

POLICY MANUAL FOR PLANNING AND CERTIFICATE OF NEED
REVIEWS OF HEALTH CARE FACILITIES AND SERVICES
WITHIN THE STATE OF NEW JERSEY



① ② HEALTH PLAN DEVELOPMENT SERVICES,
NEW JERSEY STATE DEPARTMENT OF HEALTH

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CHAPTER I
INTRODUCTION

INTRODUCTION

The 1971 Health Care Facilities Planning Act (N.J.S.A. 26:2H-1 et seq. and N.J.S.A. 26:2H-8) established as public policy of the State of New Jersey "that hospital and related health care services of the highest quality, of demonstrated need, efficiently provided and properly utilized at a reasonable cost are of vital concern to the public health."¹

To implement this policy, Chapter 136 has given the State Department of Health "the central, comprehensive responsibility for the development and administration of the State's policy with respect to health planning, hospital and related health care services, and all public and private institutions, whether State, county, municipal, incorporated and not incorporated, serving principally as boarding, nursing or maternity homes or other homes for the sheltered care of adult persons or as facilities for the prevention, diagnosis or treatment of human disease, pain, injury, deformity, or physical condition(s)."²

"No health care facility shall be constructed or expanded, and no new health care services shall be instituted except upon application for and receipt of a Certificate of Need."³

The Department of Health has a major responsibility for the promotion of quality health services rendered in an efficient and economical manner and available to all citizens of the State. To insure significant progress toward the achievement of this goal, planning and Certificate of Need activities will be directed toward the provision of facilities and services which:

1. "improve the health of residents of a health service area,
2. "increase the accessibility (including overcoming geographic, architectural and transportation barriers), acceptability, continuity and quality of health services provided them,
3. "restrain increases in the cost of providing them health services, and
4. "prevent unnecessary duplication of health resources."⁴

¹Chapter 136, N.J.S.A. 26:2H-1.

²Ibid.

³Chapter 136, N.J.S.A. 26:2H-7.

⁴P.L. 93-641, Section 1513(a).

The general policies, standards and guidelines set forth in this document are intended to provide substantive criteria for the planning, development, and review of health care facilities and services within the State of New Jersey.

The general policies presented herein shall apply to all facility and service planning within the State. In addition to these general policies, specific planning and review standards and guidelines shall be presented for broad categories of health care facilities and services as well as for specialized types of health care which shall be made available on a regionalized basis.

These policies, standards and guidelines shall also be used to guide the development of the State Medical Facilities Plan required under Title XVI of Public Law 93-641.

This manual is to be distinguished from the "Guidelines and Criteria for Submission of Applications for Certificate of Need" published by the New Jersey State Department of Health.

The latter document identifies the procedures, rules, and regulations to carry out N.J.S.A. 26:2H-1 et seq. (1971 Health Facilities Planning Act), Public Law 92-603 (Section 1122 of the Social Security Act) and Public Law 93-641 (The National Health Planning and Resources Development Act of 1974).

This document, on the other hand, presents substantive criteria for the planning of health care facilities and services within the State. It is these policies, standards and guidelines which shall be applied in the review of proposed actions requiring Certificate of Need authorization.

One of the principal factors influencing enactment of federal legislation requiring reviews of proposed capital expenditures is the rapidly escalating costs of health care. The provisions identified herein derive from a concern over this serious economic condition and are intended both to promote cost containment as well as to improve quality within the health care system of our State.

CHAPTER II
GENERAL POLICIES

THE GENERAL POLICIES IDENTIFIED HEREIN SHALL
APPLY TO ALL FACILITIES LICENSED AND REGULATED
UNDER CHAPTER 136 (NJSA 26:2H-1 ET. SEQ.)
AND AMENDMENTS THERETO.

