HEALTH

CERTIFICATE OF NEED AND LICENSING DIVISION

OFFICE OF CERTIFICATE OF NEED AND HEALTHCARE FACILITY LICENSURE

Certificate of Need: Long-Term Acute Care Hospitals

Proposed Readoption with Amendments: N.J.A.C. 8:33F

Authorized By: Mary E. O'Dowd, M.P.H., Commissioner, Department of Health (with the approval of the Health Care Administration Board).


Calendar Reference: See Summary below for explanation of exception from calendar requirement.

Proposal Number: PRN 2015-086.

Submit electronic comments to http://www.nj.gov/health/legal/ecomments.shtml, or written comments to the address below, by October 2, 2015, to:

Joy L. Lindo, Director

Office of Legal and Regulatory Compliance

Office of the Commissioner

New Jersey Department of Health

PO Box 360

Trenton, NJ 08625-0360

The agency proposal follows:

Summary

The Department of Health (Department) proposes the readoption with amendments of N.J.A.C. 8:33F, Certificate of Need: Long-Term Acute Care Hospitals,
which is scheduled to expire on June 19, 2015, in accordance with N.J.S.A. 52:14B-5.1 and Executive Order No. 66 (1978). In accordance with N.J.S.A. 52:14B-5.1.c(2), the filing of this notice of proposed readoption with amendments with the Office of Administrative Law on or before June 19, 2015, operates to extend the expiration date of N.J.A.C. 8:33F 180 days to December 16, 2015.

The Department has reviewed N.J.A.C. 8:33F and has determined that the existing rules, with the proposed amendments, would continue to be necessary, adequate, reasonable, efficient, understandable, and responsive to the purposes for which they were originally promulgated. Therefore, the Department has determined to readopt the chapter with amendments. The rules proposed for readoption with amendments would continue to provide the regulatory framework to fulfill the Department's obligation to ensure access to long-term acute care services of the highest quality while taking into consideration the significant changes in the economics of the health care system since the inception of the certificate of need program. The Department notes that the Centers for Medicare & Medicaid Services has imposed a moratorium on new long-term acute care hospitals (LTACs) and on the expansion of existing LTACs, effective April 1, 2014 through September 20, 2017. 79 Fed. Reg. 27978. Prospective LTACs with an approved certificate of need are exempt from the moratorium.

N.J.A.C. 8:33F, Certificate of Need: Long-Term Acute Care Hospitals, first became effective January 21, 2003, upon its adoption by the Department as new rules, with the approval of the Health Care Administration Board (HCAB). 34 N.J.R. 487(a), 35 N.J.R. 410(a). The Department amended N.J.A.C. 8:33F to permit an additional 36-
month period for the submission of expedited review certificate of need applications for long-term acute care hospital services, effective March 20, 2006. 37 N.J.R. 2282(a), 38 N.J.R. 1451(a). The Department also amended N.J.A.C. 8:33F to change the minimum size for a new freestanding long-term acute care hospital from 60 to 50 beds. 37 N.J.R. 2282(a), 38 N.J.R. 1451(a). N.J.A.C. 8:33F was readopted without change, effective June 19, 2008. 40 N.J.R. 965(a), 4320(b).

The purpose of the rules proposed for readoption is to maintain the certificate of need requirements for new LTACs and for all licensed LTACs proposing to alter their licensed bed complement in the future, in order to facilitate the long-term acute care hospital industry's response to changes in Federal rules governing Medicare reimbursement. The impetus for the establishment of rules governing LTACs in New Jersey was the 1999 report prepared by the Advisory Committee on Hospitals and the 2001 follow-up report of the Post-Acute Care Work Group (Work Group) of the Department. These reports identified the higher than average general hospital length of stay (LOS) for New Jersey Medicare patients as a source of general hospitals' financial weakness, and lack of a full continuum of patient discharge options, including LTAC, as a contributing factor. In the course of its work the Work Group discovered that New Jersey's seniors make less use of their Medicare long-term acute care and post-acute care benefits than their counterparts in similar states. At that time, New Jersey did not have any LTACs. The majority of the Work Group agreed that introducing LTACs in New Jersey would offer seniors more choices and access to more appropriate care settings. It could also help reduce the general hospitals' LOS.

