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April 18, 2024

TO: **Board of Directors, HSANV**
VHC Health
Interested Parties

FROM: **Dean Montgomery**

SUBJECT: **Certificate of Public Need Application**
VHC Health, Establish 146-Bed Specialty Hospital
(COPN Request #VA-8744)

I. Summary of the Proposal

VHC Health, the operator of Virginia Hospital Center (VHC) and several satellite outpatient medical care facilities[1], proposes to establish a new 146-bed hospital in Arlington, VA. The facility, which the application refers to as the "Wellness Hospital", would have two specialty units: a 96-bed mental health (psychiatric and substance abuse) service and a 50-bed medical rehabilitation service.

The project entails the relocation of 62 Virginia Hospital Center beds to the new facility, 42 of VHC's 56 psychiatric beds and all 20 of its rehabilitation beds. This would result in net increases of 54 licensed acute psychiatric beds and 30 medical rehabilitation beds, a net increase of 84 beds in the VHC Health's licensed bed capacity. Space vacated by beds being taken out of service at Viginia Hospital Center would be renovated and converted to other uses. The changes at VHC would include a renovated 14-bed psychiatric unit.

Estimated capital costs total $161,643,233, more than three-fourths of which ($127,494,097) is direct construction expense. Most of the remainder ($34,149,136) would be for site acquisition and development, equipment and furnishings, and professional fees (e.g., architectural, engineering). All capital costs would be paid from internal VHC funds. There would be no direct, project specific financing expense.

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[1] VHC Health is converting its recently opened ambulatory surgery center in McLean, Virginia into an outpatient care complex. Various diagnostic imaging capabilities, including CT and MRI scanning, are being added. A VHC satellite emergency service is being developed in the Falls Church area of Fairfax County. Both developments are within VHC's primary service area.

VHC Health justifies the proposal on the grounds that:

- There is a pressing need for additional inpatient mental health and medical rehabilitation capacity at Virginia Hospital Center, and region wide:
  - "There is a tremendous shortage of local mental health beds and treatment options for all patients,"[2] and
  - ". . . occupancy of VHC's medical rehabilitation beds has long exceeded the threshold for expansion."[3]
- Current inpatient psychiatric services and facilities are not fully responsive to community need, as indicated by the increasing numbers of psychiatric and rehabilitation patients VHC is unable to admit each year because of bed unavailability.
- A substantial number of northern Virginia residents must travel outside the region for inpatient mental health care, particularly those with court ordered temporary detention orders (TDOs).
- The project has strong community support, reflected by endorsements from local officials, including Arlington County, the Arlington County Community Services Board, and an array of mental health service advocates and community service organizations.
- Beyond regional need considerations, VHC Health has an institution specific need for additional inpatient psychiatric and medical rehabilitation beds.
- Capital costs are reasonable, within the range seen for similar projects locally and elsewhere in Virginia.

The project is expected to be complete in the fall of 2027, if authorized on schedule.

II. Discussion

A. Community Need, Mental Health Services

Northern Virginia (Planning District 8) has eight inpatient acute care psychiatric services. Six of these services are in general acute care community hospitals. The others, Dominion Hospital and North Spring Behavioral Healthcare, are specialty psychiatric facilities. In 2022, these services had 351 licensed beds and served 11,187 patients (Table 1). Average regional occupancy was about 76%. The average hospital stay was 8.7 days. The current capacity, use and distribution of these services are shown in Table 1 and MAP 1.

Dominion Hospital is the region's largest private inpatient psychiatric service.[4] It is licensed to operate 116 beds, about 33% of the region's authorized complement. In 2022, Dominion served 28.4% of the patients discharged from Northern Virginia psychiatric services. Inova Health System hospitals (Inova Fairfax, Inova Mount Vernon and Loudoun Hospital Center) served about 36% of those discharged.[5] Prince William Hospital (10.5%), Virginia Hospital Center (9.0%), and North Spring Behavioral (10.3%) also served substantial numbers of mental health patients (Table 1). Sentara Healthcare is the only local health system that does not provide inpatient psychiatric care.

[2] VHC Health, COPN Request VA-8744, p. 8.
[3] VHC Health, COPN Request VA-8744, p. 18.
[4] The Northern Virginia Mental Health Institute (NVMHI), a public state facility located in central Fairfax County, is the region's largest facility. As a state facility, NVMHI capacity and services are not subject to COPN rules and regulations. The institute has high use, at capacity most of the time.
[5] Collectively, Hospital Corporation of America (HCA) facilities, Dominion and StoneSprings Hospital Center, served 34.3% of the region's mental health patients in 2022.

