

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: August 15, 2018

Findings Date: August 15, 2018

Project Analyst: Julie M. Faenza

Team Leader: Gloria C. Hale

Project ID #: A-11499-18

Facility: Murphy Rehabilitation & Nursing

FID #: 180207

County: Cherokee

Applicants: Murphy Healthcare Properties, LLC

Murphy Rehabilitation, Inc.

Project: Relocate 134 existing nursing facility beds to a new replacement facility

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

N.C. Gen. Stat. §131E-183(a) The Agency 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 applicants, Murphy Healthcare Properties, LLC, and Murphy Rehabilitation, Inc., propose to relocate all 134 existing nursing facility (NF) beds at Murphy Rehabilitation & Nursing (Murphy R&N) from their current location at Murphy Medical Center in Cherokee County to a new replacement facility in Cherokee County.

Need Determination

The proposed project does not involve the addition of any new health service facility beds, services, or equipment for which there is a need determination in the 2018 State Medical Facilities Plan (SMFP). Therefore, no need determinations are applicable to this review.

Policies

There are three policies applicable to this review: **Policy NH-6: Relocation of Nursing Facility Beds**, **Policy NH-8: Innovations in Nursing Facility Design**, and **Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities**.

Policy NH-6: Relocation of Nursing Facility Beds

Policy NH-6, on page 25 of the 2018 SMFP, states:

“Relocations of existing licensed nursing facility beds are allowed. Certificate of need applicants proposing to relocate licensed nursing facility beds shall:

- 1. Demonstrate that the proposal shall not result in a deficit, or increase an existing deficit in the number of licensed nursing facility beds in the county that would be losing nursing facility beds as a result of the proposed project, as reflected in the North Carolina State Medical Facilities Plan in effect at the time the certificate of need review begins; and*
- 2. Demonstrate that the proposal shall not result in a surplus, or increase an existing surplus of licensed nursing facility beds in the county that would gain nursing facility beds as a result of the proposed project, as reflected in the North Carolina State Medical Facilities Plan in effect at the time the certificate of need review begins.”*

Both the existing location and the proposed location for the 134 NF beds are in Cherokee County. Therefore, the application is consistent with Policy NH-6.

Policy NH-8: Innovations in Nursing Facility Design

Policy NH-8, on page 25 of the 2018 SMFP, states:

“Certificate of need applicants proposing new nursing facilities and replacement nursing facilities shall pursue innovative approaches in environmental design that address quality of care and quality of life needs of the residents. These plans could include innovative design elements that encourage less institutional, more home-like settings, privacy, autonomy and resident choice, among others.”

In Section B, pages 14-16, the applicants explain why they believe their application is conforming to Policy NH-8. The applicants state they are increasing the number of private rooms, increasing the size of semi-private rooms, providing multiple family gathering spaces, developing a larger therapy suite, and adding other features which will create a calmer and more homelike atmosphere while maximizing residents' quality of life and autonomy.

The application is consistent with Policy NH-8.

Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities

Policy GEN-4, on page 33 of 2018 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 approving 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, Certificate of Need 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 is 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 B, page 19, the applicants explain why they believe their application is conforming to Policy GEN-4. The applicants provide a written statement of the minimum energy conservation features they will utilize. Additionally, the applicants provide letters from the architect in Exhibit B.10, which state that the architect will assist in developing plans for water and energy conservation that meet all applicable laws, regulations, and codes.

The application is consistent with Policy GEN-4.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicants adequately demonstrate that the proposal is consistent with Policy NH-6 because the existing and the proposed locations are both in Cherokee County.

- The applicants adequately demonstrate that the proposal is consistent with Policy NH-8 because they adequately document the list of innovative approaches in environmental design to address quality of care and quality of life needs of the residents.
 - The applicants adequately demonstrate that the proposal is consistent with Policy GEN-4 because the application contains a written statement describing the project’s plan to assure improved energy efficiency and water conservation.
- (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 applicants propose to relocate all 134 existing NF beds at Murphy R&N from their current location at Murphy Medical Center to a new replacement facility.

