procedures at its hospitals in Roanoke. CRCH's inpatient rehabilitation unit serves patients who require care to recover from strokes, traumatic injuries, and many other ailments.
- Due to the region's aging population, additional medical rehabilitation services are needed. The new hospital would help Carilion provide those services.

DCOPN received one letter in opposition to the proposed project, dated July 2, 2024, from LewisGale Medical Center (LewisGale Opposition Letter), which addressed:

- Carilion does not staff all its 34 rehab beds today and should put all its existing unstaffed beds into service before it can be determined whether or not there is a public need for additional rehab beds.
- 2022 VHI data shows that Carilion has 7 unstaffed rehab beds and LewisGale has 16.
- 12 VAC 5-230-810 does not show a need for additional rehab beds in PD 5, and 12 VAC 5-230-820 states that 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.
- Section III.A of the application states that Carilion's 34 rehab beds operated at 74.4% occupancy in 2023, so Carilion cannot show an institutional need based on unpublished 2023 data.
- Carilion's application is premature. Long-unstaffed rehab beds should be put into service before it can be determined whether Carilion truly needs additional beds.

On July 25, 2024, Carilion Clinic and CRH responded to the LewisGale Opposition Letter (Carilion Response Letter). The Carilion Response Letter addressed:

- LewisGale asserts Carilion "should put all of its existing unstaffed (medical rehabilitation beds) into service before it can be determined whether or not there is public need for additional rehab beds." Carilion currently staffs 33 of 34 licensed medical rehabilitation beds at CRCH.
- To meet the growing demand for inpatient medical rehabilitation services, Carilion would staff all 34 licensed medical rehabilitation beds; however, physical plant constraints at CRCH prevent Carilion from doing so.
- Due to space limitations at CRCH and to meet the unique needs of traumatic brain injury (TBI) patients, Carilion converted the 34th medical rehabilitation patient room at CRCH to a dedicated gym for TBI patients.
- While it is operationally impractical to staff all 34 licensed beds at CRCH, Carilion's staffed medical rehabilitation beds operate at full capacity. As demonstrated by 2022 VHI data,

Carilion operated 28 staffed inpatient medical rehabilitation beds at 95% capacity. In 2023 and 2024 YTD, Carilion's 33 staffed medical rehabilitation beds have consistently operated at 80% capacity.

- During Q1 of 2024, Carilion declined admission to 60 patients due to lack of medical rehabilitation availability. During Q2 of 2024, Carilion declined admission to an additional 52 patients for the same reason.
- LewisGale elects not to staff its full licensed bed complement. Carilion has no control over LewisGale's staffing decisions. It is unreasonable to characterize Carilion's application as "premature" until LewisGale decides to put its "long-unstaffed" medical rehabilitation beds into service.
- Many PD 5 patients are migrating outside of the planning district to access inpatient medical rehabilitation services.
- In a recent COPN case, Centra Rehabilitation Hospital sought COPN approval to establish a 50-bed inpatient rehabilitation hospital through the relocation of 20 existing beds from Centra Acute Rehabilitation Center. In Centra's case, the DCOPN acknowledged that Centra ARC operated its licensed medical rehabilitation beds at just 69.8%. The DCOPN also pointed out that approval of Centra's project would result in a calculated surplus of medical rehabilitation beds in the planning district. Regardless, the COPN concluded that "deficiencies in the aged [Centra ARC] building ... are suppressing utilization of the facility, patients are out-migrating to services outside the PD, seeking care with skilled nursing facilities or home health agencies or foregoing medical rehabilitative care altogether, to the detriment of their achievable health.
- Due to the age and design of CRCH, its infrastructure cannot support the continued development of a modern, state-of-the-art inpatient rehabilitation program that offers both general and specialized services.
- The project proposes to add just 16 new medical rehabilitation beds to the PD 5 inventory, allowing the new inpatient rehabilitation hospital to meet "best practice" industry design standards.
- The DCOPN has also acknowledged that 50-bed capacity for a freestanding inpatient rehabilitation hospital is "closer to the size facility that provides the lowest cost care...and for cost-effective construction of long-term infrastructure compare to a smaller facility expanded at inflated construction costs in the future."

