

HOLLY HILL HOSPITAL



December 30, 2013

Greg Yakaboski, Project Analyst
Certificate of Need Section
Division of Health Service Regulation
North Carolina Department of Health and Human Services
809 Ruggles Drive
Raleigh, North Carolina 27626-0530

RE: Comments regarding CON Project I.D. J-010224-13

Dear Mr. Yakaboski:

Enclosed please find comments prepared by Holly Hill Hospital, regarding the CON application submitted by SBH-Raleigh, LLC d/b/a Strategic Behavioral Center to transfer 12 child/adolescent inpatient psychiatric beds from Broughton Hospital pursuant to Policy PSY-1. We trust that you will take these comments into consideration during the Agency's review of the applications.

Holly Hill Hospital is an existing provider of child/adolescent inpatient psychiatric services in Wake County, and therefore, is an affected party pursuant to N.C. Gen. Stat. §131E-88(c). As an affected party, Holly Hill Hospital requests a public hearing pursuant to N.C. Gen. Stat. § 131E-185(a1)(2), which ensures that a public hearing will take place if "a written request for a public hearing is received before the end of the written comment period from an affected party."

If you have any questions about the information presented here, please feel free to contact me at (919) 250-7000.

Sincerely,

Michael S. McDonald, Jr.

Michael S. McDonald Jr.
Chief Executive Officer/Managing Director
Holly Hill Hospital

**COMMENTS REGARDING STRATEGIC BEHAVIORAL CENTER'S CON
APPLICATION FOR 12 CHILD/ADOLESCENT INPATIENT PSYCHIATRIC BEDS
PROJECT I.D. J-010224-13**

*SUBMITTED BY HOLLY HILL HOSPITAL
DECEMBER 31, 2013*

SBH-Raleigh, LLC d/b/a Strategic Behavioral Center (SBC) submitted a Certificate of Need (CON) application to transfer 12 child/adolescent inpatient psychiatric beds from Broughton Hospital to its existing facility pursuant to Policy PSY-1. Holly Hill Hospital (HHH) is an existing provider of inpatient psychiatric services, and thus is well aware of the mental health crisis in North Carolina. We are concerned because SBC is proposing to eliminate PRTF beds and thus reduce access to mental health resources in its application. Also, as a participant in the CON regulatory review process, HHH is an advocate of the State of North Carolina's health planning process, and for the Agency ensuring that all providers fully comply with the requirements of the CON statute. Therefore, in accordance with N.C. Gen. Stat. § 131E-185(a1)(1), HHH submits the following comments regarding SBC's Garner application.

HHH's comments include "discussion and argument regarding whether, in light of the material contained in the application and other relevant factual material, the application complies with relevant review criteria, plans, and standards" (N.C. Gen. Stat. § 131E-185(a1)(1)(c)). HHH has identified several statutory and administrative review criteria for which the SBC application is nonconforming. Therefore, the SBC application should not be approved.

Criterion 3: The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.

Population to be served

SBC failed to adequately identify the population to be served by the proposed project. Specifically, SBC's projected patient origin is inconsistent with its historical patient origin since it began providing inpatient psychiatric services in February 2013. The table on the following page provides a comparison of SBC's historical vs. projected patient origin as described by the applicant in Sections III.4 and III.5 of the application.

**Strategic Behavioral Center
Historical vs. Projected Patient Origin**

County	Historical	Projected	% Difference
	Feb 20, 2013- Oct 31, 2013	Project Year 1-2	
Wake	30%	50%	66.7%
Durham	4%	10%	150.0%
Cumberland	5%	10%	100.0%
Johnston	8%	12%	50.0%
Nash	3%	3%	0.0%
Harnett	3%	3%	0.0%
Onslow	4%	3%	-25.0%
Pitt	3%	3%	0.0%
New Hanover	7%	6%	-14.3%