Adopted amendments to this chapter, effective March 20, 2006, provided for an
additional 36-month period for the submission of LTACs’ certificate of need applications through March 20, 2009 (37 N.J.R. 2282(a), 38 N.J.R. 1451(a)), to meet the remaining Statewide need for LTAC beds. These amendments also reduced the minimum size for a free-standing LTAC from 60 to 50 beds. These rules were readopted effective June 19, 2008. 40 N.J.R. 965(a), 4320(b).

Following is a summary of the chapter and proposed amendments:

N.J.A.C. 8:33F-1.1 would continue to state the scope and purpose of the rules, stipulating that all LTACs would comply with the rules for obtaining a certificate of need as set forth in the chapter prior to becoming licensed to operate in New Jersey. The proposed amendment to this section would correct the name of the Department from the “Department of Health and Senior Services” to the “Department of Health.” Also, in this section and throughout the chapter “long term acute” is revised to “long-term acute” for grammatical correctness.

N.J.A.C. 8:33F-1.2 would continue to define all the applicable terms used in the chapter. The proposed amendments to this section would add a definition of “Diagnosis related groups” or “(DRGs),” and add the acronym “LTAC” to the definition for “long-term acute care hospital.”

N.J.A.C. 8:33F-2.1 would continue to define the relationship between the certificate of need and licensure requirements and is proposed for readoption with no change.

The Department proposes to readopt N.J.A.C. 8:33F-2.2 without change. This section would continue to establish the minimum size for LTACs: a new, freestanding
hospital would continue to be at least 50 beds and a non-freestanding hospital within another hospital would continue to be at least 25 beds.

N.J.A.C. 8:33F-2.3 would continue to contain the certificate of need requirements to establish new LTACs or for bed additions to existing LTACs under the expedited review process. The Department would continue to be required to publish a long-term acute care Statewide and hospital-specific bed need estimate prior to the acceptance of any certificate of need applications under the expedited review process. The proposed amendment to subsection (a) would remove the reference to “through March 20, 2009” and replace the date with a reference to the publication of a call for applications in the New Jersey Register. New long-term acute care beds would continue to be approved only where a documented bed need is identified by the Department. In addition to technical amendments improving the readability of subsection (b), the proposed amendment would provide that applicants shall submit as part of their certificate of need application written agreements with general hospitals “located within one hour (non-peak) travel time of the LTAC.” The Department proposes to delete N.J.A.C. 8:33F-2.3(b)2, as the Department would not approve more LTAC beds from a general hospital than are provided for in the certificate of need call.

The Department proposes technical and substantive amendments to the need methodology at recodified subsection (c). The proposed amendments would delete the references to specific DRG codes, as these codes are set by the Centers for Medicare & Medicaid Services and not the Department and are therefore subject to change without Departmental control. Instead, the Department’s proposed amendment would reference those DRG codes most frequently used by LTACs, selected from the DRG
codes identified in the annual notice published in the Federal Register by the Centers for Medicare & Medicaid Services pursuant to 42 CFR 412.535.

The Department proposes to delete existing N.J.A.C. 8:33F-2.3(d) as it conflicts with other provisions of the rules.

The Department proposes to add the phrase, “in response to the call” to N.J.A.C. 8:33F-2.3(e) to improve the readability of the subsection. The Department proposes to amend N.J.A.C. 8:33F-2.3(e)1 to correct the name of the Department’s program to which hospital statistics are reported. The Department proposes to further amend N.J.A.C. 8:33F-2.3(e)1 by deleting language referencing existing LTACs raising their bed counts to reach a target occupancy of 80 percent and replacing it with more precise language specifying that an LTAC shall be permitted to file a certificate of need application to raise its bed count to a target occupation of 80 percent. In addition, the Department proposes to delete language describing the bed calculation formula in the future tense and replace it with language describing the bed calculation formula in the present tense to improve the readability of the rules. The Department also proposes to delete N.J.A.C. 8:33F-2.3(e)2 as it addresses issues that are adequately addressed in other provisions of the rules.

The Department proposes to delete the phrase, “long term acute care” and replace it with the term, “LTAC” at N.J.A.C. 8:33F-2.3(f) to improve the readability of the rule.