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-8763 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;

With regard to relocating the existing medical rehabilitation beds from CRCH, neither DCOPN nor the applicant identified a reasonable alternative that would meet the needs of the population in a less costly, more efficient, or more effective manner. Given the age and infrastructure deficiencies at CRCH, the status quo is not an option. The applicants have conducted an evaluation and determined renovation or on-site replacement of the existing inpatient medical rehabilitation unit at CRCH is cost-prohibitive and that CRCH does not have the required space to develop a unit sufficiently sized to realize economies of scale necessary to support the introduction of new specialized inpatient medical rehabilitation programs. No other reasonable alternative has been identified.

With regard to the addition of 16 medical rehabilitation beds, as will be discussed in greater detail later in this staff analysis report, DCOPN has calculated a surplus of 11 medical rehabilitation beds and the applicant has not demonstrated an institutional need to expand. Therefore, with regard to the addition of medical rehabilitation beds, the status quo is a reasonable alternative to the proposed project.

(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 III designated by the Virginia Department of Health to serve as the regional health planning agency for PD 5. 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 \$112,259,205. The applicant explains that Carilion clinic will not incur any financing costs associated with construction of the facility because it will be leasing the land and building. Direct construction costs, site preparation costs, architectural and engineering fees, other consultant fees, and taxes during construction are included in leasehold expenses. The applicant will use \$6,340,000 of accumulated reserves to fund the non-construction costs of the project and will fund the remaining \$105,919,205 of costs with revenue from operations. DCOPN concludes that when compared to similar projects, these costs are reasonable and within the range of recently approved projects. For example, COPN No. VA-04555 issued to Rehab JV, LLC to establish Sheltering Arms Rehab Institute was projected to cost \$119,406,277.

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

- Approval of the proposed project for the establishment of a new inpatient rehabilitation hospital will allow Carilion Clinic to offer greater cost-effective, community-based care to its service area.
- Freestanding rehabilitation hospitals offer greater operational efficiencies and enhanced opportunities for the introduction of specialized rehabilitation programs.
- Due to the age and design of CRCH, its infrastructure cannot support the continued development of a modern, state-of-the-art inpatient rehabilitation program that offers both general and specialized services.
- In the current rehabilitation unit at CRCH, patient rooms are too small to comfortably accommodate both patients and their caregiver/family members. Furthermore, the room size makes it difficult to fit the most cutting-edge and modern rehabilitation equipment needed to offer specialized medical rehabilitation services now and into the future.
- Significant and costly renovation would be required to increase space, functionality and capacity. Lack of medical gas in all patient rooms is logistically challenging to place patients with rehabilitation needs.

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

The Pro Forma Income Statement provided by the applicant includes the provision of charity care in the amount of 0.5% (**Table 5**). As previously discussed, recent changes to § 32.1-102.4B of the Code of Virginia now require DCOPN to place a charity care condition on every applicant seeking a COPN. DCOPN notes that, if approved, the proposed project should be subject to a charity care condition no less than the 0.6% HPR III average, in addition to any new requirements as found in the revised § 32.1-102.4B of the Code of Virginia.

Table 5. CRH Pro Forma Income Statement

	Year 1	Year 2
Total Gross Revenue	\$62,431,953	\$81,821,462
Contractual Adjustments	(\$43,383,964)	(\$57,675,949)
Charity Care	(\$318,403)	(\$417,289)
Net Revenue	\$18,729,586	\$23,728,224
Total Operating Expenses	\$22,118,308	\$23,137,141
Operating Income	(\$3,388,722)	\$591,083

Source: COPN Request No. VA-8763

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

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 to determining a public need for the proposed project.

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.

The State Medical Facilities Plan (SMFP) contains the criteria and standards for bed expansion or relocation and medical rehabilitation. They are as follows:

**Part XI
Medical Rehabilitation**

12VAC5-230-570. Expansion or relocation of services.

A. Proposals to relocate beds to a location not contiguous to the existing site should be approved only when:

1. Off-site replacement is necessary to correct life safety or building code deficiencies;

The applicant did not reference any specific life safety or building code deficiencies. However, the applicant has explained that:

Due to the age and design of CRCH, its infrastructure cannot support the continued development of a modern, state of the art inpatient rehabilitation program that offers both general and specialized services. In the current rehabilitation unit at CRCH, patient rooms are too small to comfortably accommodate both patients and caregivers/family members. Furthermore, the room size makes it difficult to fit the most cutting-edge and modern rehabilitation equipment needed to offer specialized medical rehabilitation services now and into the future. Significant and costly renovation would be required to increase space, functionality, and capacity. Lack of medical gas in all patient rooms is logistically challenging to place patients with rehabilitation needs who also have oxygen needs. We do not have an “isolation” gym space which limits our ability to accept patients with communicable diseases (Covid) to meet their rehab needs most efficiently. Current ancillary spaces such as gyms, dining areas and hallways do not provide the space or the capabilities for modern therapy modalities and technologies.