Patient Origin

On page 183, the 2018 SMFP defines the service area for nursing facility beds as “... *the nursing bed care planning area in which the bed is located. Each of the 100 counties in the state is a separate nursing care bed planning area.*” Thus, the service area for this facility is Cherokee County. Facilities may also serve residents of counties not included in their service area.

In Section C, page 21, the applicants provide historical and projected patient origin, as shown in the table below.

Current and Projected Patient Origin (Third FFY)								
County	Last FFY: 10/1/17 – 9/30/18*				Third FFY – 10/1/21 – 9/30/22			
	General NF Beds		SCU NF Beds		General NF Beds		SCU NF Beds	
	# Patients	% of Total	# Patients	% of Total	# Patients	% of Total	# Patients	% of Total
Buncombe	2	0.3%	0	0.0%	0	0.0%	0	0.0%
Cherokee	428	73.5%	24	4.1%	437	75.0%	23	4.0%
Clay	92	15.8%	4	0.7%	88	15.0%	5	1.0%
Graham	32	5.5%	0	0.0%	29	5.0%	0	0.0%
Total	554	95.2%	28	4.8%	554	95.0%	28	5.0%

Note: Table may not foot due to rounding

*In supplemental information, the applicants state that this data is annualized based on actual data from 10/1/17 to 3/31/18.

In Section C.3, page 22, the applicants provide the assumptions and methodology used to project patient origin. The applicants’ assumptions are reasonable and adequately supported.

Analysis of Need

In Section C, pages 22-23, the applicants explain why the population projected to utilize the proposed services needs the proposed services:

- Age and Condition of the Existing Facility
 - The building is 40 years old and located within Murphy Medical Center.
 - The visitor rooms are very small – a semi-private room can only accommodate a single visitor’s chair, and there are no gathering spaces or family rooms.
 - The therapy suite is so small that some physical therapy is being done in the hallways.
 - The building is not energy efficient, has an old HVAC system, and has an institutional feel.
 - The doorways are not built to accommodate bariatric patients, leading to decreased independence for those patients.
 - Hallways are long and require patient travel to get to meals and activities and limit social interactions.
 - The nursing facility must currently share its kitchen and laundry space with the hospital (Murphy Medical Center).
 - There are almost no storage areas, resulting in resident rooms being used for storage, and no activity areas other than the dining room.
- Requirements of Sale
 - The applicants acquired the nursing facility after the hospital board sold both the hospital and nursing facility due to a lack of funding to improve the facility.
 - As part of that sale, the applicants are contractually obligated to vacate the existing space. The applicants provide supporting documentation in Exhibit 6.
- New Location
 - The applicants were able to secure a site that met all requirements to develop a nursing facility.
 - The new site is approximately one-quarter of a mile away from the current facility and where the existing hospital will remain.

- The new site allows for coordination of healthcare services for the hospital and minimizes the change in location for existing residents and their families.

The information is reasonable and adequately supported for the following reasons:

- The applicants provide adequate reasons to support the need the population proposed to be served has for the proposed services.
- The applicants provide reasonable documentation to support the need to relocate the facility due to contractual obligations.

Projected Utilization

In Section Q, the applicants provide historical and projected utilization, as illustrated in the following table.

Murphy R&N – Historical and Projected Utilization – FY 2018 - 2022					
	FY 2018*	FY 2019	FY 2020	FY 2021	FY 2022
# General NF Beds	120	120	120	120	120
Days of Care	31,000	31,000	34,490	37,483	39,235
Occupancy Rate	71%	71%	79%	86%	90%
# SCU NF Beds	14	14	14	14	14
Days of Care	4,745	4,745	4,930	4,930	4,930
Occupancy Rate	93%	93%	96%	96%	96%
# of Total NF Beds	134	134	134	134	134
Days of Care	35,745	35,745	39,420	42,413	44,165
Occupancy Rate	73%	73%	81%	87%	90%

*Annualized

In Section Q, the applicants provide the assumptions and methodology used to project utilization, which are summarized below.