Table 1. Mental Health Service Capacity & Use
Northern Virginia Hospitals, 2022

Hospital	Licensed Beds	Discharges	Patient Days	Average Occupancy	Aveage Length of Stay
Dominion Hospital	116	3,173	33,107	78.2%	10.4
Inova Fairfax Hospital	56	1,688	18,617	91.1%	11.0
Inova Loudoun Hospital	22	1,025	6,609	82.3%	6.4
Inova Mount Vernon Hospita	30	1,307	8,201	74.9%	6.3
North Spring Behavioral[1]	40	1,152	8,908	61.0%	7.7
UVA Prince William Hospit	30	1,173	6,344	57.9%	5.4
Stone Springs Hospital Cent	17	663	4,740	76.4%	7.1
Virginia Hospital Center[2]	40	1,006	11,133	76.3%	11.1
Northern Virginia	351	11,187	97,659	76.2%	8.7

Source: Virginia Health Information, ALSD and Patient Level Data, 2022.

[1] North Spring patient days derived from VHI inpatient discharge data set.

[2]VHC is authorized to add 16 psychiatric beds, for a total of 56.

As with acute care hospital use generally, demand for psychiatric services, and psychiatric hospital use rates, in Northern Virginia have been comparatively low for several decades. The discharge and patient day rates have been about one-third lower than national and statewide rates. Despite substantial population growth, aggregate expressed demand—demand seen at local inpatient psychiatric services has increased modestly over the last two decades, slightly slower than population growth. Between 2004 and 2022, the most recent year for which public data is available, discharges from local mental health services increased from 8,834 in 2004 to 11,217 in 2022 (Table 2), an increase of 27.0%. The number of patient days of care grew from 56,823 days in 2004 to 99,659 days in 2022, an increase of 75.4%. Much of the increase in aggregate demand comes from an increase in the average length of stay, rather than an increase in hospital admissions, which grew at a much higher compound annual rate of 1.56% than the discharge rate (Table 2).

This data and underlying medical trade patterns indicate that the inpatient psychiatric use rate, already well below state and national rates, has been near or below the population growth rate for much of the last two decades. This reflects the ongoing programmatic effort, and clinical goal, of caring for psychiatric patients in outpatient settings and avoiding hospitalization where possible.

Table 2. Inpatient Mental Healt Service Use
Northern Virginia Hospitals, 2004 - 2022

Year	Discharges	Inpatient Days of Care	Average Length of Stay	Average Daily Census
2004	8,834	56,823	6.4	155.7
2006	8,301	55,499	6.7	152.1
2008	8,618	57,340	6.7	156.7
2010	8,191	60,116	7.3	164.7
2012	8,361	63,567	7.6	173.7
2014	9,859	74,492	7.6	204.1
2016	10,055	82,109	8.2	224.3
2018	9,654	77,970	8.1	213.6
2019	9,841	82,586	8.4	226.3
2020	9,339	83,002	8.9	226.8
2021	10,595	97,850	9.2	268.1
2022	11,217	99,659	8.9	273.0
CAGR[1] 2004-2022	1.33%	2.99%	1.85%	3.17%

Source: Virginia Health Information, ALSD & Discharge Data Set 2004-2022

[1] **CAGR = Compound Annual Growth Rate**

During the last decade, average regional occupancy of licensed acute care psychiatric beds has been near, or between 5% and 10% below the 75% minimum target level. These data —low use rates and moderate average occupancy levels suggest that, heretofore, limited bed space has not been the principal or systemic obstacle to obtaining needed inpatient psychiatric care.

The relatively benign pattern seen over the last two decades may be changing. Service volumes have increase substantially since bottoming in 2020 during the COVID-19 epidemic. Average lengths of mental health hospital stays are increasing. The number of northern Virginia residents obtaining inpatient mental health care outside the planning region increased significantly over the last decade. In 2012 less than 6.0% of northern Virginia residents discharged from Virginia hospital mental health services obtained care outside the planning region. The number of northern Virginian's hospitalized for mental health care in Virginia hospitals outside the planning region in 2022 grew to more than 11% (1,355 discharges) of the northern Virginia resident total.[6]