2. The population currently served by the beds to be moved will have reasonable access to the beds at the new site, or to neighboring inpatient facilities;

CRH will be located approximately 1.6 miles from CRCH. The applicant asserts that “[CRH] will be strategically located to have convenient and quick access to [CRCH] and Carilion Roanoke Memorial Hospital.” The applicant also explains that CRH will “provide reasonably accessed rehabilitation services to the primary and secondary service area where Carilion Clinic and the current rehabilitation unit receive 90-95% of our patient population.”

3. The number of beds to be moved off-site is taken out of service at the existing facility;

The vacated space at CRCH will be used as a 12-bed medical-surgical unit for post-surgical and other related inpatient services. CRCH will submit a separate COPN application to add 12 medical-surgical beds. If this proposed project is approved, no medical rehabilitation beds will remain at CRCH.

4. The off-site replacement of beds results in:

- a. A decrease in the licensed bed capacity;**
- b. A substantial cost savings, cost avoidance, or consolidation of underutilized facilities; or**
- c. Generally improved operating efficiency in the applicant's facility or facilities; and**

As presented, the proposed project would result in the addition of beds to PD 5, which as shown below, has a calculated surplus of 11 medical rehabilitation beds. However, with regard to the relocation of the 34 existing medical rehabilitation beds, as discussed above, due to the age and design of CRCH, its infrastructure cannot support the continued development of a modern, state-of-the-art inpatient rehabilitation program. The applicants have conducted an evaluation and determined renovation or on-site replacement of the existing inpatient medical rehabilitation unit at CRCH is cost-prohibitive and that CRCH does not have the required space to develop a unit sufficiently sized to realize economies of scale necessary to support the introduction of new specialized inpatient medical rehabilitation programs.

5. The relocation results in improved distribution of existing resources to meet community needs.

While the relocation of beds will not result in an improved geographic distribution because of the proximity of the proposed site to CRCH, the relocation will allow the community increased access to a purpose-built, state of the art inpatient rehabilitation program.

B. Proposals to relocate beds within a health planning district where underutilized beds are within 30 minutes driving time one way under normal conditions of the site of the proposed relocation should be approved only when the applicant can demonstrate that the proposed relocation will not materially harm existing providers.

As shown in **Table 1**, the applicant is one of two providers of medical rehabilitation services in PD 5. The other provider is LewisGale Medical Center, which is approximately 20 minutes from the

location of the proposed project. DCOPN notes that while LewisGale submitted a letter in opposition to the proposed project, it did not assert that the relocation of the existing beds at CRCH would materially harm its medical rehabilitation program. Furthermore, the applicant's existing beds are well utilized. It is reasonable to conclude that approval of the relocation of the applicant's 34 existing medical rehabilitation beds will not materially harm existing providers.