- In Section D, page 30, the applicants state they are moving all of the current residents to the new location.
- The applicants relied on their historical experience with replacing and relocating nursing facilities:
 - In Section Q, Form C, the applicants state that, in 2008, they constructed a 92-bed replacement nursing facility in Carteret County. The applicants state that the average daily census (ADC) in the old facility was approximately 66 percent of capacity, and one year after the replacement facility was completed and operational, the ADC was approximately 90 percent of capacity and has remained at that level since then.
 - In Section Q, Form C, the applicants state that, in 2013, they constructed a 99-bed replacement nursing facility in Scotland County. The applicants state that the ADC for all available NF beds in the county (the 99 in the newly constructed facility as well as

50 NF beds at a different facility) in 2013 was 73 percent of capacity. The applicants state that within a year of opening the replacement facility, the ADC was approximately 89 percent of capacity. The applicants state they then acquired the remaining 50 NF beds from the other existing facility and added a wing onto their replacement facility to create a 149-bed nursing facility, and within a year of the additional 50 NF beds opening, occupancy for the entire 149 bed facility was approximately 88 percent of capacity.

- In Section Q, the applicants state:

“... Scotland County DSS reported statistics showing that 40% of the county citizens residing in nursing homes were in facilities outside of Scotland County. ... The 2015 SMFP for Scotland County reported a 48 bed surplus but the 2018 SMFP reports a -15 bed deficit. ... This is an excellent example of how a new modern facility results in more county residents seeking nursing home care in their home county versus out of county.

We believe the same situation exists in Cherokee County. The two existing facilities are old and antiquated (30-40 years old) lacking the amenities of new modern replacement facilities. We believe a new replacement facility will result in more county residents seeking nursing home care within Cherokee County rather than going out of county. It is reasonable to expect an average daily census increase of 23/day during the first two years of operations resulting in a 90% occupancy rate which is consistent with our experience in other counties.”

Projected utilization is reasonable and adequately supported for the following reasons:

- The applicants account for the existing patients in their projected utilization.
- The applicants rely on their historical experience in constructing replacement nursing facilities and how quickly the beds are occupied.
- The applicants provide details and documentation to support their historical experience in constructing replacement nursing facilities and how quickly they are occupied.

Access

In Section C, page 25, the applicants state:

“Murphy Rehabilitation admits residents that meet the criteria for skilled nursing care without regard to income, race, sex, age, etc. This practice will continue in the new facility. Exhibit C.8 contains Century Care’s Resident Handbook which is given to every resident/family. Page 10 contains our policy and practice of admitting of residents without regard to race, color, national origin, physical/mental disability, age, gender, gender identification, religion, veteran status or any other characteristic protected by state or federal law.

The projected increase from 73% (current) to 90% (projected) occupancy will be predominately with low income Medicaid residents. Currently ~70% of our residents receive Medicaid benefits and we expect this to increase to 77% in the new facility due to increased utilization by low income persons.”

In Section L, page 53, the applicants project the following payor mix during the third full fiscal year of operation following completion of the project, as illustrated in the following table.

Murphy R&N – Projected Payor Mix – Third Full Fiscal Year (FY 2022)						
Payor Source	Patient Days			Percentage		
	General	SCU	Total	General	SCU	Total
Private Pay	2,920	0	2,920	7.5%	0.0%	6.6%
Insurance*	1,460	0	1,460	3.7%	0.0%	3.3%
Medicare*	5,840	0	5,840	14.9%	0.0%	13.2%
Medicaid*	27,940	4,928	32,868	71.2%	100.0%	74.5%
Other (hospice)	1,077	0	1,077	2.7%	0.0%	2.4%
Total	39,237	4,928	44,165	100.0%	100.0%	100.0%

*Including any managed care plans

The projected payor mix is reasonable and adequately supported.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicants adequately identify the population to be served.
- The applicants adequately explain why the population to be served need the services proposed in this application.
- Projected utilization is reasonable and adequately supported.
- The applicants project the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately supports their assumptions.

(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.

C

The applicants propose to relocate all 134 existing NF beds at Murphy R&N from their current location at Murphy Medical Center to a new replacement facility.

