

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: May 28, 2014

PROJECT ANALYST: Tanya S. Rupp

TEAM LEADER: Lisa Pittman

PROJECT I.D. NUMBER: P-10239-14 / Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor), d/b/a The Gardens of Pamlico / Add 30 adult care home beds to the existing facility / Pamlico

### REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

G.S. 131E-183(a) The Department shall review all applications utilizing the criteria outlined in this subsection and shall determine that an application is either consistent with or not in conflict with these criteria before a certificate of need for the proposed project shall be issued.

- (1) The proposed project shall be consistent with applicable policies and need determinations in the State Medical Facilities Plan, the need determination of which constitutes a determinative limitation on the provision of any health service, health service facility, health service facility beds, dialysis stations, operating rooms, or home health offices that may be approved.

C

The 2014 State Medical Facilities Plan (SMFP) identified a need for 30 new adult care home (ACH) beds in Pamlico County. Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor), d/b/a The Gardens of Pamlico propose to add 30 adult care home (“ACH”) beds to an existing facility, for a facility total of 70 ACH beds following completion of this project. The applicants propose to develop no more than 30 new adult care home beds in the Pamlico County Service Area and thus are conforming to the need determination in the 2014 SMFP. The lessee, Magnolia Woods Senior Village, Inc. currently manages the existing facility and will continue management following completion of this project.

In addition, the following two policies are applicable to this review; Policy GEN-3: Basic Principles and Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities.

*Policy GEN-3: Basic Principles of the 2013 SMFP states:*

*“A certificate of need applicant applying to develop or offer a new institutional health service for which there is a need determination in the North Carolina State Medical Facilities Plan shall demonstrate how the project will promote safety and quality in the delivery of health care services while promoting equitable access and maximizing healthcare value for resources expended. A certificate of need applicant shall document its plans for providing access to services for patients with limited financial resources and demonstrate the availability of capacity to provide these services. A certificate of need applicant shall also document how its projected volumes incorporate these concepts in meeting the need identified in the State Medical Facilities Plan as well as addressing the needs of all residents in the proposed service area.”*

### Maximize Healthcare Value

In Section III.4, on page 28, the applicants state:

*“The average Special Assistance occupancy rate based on most recent license renewal applications was 38.11% in Pamlico County. The applicant is proposing a Special Assistance rate of 41.86%, which is in excess of the current county average. Since 30 additional beds are being added to the facility, this will contribute significantly to providing this important healthcare service to the medically underserved. In addition, the proposed location of the facility is in a central location relative to the population distribution in the county and will provide services to the private paying community in addition to those on Special Assistance. There is no other free-standing adult care home in Pamlico County. Not only will this project promote equitable access for an increased volume of medically underserved, it will provide increased access to the medically underserved and the overall population of the county.*

*By adding 30 beds to the existing Gardens of Pamlico, the applicants will reduce their per day cost as a result of increased economies of scale. The applicant does not intend to hire any additional administrative staff or maintenance staff as a result of the additional beds. Any applicant attempting to develop only a 30 bed adult care home would have a difficult time generating the same economies of scale with the same level of care as will be realized by this project.”*

In addition, in Section XI.14, on page 86, the applicants state:

*“The design of the proposed addition will incorporate materials and equipment which enhance the containment of utilities and energy costs. ...*

*All HVAC equipment will be selected to obtain the maximum SEER rating in order to achieve energy efficiency. ... Efficient lighting fixtures, low wattage bulbs and motion detection switches are used to conserve electricity costs. Flow restriction faucets, shower heads and low flush toilets are also used for water conservation.*

*The building's electric and heating/cooling performance is computer modeled with the United States Department of Energy Comcheck Program to verify the building envelop, HVAC and electrical systems exceed the National Energy Code prior to construction."*

The applicants adequately demonstrate that this project will maximize healthcare value.

#### Promote Safety and Quality

In Section II.5, page 18, the applicants state:

*"The Gardens of Pamlico has a history of providing quality care. Personal Care staffing is in excess of the minimum requirements; therefore the nurse consultant is able to focus on quality of care and regulatory compliance. "Hands on" direct care on a day to day basis will be overseen by a Supervisor in Charge/Med Tech on all three shifts and a nurse.*

*The Gardens of Pamlico monitors patient care largely by both of the owner/administrators being in the facility on a daily basis. They also have on staff a nurse and Special Care Unit Coordinator. Feedback to ensure that this is being accomplished is provided by way of a monthly Quality Assurance Committee meeting that includes representatives from all departments as well as family members. The agenda for a recent meeting was reviewed and items such as a regular deep cleaning schedule, the possible need for new linens, the condition of the storage shelves, and the overuse of detergents were discussed. It is obvious this meeting is held to ensure even the most minute of details are addressed when concerns arise. The facility also conducts monthly staff meetings and attends the Ombudsman Review Committee meeting monthly. Given their designation as a 4 star facility (highest designation possible) by the Department of Human Resources, and their stellar survey history, there is no question that these applicants deliver quality patient care."*

In Section III.4, on page 28, the applicants state:

*"The owners of The Gardens of Pamlico have operated adult care homes in North Carolina for over 20 years, and have a long history or [sic] providing excellent care. They intend to deliver the same quality of care in a safe manner at this facility once the 30 bed addition has been complete as is currently being provided. They are a 4 star facility and have received no significant survey deficiencies during their ownership. See Section II.5 for a specific discussion about the methods the applicant will utilize to provide quality care and how they intend to provide care in accordance with licensing regulations."*

In addition, in Exhibit 16, the applicants provide a copy of admissions requirements for the facility, which includes policies pertaining to safety.

