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Commissioner

July 26, 2017

VIA ELECTRONIC & FIRST CLASS MAILING

Richard P. Miller
President & Chief Executive Officer
Virtua Health
303 Lippincott Drive, 4th Floor
Marlton, New Jersey 08053

Re: Virtua Memorial Hospital of Burlington County Replacement/Relocation Hospital
CN# FR 16 0701-03-01
Total Project Cost: \$527,215,100
Expiration Date: July 26, 2022

Dear Mr. Miller:

I am approving the certificate of need (CN) application submitted on July 1, 2016, pursuant to N.J.A.C. 8:33-3.1, by Virtua Memorial Hospital of Burlington County, Inc. (Virtua-Memorial or Applicant) for the replacement/relocation of Virtua-Memorial from its existing location at 175 Madison Avenue, Mount Holly, NJ 08060 in Burlington County, to a new location on Route 541 in Westampton Township, NJ, also in Burlington County. The proposed location for the replacement hospital in Westampton Township is approximately three (3) miles from the existing site in Mount Holly. I evaluated this application according to the standards set forth in statute (N.J.S.A. 26:2H-1 et seq.) and by administrative rule (N.J.A.C. 8:33). I am satisfied that the application submitted by the Applicant is consistent with those requirements. The application is being approved at the total project cost noted above.

This CN approval is for the replacement/relocation of Virtua-Memorial, a general hospital, which holds the designation as a Community Perinatal Center-Intermediate and Primary Stroke Center. The hospital's licensed bed complement includes: 279 medical/surgical (med/surg) beds; 26 adult intensive care/cardiac care (ICU/CCU) beds; 22 adult acute psychiatric beds (open); 30 obstetrics/gynecology (Ob/GYN) beds; 14 pediatric beds and 12 neonatal intermediate care bassinets. The hospital's licensed services include an Acute Hemodialysis service, two (2) adult Cardiac Catheterization labs, two (2) computerized tomography (CT) units – fixed, one (1) Cystoscopy Room,

two Linear Accelerators, ten (10) Mixed Operating Rooms, one (1) Magnetic Resonance Imaging (MRI) unit onsite, and three (3) hospital-based, off-site ambulatory care facilities for the provision of primary care services, a sleep center and an ambulatory surgery center providing pain management services. Although the replacement hospital proposes to consist of approximately 670,000 square feet, which represents an increase of approximately 190,000 square feet when compared to the current Mount Holly site, the designation, scope of beds and services at the existing hospital would be identical at the new location. At project completion, the Applicant proposes to build an integrated health care campus to include an inpatient hospital, outpatient services, an ambulatory surgery center, long-term care and rehabilitation facility, medical office buildings, and an assisted living facility.

For the reasons that follow, I am approving, with conditions, the application submitted for the replacement/relocation of Virtua-Memorial from Mount Holly, NJ to Westampton Township, NJ, both in Burlington County. My decision to approve this CN application is consistent with the recommendation of the State Health Planning Board (SHPB), which unanimously recommended approval of CN# FR 16-0701-03-01 at its April 13, 2017 meeting. In reaching this decision, I considered the CN application for the replacement/relocation of Virtua-Memorial, completeness questions and responses, the public hearing transcript, written comments and exhibits, the Department staff recommendations, and the SHPB recommendations. The referenced materials are incorporated and made a part of this final decision.

Public Hearing

As part of the review process, the SHPB is required to hold at least one public hearing in the service area of the health care facility within 30 days of the application being declared complete by the Department. The CN application was deemed complete on February 22, 2017, and a public hearing was originally scheduled to take place on March 14, 2017. Due to inclement weather, the hearing was rescheduled to April 3, 2017, and was held at the Hilton Garden Inn, located at 111 Hancock Lane in Westampton during the evening hours to maximize public participation in the review process. Approximately 90 people were in attendance, with 12 persons speaking, including two representatives from Virtua Health, Inc. (Virtua). There were four speakers that voiced opposition to the application, citing concerns about potential environmental impact on waterways and water balance to farmlands, as well as concerns related to what would become of the existing Mount Holly site. Although the remaining speakers were complimentary about the healthcare services that Virtua-Memorial provides to their community, and some even voiced support in favor of the Applicant constructing a quality comprehensive, state-of-the-art replacement hospital, their biggest concern or reservation was related to the potential negative impact on traffic patterns and county roadways. These speakers stated that they would oppose the project if the Applicant failed to identify improvements to mitigate the impact to the residents of Westampton Township.