GENERAL POLICIES

1. "No certificate of need shall be issued unless 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, and will contribute to the orderly development of adequate and effective health care services."⁵

2. No certificate of need shall be awarded to a hospital which does not have an accepted hospital long-range plan pursuant to N.J.A.C. 8:31-16.1 by January 9, 1977, or the date agreed to by the Department of Health. The annual update shall be due January 31 every year. All other facilities obligated to file a long-range plan with the State pursuant to N.J.A.C. 8:31-16.1 shall be denied certificate of need approval until such time that they have complied with the requirements of this law. Except for applications requiring an administrative review, no certificate of need shall be issued if the subject of the application is not anticipated in the "certificate of need forecast" of the institution's most recently accepted long-range plan. Exceptions to the "forecast" can be made for applications of unusual merit particularly if they respond to other state and federal policies, arise in response to emergency situations, or result from significant technological advances or unforeseen growth in volume.

3. It is the policy of the State of New Jersey to encourage planning which:
 - a. is directed toward the achievement of national health planning goals and guidelines issued pursuant to Section 1501 and priorities referenced in Section 1502 of Public Law 93-641, "The National Health Planning and Resources Development Act of 1974", and
 - b. promotes actions consistent with the New Jersey State Health Plan, the State Medical Facilities Plan, and other Departmental policies and regulations,
 - c. promotes and is consistent with the goals and objectives of the Health Systems Plan for the health service area in which the proposed action is planned,

⁵Chapter 136, N.J.S.A. 26:2H-8.

- d. promotes prevention of disease through early intervention and the provision of primary care services and encourages the continued development of alternative service modalities to substitute for inpatient hospital care and alternative facilities to substitute for hospital inpatient construction.

Special consideration in the awarding of certificate of need approvals shall be given to applications which promote items 3a, b, c, and d above.

4. Institutions which engage in cooperative regional planning and which demonstrate that they are sharing their resources on a regional basis shall be given special consideration in the awarding of certificate of need.
5. N.J.A.C. 8:31-16.1 shall be amended to add the following:

Hospital long-range plans shall demonstrate efforts on the part of the institution to develop cooperative arrangements with other facilities in its area. These arrangements shall address but not be limited to the following: (a) the regionalization of speciality services, (b) joint purchasing and shared services, and (c) participation in the development of efficient discharge planning.

6. Hospitals seeking certificate of need approval to add beds to an existing facility or to construct a new facility must demonstrate an efficient use of existing beds. Among the factors to be considered in assessing the efficient use of existing beds shall include:
 - a. demonstrated lengths of stay at or below the mean for its peer grouping as defined by Health Economics Services, New Jersey State Department of Health [When the Diagnostic Related Groups (DRG's) become available, they will be appropriately used to assess the efficient use of existing beds.],
 - b. the quality of existing admissions scheduling procedures (Hospitals should strive toward the goal of scheduling up to 75 percent of elective patient admissions several weeks in advance of actual admission.),
 - c. a description of the institution's experience of the previous year's preadmission testing program presented, wherever possible, quantitatively. The institution's policies regarding preadmission testing should accompany the description,

- d. documentation of efforts to keep at a minimum the length of time required to return the results of in-hospital testing,
 - e. documentation of efforts by the hospital to operate an optimal utilization review program for all patients including an efficient discharge program,
 - f. documentation that the hospital is participating in its local PSRO activities,
 - g. a description of the alternatives to inpatient modalities that were considered by the hospital and why they were rejected.
7. Upon the recommendation by the appropriate Health Systems Agency to the Department to grant waivers from certain licensure standards, the full range of services required of each hospital by the Department of Health licensure standards does not have to be provided if the Health Systems Agency can demonstrate to the Department that persons in the hospital's service area will have access to comparable services. The appropriate Health Systems Agency is the one located in the Health Service Area pursuant to Public Law 93-641 in which the hospital is located.

DEFINITIONS

In this document the terms "Standards" and "Guidelines" have specific meaning, as follows:

Standards: The specific requirements that applicants must satisfy in developing applications for certificate of need approval. To the extent practicable, standards address measurable characteristics that such applications must meet.

Guidelines: Those general factors to be considered in applying a given standard, or to guide decision-making in areas for which specific standards are not available or would not be appropriate.