The applicants adequately demonstrate their ability to promote safety and quality care in the facility.

### Promote Equitable Access

In Section V.4, on page 44, the applicants state:

*“The Gardens of Pamlico has carefully balanced design considerations and resident care requirements in proposing a project that does not sacrifice resident care but yet still provides access to the medically underserved by keeping capital costs reasonable by proposing to construct an attractive and inviting yet not excessive bed addition. The design of 10 private rooms with 41.86% Special Assistance will provide unique access to the underserved.*

*A review of this cost comparison reveals a unique balance between efficiency and quality care. The Personal Care cost center, which represents all direct patient care employees, is slightly above the 75<sup>th</sup> percentile of the industry. This is consistent with the fact that direct care staffing is significantly greater than the minimum required. Virtually all other cost centers are close to this median cost of the industry ....”*

The applicants adequately demonstrate that the proposed project will maximize healthcare value, promote safety and quality and promote equitable access to medically underserved groups. See Criterion (13) for additional discussion relating to promoting equitable access which is hereby incorporated by reference as if fully set forth herein. Therefore, the application is consistent with this policy.

Policy GEN-4: *Energy Efficiency and Sustainability for Health Service Facilities*, on page 38 of the 2014 SMFP states:

*“Any person proposing a capital expenditure greater than \$2 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178 shall include in its certificate of need application a written statement describing the project’s plan to assure improved energy efficiency and water conservation.*

*In improving a certificate of need proposing an expenditure greater than \$5 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178, the Certificate of Need Section shall impose a condition requiring the applicant to develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy GEN-4.*

*Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan for energy efficiency and*

*water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4. The plan shall not adversely affect patient or resident health, safety or infection control."*

In Section III.4, on page 29, the applicants state:

*"The design of the proposed addition will incorporate materials and equipment which enhance the containment of utilities and energy costs. The R-values for the building envelope's insulation will be increased to an R-19 in the walls and an R-38 in the ceiling. These values are greater than or equal to the requirements of the North Carolina Energy Conversation Code. The exterior windows are thermally broken sashes with insulated glass for a U-value of 0.38 which is also better than the requirement of the North Carolina Energy Conversation Code. [sic]*

*All HVAC equipment will be selected to obtain the maximum SEER rating in order to achieve energy efficiency. Energy recovery units are used to catch either the heat or cooling being exhausted from the structure and used to heat/cool the fresh make-up air entering the facility. Efficient lighting fixtures, low wattage bulbs and motion detection switches are used to conserve electricity costs. Flow restriction faucets, shower heads and low flush toilets are also used for water conversation. [sic]*

*The building's electric and heating/cooling performance is computer modeled with the United States Department of Energy Comcheck Program to verify the building envelop, HVAC and electrical systems exceed the National Energy Code prior to construction."*

In Section XI.13 and XI.14, on pages 85 - 86, the applicants describe the measures they will use to promote energy efficient operations and water conservation in the facility which include: use of energy recovery ventilators to reclaim energy from exhausted air, installing equipment that meets the NC Energy Code for the SEER ratings, installing insulated glass, and installing lighting that meets the NC energy requirements.

The applicants adequately demonstrate the proposal includes a plan to assure improved energy efficiency and water conservation.

In summary, the applicants adequately demonstrate that this proposal for 30 additional ACH beds is consistent with the need determination in the 2014 SMFP. In addition, the application is consistent with Policies GEN-3 and GEN-4, and is therefore conforming to this criterion.

- (2) Repealed effective July 1, 1987.
- (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.

C

The 2014 State Medical Facilities Plan identified a need for 30 adult care home beds in Pamlico County. Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor), d/b/a The Gardens of Pamlico propose to add 30 ACH beds to an existing facility, for a facility total of 70 ACH beds following completion of this project. The applicants propose to construct a 10,835 square foot (SF) addition to the existing 18,314 SF facility. The proposed addition will consist of ten private beds and 20 semi-private beds. Once the addition is constructed, the facility will have a total of 70 ACH beds.

Population to be Served

In Section III.7(a), page 31, the applicants provide the projected patient origin for the first full federal fiscal year of operation following completion of the project, as illustrated in the table below.

COUNTY	PERCENT OF TOTAL
Pamlico	65.80%
Craven	21.05%
Beaufort	7.89%
Lenoir	2.63%
Out of State	2.63%
Total	100.00%

On page 31, the applicants state the projected patient origin is based on existing patient origin.

In Section III.8(b), on page 32, the applicants state:

*“The following assumptions and facts were utilized to formulate the projections in 7 and 8.*

- 1. Facility location.*
- 2. Proximity to other counties.*
- 3. Driving times were estimated assuming the county seat as the location for other than Pamlico County residents.*
- 4. All Pamlico County residents will live within 45 minutes of the facility.”*

The applicants adequately identify the population proposed to be served in the ACH facility following the addition of 30 beds.