The applicants do not propose to reduce or eliminate any of the NF beds; rather, the applicants propose to build a replacement facility. The current facility is located at 3992 East US Highway 64 Alt in Murphy, in Cherokee County. The proposed site of the new facility is 190-230 NC Highway 141 in Murphy, in Cherokee County. In supplemental information, the applicants state that there is an error in the placement of the address on Google Maps, and that the actual distance between the existing facility and the location of the proposed facility is approximately one-quarter of a mile.

In Section D, page 29, the applicants explain why they believe the needs of the population presently utilizing the services to be relocated will be adequately met following completion of the project. On page 29, the applicants state that all existing resident will be relocated to the new replacement facility and that all existing medical and support staff will transfer to the new facility so no residents will need to change providers. The applicants also state the new facility will offer the same services currently offered in the existing facility, and it will offer these services in a facility with a more home-like environment, to enhance the quality of life of the existing patients.

In Section D, page 30, the applicant states:

“All the current residents will be relocated to the new replacement facility. Relocating these beds will have nothing but a positive impact on the quality of care and access to the medically underserved.”

The applicants state on page 30 that the facility will be larger and configured to allow for enhanced care and improved social interaction for all patients.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicant adequately demonstrates that:

- The needs of the population currently using the services to be reduced, eliminated, or relocated will be adequately met following project completion.
 - The project will not adversely impact the ability of underserved groups to access these services following project completion.
- (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

The applicants propose to relocate all 134 existing NF beds at Murphy R&N from their current location at Murphy Medical Center to a new replacement facility.

In Section E, page 32, the applicants state that they did not consider any other alternatives to develop the proposed project. The applicants state:

“One of the stipulations of the purchase agreement that we signed with Murphy Medical Center when we purchased this facility in October 2017 was that we would vacate the existing location and build a new facility within two years (with a 1 year extension, if needed). ... As such, we did not consider other possibilities, such as continuing with the status quo, renovating the existing building, or constructing a new facility on the current site.”

On page 32, the applicants state that their proposal is the most effective alternative because the existing building is an outdated facility without many of the features offered in newer buildings.

The applicants provide supporting documentation in Exhibit E.3.

The applicants adequately demonstrate that the alternative proposed in this application is the most effective alternative to meet the need for the following reasons:

- The existing facility is old and offers outdated features.
- The applicants are legally required to relocate the 134 NF beds.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above. Therefore, the application is approved subject to the following conditions:

- 1. Murphy Healthcare Properties, LLC, and Murphy Rehabilitation, Inc. shall materially comply with all representations made in the certificate of need application and any supplemental responses. In the event that representations conflict, Murphy Healthcare Properties, LLC and Murphy Rehabilitation, Inc. shall materially comply with the last made representation.**
- 2. Murphy Healthcare Properties, LLC, and Murphy Rehabilitation, Inc. shall construct a replacement facility for Murphy Rehabilitation & Nursing's 134 existing nursing facility beds, including 14 existing special care unit beds.**
- 3. Upon completion of the project, Murphy Rehabilitation & Nursing shall be licensed for no more than 134 nursing facility beds, including 14 special care unit beds.**
- 4. For the first two years of operation following completion of the project, Murphy Healthcare Properties, LLC, and Murphy Rehabilitation, Inc. shall not increase private pay charges more than five percent of the projected private pay charges provided in Section Q of the application without first obtaining a determination from the Healthcare Planning and Certificate of Need Section that the proposed increase is in material compliance with the representations in the certificate of need application.**
- 5. Murphy Healthcare Properties, LLC, and Murphy Rehabilitation, Inc. shall 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.**
- 6. No later than three months after the last day of each of the first three full years of operation following initiation of the services authorized by this certificate of need, Murphy Healthcare Properties, LLC, and Murphy Rehabilitation, Inc. shall submit, on the form provided by the Healthcare Planning and Certificate of Need Section, an annual report containing the:**
 - a. Payor mix for the services authorized in this certificate of need.**
 - b. Utilization of the services authorized in this certificate of need.**
 - c. Revenues and operating costs for the services authorized in this certificate of need.**
 - d. Average gross revenue per unit of service.**
 - e. Average net revenue per unit of service.**
 - f. Average operating cost per unit of service.**
- 7. Murphy Healthcare Properties, LLC, and Murphy Rehabilitation, Inc. shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency 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

The applicants propose to relocate all 134 existing NF beds at Murphy R&N from their current location at Murphy Medical Center to a new replacement facility.