Subsequent to the public hearing, at its April 13, 2017 meeting, the SHPB unanimously recommended approval of this application with conditions. During the meeting, one public speaker voiced opposition to the application, citing concerns regarding how the effect of water drainage will impact the farmland. The SHPB acknowledged the speaker's concerns, and recommended that an additional condition be added to its recommendations to require the Applicant to obtain approval from the Department of Environmental Protection (DEP) before proceeding with construction of the replacement hospital. I agree with the SHPB's recommended additional condition, which is included in this approval letter as Condition # 13.

Analysis

N.J.S.A. 26:2H-8, as well as N.J.A.C. 8:33-4.9(a), provides for the issuance of a certificate of need only where the action proposed in the application for such certificate is necessary to provide required health care in the area to be served, can be economically accomplished and maintained, will not have an adverse economic or financial impact on the delivery of health services in the region or statewide, and will continue the orderly development of adequate and effective health care services. In making such determinations, I must take into consideration a) the availability of services that may serve as alternatives or substitutes, b) the need for special equipment and services in the area, c) the possible economies and improvement in services to be anticipated from the operation of joint central services, d) the adequacy of financial resources and sources of present and future revenues, e) the availability of sufficient manpower in the several professional disciplines, and f) such other factors as may be established by regulation. A review of the aforementioned criteria must be undertaken to demonstrate a need for the replacement/relocation requested by Virtua-Memorial in its application. As previously mentioned, I have also taken into consideration the recommendations made by the SHPB to approve this application.

As to the specifics of this application, N.J.S.A. 26:2H-8(a) requires that I consider the availability of facilities or services, which may serve as alternatives or substitutes. Based on the application, it appears that the existing campus at Mount Holly is aging and limited in its ability to accommodate the increasing technological demands of modern health care. Construction of a replacement facility for Virtua-Memorial at a new, larger site would allow Virtua-Memorial the opportunity to build a fully integrated and digital hospital, with the appropriate infrastructure to support future technology changes. The replacement facility at Westampton would be located approximately three miles away from the existing Mount Holly campus and situated in the same county; therefore, there would be no change in service area. Thus, I am convinced that the relocation of Virtua-Memorial from its existing site is the most feasible choice. I believe the Applicant carefully and thoroughly examined its available options before deciding to relocate Virtua-Memorial to Westampton Township and forecasted the effects on the neighboring hospitals on a reasonable basis. Therefore, I do not believe that the relocation of this hospital would cause significant harm to any of the other area hospitals. Thus, I am satisfied that this criterion is met.

Also, I find that the requirement at N.J.S.A. 26:2H-8(b) to consider the need for special services or equipment within the area would be met since the proposed new facility would be a replacement hospital, offering the same services that are currently licensed at the present facility, with no change in the need for special equipment. All specialized services, cardiac care, obstetrical/prenatal services and psychiatric services will also be provided at the Westampton campus. There will be no reduction in specialized services as a result of the relocation project and, in fact, the Applicant asserts that access to specialized services would be enhanced with the more centralized location of the hospital in the primary and secondary service areas. Most importantly, the replacement/relocation will provide the opportunity to upgrade all services, physical plant and equipment to incorporate the most up-to-date technology.

With respect to N.J.S.A. 26:2H-8(c), regarding the possible economies and improvement in services to be anticipated from the operation of joint services, the relocation of Virtua-Memorial would allow the new replacement hospital to establish an integrated healthcare campus to include an inpatient hospital, outpatient services, an ambulatory surgery center, long-term care and rehabilitation facility, medical office buildings, and an assisted living facility. These services would be integrated to effectively coordinate care and manage the overall health of the community. Additionally, Virtua has built clinical partnerships with institutions such as Children's Hospital of Philadelphia for pediatric care and Penn Medicine for cancer and neuroscience services, as well as created an enterprise partnership with General Electric that permits the collaboration to leverage the respective strength of each organization. The new facility will provide the infrastructure that can accommodate new technology and an environment where clinicians can deliver safe, high quality care with efficiency and ease.

N.J.S.A. 26-2H-8(d) requires consideration of the adequacy of financial resources and sources of present and future revenues. Financial analysis of the Virtua-Memorial application undertaken by Department staff reveals that the Applicant is financially sound and possesses adequate financial resources to undertake and sustain the proposed project to fund \$133,187,100 of the \$527,215,100 total cost of this project. According to the Applicant, debt related to the project financing would be an obligation of the Virtua Obligated Group (the Obligated Group). Unaudited financial statements for the nine months ended September 30, 2016 for the Obligated Group posted on the Municipal Securities Rulemaking Board EMMA dataport show operating income of approximately \$111 million. The Obligated Group's operating margin for the period was 12.9% and days cash on hand was \$406 million, according to the balance sheet. The New Jersey Health Care Facilities Financing Authority noted that it is not aware of any significant change in Virtua's financial position subsequent to September 30, 2016. In addition, the Obligated Group is currently rated AA- by both Standard & Poor's Global Ratings and Fitch Ratings, which is considered "investment grade." As such, the Applicant's financial resources appear sufficient to undertake the above-referenced project as proposed.