## Demonstration of Need

In Section III.1(a) and III.1(b), on pages 20 – 22, the applicants state:

*“The applicants are proposing to add 30 new adult care home beds based on a need determination identified in the 2014 State Medical Facilities Plan for 30 additional adult care home beds in Pamlico County.*

*... a bed need determination of 30 adult care home beds for Pamlico County was identified in the 2014 State Medical Facilities Plan. This need determination is consistent with the determination made by the applicants independent of this data, and is consistent with the need determination of 30 beds identified in the 2013 State Medical Facilities Plan.*

*The 2012 State Medical Facilities Plan showed a deficit of 33 adult care home beds. There was no need determination identified because the county occupancy was less than 85%. This is because The Gardens of Pamlico was undergoing renovations during the time that the census (license renewal) data was gathered for the State Medical Facilities Plan. Once the renovations were completed, the census reached and maintained a level of greater than 90%. Had the renovations not been underway, the operators are certain the census would have been over 90%, and as such there would have been need determination for three consecutive years.*

*The State Medical Facilities Plan has consistently identified a bed deficit for the past three years. It is evident there is a need for additional beds in Pamlico County.*

*There is one free standing adult care home (The Gardens of Pamlico) in Pamlico County, and one combination skilled nursing facility/adult care home (Grantsboro Nursing and Rehabilitation Center) in the county.*

*Based on most recent license renewal information, the overall occupancy in the county is 87.47%, but the occupancy rate of the sole free standing adult care home in the county was 95.00%. ... In general, the overall occupancy rate of combination adult care home facilities is less than that of free standing facilities. Quite often facilities have temporarily “converted” semi-private rooms to private rooms, thereby reducing the overall occupancy. In addition, most potential adult care home residents prefer the less “healthcare like” setting/feel of an adult care home compared to that of a combination adult care home/nursing facility.*

*The combination facility in Pamlico County does not provide services to the medically underserved (Special Assistance/Medicaid) based on the information reported in their most recent license renewal application. Effectively, there is one facility in Pamlico County available to the medically underserved, and its occupancy rate for the last year was 95%, or essentially fully occupied. The operators continue to get requests for admissions they cannot meet.”*

On page 21, the applicants cite a Claritas, Inc. study which projects an 11.27% increase in the over 65 population cohort in Pamlico County between 2011 and 2016. The over 65 age group is the group that is most likely to use the types of services provided by adult care homes. On page 22, the applicants state:

*“The applicant’s overall projected special assistance percentage of occupancy of approximately 41.86% is greater than the county average of 38.11%. It is evident that additional beds are needed in Pamlico County and most evident that there is a particular need for additional beds in a facility that provides services to the medically underserved”*

Utilization

In Section IV.2, on pages 36 and 37, the applicants provide tables to illustrate projected utilization at The Gardens of Pamlico once the additional 30 beds are developed. See the following table with data summarized from three tables provided by the applicants:

	<b>FFY 2016 10/1/15 – 9/30/16</b>	<b>FFY 2017 (10/1/16 – 9/30/17)</b>	<b>FFY 2018 (10/1/17 – 9/30/18)</b>
# ACH Beds	58	58	58
ACH Patient Days	17,402	20,111	20,111
ACH Percent Occupancy	82.2%	95.0%	95.0%
<b>Total Adult Care Home</b>			
# SCU Beds	12	12	12
SCU Patient Days	3,601	4,162	4,162
SCU Percent Occupancy	82.2%	95.0%	95.0%
<b>Total Adult Care Home</b>			
# Beds	70	70	70
Patient Days	21,003	24,273	24,273
Percent Occupancy	82.2%	95.0%	95.0%

The Gardens of Pamlico is an existing adult care home with 40 beds, 12 of which are special care unit (SCU) beds to serve those Pamlico County residents with Alzheimer’s disease. When the 30 additional beds are developed, the applicants project to begin operation with 70 beds on October 1, 2016. In Section IV.2, on page 34, the applicants project fill-up rate of two patients per week for the first month, and then three patients per month thereafter. In Project Years Two and Three, the applicants project less growth, as the facility is projected to operate at 95% capacity by the second Project Year.

In Section IV.2, on page 34, the applicants state the fill-up assumptions are based on “operational experience, and the fact that recent occupancy has been at this level ... for this provider.” Furthermore, the applicants’ projections for the SCU beds is based both on “operational experience” and the fact that The Gardens of Pamlico is the only free-standing adult care home in Pamlico County, and the only provider of SCU beds in the county. The other facility with ACH beds is a combination nursing facility/ adult care home, with eight beds in the facility and no SCU beds.



Projected utilization of The Gardens of Pamlico, a 70-bed ACH facility in Pamlico County is based on *reasonable*, credible and supported assumptions regarding projected utilization, which is based on the population growth rate and increased rate of growth in the 65+ population of Pamlico County. The applicants adequately demonstrated the need to add 30 ACH beds in Pamlico County.

### Access

In Section IV.2, on pages 39 – 41, the applicants provide tables to illustrate the payor mix proposed in the facility after the addition of the 30 ACH beds proposed in this application. The applicants project that 35% of the patient days provided in the ACH section of the facility in the first Project Year will be provided to recipients of special assistance/Medicaid, and 75% of the patient days will be provided to special assistance/Medicaid patients in the SCU beds.

In Section VI.2, page 37, the applicants state:

*“The special assistance rate of 35% adult care home beds and 75% special care unit beds is based upon operational experience and the applicant’s desire to provide additional services to the medically underserved. The projected percentage of Special Assistance days is slightly in excess of the county average rate of 38. 11%.”*

In Section VI.4(c), page 47, the applicants state: *“Financial circumstances have no bearing on the resident’s status. A private pay patient that becomes Medicaid eligible will simply have their services paid by the Medicaid Program.”* Thus, the applicants demonstrate that the underserved population will have access to adult care and special care services at The Gardens of Pamlico.

In summary, the applicants adequately identified the population to be served, demonstrated the need the population has for the project and the extent to which all residents of the area, in particular underserved groups are likely to access the services provided. Therefore, the application is conforming to this 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.

NA

- (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.