CHAPTER IV

STANDARDS AND GUIDELINES FOR PLANNING AND
CERTIFICATE OF NEED REVIEWS OF HOSPITAL
FACILITIES AND SERVICES

THE STANDARDS AND GUIDELINES DEFINED HEREIN
SHALL APPLY TO ALL HOSPITALS LICENSED AND
REGULATED UNDER CHAPTER 136 (N.J.S.A. 26:2H-1
ET. SEQ.) AND AMENDMENTS THERETO.

STANDARDS AND GUIDELINES

I. SIZE OF FACILITIES

STANDARDS

STANDARD I-01, MINIMUM SIZE, ACUTE GENERAL HOSPITALS:

The minimum size for an acute general hospital shall be 200 beds.

This standard shall not apply to:

1. Facilities licensed for fewer than 200 beds at the time of adoption of this regulation unless a bed expansion is planned. Where there is a documented need for additional beds within a planning region, the preferred manner for authorizing bed additions shall be to add beds to an institution that is over 200 beds or will be brought up to 200 beds by the addition.
2. Facilities of less than 200 beds proposing to expand to at least 200 beds, where the need for expansion is justified.
3. Facilities with less than 200 beds which are or will be sponsored and operated by full-service general acute hospitals with over a 200 bed capacity and which provide or will provide only those services which are necessary to meet the community's need without duplication of service.
4. Facilities proposing renovations or improvements in its physical plant necessary to meet minimum State and Federal Life Safety Code requirements. (A renovation plan with costs which equal or exceed the cost of replacement will be considered as a proposal for new construction and the policies which apply to new construction will apply to it).

5. Facilities which have successfully reduced bed requirements by providing alternative ambulatory services or short-stay service programs which as a consequence fall below the 200 bed minimum.

STANDARD I-02, MINIMUM SIZE, OBSTETRIC SERVICES:

Standards for the minimum size of obstetric services will be consistent with "Standards and General Criteria for the Planning and Certification of Need of Perinatal Services".

STANDARD I-03, MINIMUM SIZE, PEDIATRIC SERVICES:

The Department anticipates developing standards for the regionalization of pediatric services including standards governing the appropriate minimum size of pediatric units. Once these standards are adopted, they shall apply to all planning and certificate of need activities in the State of New Jersey.

GUIDELINE I-01, MAXIMUM SIZE, ACUTE GENERAL HOSPITALS:

The recommended maximum size of any hospital is 500 beds. This guideline may be exceeded in situations where:

1. licensed hospitals currently exceed 500 beds and/or
2. a demonstrated need for a system of tertiary level services (subject to all other applicable criteria) requires that the facility expand beyond 500 beds.

To encourage the development of multi-hospital corporations, this guideline may be exceeded where it can be demonstrated that a satellite facility which brings a hospital's bed capacity in excess of 500 is more cost effective and results in more efficient delivery of services.

II. COST EFFECTIVENESS

STANDARDS

STANDARD II-01, COMPLIANCE TO CRITERIA FOR REGIONALIZATION:

Each certificate of need application for a new service or for additional equipment

shall comply with criteria for regionalization -that is, both to general criteria for regional health services and to specific regulations established for particular services by the New Jersey State Department of Health and shall demonstrate compliance with plans for regionalized services adopted thereto by the Health Systems Agency in which the action is planned.

STANDARD II-02, INSTITUTING SERVICES WITHOUT PRIOR CERTIFICATE OF NEED APPROVAL:

All those institutions that do not apply for a certificate of need and that institute new services, equipment, et cetera, for which a certificate of need approval must be obtained, shall be called unlawful and the institution shall be asked to remove such services or equipment. No costs for unlawful actions shall be included in rates established for reimbursement to the institution. See "Guidelines and Criteria for Submission of Applications for Certificate of Need", New Jersey State Department of Health.

