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**September 10, 2025**

**TO: Board of Directors, HSANV**

**VHC Health**

**Interested Parties**

**FROM: Dean Montgomery**

**SUBJECT: Certificate of Public Need Application**

**VHC Health, Expand Virginia Hospital Center Intensive Care and**

**Cardiac Catheterization Services (COPN Request VA-8827)**

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1. **Summary of the Proposal**

VHC Health, the corporate parent of Virginia Hospital Center (VHC) and several satellite outpatient medical care facilities[[1]](#footnote-1), seeks certificate of public (COPN) authorization for a capital expenditure of about $68.0 million to expand Virginia Hospital. The added space would permit the hospital to expand its cardiac catheterization, intensive care, and emergency care services. The expansion of two of these services, cardiac catheterization and the number of licensed intensive care beds, is subject to COPN review. The expansion of the emergency department is not subject to COPN regulation.[[2]](#footnote-2)

Estimated capital costs total $67,949,353, about three-fourths of which ($50,553,295) is direct construction expense. Equipment costs total $12,862,138. Most of the remainder ($4,533,920)

is estimated architectural, engineering and permitting fees. All capital costs would be paid from internal VHC funds. There would be no direct, project specific financing expense.

VHC Health justifies the proposal on the grounds that:

* There is a regional need for additional intensive care beds. Virginia Hospital Center is an appropriate location to add needed capacity.
* VHC’s cardiac catheterization service is heavily used, and service volumes continue to grow. An additional catheterization laboratory is needed to meet current and projected demand.
* Beyond regional need considerations, VHC Health has an institution specific need for additional intensive care and cardiac catheterization capacity.
* Capital costs are substantial but warranted to permit efficient, responsive care to the communities served by VHC.
* The project is consistent with the applicable provisions of the Virginia State Medical Facilities Plan (SMFI).

If authorized on schedule, the project is expected to be completed in the spring of 2028.

## II. Discussion

**A. Community Need, Intensive Care and Cardiac Catheterization**

***Intensive Care***

Northern Virginia (Planning District 8) has eleven medical-surgical hospitals with intensive care units. The size, recent service volumes and market shares of those services are shown in Table 1. In 2023, these services had 312 licensed beds and served 7,522 patients. Average regional occupancy was about 65%. The average hospital stay was 13.1 days. The locations of the hospitals listed in Table 1 are shown on Map 1.



Virginia Hospital Center now has thirty-two intensive care beds. It served 436 patients in 2023, the most recent year for which comparative information is available from other local hospitals. The average length of stay was more than two weeks, higher than the regional average. The average occupancy, 58.2%, was about 10% below the regional average of 64.8%. Service volumes have increased over the last two years. Average 2025 occupancy to date has increased to 61%.

VHC’s share of the regional market, measured in terms of the number of intensive care patients served, was about 7.8% in 2023. In terms of the number of patient days of care provided the VHC share was more than 9.0%. The difference is explained by the longer length of stay at VHC.

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Inova Fairfax Hospital has the region’s largest and most heavily used intensive care service. It operates 102 intensive care beds, serves about one-fourth (23.8% in 2023) of the region’s intensive care patients and accounts for more than 40% of the adult patient days of care provided, As shown in Table 1, Inova Fairfax routinely has an average occupancy level substantially higher than the regional average and higher than the nominal SMFP service volume planning standard of 65%.[[3]](#footnote-3)

VHC stresses that, though recent service volumes have been below the nominal occupancy planning standard of 65%, the use of intensive care is more variable than most acute care services and that the mid day inpatient census (and occupancy level) is usually a more reliable measure of need/demand than is the midnight census now reported and incorporated in public need determination formulae. The 2025 mid day VHC intensive care census to date, for exmaple, is 69%, considerably higher than the midnight censsus occupancy of 61% and higher than the nominal planning standard of 65%.

VHC also notes that the Virginia SMFP regional intensive care bed need determination formula, applied in northern Virginia (PD 8), suggests that there is (will be) a need for between 11 and 30 beds over the next five years, by 2030. Without citing the institutional need provision of the Virginia SMFP directly, VHC argues that the mid day census with a projected average occpancy of more than 65%, and the indication of a possible regional need for more than eleven addtiioal intensive care beds amounts to, and should be seen as, evidence of an institutionl need for additional capacity at VHC.