CA

In Section III.2, pages 24 - 26, the applicants describe the alternatives that were considered prior to submitting this application, which include:

- 1) Maintain the Status Quo – The applicants state this is not an option because there is currently only one free standing adult care home in Pamlico County (The Gardens of Pamlico), and a combination facility with 8 beds. The applicants state the 2014 SMFP has identified a need in Pamlico County for 30 additional ACH beds, and the need cannot be ignored.
- 2) Construct a free-standing adult care home with 30 beds – The applicants state this is not an option because the current facility is located close to two of the largest population bases in the county, and is best situated to serve a large number of residents from the county. Additionally, this option is not cost-effective.
- 3) Apply for fewer than 30 beds - The applicant states this alternative is less effective because it would leave the identified need for 30 beds remain unfulfilled and would not generate the same economies of scale that the proposed addition proposes.

For the reasons stated in Section III of the application, the applicants determined that the project as proposed in this application is the most effective alternative to meet the identified need for 30 additional ACH beds in Pamlico County.

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

In summary, the applicants adequately demonstrate that the project is the least costly or most effective alternative to meet the identified need for ACH beds in Pamlico County. Therefore, the application is conforming to this criterion and approved subject to the following conditions:

- 1. Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor) d/b/a The Gardens of Pamlico shall materially comply with all representations made in the certificate of need application.**
- 2. Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor) d/b/a The Gardens of Pamlico shall add no more than 30 additional adult care beds, for a facility total of 70 adult care beds, including a 12-bed Special Care Unit, upon the completion of the proposed project.**
- 3. Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor) d/b/a The Gardens of Pamlico shall provide care to State/County Special Assistance patients with Basic Medicaid for the facility and**

**the Special Care Unit commensurate with their representations in the application.**

- 4. For the first two years of operation following completion of the project Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor) d/b/a The Gardens of Pamlico shall not increase actual private pay charges more than 5% of the projected private pay charges provided in Section X of the application without first obtaining a determination from the Certificate of Need Section that the proposed increase is in material compliance with the representations made in the certificate of need application.**
  - 5. Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor) d/b/a The Gardens of Pamlico shall submit all patient charges and patient admissions for each source of patient payment to the CON Section at year end for each of the first three operating years following licensure of the beds in the facility.**
  - 6. Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor) d/b/a The Gardens of Pamlico shall submit a plan of energy efficiency and water conservation to the Construction Section, DHSR, that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation.**
  - 7. Magnolia Woods Senior Village, Inc. (Lessee) and Magnolia Woods Senior Properties, LLC (Lessor) d/b/a The Gardens of Pamlico shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section, in writing prior to issuance of the certificate of need.**
- (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.

C

In Section VIII.1, page 59, the applicants project the total capital cost of the project will be \$2,121,200, which includes \$355,000 in site costs, \$1,300,200 in construction costs, \$225,000 in equipment and furniture costs, \$120,000 in consultant fees, \$50,000 in interest during construction and \$71,000 in other financing costs. In Section VIII.2, page 60, the applicants state that the entire capital cost of the project will be financed with a commercial loan. Exhibit 17 contains a January 27, 2014 letter from a Senior Vice President of Wells Fargo Bank, which states:

*“We have had significant discussions with the Gardens of Pamlico and Magnolia Woods Senior Properties, LLC about the feasibility of this project. We would be happy to consider lending up to \$2,200,000 to fund the project for the 30 bed adult care home addition. The amount loaned would be secured by a first deed of trust. If the loan were made today, the interest rate would be 4.25%, with an amortization of 20 years.”*

In Section IX, the applicants state that no start-up costs are projected for this project, since the facility is currently operational, and this application is for the addition of ACH beds to an existing facility. The applicant projects initial operating expenses of \$7,020.

In Section IX.8, on page 68, the applicants state the initial operating expenses will be funded with the unrestricted cash assets of Magnolia Woods Senior Village, Inc. In Exhibit 19, on page 333, the applicants provide a Statement of Assets, Liabilities, & Equity as of December 31, 2013. This statement shows \$25,261 in a Wells Fargo Operating Account and \$47,209 in a Wells Fargo Money Market Account, for a total of \$72,470 in unrestricted cash identified by the applicants. In Exhibit 20, the applicants provide a February 7, 2014 letter signed by Lee Barham, the president of Magnolia Woods Senior Living, Inc. which states:

*“I pledge to utilize cash of up to \$10,000 identified on the Magnolia Woods Senior Village, Inc. balance sheet at December 31, 2013 to fund the working capital requirements for the proposed 30 bed adult care home addition the The Gardens of Pamlico.”*

The analyst notes that the Statement of Assets, Liabilities & Equity is for Magnolia Woods Senior Village, Inc. and the letter committing the funds to the working capital of this proposal is signed by the president of Magnolia Woods Senior Living, Inc. On the Certification Page of the application, the responsible officer for the two corporations identified in this application as lessor and lessee is Lee Barham. Since Mr. Barham is the person certified as responsible for both corporations, the analyst concludes that the inconsistency is immaterial. The applicants document the availability of adequate funds to develop the proposed project.

The table below reflects per diem costs provided by the applicants in Form C of the Pro Forma Operating Expense Statement for FFY 2017. The projected average per diem cost for direct expenses is \$45.72. The projected per diem cost for indirect expenses is \$25.29, as shown in the table below.