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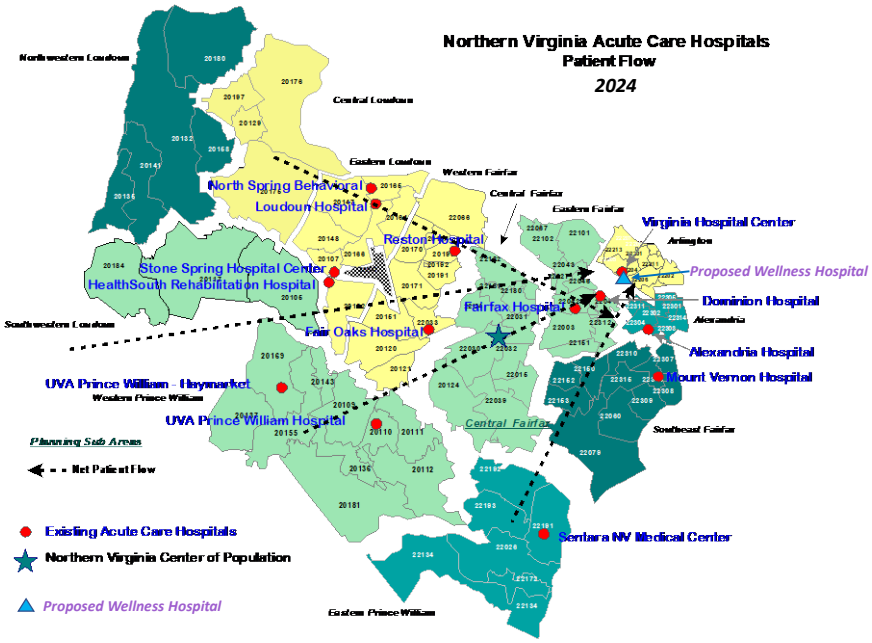
MAP I



\Virginia SMPF Bed Need Determination Considerations

The Virginia State Medical Facilities Plan (SMFP) provides guidance for projecting demand for inpatient acute care psychiatric beds.

The applicable SMFP section reads:

> **"12VAC5-230-860. Need for new service.**
>
> A. The combined number of acute psychiatric and acute substance abuse disorder treatment beds needed in a health planning district with existing acute psychiatric or acute substance abuse disorder treatment beds or both will be determined as follows:
>
> ((UR x PROPOP)/365)/.75
>
> Where:
> UR = the use rate of the health planning district expressed as the average acute psychiatric and acute substance abuse disorder treatment patient days per population reported for the most recent five-year period; and
>
> PROPOP = the projected population of the health planning district five years from the current year as reported in the most recent published projections by a demographic entity as determined by the Commissioner of the Department of Mental Health, Mental Retardation and Substance Abuse Services.

> For purposes of this methodology, no beds shall be included in the inventory of psychiatric or substance abuse disorder beds when these beds (i) are in facilities operated by the Department of Mental Health, Mental Retardation and Substance Abuse Services; (ii) have been converted to other uses; (iii) have been vacant for six months or more; or (iv) are not currently staffed and cannot be staffed for acute psychiatric or substance abuse disorder patient admissions within 24 hours." *Virginia State Medical Facilities Plan, 2011, p.43.*

Application of this formula yields an inpatient psychiatric bed use rate (UR) of about 34.8 inpatient days per 1,000 persons.[7] Projected 2030 bed need calculations, as called for by the SMFP methodology, are summarized in Table 3.

Table 3. Psychiatric Acute Care Bed Calculation, Northern Virgina (PD 8)
Virginia State Medical Facilities Plan (SMFP) Formula

Bed need determination formula	**UR x PROPOP/[365/.75][1]**
Baseline data, calculations	
Patient days of care most recent 5-year period (2018 - 2022)	**440,984**
Total population most recent 5-year period (2018 - 2022)	**12,680,790**
Average 5-year use rate (inpatient days per 1,000 population)	**34.8**
Projected population (2030)	**2,828,990**
Projected patient days (2030)	**98,380**
Projected average daily census (2030)	**270**
Projected bed need (2030)	**360**
Authorized licensed acute care psychiatric beds (2024)	**351**
Projected bed need (surplus) in 2030	**9**