The VHC argument warrants careful consideration, but it does not qualify VHC for consideration to add capactty under the institutional need provision of the plan. The institutional need for expansion provision of the Virginia SMFP (12VAC5-230-80) is meant to apply to heavily used services and facilities, those with service volumes substantially higher than the specified nominal planning standard, where surplus/unused capacity in the planning district would weigh against, possibly prevent, a needed increase in an applicant’s service. The VHC argument appears to conflate the institutional need standard with a perceived need for, and the potential value of, expansion. Doing so, broadly applied, would undermine the value, and ultimately the utility of the standard.

There is merit in the proposal to augment VHC intensive care capacity, but consistency with the institutional need provision of the Virginia SMFP is not evident.

***Cardiac Catheterization***

Specialized cardiac services are widely available in northern Virginia. Eight of northern Virginia’s eleven acute care community hospitals have catheterization programs. Three hospitals, Inova Fairfax Hospital, Reston Hospital Center and Virginia Hospital Center, offer both cardiac catheterization and open-heart surgery. Recent catheterization caseloads of these services are shown in Table 2. In 2023, Inova Fairfax Hospital, which recently obtained COPN approval for a seventh catheterization laboratory, served nearly half (about 48%) of the region’s cardiac catheterization patients. Virginia Hospital had the second largest caseload, serving about 18% of those getting cardiac catheterizations at local services.

Five local hospitals, Inova Alexandria Hospital, Inova Loudoun Hospital, UVA Prince William Medical Center, Sentara Northern Virginia Medical Center, and StoneSprings Hospital Center offer cardiac catheterization but not cardiac surgery.[[4]](#footnote-4) After more than a decade of relative stability in cardiac catheterization service volumes, demand increased by about 33% between 2016 and 2023 (Table 2), a compound annual growth rate of 4.1%. More than 80% of the increase was at Inova Fairfax Hospital (62%) and Virginia Hospital Center (22%). VHC’s catheterization caseload grew by about 47% between 2016 and 2023, a gain of 728 cases. The hospital reported serving 2,263 cardiac catheterization patients in 2023, a regional market share of about 17%. This is notably higher than the hospital’s overall acute care inpatient market share over the last decade.



The mix of cardiac catheterization procedures reported by VHC in 2023 equates to 1,200 diagnostic equivalent catheterization procedures (DEPs) per laboratory.[[5]](#footnote-5) This service volume is 100% of the nominal service volume standard of 1,200 DEPs per laboratory. Combined with non-cardiac catheterization procedures performed in its laboratories, the total VHC DEP count was 1,818 per laboratory, roughly 151% of the planning standard (Table 3).



***Cardiac Catheterization Planning Guidance***

Virginia State Medical Facilities Plan (SMFP) planning guidance addresses the question of community (regional) need for cardiac catheterization services. The applicable plan sections read:

Criteria and Standards for Cardiac Catheterization Services

“12VAC5-230-390. Need for new service.

A. No new fixed site cardiac catheterization service should be approved for a health planning district unless:

1. Existing fixed site cardiac catheterization services located in the health planning district performed an average of 1,200 cardiac catheterization DEPs per existing and approved laboratory for the relevant reporting period;

2. The proposed new service will perform an average of 200 DEPs in the first year of operation and 500 DEPs in the second year of operation; and

3. The utilization of existing services in the health planning district will not be significantly reduced.

B. Proposals for mobile cardiac catheterization laboratories should be approved only if such laboratories will be provided at a site located on the campus of an inpatient hospital. Additionally, applicants for proposed mobile cardiac catheterization laboratories shall be able to project that they will perform an average of 200 DEPs in the first year of operation and 350 DEPs in the second year of operation without significantly reducing the utilization of existing laboratories in the health planning district below 1,200 procedures.

C. Preference may be given to a project that locates new cardiac catheterization services at an inpatient hospital that is 60 minutes or more driving time one way under normal conditions from existing services if the applicant can demonstrate that the proposed new laboratory will perform an average of 200 DEPs in the first year of operation and 400 DEPs in the second year of operation without significantly reducing the utilization of existing laboratories in the health planning district.” **Source: Virginia SMFP, p, 18**

12VAC5-230-400. Expansion of services.