With respect to N.J.S.A. 26:2H-8(e), regarding the availability of sufficient manpower in the several professional disciplines, I am satisfied that there will be sufficient qualified personnel to staff the relocated hospital, since Virtua-Memorial at Westampton is a replacement hospital, in which the scope and services at its new location will remain identical to the services available at the existing Mount Holly site. Therefore, no new services requiring additional manpower are required for the implementation of this project. Additionally, the Applicant has confirmed that it intends to retain all current personnel, and that there will be no interruption or decline of physician services as a result of the hospital relocation.

N.J.S.A. 26:2H-8(f) requires consideration of such other factors as may be established by regulation. Therefore, I have taken into consideration the applicable regulations for the services subject to full review (i.e., N.J.A.C. 8:33-1.1 et seq.). Virtua-Memorial is in compliance with the access requirements set forth in N.J.A.C. 8:33-1.1 et seq. and N.J.A.C. 8:33-4.10(a). Specifically, the Applicant agrees to provide the same levels of care that Virtua-Memorial provided in the past to uninsured and underinsured patients in the region and declares that outreach efforts will continue to low income, racial and ethnic minorities, women, disabled, elderly and all other patients in need of prevention, diagnostic and treatment services. Virtua-Memorial affirms that it will maintain a commitment to the community to continue providing medical care and treatment for medically underserved populations and maintain a commitment to preserve the same level of access to health care services in the service area, including services to the medically indigent and medically underserved population. The Applicant states that it will provide care in accordance with N.J.S.A. 26-2H-18.64 and N.J.A.C. 8:43G-5.2(c) regarding the provision of healthcare services regardless of the patient's ability to pay or payment source.

N.J.A.C. 8:33-4.9(a) requires a demonstration that the relocation shall not have an adverse impact on the population being served in regards to access and quality of care. Specifically, the relocation of Virtua-Memorial from its existing location to a new location approximately three miles away will not adversely affect the patients historically served by Virtua-Memorial at Mount Holly. In fact, I believe that access to Virtua-Memorial's comprehensive services will be enhanced by a modern facility that will ensure an efficient facility to help improve the community's access to care because of its capacity to handle demand for services, help lower the cost of care, and improve the overall health of the community. Access to its new location will also be easier and more convenient, enabling more people to get care, including prevention and wellness services as the new site will be located on one of the area's main highways. Access will be further maintained and enhanced through the implementation of Condition #5 noted below regarding the development of a transportation system plan that will be submitted to the Department for review and approval. Thus, inpatient and outpatient services at the new location will continue to be available to all patients in need of those services regardless of their ability to pay for transportation services.

I find that the Applicant has provided an appropriate project description, which includes information as to the total project cost, operating costs and revenues, services affected, equipment involved, source of funds, utilization statistics, and justification for the proposed project (N.J.A.C. 8:33-4.10(b)), assurance that all residents of the area, particularly the medically underserved, will have access to services (N.J.A.C. 8:33-4.10(a)), and assurance that it will meet appropriate licensing and construction standards (N.J.A.C. 8:43G-1.1 et seq. and N.J.A.C. 8:33-4.10(b)(8)). Virtua-Memorial has also demonstrated a track record of substantial compliance with the Department's licensing standards as required by N.J.A.C. 8:33-4.10(d).

Based on the foregoing, I am approving the application for the replacement/relocation of Virtua-Memorial; a general hospital designated as a community perinatal center-intermediate and primary stroke center, from its existing site in Mount Holly, Burlington County, to a new site approximately three miles away in Westampton Township, also in Burlington County. The proposed replacement facility shall offer at least the same services, with the same number of licensed beds as the existing facility. The rationale to relocate rather than renovate the existing facility is a sound and well thought out strategy for planning for future community needs. It is acknowledged that the current Virtua-Memorial campus is out-of-date and in need of significant updating. It is also recognized that if the Applicant were to remain at its current location, community need would most likely exceed the capacity of its present health care service infrastructure. Expansion at the current site would not only prove to be expensive, but difficult to accomplish due to the lack of available adjacent space. Thus cost/benefit and quality of care and service would be more achievable through the construction of a replacement facility at the new site. Furthermore, it is also acknowledged that the design of the replacement hospital proposes to provide optimal patient care by creating an environment conducive to patient safety, clinical quality, enhancing the experience of patients and families, and empowering staff to deliver care more efficiently and effectively.