Capital and Working Capital Costs

In Section Q on Form F.1a, page 68, the applicants project the total capital cost of the project as shown in the table below.

Site Costs	\$2,085,250
Construction Costs	\$8,514,750
Equipment/Furniture	\$1,581,000
Professional Fees	\$240,000
Financing Costs	\$340,000
Total	\$12,761,000

In Section Q, the applicants provide the assumptions used to project the capital cost.

In Section F, page 35, the applicants project no start-up costs, and project initial operating expenses will be \$350,000. On pages 35-36, the applicants provide the assumptions and methodology used to project the working capital needs of the project.

Availability of Funds

In Section F, page 33, the applicants state that the capital cost will be funded as shown in the table below.

Sources of Capital Cost Financing

Type	Murphy Healthcare Properties, LLC	Murphy Rehabilitation Inc.	Total
Loans	\$10,846,850	\$0	\$10,846,850
Accumulated reserves or OE*	\$1,914,150	\$0	\$1,914,150
Total Financing	\$12,761,000	\$0	\$12,761,000

* OE = Owner's Equity

In Section F, pages 36-37, the applicants state that the working capital needs of the project will be funded as shown in the table below.

Sources of Financing for Working Capital	Amount
Line of credit – Murphy Rehabilitation, Inc.	\$484,000
Total	\$484,000

On page 37, the applicants state Murphy Rehabilitation, Inc. has a line of credit from Pinnacle Financial Partners, which has a higher limit than the projected working capital needs of the project.

The applicants provide supporting documentation of the availability of sufficient funds for the capital and working capital needs of the proposal in Exhibits F.2 and F.3.

Financial Feasibility

In Section Q, the applicants provide pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.5, the applicants project that revenues will exceed operating expenses in the first three operating years of the project, as shown in the table below.

Murphy R&N – Revenue and Expenses – FYs 2020-2022			
	FY 2020	FY 2021	FY 2022
Total Patient Days	39,420	42,413	44,165
Total Net Revenue*	\$10,068,908	\$10,660,449	\$11,003,761
Average Net Revenue per Patient Day	\$255	\$251	\$249
Total Operating Expenses (Costs)	\$9,627,311	\$10,200,482	\$10,507,249
Average Operating Expense per Patient Day	\$244	\$241	\$238
Net Income	\$441,597	\$459,967	\$496,512

*Includes routine services, ancillary services, and other revenue net of all contractual adjustments

The assumptions used by the applicants in preparation of the pro forma financial statements are reasonable, including projected utilization, costs, and charges. See Section Q of the application for the assumptions used regarding costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the following reasons:

- The applicants adequately demonstrate that the capital and working capital costs are based on reasonable and adequately supported assumptions.

- The applicants adequately demonstrate availability of sufficient funds for the capital and working capital needs of the proposal.
 - The applicants adequately demonstrate sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.
- (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 applicants propose to relocate all 134 existing NF beds at Murphy R&N from their current location at Murphy Medical Center to a new replacement facility.

On page 183, the 2018 SMFP defines the service area for nursing facility beds as “... *the nursing bed care planning area in which the bed is located. Each of the 100 counties in the state is a separate nursing care bed planning area.*” Thus, the service area for this facility is Cherokee County. Facilities may also serve residents of counties not included in their service area.

Table 10A: Inventory of Nursing Home and Hospital Nursing Care Beds in the 2018 SMFP, page 186, lists two nursing facilities in Cherokee County, with a combined total of 210 NF beds, as shown in the table below.