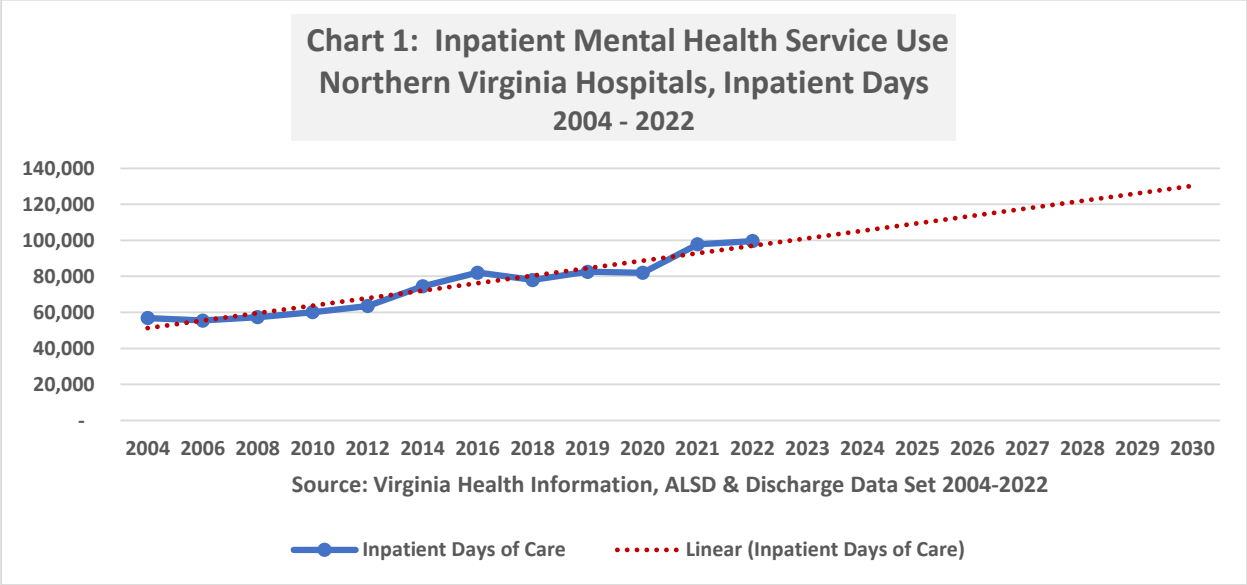
Source: Population, Weldon Cooper/US Census; VHI ALSD/VHI Patient Level Data Set, 2018 - 2022
[1] UR = Use Rate; PROPOP = Projected population

The formula suggests that about 360 psychiatric beds are likely to be needed in 2030 (at 75% occupancy).

It is important to note that the distinguishing feature of the Virginia SMFP methodology is that it applies the average use rate of the most recent five-year period to the future. The only variable employed is population change (presumably growth). The use rate applied is static.

[7] The SMFP defined "use rate" is a facility use rate, not a population-based measure. The facility use rate does not distinguish between residents of Northern Virginia and hospitalized psychiatric patients who originate outside the region. The Northern Virginia resident use rate is lower than the facility rate. Use of the facility rate necessarily assumes that future patient flow and admission patterns will be similar or comparable to those of the previous five years (2018-2022), that the region will continue to be a net importer of hospital patients. Nor does the formula account for Northern Virginia residents who are hospitalized for mental health care outside the planning region. In 2022, 1,355 northern Virginia residents, 11.2% of the region's psychiatric patients, obtained acute care psychiatric care in Virginia hospitals outside PD 8. Northern Virginia is a net importer of acute care hospital patients, including mental health services patients. In other words more hospital patients enter the region for medical care than leave the area for care.

An alternate projection technique that incorporates a changing use rate, based on the long-term trend, may be more useful in the current environment, where population-based use rates and demand appear to be increasing. Estimating future demand based on the regional trend suggests that demand five or six years hence may be significantly higher than the SMFP methodology predicts (Chart 1).



Linear projection of current demand and service volume trends suggests that regional demand could reach 12,455 inpatient psychiatric discharges, 122,235 inpatient days of care, and an average daily census of 351 patients six years hence, in 2030. This would equate to a regional need for an additional 101 mental health beds.[8]

B. Community Need, Medical Rehabilitation

Northern Virginia has five inpatient hospital rehabilitation services, four located in community hospitals and one freestanding specialty hospital. These services are licensed to maintain 190 beds. Inova Mount Vernon Hospital has a 67-bed rehabilitation service. Inova Fairfax Hospital has a 25-bed service, Virginia Hospital Center a 20-bed service, and Reston Hospital Center an 18-bed service.[9] Encompass Health (formerly HealthSouth Rehabilitation Hospital of Northern Virginia), a specialty rehabilitation hospital, has 60 beds. Recent patient volumes are shown in Table 4.

[8] This estimate does not assume a reduction is the number of northern Virginia residents seeking inpatient mental health care in Virginia hospitals outside PD 8.
[9] Reston Hospital Center has COPN authorization to add 12 beds to its current 18 bed unit. That project is underway. It will increase the regional complement to 202 beds.