Source: CON application, pages 30-32

To justify its projected patient origin, SBC states *“the projections in the above chart are a reflection of the data we have acquired from February 20, 2013 - week of this application submission.”* However, the projections in the above chart are not consistent with SBC’s historical patient origin during the described time period. Moreover, SBC provided no rationale or explanation to justify why its projected patient origin would be substantially different than its historical patient base. For example, as summarized in the previous table, SBC projects its Durham patient origin will more than double from four (4) percent to 10 percent as a result of the proposed project. However, there is no description in the application to justify the increase. The same is true for increases/decreases in the other identified counties. And SBC does not describe or document a marketing campaign or outreach efforts that would tend to justify this difference in projected patient origin. Given the discrepancies between historical and projected patient origin, and the absence of any information and/or explanation to justify the differences, SBC failed to adequately identify the population to be served. Therefore, the application is not conforming to Criterion 3.

Projected Utilization

North Carolina’s CON statute mandates that providers proposing to offer or expand healthcare services reasonably project utilization for the proposed services. However, SBC’s application failed to provide projected utilization for its entire complement of psychiatric inpatient beds upon completion of the proposed project. Specifically, SBC did not project any utilization for its 20 existing inpatient beds. As stated in Section IV on page 34 of its CON application, *“Tables IV.2-4 reflect the projections for the project noted in this application and not the combined projections of the current beds in use plus the beds noted in this project.”*

Without any information or methodology specific to projected utilization of its existing 20 inpatient beds, SBC did not adequately demonstrate the need for services at its facility, or the reasonableness of its projected utilization. Consequently, SBC does not demonstrate the need to transfer 12 psychiatric inpatient beds from Broughton Hospital and the application is not conforming to Criterion 3.

Criterion 3a: In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

Reasonable access to services is a focus of the CON statute, as review criterion 3a states. In particular, reduction or elimination of a service by a mental health provider merits significant regulatory review. In this particular case, SBC did not document the historical utilization of its existing 72 PRTF beds. Consequently, the applicant failed to demonstrate that the needs of the population presently served will be met adequately by the proposed reduction of PRTF beds. SBC proposes to reduce its number of PRTF beds from 72 to 60 ($72 - 12 = 60$); however, without historical utilization data for the Garner PRTF beds, the Agency is unable to determine the level of utilization of these beds. Also, SBC claims that the proposed reduction of PRTF beds in Garner will not reduce availability of services because SBC has a Charlotte facility with PRTF beds. However, SBC's application does not provide occupancy information for its Charlotte PRTF beds. Thus, SBC failed to demonstrate whether there is adequate capacity in the Charlotte facility to absorb the reduction in Garner. Further, it is not clear how beds located in Charlotte, approximately 170 miles away from Garner, can adequately replace the Garner PRTF beds and meet the needs of the population presently served. Absent this necessary information, the Agency will be unable to determine how the needs of SBC Garner PRTF patients will be met as a result of the proposed reduction of 12 PRTF beds. Therefore, the SBC application is not conforming to the criterion.

Criterion 4: Where alternative methods of meeting the needs for the proposed project exist, the applicant shall demonstrate that the least costly or most effective alternative has been proposed.

As demonstrated by its minimal response to application question III.3, SBC failed to identify or consider any potential alternatives for the proposed project. Of course, there are several alternatives that SBC could have considered and should have addressed in its CON application. For example, alternatives to the proposed project include: a) avoid elimination of existing PRTF beds, and b) refer child/adolescent inpatient candidates to other existing inpatient facilities.

Because SBC failed to address any alternatives to the proposed project, the applicant failed to demonstrate that the most effective alternative has been proposed.

SBC does not adequately demonstrate the need the population to be served has for SBC's proposal. See Criterion (3) for facts and discussion. A proposal that is not needed is not the most effective alternative.

Additionally, SBC failed to demonstrate that the needs of the population presently served will be met adequately by the proposed reduction of PRTF beds. See Criterion (3a) for facts and discussion. A proposal that reduces existing mental health resources without demonstrating any negative impact is not the most effective alternative.

Furthermore, the application is not conforming to all applicable statutory and regulatory review criteria, and thus, the application is not approvable. An application that cannot be approved is not an effective alternative.