**The Garden of Pamlico Second Operating Year (FFY 2017) Cost per Day**

	TOTAL COST	÷ TOTAL DAYS OF CARE	= COST PER DAY
<b>Total Direct Expense</b>	\$1,109,968.00	24,273	\$45.72
<b>Total Indirect Expense</b>	\$613,866.00		\$25.29
<b>Total Operating Expenses</b>	\$1,723,834.00		\$71.01

In the Pro Forma section of the application, the applicants project revenues and expenses for the first three operating years of the project. See the following table, which projects revenues will exceed expenses for all three project years:

	<b>PY 1 (FFY 2016)</b>	<b>PY 2 (FFY 2017)</b>	<b>PY 3 (FFY 2018)</b>
Total Revenue	\$1,921,177	\$2,220,302	\$2,220,302
Total Expense	\$1,545,224	\$1,723,834	\$1,723,834
Profit / (Loss)	\$375,953	\$496,468	\$496,468

In summary, the applicants adequately demonstrate the availability of funds for the capital and operating needs of the proposal. Furthermore, the applicants demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and revenues. Therefore, the application is conforming to this 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.

C

The 2014 SMFP identifies a need for 30 ACH beds in Pamlico County. There is currently one free standing ACH facility in Pamlico County, the Garden of Pamlico, currently licensed for 40 ACH beds, including 12 SCU beds. There is one other facility in the service area with ACH beds, but it is a combination nursing home/adult care home, with 8 ACH beds. According to the applicants on page 21, the combination facility does not provide services to Special Assistance/Medicaid recipients, and thus The Gardens of Pamlico is the only facility in Pamlico County that offers adult care services to underserved populations. In Section III and Section IV, the applicants state the utilization of the existing facility has been at least 80% for the past several years. The applicants further state, based on information from the NC Office of State Budget and Management, the population of residents age 65 and older in Pamlico County is projected to increase. The over 65 population cohort is the group most likely to utilize services offered in an adult care home.

The applicants assume that the ACH beds will fill up at a rate of 2 residents per week for the first month, and then 3 patients per month thereafter, based on “existing demand for the beds and the Garden of Pamlico current demand for beds” In Section IV.1, on page 34, the applicants state:

*“An occupancy rate of 95% is projected based on operational experience, and the fact that recent occupancy has been at this level (which is for all practical purposes, full) for this provider.*

...

*Based on a review of most recent license renewal data, there was an occupancy rate of 87.47% for the two adult care homes in Pamlico County. One of the adult care homes is a combination nursing facility/adult care home that does not accept Special Assistance/Medicaid residents. If the 8 bed adult care home that is a combination facility were excluded from the computation, the county average (The Gardens of Pamlico) would be 95%.”*

The applicants adequately demonstrate the need to add 30 ACH beds to their existing ACH facility in Pamlico County. See Criterion (3) for the discussion regarding the need for the proposal which is incorporated hereby as if fully set forth herein.

The applicants adequately demonstrate the project will not result in the unnecessary duplication of existing or approved adult care home services in Pamlico County. Consequently, the application is conforming to this 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.

C

In Section VII.4(b), on page 55, the applicants project the number of FTE positions and direct care staff hours in the second full federal fiscal year of operation following the addition of 30 ACH beds. Below is a table which illustrates the number of FTE positions and direct care staff hours for both the ACH beds and the SCU beds, as reported by the applicants:

**Direct Care Staff for The Gardens of Pamlico, FFY 2017**

	# FTEs	HOURS PER YEAR	# RESIDENT DAYS	HOURS PER PATIENT DAY
ACH Personal Care Aides	13.30	25,935	20,111	1.29
SCU Personal Care Aides	6.3	12,285	4,162	2.95

In Section VII.2(b), on page 51, the applicants state personal care aides represent 1,950 hours annually, and other FTEs represent 2,080 hours annually.

In Table VII.3, on page 54, the applicants project proposed staff for the entire facility for the second full federal fiscal year following the addition of the 30 ACH beds, as follows:

	# FTEs ACH BEDS	# FTEs SCU BEDS	# FTEs TOTAL FACILITY
<b>Routine Services</b>			
Nurse	0.83	0.17	1.00
Personal Care Aide	13.30	6.30	19.60
Med Tech/SIC	8.40	4.20	12.60
<b>Dietary</b>			

Cooks	2.90	0.60	3.50
Dietary Aides	2.90	0.60	3.50
<b>Activity Services</b>			
Activities Director	0.83	0.17	1.00
<b>Housekeeping/Laundry</b>			
Housekeeping Aide	2.32	0.48	2.80
Laundry Aides	0.66	0.14	0.80
<b>Operations/Maintenance</b>			
Maintenance Supervisor	0.52	0.11	0.63
<b>Administration/General</b>			
Administrator	0.83	0.17	1.00
Administrative Secretary	0.83	0.17	1.00
Transportation	0.17	0.03	0.20
<b>TOTAL POSITIONS</b>	<b>34.49</b>	<b>14.14</b>	<b>48.63</b>

In Section VII.2(a), on page 50, the applicants project the number of staff by shift for the second full federal fiscal year following the addition of the 30 ACH beds, as shown below:

<b>THE GARDEN OF PAMLICO STAFF BY SHIFT FFY 2017 (10/1/16 – 9/30/17)</b>	
<b>Day Shift</b>	
ACH Bed	6.33
SCU Bed	3.67
Total Adult Care Home	10.00
<b>Evening Shift</b>	
ACH Bed	5.50
SCU Bed	2.50
Total Adult Care Home	8.00
<b>Night Shift</b>	
ACH Bed	4.50
SCU Bed	2.50
Total Adult Care Home	7.00
<b>Total for the Day</b>	
ACH Bed	16.33
SCU Bed	8.67
Total Adult Care Home	25.00

Adequate costs for the health manpower and management positions proposed by the applicants in Table VII.3 and Section VII are budgeted in the pro forma financial statements. The applicants adequately demonstrate the availability of sufficient health manpower and management personnel to provide the services as proposed in this application. Therefore, the application is conforming to this criterion.