Tabel 4. Northern Virginia Inpatient Medical Rehabilitation Services Capacity and Use, 2022

Facility/Service	Licensed Beds	Discharges	Patient Days	Occupancy	ALOS[3]
Encompass Health Rehabilitation of	60	1,869	20,543	93.8%	11.0
Inova Fairfax Hospital	25	588	8,300	91.0%	14.1
Inova Mount Vernon Hospital	67	1,229	19,576	80.0%	15.9
Reston Hospital Center [2]	18	424	5,893	89.7%	13.9
Virginia Hospital Center	20	498	6,604	95.2%	13.3
Northern Virginia	190	4,608	60,916	87.8%	13.2

Source: Virginia Health Information, ALSD, 2022

[1]Formery, Health South Rehabilitiaton Hospital of Northern Virginia

[2]Authorized to add 12 additional beds **[3] Average Length of Stay**

Inpatient rehabilitation services are also offered in many of the region's nursing homes. The majority of admissions to Northern Virginia nursing care facilitiess come from community hospitals, many for rehabilitation services. Northern Virginia residents also have access to inpatient rehabilitation services in nearby District of Columbia and Maryland hospitals (e.g., National Rehabilitation Hospital in the District of Columbia).[10] There is substantial overlap in the types of patients served and conditions treated in nursing home rehabilitation units and rehabilitation hospital services.[11]

Demand for inaptient medical rehabilitation care has increase sharply regionwide over the last decade. The number of hospital admissions/discharges grew by about 48%, and the number inpatient days of care provided grew by about 56%. These increases equate to compound annual growth rates of 4.4% and 5.1% respectively (Table 5).

Table 5. Inpatient Medical Medical Rehabilitation Inpaient Service Volume

Northern Virginia Acute Care Hospitals, 2013-2022

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	CAGR[2] 2013-2022
Discharges	3,116	3,211	3,526	3,378	3,693	3,854	4,294	4,199	6,154	4,608	4.40%
Patient Days of Care	39,051	39,501	46,848	46,239	46,563	47,484	53,114	55,412	59,648	60,916	5.10%

Source: Virginia Health Information, ALSD, 2013-2022

[2]CAGR = Compound Annual Growth Rate

[10] Patient origin and destination data indicate that few residents of Northern Virginia use out of area rehabilitation services. Northern Virginia is a net importer of acute care rehabilitation patients.

[11]Given the service overlap and higher costs (and charges) of hospital-based rehabilitation services, the Medicare program requires that 60% of the patients in inpatient acute care rehabilitation programs be in one of 13 diagnostic categories to qualify the service for the higher Medicare hospital payment.

These high rates of growth, and high bed occuplacy levels regionwide, suggest that additional capacity will be necessay soon.

Virginia SMPF Bed Need Determination Considerations

The Virginia State Medical Facilities (SMFP) plan contains need determination criteria and a formula to be used in assessing proposals to establish and expand inpatient acute care rehabilitation services and capacity. The relevant subsections read:

> ***12VAC5-230-810. Need for new service.***
>
> *A. The number of comprehensive and specialized rehabilitation beds shall be determined as follows:*
>
> *((UR x 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.*
>
> *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.*
>
> ***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.* **Subsection 12 VAC 5-230-80, p. 40, Virginia SMFP**

Application of this method, and adhering to its provisions, yields a medical rehabilitation bed use rate (UR) of about 27.1 inpatient days per 1,000 persons.[12] Projected 2030 bed need calculations, as called for by the SMFP methodology, are summarized in Table 6.

[12] The SMFP defined "use rate" is a facility use rate, not a population-based measure. The facility use rate does not distinguish between residents of Northern Virginia and hospitalized psychiatric patients who originate outside the region. The Northern Virginia resident use rate is lower than the facility rate. Use of the facility rate necessarily assumes that future patient flow and admission patterns will be similar or comparable to those of the previous five years (2018-2022), that the region will continue to be a net importer of hospital patients. Nor does the formula account for Northern Virginia residents who are hospitalized for mental health care outside the planning region. In 2022, 1,355 northern Virginia residents, 11.2% of the region's psychiatric patients, obtained acute care psychiatric care in Virginia hospitals outside PD 8.

Table 6. Inpatient Medical Rehabilitation Bed Calculation, Northern Virgina (PD 8)
Virginia State Medical Facilities Plan (SMFP) Formula