Cherokee County NF Beds – 2018 SMFP Inventory		
Facility	Location	Number of NF Beds
Murphy Rehabilitation & Nursing	Murphy	134
Valley View Care and Rehabilitation Center	Andrews	76

Murphy R&N is the only facility in the county which has SCU NF beds. In Section G, pages 39-40, the applicants explain why they believe their proposal will not result in the unnecessary duplication of existing or approved nursing facility services in Cherokee County. The applicants state they are not proposing to add any new services; rather, they want to replace existing services. The applicants describe their previous experience with a similar project in Scotland County, where initially the county had a surplus of NF beds, and three years later, the county had a deficit of NF beds. The applicants state this was due to more Scotland County residents remaining in the county rather than traveling to other counties for care and they believe this will be the case with Cherokee County as well. On page 40, the applicants state:

“We requested similar data from the Cherokee County Department of Social Services and have attached an email from Cindy Palmer of DSS as Exhibit G.3. This email documents that Cherokee County has 100 residents in long term care with 21 of those being placed out of county. Ms. Palmer also talks about the need for SCU Memory Care facilities in Cherokee County.”

The applicants adequately demonstrate that the proposal would not result in an unnecessary duplication of existing or approved services in the service area for the following reasons:

- The proposal would not result in an increase in the number of existing or approved NF beds in Cherokee County.
- The proposal offers the only SCU NF beds available in Cherokee County.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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 Q, Form H, the applicants provide current and projected staffing for the proposed services as illustrated in the following table.

Murphy R&N Current and Projected Staffing				
Position	Current	Projected		
	As of 1/1/2018	1st FFY	2nd FFY	3rd FFY
Registered Nurses	5.7	6.7	7.4	8.1
Licensed Practical Nurses	7.8	8.7	10.6	11.5
Aides	32.0	35.9	38.6	39.9
Medication Aides	5.8	5.0	5.0	5.0
Restorative Nursing Aides	2.5	3.0	3.0	3.0
Personal Care Assistants	3.5	3.5	3.5	3.5
Treatment Nurse	2.0	2.0	2.0	2.0
Director of Nursing	1.0	1.0	1.0	1.0
Assistant Director of Nursing	0.0	0.0	1.0	1.0
MDS Nurse	2.0	2.0	2.0	2.0
Alzheimer's Coordinator	1.0	1.0	1.0	1.0
Staff Development Coordinator	1.0	1.0	1.0	1.0
Clerical	1.9	1.9	1.9	1.9
Medical Records	1.0	1.0	1.0	1.0
Social Services	2.0	2.0	2.0	2.0
Activities	1.9	1.9	1.9	1.9
Transportation	1.0	1.0	1.0	1.0
Plant Operation & Maintenance	0.0	1.0	1.0	1.0
Administration	3.6	3.6	3.6	3.6
TOTAL*	76.0 [75.7]	82.0 [82.2]	89.0 [88.5]	91.0 [91.4]

Source: Form H in Section Q of the application

*Numbers in brackets are the Project Analyst's calculations

The assumptions and methodology used to project staffing are provided in Section Q. Adequate costs for the health manpower and management positions proposed by the applicants are budgeted in Form F.4, which is found in Section Q. In Section H, pages 42-43, the applicants describe the methods to be used to recruit or fill new positions and their existing training and continuing education programs. In Section H, page 43, the applicants identify the current medical director. In Exhibit H.4b, the applicants provide a letter from the medical director expressing his support for the proposed project and his willingness to continue to serve as medical director.

The applicants adequately demonstrate the availability of sufficient health manpower and management personnel to provide the proposed services.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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.

C

In Section I, page 44, the applicants state that the following ancillary and support services are necessary for the proposed services:

- Speech Therapy
- Occupational Therapy
- Physical Therapy
- Radiology Services
- Laboratory Services
- Respiratory Therapy
- Pharmacy Services
- Therapeutic Beds
- Transportation Services
- Dental Services
- Beauty and Barber Services

On page 44, the applicants adequately explain how each ancillary and support service will be made available and provide supporting documentation in Exhibit I.1.

In Section I, page 45, the applicants describe their existing and proposed relationships with other local health care and social service providers and provide supporting documentation in Exhibit I.2.