- (8) The applicant shall demonstrate that the provider of the proposed services will make available, or otherwise make arrangements for, the provision of the necessary ancillary and support services. The applicant shall also demonstrate that the proposed service will be coordinated with the existing health care system.

In Exhibit 7, the applicants provide letters from agencies and/or persons who agree to provide the following services: legal services, physical therapy services, nursing services, dietary and nutrition services, pharmacy services and accounting services. In Exhibit 10, the applicants provide a letter from the Pamlico County Human Services Center, confirming that it currently provides Social Services to residents of The Garden of Pamlico and committing to continue those services. Exhibit 13 provides letters from current providers of dental services, mental health services, hospice services, and general medical services. Each letter confirms current provision of and continued commitment to the provision of those services.

The applicants adequately demonstrated the availability of the necessary ancillary and support services and that the proposed services would be coordinated with the existing health care system. Therefore, the application is conforming to this criterion.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

- (10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates: (a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and (b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers: (i) would be available under a contract of at least 5 years duration; (ii) would be available and conveniently accessible through physicians and other health professionals associated with the HMO; (iii) would cost no more than if the services were provided by the HMO; and (iv) would be available in a manner which is administratively feasible to the HMO.

NA

- (11) Repealed effective July 1, 1987.
- (12) Applications involving construction shall demonstrate that the cost, design, and means of construction proposed represent the most reasonable alternative, and that the construction project will not unduly increase the costs of providing health services by the person proposing the construction project or the costs and charges to the public of providing health services by other persons, and that applicable energy saving features have been incorporated into the construction plans.

C



In Section XI.5, on page 82, the applicants state they propose to add 10,835 SF to the existing 18,314 SF facility, for a total of 29,149 SF following the addition of the 30 ACH beds proposed in this application. The existing facility is currently operational and thus is appropriately zoned for its intended use. In Section XI.2(d), on page 76, the applicants state the current site is large enough to accommodate a 10,835 SF expansion, and the current zoning likewise allows for expansion of the existing facility. In Section XI.8, on page 83, the applicants state the facility will have 20 private ACH beds and 50 semi-private ACH beds upon completion of the 30-bed addition. The total number of SCU beds (12) will not change as a result of this proposal.

In Section XI.10, on page 85, the applicants state the construction cost per SF for the 10,835 SF addition to the existing facility will be \$120.00, which is consistent with the construction costs identified in Table VIII.1, on page 59. In Exhibit 28, the applicants provide a letter dated January 17, 2014, from an architect which confirms the increase in square footage, the cost per square foot and the site preparation costs for the 30-bed addition to the existing adult care home as proposed in this application. The costs identified by the architect in Exhibit 28 are consistent with the construction costs presented in Section VIII of the application.

In Section XI.14, on page 86, the applicants state the following energy saving features will be utilized by the facility following the addition of the 30 ACH beds:

*“The design of the proposed addition will incorporate materials and equipment which enhance the containment of utilities and energy costs. The R-values for the building envelope’s insulation will be R-19 in the wall and an R-38 in the ceiling. These values are greater than or equal to the requirements of the North Carolina Energy Conservation Code. The exterior windows are thermally broken sashed with insulated glass for a U-value of 0.38 which is also better than the requirements of the North Carolina Energy [Conservation] Code.*

*All HVAC equipment will be selected to obtain the maximum SEER rating in order to achieve energy efficiency. Energy recovery units are used to catch either the heat or cooling being exhausted from the structure and used to heat/cool the fresh make-up air entering the facility. Efficient lighting fixtures, low wattage bulbs and motion detection switches are used to conserve electricity costs. Flow restriction faucets, shower heads and low flush toilets are also used for water [conservation].*

*The building’s electric and heating/cooling performance is computer modeled with the United States Department of Energy Comcheck Program to verify the building envelop. HVAC and electrical systems exceed the National Energy Code prior to construction.”*

The applicants adequately demonstrate that the cost, design and means of construction represent the most reasonable alternative for the project as proposed and that the proposed project will not unduly increase the costs and charges of providing adult care home services. See Criterion (5) for discussion of costs and charges which is incorporated hereby as if set forth fully herein. The applicants adequately demonstrate that applicable energy saving

features have been incorporated into the construction plans. Therefore, the application is conforming to this criterion.

- (13) 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

The Gardens of Pamlico is an existing adult care home with 40 ACH beds, including 12 SCU beds. In Section VI.1, page 45, the applicants provide the current payor mix for the adult care home, as illustrated in the table below.

PAYOR	% OF TOTAL ACH	% OF TOTAL SCU
Private Pay	70.78%	43.60%
Special Assistance with Basic Medicaid	29.22%	56.40%
Total	100.00%	100.00%

The Division of Medical Assistance (DMA) maintains a website which offers information regarding the number of persons eligible for Medicaid assistance and estimates of the percentage of uninsured for each county in North Carolina. The following table illustrates those percentages for the proposed service area and statewide.

	2010 Total # of Medicaid Eligibles as % of Total Population *	2010 Total # of Medicaid Eligibles Age 21 and older as % of Total Population *	2008-2009 % Uninsured (Estimate by Cecil G. Sheps Center) *
Pamlico	17.9%	8.1%	20.3%
Statewide	16.5%	6.7%	19.7%

\* More current data, particularly with regard to the estimated uninsured percentages, was not available.