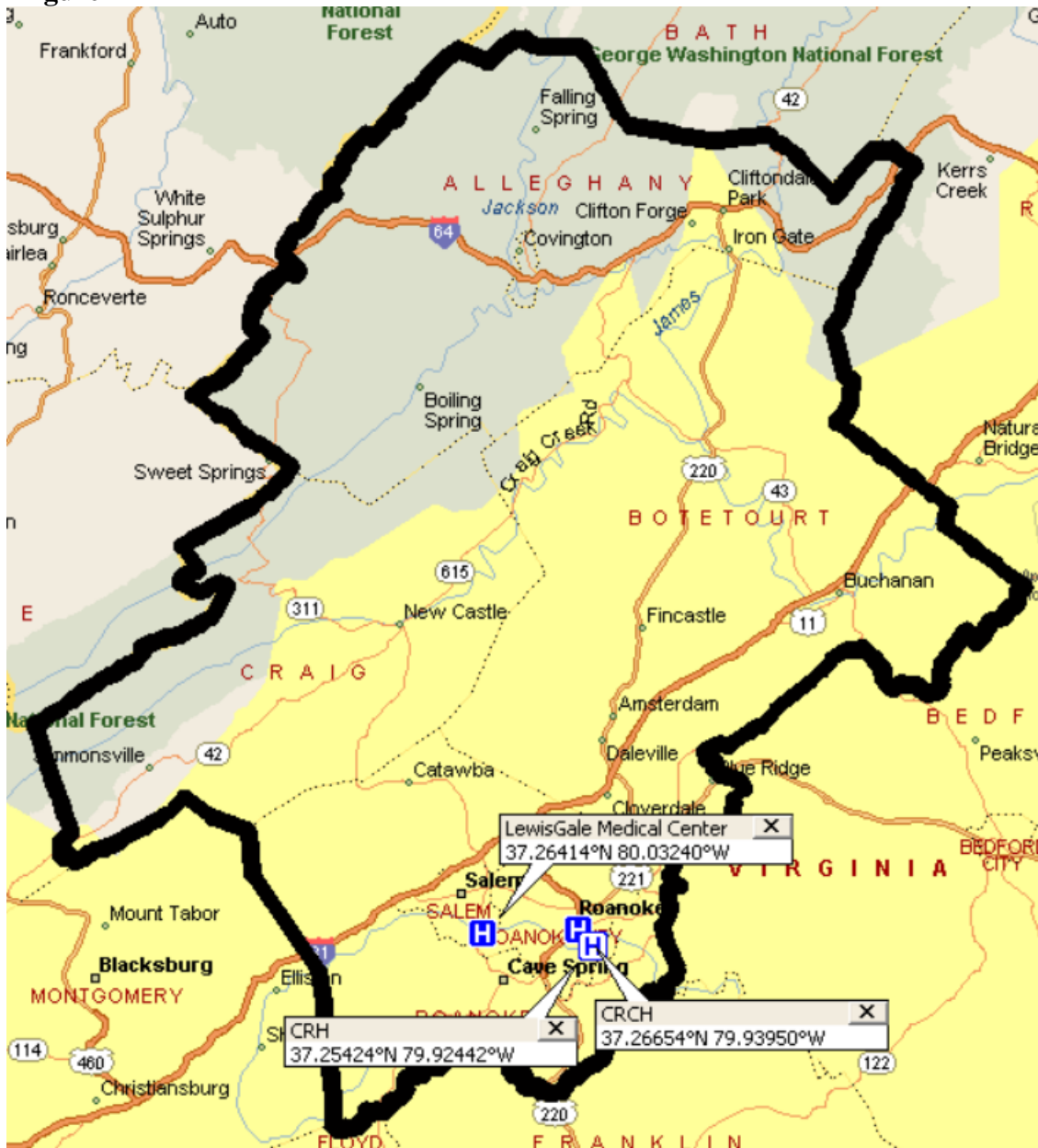
Part XI Medical Rehabilitation

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 5. The blue "H" symbols mark the locations of existing medical rehabilitation providers in PD 5. 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 5. Based on the shaded area in **Figure 1**, it is unclear if 95% of the population of PD 5 is within 60 minutes driving-time one-way under normal traffic conditions of inpatient medical rehabilitation services. However, because the proposed project is in such close proximity to the existing medical rehabilitation beds at CRCH, the relocation will not affect geographic access to medical rehabilitation services.

Figure 1



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

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

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

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 relocate and increase its current medical rehabilitation bed inventory by 16. 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 5.

Rehabilitation Bed Need = ((UR x PROPOP)/365)/0.80

Number of medical rehabilitation patient days in PD 5 in 2022= **16,611 (Table 1)**

Population of PD 5 in 2022 = **280,321**

$$UR = 16,611/280,321 = 0.059$$

$$PROPOP \text{ of PD 5 in 2029} = \mathbf{283,589^2}$$

$$\frac{((.059 \times 283,589)/365)}$$

$$0.80 = \mathbf{57.55 (58) \text{ Medical Rehabilitation Beds Needed}}$$

Rehabilitation Bed Need in PD 5 = 58 Beds

Current Inventory of Rehabilitation Beds in PD 5 = 69

Rehabilitation Bed Surplus = 11

There is an existing inventory of 69 medical rehabilitation beds in PD 5 (Table 1). Based on the preceding calculation, there will be a projected surplus of 11 medical rehabilitation beds in PD 5 for planning year 2029.

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. CRH 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.

² Population sources: Weldon Cooper and DCOPN interpolations.

As shown in **Table 1** above, the medical rehabilitation beds in PD 5 operated at 66% utilization in 2022. This standard is not satisfied.