Proposals to increase cardiac catheterization services should be approved only when:

1. All existing cardiac catheterization laboratories operated by the applicant's facilities where the proposed expansion is to occur have performed an average of 1,200 DEPs per existing and approved laboratory for the relevant reporting period; and

2. The applicant can demonstrate that the expanded service will achieve an average of 200 DEPs per laboratory in the first 12 months of operation and 400 DEPs in the second 12 months of operation without significantly reducing the utilization of existing cardiac catheterization laboratories in the health planning district.”

**Source: Source: Virginia SMFP, pp, 18-19**

VHC proposes to acquire a fifth cardiac catheterization laboratory. Subsection 12VAC5-230-400.1 of the SMFP applies. Recent regional and VHC cardiac catheterization service caseloads, measured against Virginia State Medical Facilities Plan (SMFP) service volume standards, indicate there is likely to be a need for additional catheterization capacity within three to five years.[[6]](#footnote-6)

Moreover, unlike the intensive care bed expansion question, VHC’s cardiac catheterization service volumes qualify the hospital for consideration to add capacity under the institutional need provision (12VAC5-230-80) of the plan. Unused capacity at StoneSprings Hospital Ceber and elsewhere is not a practical alternative to adding needed capacity at VHC.

**B. Access Considerations**

VHC proposes expanding three hospital services: emergency care, intensive care, and cardiac catheterization. All are hospital based. No change in location or physical access is proposed. No change in the primary service area of the enlarged services is expected or likely. Recent patient origin data and medical trade patterns indicate that expansion of these services at VHC is not likely to affect any competing service negatively.

VHC has longstanding charity care policies and practices, which constitute a history of serving medically indigent patients equitably. It has a system wide charity care agreement with the Virginia certificate of public need program that assigns a charity care condition of 3% of charges on authorized projects. That condition would be applied to the intensive care and cardiac catheterization element of the proposal. There would be no notable change in economic access to care at VHC.

**C. Cost Considerations**

Estimated capital costs total $67,949,353, about three-fourths of which ($50,553,295) would be construction expense. Projected equipment costs total $12,862,138. Most of the remainder ($4,533,920)

is estimated architectural, engineering and permitting fees. All capital costs would be paid from internal VHC funds. There would be no direct, project specific financing expense.[[7]](#footnote-7)

VHC notes that combining the three service expansions into a single construction project results in substantial savings in construction and related development costs. It also minimizes disruption of hospital operations during construction. Though the magnitude of the potential savings is not known, it is evident it is substantial.

The *pro forma* budget for the project suggests that it is a prudent investment in the natural development of VHC. Based on projected service volume increases, historical VHC operating costs, and straight line depreciation of the space developed (40 years) and the equipment purchased (7 years), the project is expected to be highly profitable. The budget projects $256,241,482 in gross charges, $69,185,200 in net revenue, and $33,505,628 in net income during the initial two years of operations. This equates to an anticipated profit margin of more than 48%. At this rate the initial investment would be recaptured in less than three years.

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

directly earlier this year:

“The 'AA-' ratings reflect Fitch's expectation that VHC's ongoing strategic capital investment will drive operating improvement over the medium term as the incremental revenues begin to offset costs associated with ramping up the outpatient pavilion and phased inpatient expansion and renovation. Fitch expects that operating performance will rebound to levels consistent with historical performance, with operating EBITDA margins gradually improving to around 10% following three years of softer margins related to VHC's expansion coupled with the challenging labor and inflationary environment.” **Fitch Ratings, New York, July 24, 2025**

The capital outlay is within the range for similar projects seen locally, elsewhere in Virginia and the Washington metropolitan area. It is noteworthy that publicly available operating data indicate that VHC Health 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 project.

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**D. Health System Considerations**

The project is not likely to have notable system wide effects. Modest expansion of VHC’s intensive care cardiac catheterization, and emergency treatment services appears to be a prudent investment in the ongoing growth and development of the hospital. Service volumes of these services are at or near recommended planning standards. There is little or no doubt that the additional space and operating capacity will be used efficiently over its useful life.

Based on regional medical facility patient origin data and established medical trade patterns, there is no indication or reason to believe that the additional capacity proposed would affect other service providers, and those they serve, negatively.

## III. Conclusions and Alternatives for Agency Action

**A. Conclusions**

Expansion of VHC’s cardiac catheterization service is consistent with applicable provisions of the Virginia SMFP. Though not eligible for consideration to add capacity under the institutional need provision of the plan, adding intensive care beds at VHC appears warranted and is generally consistent with other applicable provisions of the plan. Incremental expansion of both services is consistent with the approvals of similar COPN proposals over the last decade.