The Department proposes to readopt N.J.A.C. 8:33F-2.4, Accessibility of care for Medicaid and medically indigent patients without change.
The Department proposes to amend N.J.A.C. 8:33F-2.5 to add a cross-reference to N.J.A.C. 8:31B-3.3, which would continue to require all long-term acute care providers to maintain and provide statistical data on program operations and report that data to the Department. Accordingly, the Department proposes to delete language referring to N.J.A.C. 8:31B-2 and where and how to obtain forms for reporting because such language is no longer necessary. The Department proposes a technical amendment to this section to correct the name of the Department.

Because the Department has provided a 60-day comment period on this notice of proposal, this notice is excepted from the rulemaking calendar requirements, pursuant to N.J.A.C. 1:30-3.3(a)5.

**Social Impact**

The rules proposed for readoption with amendments would continue to extend the CN review process for new LTACs under the expedited review process. The majority of long-term acute care patients are elderly, medically complex patients who are dependent on life support systems, such as ventilators, parenteral nutrition, respiratory, and cardiac monitoring and dialysis as a result of trauma, and extensive surgery and/or disease. Most patients in LTACs have multiple co-morbidities and are medically unstable. For these patients, LTACs are a more appropriate alternative than a prolonged stay in an acute care hospital, because LTACs provide specialized programs and technology for intensive medical management to optimize medical and functional capacity for each patient.

The rules proposed for readoption would be expected to continue to have a favorable social impact on these types of patients by permitting the creation of
additional LTACs in New Jersey in the future. The addition of LTACs as a general hospital discharge option has provided and would continue to provide greater consumer choice for patients whose needs are not being met by either general hospitals or post-acute care providers.

The criteria and standards contained in the rules proposed for readoption are designed to promote the expansion of high quality long-term acute care services to the extent that they are needed throughout the State.

**Economic Impact**

This chapter forms the basis for determining need for long-term acute care services and is expected to foster the orderly development of cost-efficient long-term acute care services throughout the State. Because it is costly to develop and maintain the extensive array of services provided at LTACs, the public benefits only when the bed capacity is neither excessive nor inadequate. The continued development of LTACs would allow more New Jersey beneficiaries to take full advantage of benefits available to them for long-term acute care services under Medicare. General hospitals, which are reimbursed under a case rate system by Medicare, would benefit from the resulting decline in their length of stay when long-stay patients can be discharged to LTACs. Long-term acute care hospital applicants would continue to benefit from the opportunity the rules proposed for readoption with amendments would provide to reconfigure their proposals to be financially feasible in the new Medicare long-term acute care reimbursement environment.

The economic impact of the rules proposed for readoption with amendments
would be expected to stimulate more providers to establish these special hospitals and thereby address the State’s need for LTACs. LTACs that have entered the New Jersey market are largely national entities and the experience of these providers has indicated that these special hospitals can be financially viable. The rules proposed for readoption would permit potential new long-term acute care providers to evaluate the trade-off between capital and operating costs and revenues produced from a minimum-sized long-term acute care hospital as set forth in this chapter. Potential new long-term acute care hospital providers would have the necessary information to determine whether to provide long-term acute care services through a freestanding health care facility, through a hospital within a hospital, or not at all.

As far as the cost of compliance with these rules is concerned, there is the cost associated with the need for a CN. That cost would be reflected in the filing fee of the CN application, which would be $7,500, plus .25 percent of the total project cost of each potential new or expanded long-term acute care hospital. The Department is not proposing any changes to these fees in this rulemaking. Other developmental costs might be incurred should there be a need for professional assistance (for example, architectural, planning, and legal) in the preparation of a CN application. Such costs vary from one project to another, and are subject to many variables based on the applicant's operations and vision. However, such costs are a relatively small fraction of typical project costs.

The potential costs to industry providers, however, are modest compared to the health care delivery system cost savings and benefits that are likely to accrue from the rules proposed for readoption with amendments allowing the continued creation of lower
cost alternatives to prolonged hospital stays. The rules proposed for readoption with amendments would not change existing rules designed to ensure quality of care, by limiting entry to those potential providers who have demonstrated a record of strict compliance with stringent New Jersey licensure standards, as well as out-of-State licensing compliance, if applicable.