STANDARD II-03, COOPERATIVE ARRANGEMENTS

Each facility must be responsive to the medical, economic, and social necessities of coordinating its programs and services with other providers in its hospital service area to avoid unnecessary duplication of services, equipment, and personnel. Where a hospital initiates a new program or service or expands an existing one, it shall support its application for a certificate of need by providing written documentation of existing working relationships or of plans to develop working relationships with other providers in the area. In demonstrating present and proposed working relationships within the service area, the hospital, as necessary, shall consider the following entities:

1. Other hospitals especially those offering tertiary care services.
2. Other inpatient health facilities such as:
 - A. Long-term care facilities
 - B. Facilities for the mentally retarded
 - C. Institutions for the treatment and care of alcohol and drug abusers
 - D. Homes for the blind and/or deaf
 - E. Institutions for the emotionally disturbed
 - F. Other providers of inpatient care
3. Outpatient and Nonpatient Health Services such as:
 - A. Ambulance services
 - B. Blood banks
 - C. Clinical laboratories
 - D. Community mental health centers
 - E. Neighborhood health centers
 - F. Migrant health programs
 - G. Dental group practices
 - H. Family planning services
 - I. Home health services
 - J. Medical group practices
 - K. Rehabilitation services
 - L. Other providers of outpatient services

4. Major professional categories of providers such as physicians, nurses, psychiatrists, psychologists, dentists, etc.
5. Health Maintenance Organizations
6. Areawide planning agencies
7. Public health departments
8. Departments of social services
9. Local employment agencies
10. Police departments
11. Other health care providers

STANDARD II-04, UTILIZATION OF REGIONALIZED HEALTH SERVICES

Applications for certificate of need approval for equipment, services, etc. that are regional in scope shall be supported by a policy statement from the governing body that the hospital will accept all appropriate referrals to that service.

STANDARD II-05, SHELLED IN SPACE:

Shelled-in space shall be strongly discouraged. It shall only be allowed when an institution can clearly demonstrate beyond a reasonable doubt that the space will be in use in the manner defined within the Certificate of Need application and the institution's long-range plan within five years of the date of approval of the Certificate of Need authorizing the installation of the shelled-in space. The institution must show that not installing such shelled space will result in substantial diseconomies or the application for shelled space shall be denied.

This shall not preclude a consideration of additional structural preparations (as, for example, heavier footings) to accommodate bed replacements or future expansion when such expansion is warranted on the basis of documented projections contained in the hospital's long range plan.

STANDARD II-06, MEDICAL ARTS BUILDINGS

Medical arts buildings, particularly in urban areas, can be a useful device in creating a close relationship and better availability of physicians to the hospital. Applications for a certificate of need to purchase, construct,

modernize, renovate or expand a medical arts building shall provide full written documentation of the purchase, construction, renovation and operational costs of the proposed unit. The applicant shall include both direct and indirect costs, i.e., personnel, maintenance agreements, etc. Projections of anticipated revenues during the first two years of operation shall be supplied with the certificate of need applications. The costs of the purchase, construction, renovation, expansion and operation of the proposed medical arts building shall be to the greatest extent possible underwritten by charges to users.

GUIDELINES

GUIDELINE II-01, CERTIFICATE OF NEED - FACTORS IN ASSESSMENT

In making determinations on requests for certificate of need approval "there shall be taken into consideration (a) the availability of facilities or services which 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. . ."⁷

GUIDELINE II-02, ALTERNATIVES TO INPATIENT CARE

The Department strongly encourages any certificate of need applicant for inpatient beds to examine appropriate alternatives to inpatient care and their economic feasibility. No inpatient capital program involving beds shall be approved for a certificate of need unless appropriate alternatives to inpatient care and their economic feasibility have been examined and their evaluation documented.

⁷Chapter 136, N.J.S.A. 26:2H-8.

GUIDELINE II-03, COST EFFICIENCY

Priority consideration shall be given to actions which promote cost effective measures. Determination of whether a proposed action promotes cost effectiveness requires an analysis of the impact of a proposed action on projected payment rates in the applicant institution itself and upon its neighboring related institutions as determined by the Department of Health. Consideration should be given to a projection of payment rates with facilities of comparable size and service array statewide and in the health service area in which the facility is located and in the local service area served by the applicant.

GUIDELINE II-04, QUALITY OF HEALTH SERVICES

Special consideration will be given to certificate of need applications which promote the quality of health services rendered in an efficient and economical manner and available to all residents of the institution's service area.