With regard to converting underutilized medical-surgical beds, the applicant explains that it is impractical to convert existing medical-surgical beds at CRMH to rehabilitation beds for the following reasons:

- CRMH's current physical plant makes it difficult to operationalize all licensed medical-surgical beds. However, construction is nearing completion for a new tower at CRMH. The planned opening of the tower in 2025 will enable CRMH to open and staff its full licensed bed complement.
- Because CRMH already experiences medical surgical capacity challenges, it cannot afford to delicense existing medical-surgical beds. Capacity issues are exacerbated when seasonality issues occur in Fall/Winter months.
- New physician hires and the addition of physicians to the Carilion physician complement will immediately impact admissions and the need for medical-surgical beds.
- Delicensing medical-surgical beds will aggravate Emergency Department throughput challenges currently experienced at CRMH.
- Delicensure of medical-surgical beds at CRMH will also worsen ICU patient throughput problems at CRMH.

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 CRCH's Medical Director of Medical Rehabilitation, Donald Arthur, MD. 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.

The applicant has cited an institutional need to expand its current rehabilitation services by adding 16 medical rehabilitation beds to its current complement of 34 medical rehabilitation beds. In support of this assertion, the applicant contends that it “operated its staffed inpatient medical rehabilitation beds at 95% capacity” in 2022. However, bed utilization is determined by evaluating the available days of *licensed* beds, not staffed beds. As shown in **Table 6** below, when examining the utilization of the applicant’s medical rehabilitation beds using licensed bed capacity, the medical rehabilitation beds at CRCH operated at 78.24% in 2022. As shown in **Table 6**, according to information provided by the applicant, the medical rehabilitation utilization appears to have decreased to 74.35% in 2023. Additionally, as previously discussed, DCOPN has calculated a surplus of 11 medical rehabilitation beds in PD 5. The applicant has not shown an institutional need to expand and does not satisfy this standard.

Table 6. CRCH and CRH Medical Rehabilitation Bed Utilization

Year	Licensed Beds	Staffed Beds	Available Days	Patient Days	Occupancy
2019	34	25	12,410	9,758	78.63%
2020	34	27	12,444	9,547	76.72%
2021	34	32	12,410	10,827	87.24%
2022	34	28	12,410	9,710	78.24%
2023	3	-	12,410	9,227	74.35%
2028 (Projected)	50	-	18,250	12,132	66.48%
2029 (Projected)	50	-	18,250	13,540	74.19%
Total/ Average Occupancy	-	-	98,584	74,741	75.81%

Source: VHI (2019-2022) and COPN Request No. VA-8763

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 applicant is one of two existing providers of medical rehabilitation services in PD 5. The proposed project is unlikely to foster institutional competition.

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

As previously discussed, the existing medical rehabilitation beds in PD 5 operated at 66% utilization in 2022 and DCOPN has calculated a surplus of 11 medical rehabilitation beds in PD 5 for the 2029 planning year. If approved as requested, the proposed project would add to this calculated surplus. However, as already discussed, the relocation portion of the proposed project warrants approval because physical plant issues limit the applicant's ability to provide the best medical rehabilitation care for its patients at CRCH, and the relocation portion of 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;

As already discussed, DCOPN concludes that when compared to similar projects, the project's capital costs of \$112,259,205 are reasonable. For example, COPN No. VA-04555 issued to Rehab JV, LLC to establish Sheltering Arms Rehab Institute was projected to cost \$119,406,277. The applicant will use \$6,340,000 of accumulated reserves to fund the non-construction costs of the project and will fund the remaining \$105,919,205 of costs with revenue from operations. The Pro Forma Income Statement provided by the applicant projects a loss of \$3,388,722 from in the first year of operation, and a profit of \$591,083 in the second year of operation (**Table 5**).

With regard to staffing, the applicant anticipates the need to hire an additional 51.5 full time equivalent employees (FTEs) to staff the proposed project. These employees are as follows:

- 7.5 Administration-Business Office
- 6.3 Registered Nurses
- 7 Nurses' Aides, Orderlies and Attendants
- 1 Registered Pharmacist
- 1 ADA Dietician
- 0.8 Physical Therapists
- 0.3 Speech Language Pathologists
- 3.2 Case Management
- 0.9 Therapy Aides
- 2.2 Clinical Liaison
- 1 Pharmacy Technician
- 20.3 All Other Personnel

The applicant is an established provider of medical rehabilitation services and explained that all 76.6 existing staff and medical/physician staff from the current rehabilitation services within CRCH will be reassigned to the new inpatient rehabilitation hospital to allow for uninterrupted continuation of quality medical services. With regard to the positions needed for the additional 16 beds, the applicant provided the following information:

Carilion Clinic is the largest employer in the Roanoke Valley and has a robust talent acquisition team that uses their resources, both internal and external, to post and recruit applicants to positions within the system. As needed, outside recruiting agencies are used for key positions that may be difficult to recruit.