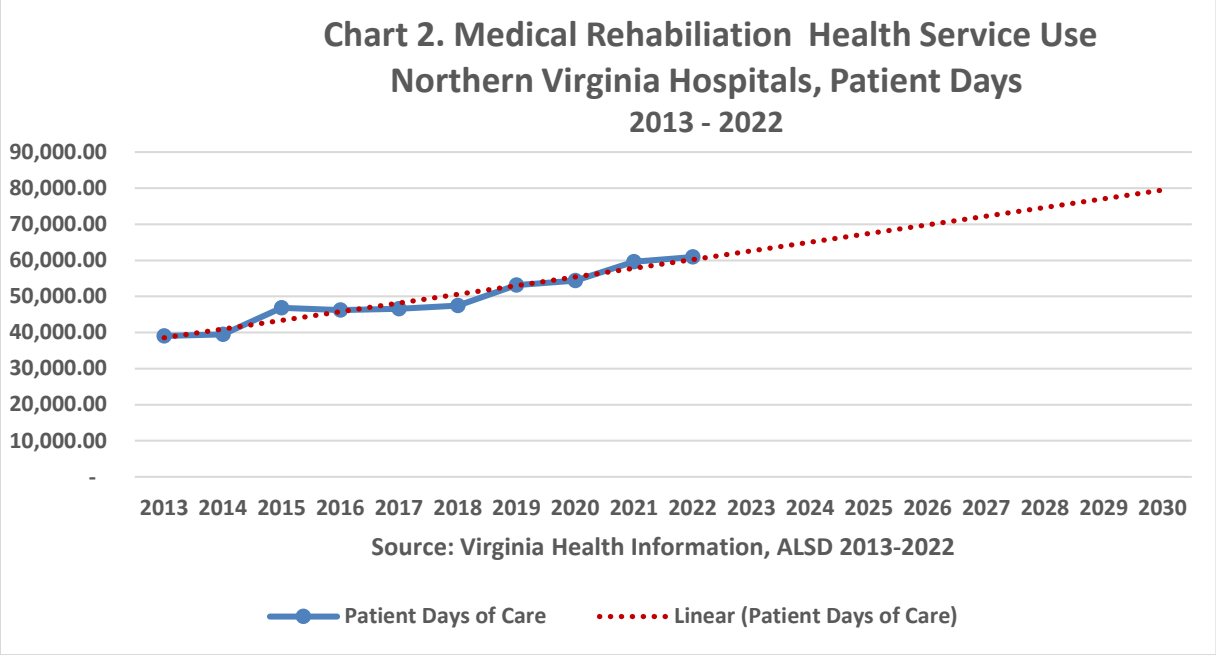
Bed need determination formula	**UR x PROPOP/[365/.80][1]**	
Baseline data, calculations		
Patient days of care most recent 5-year period (2018 - 2022)	-	**440,984**
Total population most recent 5-year period (2018 - 2022)		**12,680,790**
Average 5-year use rate (inpatient days per 1,000 population)		**21.7**
Projected population (2030)		**2,828,990**
Projected patient days (2030)		**61,479**
Projected average daily census (2030)		**169**
Projected bed need (2030)		**211**
Authorized licensed medical rehabilitation beds (2024)		**211**
Projected bed need (surplus) in 2030		**9**

Source: Population, Weldon Cooper/US Census; VHI ALSD, 2018 - 2022
[1] UR = Use Rate; PROPOP = Projected population

The formula suggests, based on historical local use rates and patterns, that 211 medical rehabilitation beds are likely to be needed in 2030 (at 80% occupancy). With 202 beds currently authorized, this method suggests that nine additional beds will be needed within the next five to six years.

As with mental health services, recent high growth rates and occupancy levels suggest the static SMFP bed need methodology may underestimate near term demand. Linear projection of service volume trends suggests that regional demand could reach 6,479 medical rehabilitation discharges, 90,966 inpatient days of care, and an average daily census of 249 patients in 2030 (Chart 2). This would equate to a regional need for an additional 110 medical rehabilitation beds within the next five to six years.[13]

[13] This estimate does not assume a reduction is the number of northern Virginia residents seeking inpatient mental health care in Virginia hospitals outside PD 8.



B. Access Considerations

The specialty hospital VHC Health proposes to develop would be in Arlington County, in the northeastern quadrant of the planning region about two miles south of the Virginia Hospital Center campus (MAP 1). Though not centrally located in the planning region, the site is in the area where major medical referral routes converge, generally consistent with established medical referral and patient flow patterns.

The proposed increases in the mental health and medical rehabilitation capacity, 54 beds and 30 beds respectively, are substantially larger than can be justified based on historic demand and service use at Virginia Hospital Center. They represent a 96% increase in licensed mental health beds and a 150% in medical rehabilitation beds. Increases (and capital investments) of this magnitude necessarily must be justified based on regional need.

VHC Health reports that currently Virginia Hospital Center is not able to accommodate between 500 and 600 mental health admissions and about 75 medical rehabilitation admissions annually because a bed is not available. At current average lengths of inpatient stays, VHC would have needed about 23 additional mental health beds and five additional medical rehabilitation beds to accept these potential admissions.