Finally, I believe this project will allow Virtua-Memorial the flexibility to adjust to changing needs in the healthcare sector, be beneficial to all its patients, and improve the community's geographic access to care. For the reasons set forth in this letter and noting the recommendations of the SHPB, I am approving the application to replace/relocate Virtua-Memorial from Mount Holly to Westampton Township subject to the following conditions:

1. At least six months prior to completion of the replacement hospital, Virtua-Memorial shall submit to the Department's Division of Certificate of Need and Licensing (Division) for review and approval, a communication plan for informing all residents of Burlington County and surrounding communities, as well as local governments and emergency services providers, of the dates of the cessation of inpatient services at the current site and the implementation of services at the new site. The plan shall include a mechanism for responding to questions from the public regarding project implementation and transportation/access concerns.

This plan must also contain provisions on maintaining access to emergency services for all residents of the service area.

2. At least 60 days prior to the completion of construction of the replacement hospital, the Applicant shall develop a written plan for the transition of all services from the existing hospital at Mount Holly to its new location in Westampton Township. A copy of such plan shall be submitted to the Division.
3. At least 90 days prior to the relocation of any services, the Applicant shall file a licensing application with the Division for the replacement facility. The Applicant shall not commence operations at the new location in Westampton Township prior to Department approval and licensure.
4. The Applicant shall work with the Department's Office of Emergency Medical Services (OEMS) and with local emergency service providers to develop a plan addressing the personnel and equipment needed for appropriate and timely continuity and delivery of care to inpatients of the facility during the transition and relocation of services to the replacement hospital.
5. The Transportation Plan, for those patients who are indigent or those who do not have the means for transportation services, shall be in place and operational at the time of licensure of the replacement hospital. The Plan for the development of a transportation system shall be approved by the Division at least six months prior to licensure of the replacement hospital. The Plan shall remain in effect for five years after licensure. Any proposed changes in this Plan shall be submitted to the Division at least 120 days in advance of the proposed change, and be approved in writing by the Division before implementation.
6. An outreach effort shall be put in place to ensure that all residents of the hospital service area, especially the medically underserved, have access to the available services at the new location. A self-evaluation of this effort shall be conducted by the Applicant on a yearly basis for five years after licensure to measure its effectiveness, and shall be submitted to the Division for review and comment.
7. The Applicant shall comply with federal Emergency Medical Treatment and Active Labor Act requirements, and provide care for all patients who present at the facilities without regard to their ability to pay or payment source, in accordance with N.J.S.A. 26:2H-18.64 and N.J.A.C. 8:43G-5.2(c), and shall provide unimpaired access to all services offered by the hospital.
8. The Applicant shall file a signed certification with the Division, as to the final total project cost expended for the project at the time of the application for licensing for the replacement hospital.

9. The Applicant shall identify a single point of contact to report to the Division concerning the status of all conditions referenced within the time frames noted in the conditions.
10. The Applicant shall surrender its license for the existing location to the Division within 10 days of operations commencing at the replacement hospital.
11. In all of its facilities, the Applicant shall continue compliance with N.J.A.C. 8:43G-5.21(a), which requires that all hospitals provide on a regular and continuing basis, out-patient and preventative services, including clinical services for medically indigent patients, for those services provided on an in-patient basis.
12. At least six months prior to licensing of the replacement hospital, the Applicant shall submit to the Division its plans for use of the Mount Holly site.
13. Prior to commencing construction of the proposed new hospital, the Applicant shall obtain from the New Jersey Department of Environmental Protection all approvals that are required in connection with construction of the new hospital, and shall provide the Department with a copy of all such approvals as documentation of compliance with this condition.

Failure to satisfy any of the aforementioned conditions of approval may result in sanctions, including license suspension, monetary penalties, and other sanctions in accordance with N.J.S.A. 26:2H-1 et seq. and all other applicable requirements. Acceptance of these conditions will be presumed unless written objections are submitted to the Department within 30 days of receipt of this letter. Upon receipt of such objections, this approval will be deemed suspended, and the project shall be re-examined in light of the objections.

We look forward to working with you and helping you provide quality care to the patients of Virtua-Memorial. If you have any questions concerning this Certificate of Need, please do not hesitate to contact John Calabria, Director, at (609) 292-8773.

Sincerely,



Cathleen D. Bennett
Commissioner

c: John A. Calabria, DOH