**Federal Standards Statement**

The Department promulgated N.J.A.C. 8:33F under the authority of N.J.S.A. 26:2H-1 et seq., particularly N.J.S.A. 26:2H-5. There are no Federal planning standards governing LTACs. Therefore, a Federal standards analysis is not required for this rulemaking.

**Jobs Impact**

The Department does not expect that any jobs will be generated or lost as a result of the rules proposed for readoption with amendments.

**Agriculture Industry Impact**

The rules proposed for readoption with amendments would not have an impact on the agriculture industry of the State.

**Regulatory Flexibility Statement**

All current LTAC licensees employ more than 100 people full-time. The Department does not believe that any applicant or approved provider would be a "small business" as that term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq. LTAC hospital applicants who are ultimately approved and become licensed in New Jersey would employ 100 or more people full-time. Accordingly, a regulatory flexibility analysis is not required.
Housing Affordability Impact Analysis

The rules proposed for readoption with amendments would have an insignificant impact on affordable housing in New Jersey and there is an extreme unlikelihood that they would evoke a change in the average costs associated with housing because the rules proposed for readoption with amendments would operate only to establish certificate of need standards for LTACs.

Smart Growth Development Impact Analysis

The rules proposed for readoption with amendments would have an insignificant impact on smart growth and there is an extreme unlikelihood that they would evoke a change in housing production in Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan in New Jersey because the rules proposed for readoption with amendments would only continue to establish certificate of need standards for LTACs.

Full text of the rules proposed for readoption may be found in the New Jersey Administrative Code at N.J.A.C. 8:33F.

Full text of the proposed amendments follows (additions indicated in boldface thus; deletions indicated in brackets [thus]):

CHAPTER 33F
CERTIFICATE OF NEED:
[LONG TERM] LONG-TERM ACUTE CARE HOSPITALS
SUBCHAPTER 1. GENERAL PROVISIONS
8:33F-1.1 Scope and purpose
(a) The rules of this chapter specify the certificate of need requirements for all new [long
term] long-term acute care hospitals and for all licensed [long term] long-term acute
care hospitals proposing to alter their licensed bed complement.

(b) A [long term] long-term acute care hospital may be licensed by the Department of
Health [and Senior Services] to provide [long term] long-term acute care services either
as a separately licensed "hospital within a hospital" or as a freestanding inpatient health
care facility. All [long term] long-term acute care hospitals shall provide or arrange for
the provision of professional departments, services, facilities, or functions in accordance
with the [long term] long-term acute care licensure standards at N.J.A.C. 8:43G-38.2(d).

(c) Any providers seeking to alter their licensed complement of [long term] long-term
acute care beds or any other providers proposing to establish services that will meet the
licensing requirements for [long term] long-term acute care contained in N.J.A.C.
8:43G-38, shall obtain certificate of need approval in accordance with the rules
contained in this chapter.

8:33F-1.2 Definitions

The following words and terms, when used in this chapter, shall have the
following meanings unless the context clearly indicates otherwise:

“Applicant” means the applicant for a certificate of need to provide [long term]
long-term acute care services.
"Department" means the New Jersey Department of Health [and Senior Services].

"Diagnosis related groups" or "DRGs" means a patient classification scheme in which cases are grouped by shared characteristics of principal diagnosis, secondary diagnosis, age, surgical procedure, and other complications. Each DRG exhibits a consistent amount of resource consumption as measured by some unit (for example, length of stay, dollars, etc.).

"[Long term] Long-term acute care hospital" or "LTAC" means a category of special hospital that provides acute care through a broad spectrum of clinical care services for acutely ill/medically complex patients requiring, on average, a 25-day or greater length of stay. A [long term] long-term acute care hospital may either be freestanding or a hospital within a hospital in accordance with the definitions identified at N.J.A.C. 8:43G-1.3(b)2i and ii.

... 