For these reasons, SBC did not adequately demonstrate that the proposal is the most effective alternative. Consequently, the application is not conforming to this criterion.

Criterion 5: Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

SBC's application has numerous deficiencies with its financial projections, including:

- Form C includes only the projected revenues and expenses associated with the proposed additional 12 inpatient beds. Form C is required to portray the revenues and expenses for the existing and proposed services.
- Forms D & E include only the patient days and revenues associated with the proposed additional 12 inpatient beds. Forms D & E are required to portray the gross and net revenues for all the existing and proposed facility services.
- Forms C, D & E are not shown for the PRTF beds. Forms C, D & E are required to portray the revenues and expenses for all the existing and proposed facility services.
- Forms B & C do not portray historical financial statements or interim financial projections, which are required.
- Form B includes no explanation or assumptions to identify what exactly is intended to be portrayed. At any rate, the revenues and costs reflected in Form B show no correlation with the facility revenue and expense statement shown on page 4 of the audited financial statements from Exhibit 26 of SBC's application.
- Neither the proformas financial statements nor the narrative response to Section X of SBC's application include any assumptions or explanations for how SBC derived the proformas financial statements.

- Staffing expenses are not based on reasonable projections. SBC's assumptions are contradictory and unreasonable. For example, SBC's application shows that staff salaries will remain constant from their current level through the second project year. It would be difficult for a health provider to maintain adequate staffing if it did not project to increase staff salaries for several years. Also, the total FTE count for the facility is unclear, given the contradictions in the Section VII narrative and tables. Please refer to Criterion 7 for details.

Further, SBC does not adequately demonstrate that projected revenues and operating costs are based on reasonable, credible, and supported assumptions regarding projected utilization. See Criterion (3) for discussion regarding projected utilization.

In summary, SBC does not reasonably project the costs of and charges for providing health services, doesn't adequately identify the population to be served by the project, and doesn't SBC reasonably demonstrate the need the population has for the project. Therefore, SBC does not adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of operating costs and revenues, and the application is nonconforming to this criterion.

Criterion 6: The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

SBC does not adequately demonstrate that its proposal would not result in the unnecessary duplication of existing or approved child/adolescent inpatient psychiatric providers in Wake County. SBC did not project utilization of its existing and proposed inpatient beds, and thus did not adequately demonstrate in its application that the child/adolescent inpatient psychiatric beds it proposes to develop in Wake County are needed in addition to the existing resources available. See discussion regarding conformity to Criterion (3).

Consequently, the SBC application is not conforming to this criterion.

Criterion 7: The applicant shall show evidence of the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided.

SBC's application includes inconsistent and/or incomplete information regarding the availability of health manpower and management personnel. Specifically, on page 48 of its application, SBC states the proposed project will not change the total facility FTEs. However, this statement is not consistent with the historical and projected staffing tables included in Section VII. Table VII.1 shows total FTEs of 46.9, while Table VII.2 shows total FTEs of 56.8.

Also, the total clerical staff of 1.0 FTE shown in Table VII.2 is a significant 75% reduction from the clerical staffing shown in Table VII.1. This projected clerical staffing total is also not consistent with the shift staffing table in Section VII.5, which claims that a clerical staff member will be on duty during each weekday shift.

Finally, Table VII.2 shows that staff salaries in Project Year 2 will not increase for any staff positions from the current salary levels shown in Table VII.1. This assumption is not reasonable, and is also not consistent with a managerial priority of staff retention, as SBC claims on page 49.