The majority of Medicaid eligibles are children under the age of 21. They do not utilize the same health services at the same rates as older segments of the population, particularly the adult care home services offered by The Gardens of Pamlico.

Moreover, the number of persons eligible for Medicaid assistance may be greater than the number of Medicaid eligibles who actually utilize health services. The DMA

website includes information regarding dental services which illustrates this point. For dental services only, DMA provides a comparison of the number of persons eligible for dental services with the number actually receiving services. The statewide percentage of persons eligible to receive dental services who actually received dental services was 48.6% for those age 20 and younger and 31.6% for those age 21 and older. Similar information is not provided on the website for other types of services covered by Medicaid. However, it is reasonable to assume that the percentage of those actually receiving other types of health services covered by Medicaid is less than the percentage that is eligible for those services.

The Office of State Budget & Management (OSBM) maintains a website which provides historical and projected population data for each county in North Carolina. In addition, data is available by age, race or gender. However, a direct comparison to the adult care home's current payor mix would be of little value. The population data by age, race or gender does not include information on the number of elderly, minorities or women utilizing health services. Furthermore, OSBM's website does not include information on the number of handicapped persons.

The applicants demonstrate that medically underserved populations currently have adequate access to adult care home services at The Gardens of Pamlico. Therefore, the application is conforming to this criterion.

- (b) Its past performance in meeting its obligation, if any, under any applicable regulations requiring provision of uncompensated care, community service, or access by minorities and handicapped persons to programs receiving federal assistance, including the existence of any civil rights access complaints against the applicant;

### C

Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section VI.4, on page 47, the applicants state they will admit and provide services to all patients in need of adult care home services. The applicants state:

*“Financial circumstances have no bearing on the resident’s status. A private pay patient that [sic] becomes Medicaid eligible will simply have their services paid by the Medicaid program.”*

In Section VI.5(c), page 47, the applicants state there have been no civil rights complaints filed against the facility.

The application is conforming to this criterion.

- (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; and

C

In Section VI.2, on page 46, the applicants project payor mix for the facility for the second full federal fiscal year following completion of the addition (FFY 2017). See the following table:

PAYOR	% OF TOTAL ACH	% OF TOTAL SCU
Private Pay	65.00%	24.99%
Special Assistance with Basic Medicaid	35.00%	75.01%
Total	100.00%	100.00%

The applicants demonstrate that medically underserved populations will continue to have adequate access to the adult care home services provided by The Gardens of Pamlico. Therefore, the application is conforming to this criterion.

- (d) That the applicant offers a range of means by which a person will have access to its services. Examples of a range of means are outpatient services, admission by house staff, and admission by personal physicians.

C

In Section VI.6, page 47 the applicants state:

*“Area providers, agencies and others have been informed of the proposed project (Exhibits 10, 12, 13 and 14). In addition, the applicant has developed relationships within the healthcare community in Pamlico County as a result of their ‘hands on’ approach to the management of this facility.*

*A partial list of the agencies from which the applicant anticipates to receive referrals is as follows:*

*Carolina East Hospital  
 Oriental Medical Center  
 Aurora Medical Center  
 Vidant Medical Center Washington  
 Resident Family Member  
 Craven County Networking Ass.  
 Angela Pridgen, Area Ombudsman  
 Pamlico Medical Center  
 Pamlico County Dept. of Health/Human Services  
 Craven County Dept. of Health/Human Services  
 Vidant Medical Center Greenville  
 Aurora Seniors Club  
 Alzheimer’s Association”*

The applicants adequately identify the range of means by which residents will have access to the adult care home facility. Therefore, the application is conforming to this criterion.

- (14) The applicant shall demonstrate that the proposed health services accommodate the clinical needs of health professional training programs in the area, as applicable.

C

Exhibit 12 contains documentation from Pamlico Community College and Pamlico County Schools regarding their willingness to continue to use the applicants as a training site for nursing assistant students. The applicants adequately demonstrate that the proposed facility would accommodate the clinical needs of health professional training programs in the area. The information provided is reasonable and credible and supports a finding of conformity with this criterion.

- (15) Repealed effective July 1, 1987.  
(16) Repealed effective July 1, 1987.  
(17) Repealed effective July 1, 1987.  
(18) Repealed effective July 1, 1987.
- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

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The Gardens of Pamlico is the only free standing adult care home facility in Pamlico County. There is a combination nursing home/adult care home in Pamlico County with 8 ACH beds. The Gardens of Pamlico offers the only SCU beds in the county. In Section V.4, pages 43 - 44, the applicants discuss how the proposed 30-bed addition to the existing 40-bed adult care home facility will promote cost effectiveness, quality, and access to those services in Pamlico County. See Sections II, III, V, VI and VII of the application. The information provided by the applicants in those sections is reasonable and credible and adequately demonstrates that the expected effects of the proposal on competition in the service area includes a positive impact on cost-effectiveness, quality and access to adult care home services in Pamlico County. This determination is based on the information in the application, and the following:

- ◆ The applicants adequately demonstrate the need to develop a 30 bed addition to the existing 40-bed adult care home with 12 special care unit beds.
- ◆ The applicants adequately demonstrate that the proposed facility will continue to provide quality services; and

- ◆ The applicants demonstrate that the proposed facility will continue to provide adequate access to medically underserved populations.

The application is conforming to this criterion.