- 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.**

As described above, CRCH's infrastructure cannot support the continued development of a modern, state-of-the-art inpatient rehabilitation program that offers both general and specialized services. The proposed facility will feature a state-of-the-art therapy gym with an activities of daily living suite, private patient rooms with bathrooms and showers, energy efficient lighting, HVAC systems, water-conservation fixtures, and enhanced use of natural daylight, indoor and outdoor ambulatory space.

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.**

Carilion Clinic is the primary teaching hospital system aligned with the Virginia Tech Carilion School of Medicine (VTC SOM). Carilion Clinic provides undergraduate and graduate medical education and fellowships for its physicians and healthcare professionals. Additionally, Carilion Clinic has a longstanding tradition of providing continuing medical education to physicians and other healthcare professionals, providing educational offerings, introduction of new technology and updated information so that physicians and other healthcare professionals may maintain, improve and acquire new knowledge and skills.

With regard to CRH, the applicant explained that its Physical Medicine and Rehab faculty currently utilize its inpatient rehabilitation unit as a teaching site for students and residents and CRH will also be a teaching hospital.

DCOPN Staff Findings and Conclusions

DCOPN finds that the applicant's request to establish a medical rehabilitation hospital and to relocate 34 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. Moreover,

DCOPN concludes that the relocation portion of the proposed project is more favorable than maintaining the status quo and is the most cost-effective way to offer more modern and clinically appropriate medical rehabilitation services. Furthermore, DCOPN concludes that approval of the relocation portion of the proposed project is not likely to have a significant negative impact on the staffing or utilization of existing PD 5 providers of medical rehabilitation services. Finally, DCOPN finds that the total capital and financing costs for the project are reasonable.

With regard to the addition of 16 medical rehabilitation beds, DCOPN finds the project to be generally inconsistent with the SMFP and the Eight Required Considerations of the Code of Virginia. DCOPN concludes that maintaining the status quo is preferable to the proposed project, because maintaining the status quo would not exacerbate an already-existing surplus of medical rehabilitation beds in PD 5, which DCOPN has calculated as 11 medical rehabilitation beds. Furthermore, the applicant has not demonstrated an institutional need to expand. As shown in **Table 6**, the medical rehabilitation beds at CRCH operated at 78.24% in 2022 and 74.35% in 2023. Finally, opposition to the proposed project was filed with DCOPN.

DCOPN Staff Recommendation

The Division of Certificate of Public Need recommends **partial conditional approval** of Carilion Rehabilitation Services, LLC and Carilion Clinic's Certificate of Public Need request to establish a medical rehabilitation hospital and to relocate 34 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. The relocation of the 34 medical rehabilitation beds at Carilion Roanoke Community Hospital is more advantageous than the status quo.
3. Establishing a new, freestanding facility is the most cost-effective way to offer state of the art medical rehabilitation services to the applicant's patients.
4. The capital cost of the proposed project is reasonable,
5. The proposed project appears financially viable in the short- and long-term.

DCOPN's recommendation is contingent upon Carilion Rehabilitation Services, LLC and Carilion Clinic's agreement to the following charity care condition:

Carilion Rehabilitation Services, LLC and Carilion Clinic 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 and Carilion Clinic'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 and Carilion Clinic 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 and Carilion Clinic 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 Carilion Rehabilitation Services, LLC and Carilion Clinic will facilitate the development and operation of primary and specialty medical care services in designated medically underserved areas of the applicant's service area.

The Division of Certificate of Public Need recommends **denial** of that portion of Carilion Rehabilitation Services, LLC and Carilion Clinic's Certificate of Public Need request to add 16 medical rehabilitation beds for the following reasons:

1. The proposed project is generally inconsistent with the applicable criteria and standards of the State Medical Facilities Plan and the Eight Required Considerations of the Code of Virginia.
2. There is a calculated surplus of medical rehabilitation beds in PD 5.
3. There are reasonable alternatives to the proposed project, including maintaining the status quo.
4. The applicant has not demonstrated an institutional need to expand.
5. Written opposition was filed with DCOPN.