It is unclear whether these patients were admitted elsewhere locally or sought care outside the region. What is known is that 1,355 northern Virginia residents obtained inpatient mental health care in a Virginia community hospital outside PD 8 in 2022. A disproportionate number of these patients were Prince William County residents (Table 7). The number of those who would have obtained care locally were additional capacity available, at VHC Health or elsewhere, is not known. At the current regional average length of mental health inpatient stays, 41 beds would be required to accommodate these potential local admissions.

It is unclear how many of those using distant mental health services would choose VHC Health's Wellness Hospital service, were it available, but it is evident that the additional capacity proposed has the potential to address a long-standing mental health service access problem.

C. Cost Considerations

The Wellness Hospital, as VHC Health terms the proposed new hospital, entails new, essentially greenfield, construction. The former facility on the site (Northern Virginia Community Hospital) has been removed. The project also entails renovation of the bed space in Virgina Hospital Center that would be vacated with the opening of replacement beds at the new site. A renovated 14-bed psychiatric service is to remain at VHC.

Projected capital costs total $161,643,233, about 78% of which ($127,494,097) is construction expense. Most of the remainder, about $34.2 million, would be required for site acquisition and development, equipment and furnishings, and professional fees (e.g., architectural, engineering). All capital costs would be paid from internal VHC funds. There would be no direct long term financing expense.[14]

This equates to about $1.11 million per bed built, and about $1.92 million per licensed bed gained. These estimates do not consider the capital outlay avoided by eliminating the pending, COPN authorized, project that would add 16 mental health beds on the VHC campus were it undertaken as originally intended.[15]

Given the ongoing multi-year campus redevelopment at VHC, and several off-campus expansion initiatives, there may be concern about VHC Health's ability to fund, and otherwise undertake, these capital intensive projects contemporaneously. A recent Fitch Ratings evaluation of Virginia Hospital Center's economic health and potential, which resulted in a double A (AA-) bond rating addresses the question:

> "*The 'AA-' ratings reflect Fitch's expectation that VHC's currently weaker operating performance will rebound to levels consistent with historical performance, with operating EBITDA margins gradually improving to about 11% following the more recent softening of financial performance. Margins have been impacted by the transition to the new state of the art outpatient pavilion and the challenging labor and inflationary environment.*
>
> . . .
>
> *Fitch's base case shows growth consistent with the inpatient and outpatient expansion currently underway, capital expenditures averaging about 190% of depreciation over five years and operating EBITDA margins stabilizing around at or near 11% by 2026. VHC demonstrates ample capacity for the current debt offering supported by the strong financial profile metrics through an issuer-specific revenue stress and a portfolio sensitivity analysis with cash to adjusted debt rebounding to over 200% by year four of Fitch's scenario analysis, solidly consistent with the 'AA' rating category*."[16]

[14]This means the effective cost of capital is essentially the market long term bond rate for entities, such as VHC Health, with strong credit ratings.
[15]The projected capital cost of the 16-bed project was $12.7 million.
[16]Fitch Ratings
https://www.fitchratings.com/research/us-public-finance/fitch-rates-virginia-hospital-center-series-2023-rev-bonds-at-aa-outlook-stable-30-08-2023.

The capital outlay anticipated is well within the range for similar projects seen locally and elsewhere in Virginia and the Washington metropolitan area.

Publicly available VHC Health operating costs and charges are below the regional averages. If found to be warranted, projected capital costs and related operating expenses do not weigh against the proposal.
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D. Health System Considerations

VHC Health proposes large increases in inpatient mental health and medical rehabilitation capacity, bed increases substantially greater than the bed need projections derived from the Virginia SMFP bed need methodology. Recent increases in mental health and medical rehabilitation use rates and the relatively high regional compound annual growth rates for both services over the last decade suggest that a more dynamic service demand and associate bed need projection method may be more useful than the SMFP algorithm.

Linear regression of local (PD 8) service trends suggests that, assuming recent demand and service delivery patterns hold, the additional capacity proposed by VHC Health will be needed, even if the number of northern Virginia residents obtaining inpatient care at facilities elsewhere in Virginia does not decrease.

Given well established regional referral and medical trade patterns, there is no indication, or reason to believe that the additional capacity proposed in the application would affect other service providers, and those they serve, negatively.

As has been noted in earlier discussions of regional mental health service concerns and needs, the principal notable deficiency is the lack of an inpatient mental health service in eastern Prince William County. That northern Virginia subregion (Map) has a high mental health service use rate. Without a local service, Sentara Northern Virginia Medical Center does not allocate any of its 183 beds to mental health care, residents of the area necessarily travel considerable distances for care.