The applicants adequately demonstrate that the proposed services will be coordinated with the existing health care system.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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

The applicants do not project to provide the proposed services to a substantial number of persons residing in Health Service Areas (HSAs) that are not adjacent to the HSA in which the services will be offered. Furthermore, the applicants do not project to provide the proposed services to a substantial number of persons residing in other states that are not adjacent to the North Carolina county in which the services will be offered. Therefore, Criterion (9) is not applicable to this review.

- (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

The applicants are not HMOs. Therefore, Criterion (10) is not applicable to this review.

- (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 K, page 47, the applicants state that the project involves constructing approximately 68,118 square feet of new space. Line drawings are provided in Exhibit K.1.

On page 47, the applicants adequately explain how the cost, design, and means of construction represent the most reasonable alternative for the proposal and provide supporting documentation in Exhibit K.3.

On page 48, the applicants adequately explain why the proposal will not unduly increase the costs to the applicants of providing the proposed services or the costs and charges to the public for the proposed services.

On page 48, the applicants identify any applicable energy saving features that will be incorporated into the construction plans and provide supporting documentation in Exhibit K.3.

On pages 49-50, the applicants identify the proposed site and provide information about the current owner, zoning, and special use permits for the site, and the availability of water, sewer, and waste disposal and power at the site.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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

In Section L, page 52, the applicants provide the historical payor mix for FFY 2018 annualized, the last FFY, as shown in the table below.

Murphy R&N – Historical Payor Mix– Last FFY (10/1/17-9/30/18*)						
Payor Source	Patient Days			Percentage		
	General	SCU	Total	General	SCU	Total
Private Pay	2,920	0	2,920	9.4%	0.0%	8.2%
Insurance**	620	0	620	2.0%	0.0%	1.7%
Medicare**	5,600	0	5,600	18.0%	0.0%	15.7%
Medicaid**	20,847	4,681	25,528	67.1%	100.0%	71.4%
Other (hospice)	1,077	0	1,077	3.5%	0.0%	3.0%
Total	31,064	4,681	35,745	100.0%	100.0%	100.0%

*Annualized

**Including any managed care plans

In Section L, page 51, the applicants provide the following comparison.

	Percentage of Total Patients Served by the Facility during the Last Full FY	Percentage of the Population of the Service Area
Female	62.4%	51.1%
Male	37.6%	48.9%
Unknown	0.0%	0.0%
64 and Younger	7.3%	73.3%
65 and Older	92.7%	26.7%
American Indian	0.4%	1.5%
Asian	0.3%	0.6%
Black or African-American	1.4%	1.4%
Native Hawaiian or Pacific Islander	0.0%	0.0%
White or Caucasian	97.9%	96.5%
Other Race	0.0%	0.0%
Declined / Unavailable	0.0%	0.0%

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicants adequately document the extent to which medically underserved populations currently use the applicants' existing services in comparison to the percentage of the population in the applicants' service area which is medically underserved. 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

Regarding any obligation to provide uncompensated care, community service, or access by minorities and persons with disabilities, in Section L, page 52, the applicants state that they have no such obligation.

In Section L, page 52, the applicants state that during the last five years, there have been no patient civil rights access complaints filed against the facility or any similar facilities owned by the applicants or a related entity and located in North Carolina.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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 L, page 53, the applicants project the following payor mix for the proposed services during the third full fiscal year of operation following completion of the project, as shown in the table below.

Murphy R&N – Projected Payor Mix – Third Full Fiscal Year (FY 2022)						
Payor Source	Patient Days			Percentage		
	General	SCU	Total	General	SCU	Total
Private Pay	2,920	0	2,920	7.5%	0.0%	6.6%
Insurance*	1,460	0	1,460	3.7%	0.0%	3.3%
Medicare*	5,840	0	5,840	14.9%	0.0%	13.2%
Medicaid*	27,940	4,928	32,868	71.2%	100.0%	74.5%
Other (hospice)	1,077	0	1,077	2.7%	0.0%	2.4%
Total	39,237	4,928	44,165	100.0%	100.0%	100.0%

*Including any managed care plans

As shown in the table above, during the third full fiscal year of operation, the applicants project 6.6 percent of total services will be provided to private pay patients, 13.2 percent to Medicare patients, and 74.5 percent to Medicaid patients.