"Special hospital" means any hospital [which] that assures the provision of comprehensive specialized diagnosis, care, treatment, and rehabilitation, where applicable, on an inpatient basis for one or more specific categories and for a hospital that provides [long term] long-term acute care through a broad spectrum of clinical care services for acutely ill/medically complex patients requiring, on average, a 25-day or greater length of stay. Special hospitals do not include hospitals or hospital units providing comprehensive rehabilitation services and licensed in accordance with the provisions of N.J.A.C. 8:43H.
SUBCHAPTER 2. REQUIREMENTS

8:33F-2.1 Relationship between licensure and certificate of need requirements
The provisions of N.J.A.C. 8:43G-38, Long Term Acute Care Hospitals General Requirements, are hereby incorporated by reference. Applicants receiving certificate of need approval for [long term] long-term acute care beds shall comply with all applicable requirements of N.J.A.C. 8:43G-38.

8:33F-2.2 Minimum size of facilities
(a) To promote the efficient use of resources, the minimum size for a new, freestanding long-term acute care hospital shall be 50 beds.
(b) To promote the efficient use of resources, the minimum size for a non-freestanding long-term acute care hospital that is located within another licensed hospital shall be 25 beds.

8:33F-2.3 Requirements for expansion and new construction
(a) Certificate of need applications for new long-term acute care hospitals or for bed additions to long-term acute care hospitals shall be filed for expedited review with the Department in accordance with the provisions of N.J.A.C. 8:33, [the] Certificate of Need: Application and Review Process. The Department shall accept applications for long-term acute care hospitals under the expedited review process from all qualified interested parties [through March 20, 2009] upon the publication in the New Jersey Register of a call for applications.
(b) The Department shall publish a long-term acute care Statewide and hospital-specific bed need prior to accepting any expedited review certificate of need applications for the 36 month period as set forth in (a) above. The estimated bed need is calculated as follows:

1. New long-term acute care beds shall be approved only where there is a documented bed need identified by the Department. [Bed need shall be demonstrated by each applicant through presentation of]

   i. Applicants shall submit as part of their certificate of need application written agreements with general hospitals located within one hour (non-peak) travel time of the LTAC that assign part or all of their LTAC bed need, as published by the Department.

   [2. Each applicant shall document, to the satisfaction of the Department, that all LTAC beds assigned to the applicant are unduplicated.

   i. In the case of duplicative bed need agreements, if the duplicated agreement for assigned beds exceeds the assigning general hospital's LTAC bed need as computed in (b) above, and its assignment is required to document an applicant's compliance with the minimum 80 percent target bed occupancy, the application will not be accepted for processing.]

[3.] (c) The Statewide and hospital-specific need for long term acute care LTAC beds shall be calculated by the Department in the following manner:

   [i.] 1. Step 1: In order to calculate the Statewide average length of stay (ALOS), compute the length of stay (LOS) measured in days for each hospital discharge,
excluding all neonatal cases [with diagnosis related group (DRG) codes 600 through 640];

(ii.] 2. Step 2: [Select]To calculate all potential discharges to LTACs, [as] select those cases [defined] with LOS greater than the [Statewide average length of stay (ALOS)] (as published by the Department) plus 15 days for the [following] 26 [diagnosis related group (DRG)] codes[, as defined at N.J.A.C. 8:31B-3.77, considered typical LTAC DRG codes: 12, 14, 76, 79, 87, 88, 89, 90, 107, 110, 127, 130, 174, 236, 238, 263, 271, 277, 316, 320, 416, 462, 468, 475, 483, 486] most frequently used by LTACs, selected from the DRG codes identified in the annual notice published in the Federal Register by the Centers for Medicare & Medicaid Services pursuant to 42 CFR 412.535;

[iii.] 3. Step 3: For those potential discharges to LTACs, compute the number of potential LTAC days [as the portion of] by subtracting the LOS (for the patients selected in Step 2 above) [that is over and above] from the ALOS; and

(iv.] 4. Step 4: Compute the bed need by dividing the number of potential LTAC days by 365 days, and then [divide] dividing this figure by the average target hospital occupancy rate of 80 percent.

[(c)] (d) [In addition to the bed need calculated in (b) above, applicants] Applicants applying for certificate of need approval to establish a [long term] long-term acute care facility shall demonstrate the ability to attain and maintain a minimum target occupancy rate of 80 percent. In attaining and maintaining such a rate, consideration of the following factors will be given:
1. Each applicant shall provide written patient referral/transfer agreements from hospitals that agree to transfer patients eligible for LTAC. These agreements shall demonstrate the minimum target occupancy rate of 80 percent will be achieved based on the proposed bed complement of the applicant’s long-term acute care hospital.