III. Conclusions and Alternatives for Agency Action

A. Conclusions

VHC Health proposes large increases in mental health and medical rehabilitation inpatient capacity, 54 beds and 30 beds respectively. This would be a 96% increase in its licensed mental health beds and a 150% increase in its medical rehabilitation beds. Bed increases of this magnitude are not consistent with the estimates derived from the Virginia SMFP bed need methodology.

VHC Health reports that, because of bed unavailability, Virginia Hospital Center is not able to accommodate between 500 and 600 mental health admissions and about 75 medical rehabilitation admissions annually. The hospital would have needed about 23 additional mental health beds and five additional medical rehabilitation beds to accommodate these potential admissions.

Though northern Virginia mental health and medical rehabilitation use rates remain comparatively low, they have risen steadily in recent years. Increasing average annual occupancy and high compound annual growth rates over the last decade suggest that more capacity than that predicted by the SMFP methodology is appropriate. Linear regression of regional service volumes over the last decade suggests that about 100 additional beds may be needed in both mental health and medical rehabilitation services by 2030.

It is not known whether those unable to be admitted by Virginia Hospital Center were admitted elsewhere locally or were compelled to obtain care outside the region. Patient origin and destination data indicate that 1,355 northern Virginia residents obtained inpatient mental health care in a Virginia community hospital outside the region in 2022. A disproportionate number of those were Prince William County residents. More than 40 additional mental health beds would be needed to accommodate these admissions locally.

The capital and associated operating costs of the project are within the range reported for similar developments locally and elsewhere in Virginia.

VHC Health has a history of serving the medically indigent equitably and a standing charity care commitment with the Virginia Department of Health. That commitment will attach to any certificate of public need that may be issued.

Given established regional referral and patient flow patterns, there is no reason to believe that the additional capacity proposed in the application would affect operations of other service providers negatively.

B. Alternatives for Agency Action

1. The Health Systems Agency of Northern Virginia may recommend to the Commissioner of Health that the project be granted a Certificate of Public Need as requested.

A recommendation for approval could be based on concluding that VHC Health has presented a reasonable argument that it has an internal need for additional mental health and medical rehabilitation beds, that the region (PD 8) would benefit from the additional bed capacity proposed, that the additional capacity proposed should improve to care regionwide, that the projected capital cost is reasonable, and that potential negative market consequences of adding more capacity than may be needed near term are minimal and acceptable.

2. The Health Systems Agency of Northern Virginia may recommend to the Commissioner of Health that the Certificate of Public Need requested not be granted.

A recommendation of denial could be based on finding that the numbers of beds requested too high, not compatible with bed need provisions of the Virginia SMFP, that as a new hospital project the proposal does not qualify for consideration under the institutional need provision of the plan, and that the proposal should be withdrawn and reduced in scope.

IV. Checklist of Required Considerations

1. Maintain or Improve Access to Care

As with any new service or service expansion, the VHC Health proposal would be likely to improve or help maintain access to inpatient mental health and medical rehabilitation services. Given the large number of mental health beds that VHC Health proposes to add, it may offer a meaningful local source of care for those compelled to seek care at Virginia hospitals outside the region. VHC Health has acceptable charity care policies and practices and a history of serving patients regardless of ability to pay or source of payment.

2. Meet Needs of Residents

VHC Health is an established provider of medical services. It has served the region for decades. There is no indication, or suggestion, that it does not try to meet the health care needs of its service area population. The instant proposal, which is widely supported, is evidence of the applicant's efforts to respond to community concerns and perceived medical needs.

3. Consistency with Virginia State Medical Facilities Plan (SMFP)

The project is consistent with the underlying spirit and guiding principles of the Virginia SMFP, but the additional capacity requested exceeds substantially the projected mental health and medical rehabilitation regional bed needs derived from applying the SMFP bed need methodology.

4. Beneficial Institutional Competition while Improving Access to Essential Care

VHC Health is an established provider of inpatient mental health and medical rehabilitation services. Arguably, adding capacity and a second service delivery site should permit more effective competition. This underlying consideration notwithstanding, there is no indication that adding the capacity requested would result in noticeable price competition.

5. Relationship to Existing Health Care System

With the possible exception of modest reductions in patient caseloads at neighboring mental health and medical rehabilitation services, the project is not likely to have substantial system wide effects. Any reduction in distant travel for mental health hospitalization would be welcomed and system enhancing.

6. Economic, Financial Feasibility

Projected capital costs are reasonable. The project is financially feasible. VHC Health maintains a strong financial position. The project should be accretive to earnings.

7. Financial, Technological Innovations

The project does not entail innovative technologies or economic aspects that warrant special consideration.

8. Research, Training Contributions, and Innovations

The project does not have significant research or training elements.