On pages 53-54, the applicants provide the assumptions and methodology used to project payor mix during the third full fiscal year of operation following completion of the project. The projected payor mix is reasonable and adequately supported for the following reasons:

- Private pay and hospice payor mix projections are based on the facility's historical payor mix.
- Insurance and Medicare payor mix projections are based on the facility's historical payor mix as well as the enhancement of services.
- Medicaid payor mix projections are based on the facility's historical payor mix as well as the applicants' historical experience with similar projects.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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 L, page 55, the applicants adequately describe the range of means by which patients will have access to the proposed services.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that 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

In Section M, page 56, the applicants describe the extent to which health professional training programs in the area will have access to the facility for training purposes and provide supporting documentation in Exhibit M.1.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the applicants adequately demonstrate that the proposed services will accommodate the clinical needs of area health professional training programs, and therefore, the application is conforming to 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.

C

The applicants propose to relocate all 134 existing NF beds at Murphy R&N from their current location at Murphy Medical Center to a new replacement facility.

On page 183, the 2018 SMFP defines the service area for nursing facility beds as “... *the nursing bed care planning area in which the bed is located. Each of the 100 counties in the state is a separate nursing care bed planning area.*” Thus, the service area for this facility is Cherokee County. Facilities may also serve residents of counties not included in their service area.

Table 10A: Inventory of Nursing Home and Hospital Nursing Care Beds in the 2018 SMFP, page 186, lists two nursing facilities in Cherokee County, with a combined total of 210 NF beds, as shown in the table below.

Cherokee County NF Beds – 2018 SMFP Inventory		
Facility	Location	Number of NF Beds
Murphy Rehabilitation & Nursing	Murphy	134
Valley View Care and Rehabilitation Center	Andrews	76

In Section N, pages 57-58, the applicants describe the expected effects of the proposed services on competition in the service area and discuss how any enhanced competition in the service area will promote the cost-effectiveness, quality, and access to the proposed services. On page 57, the applicants state:

“We believe that our relocated facility will ‘raise the bar’ for skilled nursing in the county. Combined with the already high quality of care, we believe that our new facility will be the facility of choice in the community and that other providers will be forced to make improvements to their physical plants as well in order to compete. The end result will be upgraded buildings with more modern amenities for all current and future skilled nursing residents of Cherokee County.”

The applicants adequately describe the expected effects of the proposed services on competition in the service area and adequately demonstrate:

- The cost-effectiveness of the proposal (see Sections F and Q of the application and any exhibits).
- Quality services will be provided (see Section O of the application and any exhibits).
- Access will be provided to underserved groups (see Section L of the application and any exhibits).

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Remarks made at the public hearing
- Information publicly available during the review and used by the Agency

Based on that review, the Agency concludes that the application is conforming to this criterion for the reasons stated above.

- (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.

C

In Section A, page 9, the applicants identify the nursing facilities located in North Carolina owned, operated, or managed by the applicants or a related entity. The applicants identify a total of nine nursing facilities located in North Carolina.

In Section O, page 62, the applicants state that, during the 18 months immediately preceding the submittal of the application, incidents related to quality of care occurred in one of these facilities. The applicants state all of the problems have been corrected and the facility is back in compliance. According to the files in the Nursing Home Licensure and Certification Section, DHSR, during the 18 months immediately preceding submission of the application through the date of this decision, no incidents related to quality of care occurred in any of these facilities. After reviewing and considering information provided by the applicants and by the Nursing Home Licensure and Certification Section and considering the quality of care provided at all nine facilities, the applicants provide sufficient evidence that quality care has been provided in the past. 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.

NA

The applicants propose to relocate all 134 existing NF beds at Murphy R&N from their current location at Murphy Medical Center to a new replacement facility. The Criteria and Standards

for Nursing Facility or Adult Care Home Services, promulgated in 10A NCAC 14C .1100, are not applicable to this review because the applicants do not propose to add new NF beds to an existing facility or to develop a new nursing facility.