GUIDELINE II-05, COSTS OF PARKING GARAGES

Applications for a certificate of need to purchase, construct, modernize, renovate or expand a parking garage should provide full written documentation of the purchase, construction and operational costs of the proposed unit including land acquisition and building demolition related thereto. The applicant should include both direct and indirect costs. In addition, costs related to the remodeling or renovation thereof should be included. Projections of anticipated revenues during the first two years of operation should be supplied with the certificate of need application.

To the greatest extent possible, the costs of purchase, construction, renovation, expansion and operation of the proposed parking garage should be fully underwritten by charges to users. To the greatest extent possible, the costs should not be financed, directly or indirectly, in whole or in part by charges to patients.

III. OCCUPANCY

STANDARDS

STANDARD III - 01, OCCUPANCY RATES BY SERVICE

The desired occupancy rates (based on licensed beds) for an acute general hospital by service category shall be:

Medical/surgical	90%
Obstetrics	75%
Pediatrics	75%

STANDARD III - 02, NEED FOR PEDIATRIC BEDS

The need for pediatric beds shall be governed by and demonstrate compliance to Departmental regulation for the regionalization of these services and plans for implementation adopted thereto by the Health Systems Agency in which the services are provided.

STANDARD III - 03, NEED FOR OBSTETRIC BEDS

The need for obstetric beds shall be governed by and demonstrate compliance to Departmental regulation for the regionalization of these services and plans for implementation adopted thereto by the Health Systems Agency in which the services are proposed.

STANDARD III - 04, CONSOLIDATION

Consolidation which would require the expansion of a pediatrics or OB/GYN unit must be supported by letters of agreement between the applicant facility and other facilities in its service area to use the proposed consolidated unit prior to filing any request for a Certificate of Need to expand these types of beds at the applicant facility. The consolidation action must be in compliance with appropriate plans for consolidation of services developed by the Health Systems Agency in which the action is proposed.

STANDARD III - 05, OCCUPANCY RATES, ADDITION OF BEDS

If an applicant submits a request for a certificate of need to permit it to add beds to an existing facility or to construct a new facility, it will be required to submit documentation demonstrating an occupancy history which meets the occupancy standards delineated in Standard III-01. The following policies shall apply to such requests:

- A. If in the previous two quarterly reporting periods the occupancy rates in a facility falls below an average of 90 percent for its medical/surgical beds, 75 percent for its pediatric beds and 75 percent for its obstetric beds, the addition of beds within the service type which is not achieving desired occupancy levels will be denied certificates of need.
- B. If in the previous two quarterly reporting periods the occupancy rates in an individual hospital service area as defined by the Health Systems Agency after consultation with the New Jersey State Department of Health falls below an average of 90 percent for its medical/surgical beds, 75 percent for obstetric beds, and 75 percent for pediatric beds, the addition of beds in the service type which is not achieving desired occupancy levels will be denied certificates of need.

GUIDELINES

GUIDELINE III - 01, EXCEPTIONS TO STANDARD III - 05, OCCUPANCY RATES, ADDITION OF BEDS

Exceptions to Standard III-05 regarding occupancy levels may be examined under the following conditions:

- 1. Identification of a population in a rural area whose travel time under normal conditions places residents more than 30-40 minutes from their place of origin to the nearest general hospital offering needed

medical, surgical, pediatrics and obstetrical care (independent of the availability of more specialized tertiary services), where Standards I-01, I-02, and I-03 are met.

2. Individual communities whose residents must travel in excess of 30-40 minutes travel time under normal conditions from their place of origin to the nearest general hospital offering needed medical, surgical, pediatric, and obstetrical care (independent of the availability of more specialized tertiary services), where Standards I-01, I-02, and I-03 are met.

IV. PHYSICAL PLANT

STANDARDS

STANDARD IV-01, CERTIFICATE OF NEED REQUIREMENTS FOR MODERNIZATION, RENOVATION OR NEW CONSTRUCTION

Applications for certificates of need to modernize, renovate or initiate new construction which is not directed toward correcting life-safety code violations in categories "A" and "B", N.F.P.A. (Life-Safety Code 101) shall be denied until such time that the applicant has filed with the Department a plan of correction and submitted a certificate of need to correct existing violations in categories "A" and "B", N.F.P.A. (Life-Safety Code 101) cited by the Division of Licensure, Certification and Standards or has deleted these beds from its inventory.