Criterion 13c: The applicant shall demonstrate the contribution of the proposed service in meeting the health-related needs of the elderly and of members of medically underserved groups, such as medically indigent or low income persons, Medicaid and Medicare recipients, racial and ethnic minorities, women, and handicapped persons, which have traditionally experienced difficulties in obtaining equal access to the proposed services, particularly those needs identified in the State Health Plan as deserving of priority. For the purpose of determining the extent to which the proposed service will be accessible, the applicant shall show:

- a. The extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved;
- c. That the elderly and the medically underserved groups identified in this subdivision will be served by the applicant's proposed services and the extent to which each of these groups is expected to utilize the proposed services;

Access to mental health services for medically underserved groups is of paramount importance. However, as previously stated in Criterion 3, SBC did not project utilization for its proposed total of 32 inpatient beds, but only for its proposed addition of 12 inpatient beds. Therefore, the project payor mix shown in Section VI.12 does not adequately demonstrate that the medically underserved groups will be served by SBC's proposed services.

Also, as previously discussed in Criterion 3, SBC projects significant changes in its service area, with a substantively different patient origin by county. If this is the case, this change in the population served would affect the projected payor mix, as the different counties included in SBC's claimed service area reflect differing socio-economic categories. SBC did not account for this, and did not provide any explanatory narrative to this effect.

SBC's projected bad debt/charity care of 6+% of net revenue (shown on page 43) is not consistent with the historical 3% of net revenue, also shown on page 43. SBC did not explain why or how this percentage would increase.

Further, the bad debt and charity care projections shown in Section VI.7 are inconsistent with bad debt and charity care reflected in Form C. Specifically, the bad debt and charity care dollar

totals listed for Project Years 1 and 2 do not match the bad debt and charity care totals listed on Forms B or C of the proforma financial statements.

Therefore, SBC's application is non-conforming to Criterion 13.

10A NCAC 14C .2602 (a): An applicant proposing to establish new psychiatric beds shall project resident origin by percentage by county of residence. All assumptions and the methodology for projecting occupancy shall be stated.

As described previously, SBC's projected patient origin is inconsistent with its historical patient origin since it began providing inpatient psychiatric services in February 2013. SBC provided no reasonable rationale or explanation to justify why its projected patient origin would be substantially different than its historical patient base. See discussion regarding Criterion (3). Given the absence of such information and/or explanation, SBC failed to demonstrate that the projected patient origin is based on reasonable and supported assumptions, and therefore is non-conforming to this administrative criterion.

10A NCAC 14C .2602 (b): An applicant proposing to establish new psychiatric beds shall project an occupancy level for the entire facility for the first eight calendar quarters following the completion of the proposed project, including average length of stay. All assumptions and the methodology for projecting occupancy shall be stated.

SBC failed to project an occupancy level for the entire facility for the first eight calendar quarters following the completion of the proposed project. As described previously, SBC did not project utilization for its 20 existing inpatient beds. As stated by the applicant in Section IV on page 34 of its CON application, "*Tables IV.2-4 reflect the projections for the project noted in this application and not the combined projections of the current beds in use plus the beds noted in this project.*" Clearly, the SBC application does not contain projected utilization for the entire facility.

Because SBC did not project an occupancy level for the entire facility for the first eight calendar quarters following the completion of the proposed project, the applicant is not conforming to this administrative criterion.

10A NCAC 14C .2603 (b) An applicant proposing to establish new psychiatric beds shall not be approved unless occupancy is projected to be 75% for the total number of licensed

psychiatric beds proposed to be operated in the facility no later than the fourth quarter of the second operating year following completion of the project.

As discussed in .2602(b) above, SBC failed to project an occupancy level for the total number of licensed inpatient psychiatric beds proposed to be operated in the facility, i.e. 20 existing inpatient beds + 12 proposed inpatient beds = 32 total inpatient beds.

As described previously, SBC did not project utilization for its 20 existing inpatient beds. As stated by the applicant in Section IV on page 34 of its CON application, "*Tables IV.2-4 reflect the projections for the project noted in this application and not the combined projections of the current beds in use plus the beds noted in this project.*" The SBC application does not contain utilization for the entire facility; a major deficiency. From the projections included in SBC's application, SBC's projected overall occupancy in the 4th quarter of the second project year is only 31% (913/2,920) of the proposed total of 32 inpatient beds.

Because SBC did not project an occupancy level for the entire facility for the first eight calendar quarters following the completion of the proposed project, the applicant is not conforming to this administrative criterion.