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

Given established regional referral and patient flow patterns, there is no reason to believe that the additional capacity proposed 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 credible argument that it has an internal need for an additional cardiac catheterization laboratory and additional intensive care beds, that the project is generally consistent with applicable Virginia SMFP service planning standards, that the capital cost is reasonable, and that potential negative market effects are minimal.

**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 VHC’s cardiac catheterization and intensive care service volumes are essentially at or near minimal planning standards and therefore expansion premature. The emergency service expansion may be undertaken outside COPN review. Expansion of the intensive care and catheterization services can be considered if, when, services volumes require adding capacity.

## 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 ready access to intensive care and cardiac catheterization services. VHC Health has acceptable charity care policies and practices and a history of serving patients regardless of ability to pay or source of payment.

1. **Meets Needs of Residents**

VHC Health is an established provider of medical services. It has served Arlington County and nearby communities for decades. There is no indication that it does not try to meet the health care needs of its service area population. The hospital works well with local community groups to identify and respond to concerns and expectations**.**

1. **Consistency with Virginia State Medical Facilities Plan (SMFP)**

Expansion of VHC’s cardiac catheterization service is fully consistent with applicable provisions of the plan. Though not eligible for consideration to add capacity under the institutional need provision of the plan, adding intensive care beds at VHC is generally consistent with other applicable provisions of the plan and with similar authorized COPN proposals over the last decade.

1. **Beneficial Institutional Competition while Improving Access to Essential Care**

VHC Health is an established provider of medical care. Arguably, adding catheterization and intensive care capacity will permit VHC to remain competitive. Nevertheless, there is no indication that adding the capacity requested would result in appreciable price competition.

1. **Relationship to Existing Health Care System**

The project is not likely to have notable system wide effects. Over the useful lives of the space developed and the equipment acquired, it should enable the hospital to respond more effectively to community needs and concerns.

1. **Economic, Financial Feasibility**

Projected capital costs are high but reasonable. The project is financially feasible. The *pro forma* budget assumes high profitability**.**

**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 that warrant special consideration.

1. Recent VHC Health off campus development initiatives include an outpatient care complex, with an orthopedic surgery center and CT and MRI scanning, in McLean, VA; a satellite emergency service in the Falls Church area of Fairfax County; and an ambulatory surgery center in Alexandria, VA. These service locations are within VHC’s primary service area. [↑](#footnote-ref-1)
2. Expansion of the emergency service under Virginia’s COPN program is classified as a miscellaneous capital expenditure that requires registration. VHC has filed the required registration information. [↑](#footnote-ref-2)
3. Inova Fairfax Hospital also has a 26-bed pediatric intensive care unit. That service also has high use. It reported serving 465 patients and providing 6,238 days of care in 2023. The average length of stay was 13.4 days. Average occupancy was about 66%. [↑](#footnote-ref-3)
4. A low-volume open-heart service at Inova Alexandria Hospital closed in 2018. Subsequently, Reston Hospital Center obtained COPN authorization to establish an open-heart surgery program. That service was not open in 2023. [↑](#footnote-ref-4)
5. The acronym "DEP" means diagnostic equivalent procedure, a weighted measure of the cardiac catheterization procedure workload where a diagnostic procedure equals 1 DEP, a therapeutic procedure equals 2 DEPs, a pediatric procedure equals 2 DEPs, a same session procedure of a diagnostic, a therapeutic procedure equals 3 DEPs, and a complex procedure equals 5 DEPs. [↑](#footnote-ref-5)
6. This assumes that the StoneSprings Hospital Center service remains quiescent and that Inova Fairfax Hospital, which recently added a seventh catheterization laboratory, continues to maintain caseloads that significantly exceed the service volume planning standard. [↑](#footnote-ref-6)
7. This effective cost of capital for the project is essentially the market long term bond rate for entities, such as VHC Health, with strong credit ratings. Fitch Ratings reaffirmed its **AA-** bond rating, and favorable outlook for VHC earlier this summer. See <https://www.fitchratings.com/research/us-public-finance/fitch-affirms-virginia-hospital-center-idr-at-aa-outlook-stable-24-07-2025> for details. [↑](#footnote-ref-7)