STANDARD IV-02, CONSTRUCTION, MODERNIZATION, RENOVATION

Plans for construction of proposed new general hospitals or for modernization or renovation of existing facilities shall meet requirements defined under H.R.A. 74-4000, "Minimum Requirements of Construction and Equipment for Hospitals and Medical Facilities".

STANDARD IV-03, NON-CONFORMING BEDS

All hospitals with beds which are non-conforming under Category "A" life safety regulations, have two years from the effective date of this regulation to obtain a certificate of need either for replacement of these beds, or for deletion of them from the hospital's inventory. All such beds which have not been approved for replacement through the certificate of need process within two years of the effective date of this regulation shall be deleted from the State Plan inventory of beds. Within five years of the effective date of this regulation, all hospitals with beds which are non-conforming under Category "A" life safety regulations, shall have replaced the Category "A" beds for which Certificates of Need for replacement were granted or the non-conforming beds shall be removed from service.

V. PATIENT CARE

STANDARDS

STANDARD V-01, PATIENT CARE

Any hospital wishing to modernize, renovate or initiate new construction must demonstrate a record of substantial compliance with the Manual of Standards for Hospital Facilities as developed by the New Jersey State Department of Health. If in the previous two years these criteria have not been met, a certificate of need will not be granted. After a period of two years of satisfactory operation as above defined an application will be considered. The Division of Licensure, Certification and Standards and Health Economics Services, Division of Health Planning and Resources Development, State Department of Health will review these applications and report on their status.

VI. LOCATION OF FACILITIES

GUIDELINES

GUIDELINES VI-01, ACCESS, TIME-DISTANCE TO BASIC SERVICES

The location of a proposed new general hospital offering needed medical, surgical, pediatric, and obstetrical inpatient care should allow for reasonable access to the facility by patients, physicians and immediate family of the patient. Reasonable access is interpreted to mean not more than 30-40 minutes driving time under normal conditions from the point of origin of the patient.

GUIDELINE VI-02, ACCESS, TIME-DISTANCE TO SPECIALTY SERVICES

Where accessibility factors to specialty services are established, they will be covered under the regionalization standards for the specific tertiary service.

GUIDELINE VI-03, ACCESS TO PUBLIC TRANSPORTATION

Where possible, each facility shall be located where access is easily gained by low cost public transportation.

GUIDELINES VI-04, PHYSICAL ENVIRONMENT (A)

Each facility shall be located so as to be served by all necessary utilities and must conform to the transportation and land use plan of the area.

GUIDELINES VI-05, PHYSICAL ENVIRONMENT (B)

Where possible, the site of any new facility construction must allow for future expansion, provide ample parking, be free from any present or potential adjacent construction and conform to local zoning and building requirements.

GUIDELINE VI-06, EXPOSURE TO ADVERSE ENVIRONMENTAL CONDITIONS

Hospitals should be located so as to prevent exposure of patients to adverse environmental conditions which might hamper or interfere with their recovery including excessive noise levels, offensive odors, or unsightly physical surroundings.

GUIDELINE VI-07, SAFETY

Hospitals should be located so as to reduce the risks of physical harm resulting from physical environmental factors upon patients, staff or visitors entering or leaving the facility.

GUIDELINE VI-08, ZONING AND LAND USE APPROVALS

Hospitals should not seek formal zoning or land use approval prior to receiving an approved Certificate of Need. While there may be some cases when circumstances promote quick and inexpensive approvals from government agencies for land use prior to Certificate of Need approval, hospitals generally should not enter into costly land use approval procedures until a Certificate of Need is approved.

VII. ENVIRONMENTAL IMPACT

STANDARD

STANDARD VII-01, ENVIRONMENTAL IMPACT STATEMENT

An Environmental Impact Statement is required as supporting documentation for location and/or relocation of health facilities proposed to be funded through the use of Hill-Burton or Federal Housing Administration resources.