2. (No change.)

3. Patient choice shall not be limited by the terms of any patient referral/transfer agreement between a hospital and long-term acute care facility.

(d) Certificate of need applications for long term acute care beds may be submitted to the Department through March 20, 2009. After this period, certificate of need applications shall only be accepted if at least 75 percent of the awarded certificate of need applicants for long term acute care beds have been implemented by licensure approval of occupancy except in the case of the following:

1. An applicant awarded a certificate of need which notifies the Department of its intent not to implement its certificate of need prior to the expiration date, thereby allowing the Department to accept additional applications for the purpose of either increasing present bed capacity or establishing a new facility; or

2. Expiration of an awarded certificate of need without implementation of the project within the specified time period.]

(e) When at least 75 percent of the total certificates of need awarded in response to applications submitted [through March 20, 2009] in response to the call have been implemented by licensing approval for occupancy, the Department shall accept applications according to the following standards:
1. An applicant proposing a bed addition at an existing [long term] long-term acute care facility shall provide evidence that the average occupancy rate for the existing licensed [long term] long-term acute care beds for the six most recent quarters prior to submission of the certificate of need application exceeds 85 percent. All data upon which these occupancy rates are based shall be consistent with the hospital statistics as reported to the Department’s [Facility Information Systems Program on Share Quarterly Inpatient Utilization Report (B-2) forms] Office of Hospital Finance and Charity Care pursuant to N.J.A.C. 8:31B, unless the applicant can demonstrate to the Department with verifiable evidence that there are inaccuracies in the statistical information that was reported. [Bed additions at the existing facility will be permitted to add the number of beds to the minimum target occupancy rate of 80 percent.] An existing LTAC shall be permitted to submit a certificate of need application to add the number of additional beds necessary to achieve the minimum target occupancy rate of 80 percent. The formula [for this calculation shall be] is as follows:

\[
\left( \frac{\text{Maximum LTAC Bed Addition}}{\text{LTAC Bed Complement}} \right) = \left( \frac{\text{AVG}}{0.80} \right) - 1
\]

where "AVG" is the "average quarterly occupancy rate for the six most recent quarters."

2. An applicant proposing to establish a newly licensed long term acute care hospital shall be reviewed according to the methodology specified in (b) and (c) above. Such applications shall only be accepted for processing if all existing long term acute care hospitals within one hour (non-peak) travel time of the applicant have been
operating at 80 percent occupancy of their licensed beds for the latest four quarters of utilization data submitted to the Department.

(f) A certificate of need awarded to provide [long term acute care] LTAC services shall remain valid two years from its issuance.

1. The Commissioner may consider a longer time period for certificates of need that require new construction to implement their project.

8:33F-2.4 Accessibility of care for Medicaid and medically indigent patients

(a) [Long term] Long-term acute care facility services shall not be covered by fee-for-service payments under the New Jersey Medicaid Program, including NJ FamilyCare. Costs associated with these services shall not be reimbursable.

(b) [Long term] Long-term acute care patients shall not be eligible for State charity care subsidies in accordance with P.L. 1997, [c.263] c. 263.

(c) [Long term] Long-term acute care patients shall not be denied admission to an LTAC on the basis of their inability to pay in accordance with the Hospital Licensing Standards at N.J.A.C. 8:43G-5.2(b) and (c).

8:33F-2.5 [Long term] Long-term acute care hospital data reporting

Every hospital licensed to provide [long term] long-term acute care in accordance with this chapter shall maintain and provide statistical data on the operation of the program and report those data to the Department of Health [and Senior Services on a schedule and in a standardized format determined by the Department. In addition, Uniform Bill Patient Summary (UBPS) data for these patients shall be submitted in
accordance with the provisions of N.J.A.C. 8:31B-2. Copies of the full text of the required reporting forms may be obtained upon written request to the New Jersey State Department of Health and Senior Services, Division of Health Care Systems Analysis, Health Care Financing Systems Program, PO Box 360, Trenton, New Jersey 08625-0360] in accordance with N.J.A.C. 8:31B-3.3.