- (19) Repealed effective July 1, 1987.
- (20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

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The applicants propose to add 30 ACH beds to an existing facility with 40 ACH beds, including 12 SCU beds. According to the records in the Adult Care Licensure and Certification Section of the Division of Health Service Regulation, no incidents have occurred at The Gardens of Pamlico within the eighteen months immediately preceding the date of this decision for which any sanctions or penalties related to quality of care were imposed by the State. Therefore, the application is conforming to this criterion.

- (21) Repealed effective July 1, 1987.
- (b) The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

C

The application is conforming to all applicable *Criteria and Standards for Nursing Facility or Adult Care Home Services* in 10A NCAC 14C Section .1100. Therefore, the application is conforming to this criterion.

**.1101 INFORMATION REQUIRED OF APPLICANT**

- (a) *An applicant proposing to establish new nursing facility or adult care home beds shall project an occupancy level for the entire facility for each of the first eight calendar quarters following the completion of the proposed project. All assumptions, including the specific methodologies by which occupancies are projected, shall be stated.*

- C- The applicants project the first eight quarters occupancy levels in Section IV, pages 36 – 37. The applicants project 95% occupancy by the first quarter of the second full year, FFY 2017. See Exhibit 21 for the assumptions used by

the applicants in projection of the utilization. See Criterion (3) for discussion of the reasonableness of the projections and assumptions which is hereby incorporated by reference as if full set forth within.

- (b) *An applicant proposing to establish new nursing facility or adult care home beds shall project patient origin by percentage by county of residence. All assumptions, including the specific methodology by which patient origin is projected, shall be stated.*

-C- In Section III.7(a), page 31, the applicants project patient origin by county of residence. The applicants project 65.8% of admissions will be from Pamlico County. The applicants' assumptions and methodology are provided in Section III.7, page 32 and Exhibit 21.

- (c) *An applicant proposing to establish new nursing facility or adult care home beds shall show that at least 85 percent of the anticipated patient population in the entire facility lives within a 45 mile radius of the facility, with the exception that this standard shall be waived for applicants proposing to transfer existing certified nursing facility beds from a State Psychiatric Hospital to a community facility, facilities that are fraternal or religious facilities, or facilities that are part of licensed continuing care facilities which make services available to large or geographically diverse populations.*

-C- In Section II, on page 11, the applicants state that more than 85% of the projected residents of The Gardens of Pamlico live within a 45-mile radius of the facility.

- (d) *An applicant proposing to establish a new nursing facility or adult care home shall specify the site on which the facility will be located. If the proposed site is not owned by or under the control of the applicant, the applicant shall specify at least one alternate site on which the services could be operated should acquisition efforts relative to the proposed site ultimately fail, and shall demonstrate that the proposed and alternate sites are available for acquisition.*

-NA- The Gardens of Pamlico is an existing facility owned by Magnolia Woods Senior Properties, LLC.

- (e) *An applicant proposing to establish a new nursing facility or adult care home shall document that the proposed site and alternate sites are suitable for development of the facility with regard to water, sewage disposal, site development and zoning including the required procedures for obtaining zoning changes and a special use permit after a certificate of need is obtained.*

-NA- The Gardens of Pamlico is an existing facility.

- (f) *An applicant proposing to establish new nursing facility or adult care home beds shall provide documentation to demonstrate that the physical plant will conform with all requirements as stated in 10A NCAC 13D or 10A NCAC 13F, whichever is applicable.*

- C- In Section II.2, page 12, the applicants state, *“The applicant is an experienced operator of adult care homes and has employed an architect experienced in the development of adult care homes and will ensure that the 30 bed addition will comply with all applicable licensure regulations relative to adult care homes.”*

Exhibit 28 includes a January 17, 2014 letter from the applicants’ architect, David R. Polston, AIA, which confirms that the project will conform to all federal and state licensing requirements and laws.

#### **.1102 PERFORMANCE STANDARDS**

- (a) *An applicant proposing to add nursing facility beds to an existing facility, except an applicant proposing to transfer existing certified nursing facility beds from a State Psychiatric Hospital to a community facility, shall not be approved unless the average occupancy, over the nine months immediately preceding the submittal of the application, of the total number of licensed nursing facility beds within the facility in which the new beds are to be operated was at least 90 percent.*

-NA- The applicants propose to add new ACH beds not add NF beds.

- (b) *An applicant proposing to establish a new nursing facility or add nursing facility beds to an existing facility, except an applicant proposing to transfer existing certified nursing facility beds from a State Psychiatric Hospital to a community facility, shall not be approved unless occupancy is projected to be at least 90 percent for the total number of nursing facility beds proposed to be operated, no later than two years following the completion of the proposed project. All assumptions, including the specific methodologies by which occupancies are projected, shall be clearly stated.*

-NA- The applicants propose to add new ACH beds not NF beds.

- (c) *An applicant proposing to add adult care home beds to an existing facility shall not be approved unless the average occupancy, over the nine months immediately preceding the submittal of the application, of the total number of licensed adult care home beds within the facility in which the new beds are to be operated was at least 85 percent.*

-C- In Section II, on page 13 and in Section IV, on page 33, the applicants state the historical occupancy for the nine months immediately preceding the submittal of the application was 93.23%.

- (d) *An applicant proposing to establish a new adult care home facility or add adult care home beds to an existing facility shall not be approved unless occupancy is projected to be at least 85 percent for the total number of adult care home beds proposed to be operated, no later than two years following the completion of the proposed project. All*



*assumptions, including the specific methodologies by which occupancies are projected, shall be stated.*

- C- In Section IV.2, on page 36, the applicants state that occupancy at the end of the second full year of operation will be 95%. All assumptions are provided in Section IV, on pages 34 - 37.