

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: November 27, 2013

PROJECT ANALYST: Gregory F. Yakaboski

ASSISTANT CHIEF: Martha J. Frisone

PROJECT I.D. NUMBER: N-10151-13 / HC AL Investors, LLC and HC Operations, LLC /  
Replace and relocate the 75 adult care home beds at Raeford Manor to  
a new location within Hoke County / Hoke County

### 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 applicants for this proposed project are HC AL Investors, LLC and HC Operations, LLC. The applicants may be referred to collectively as either the applicants or Raeford Manor.

The applicants propose to replace and relocate 75 existing but not operational adult care home ("ACH") beds within Hoke County. The applicants plan to include a secure, dedicated wing for a 32-bed Alzheimers/Dementia Memory Support Unit but it will not be a licensed special care unit. The 75 existing but not operational ACH beds are currently located at 110 Campus Ave, Raeford. The proposed location of the replacement facility is 9288 Fayetteville Road, Raeford. The name of the current licensed facility is Raeford Manor. HC AL Investors, LLC will own the land, buildings and beds. The facility will be leased by HC Operations, LLC and managed by Saber Health Holdings ("Saber").

Raeford Manor's 75 existing ACH beds have not been operational since a fire in December of 2009 forced the residents at that time to be relocated to other facilities. Raeford Manor's 75 ACH beds are not listed in the inventory of ACH beds in Chapter 11 of the 2013 State Medical Facilities Plan ("SMFP"). Pursuant to a settlement agreement with the Division of Health Service Regulation, the 75 ACH beds will be listed in inventory in the 2014 SMFP.

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 2013 SMFP.

However, the following policies are applicable:

- Policy LTC-2: Relocation of Adult Care Home Beds
- Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities

**Policy LTC-2: Relocation of Adult Care Home Beds** states

*Relocations of existing licensed adult care home beds are allowed only within the host county and to contiguous counties currently served by the facility. Certificate of need applicants proposing to relocate licensed adult care home beds to contiguous counties shall:*

1. *Demonstrate that the proposal shall not result in a deficit in the number of licensed adult care home beds in the county that would be losing adult care home beds as a result of the proposed project, as reflected in the 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 of licensed adult care home beds in the county that would gain adult care home beds as a result of the proposed project, as reflected in the State Medical Facilities Plan in effect at the time the certificate of need review begins.”*

Both the existing and proposed locations are in Hoke County. The application is consistent with Policy LTC-2.

**Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities** 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, 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 Exhibit 22, Raeford Manor provides a written statement from its architectural firm describing the proposed project's plan to assure improved energy efficiency and water conservation. The application is consistent with Policy GEN-4.

In summary, the application is conforming to all applicable policies in the 2013 SMFP. Therefore, the application is 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 applicants propose to replace and relocate 75 existing but not operational adult care home ("ACH") beds within Hoke County. The applicants plan to include a secure, dedicated wing for a 32-bed Alzheimers/Dementia Memory Support Unit but it will not be a licensed special care unit. The 75 existing but not operational ACH beds are currently located at 110 Campus Ave, Raeford. The proposed location of the replacement facility is 9288 Fayetteville Road, Raeford. The name of the current licensed facility is Raeford Manor. HC AL Investors, LLC will own the land, buildings and beds. The facility will be leased by HC Operations, LLC and managed by Saber Health Holdings ("Saber").

Raeford Manor's 75 existing ACH beds have not been operational since a fire in December of 2009 forced the residents at that time to be relocated to other facilities. Raeford Manor's 75 ACH beds are not listed in the inventory of ACH beds in Chapter 11 of the 2013 State Medical Facilities Plan ("SMFP"). Pursuant to a settlement agreement with the Division of Health Service Regulation, the 75 ACH beds will be listed in inventory in the 2014 SMFP.

### **Population to be Served**

In Section III.7, page 23, the applicants provide the projected patient origin for the ACH beds, as shown in the table below.

<b>County</b>	<b>Projected % of Total ACH Residents</b>
Hoke	90.0%
Cumberland	6.0%
Harnett	3.0%
Robeson	1.0%
Total	100.0%

On page 24, the applicants state “*Due to the high occupancy of the other adult care home in Hoke County and the other indicators that Hoke County has a shortage of operational adult care home beds, the applicants assume approximately 90% of the Raeford Manor residents will originate from within Hoke County.*”

...

*After analyzing the occupancy rates of the surrounding counties (no contiguous county has more than 85% occupancy), it was determined that few residents would come from these surrounding counties. But, given the proximity of the new location to Cumberland County (in addition to Cumberland County’s large population), 6 % of the residents are projected to come from there. Harnett County is also relatively close, in addition to having a relatively high occupancy rate of 77%. Therefore, 3% of residents are projected to originate in Harnett County. Finally, Robeson County is farther than the other two counties, and would otherwise be discounted completely if not for its large population. The applicants, therefore, project 1% of residents originating in Robeson County”.*

The applicants adequately identified the population to be served.

**Demonstration of Need**

In Section III.1, pages 19-20, and Section III.3, page 21, the applicants state the need to relocate and replace the 75 ACH beds is based on the following:

- The existing building where Raeford Manor is located was damaged by fire in 2009.
- The building is currently uninhabitable. The building is old and too small to meet current construction requirements for adult care homes. Subsequent to the fire the Licensure Section mandated that certain renovations take place before residents could be readmitted.
- The lot is only 0.71 acres, the current building takes up close to 100% of the lot and there is no dedicated parking lot.
- The building can only accommodate 75 ACH beds if wards are used instead of private or semi-private rooms. Wards are no longer considered appropriate for adult care home residents.

- The proposed replacement building and location allows for a much higher quality of life for residents and because of modern construction materials and techniques would have greater energy efficiency.
- There is a strong demand for adult care home beds by Hoke County residents that cannot be accommodated by Open Arms Retirement Center, the only existing and operational adult care home in Hoke County.

### Projected Utilization

In Section IV.2, pages, 25-26, and supplemental materials, the applicants provide projected utilization of the 75 ACH beds for the first two full federal fiscal years (FFYs), as illustrated in the table below.

#### **Projected Utilization- 75 Relocated ACH Beds**

	<b>1<sup>st</sup> Full FFY 10/1/14 to 9/30/15</b>	<b>2<sup>nd</sup> Full FFY 10/1/15 to 9/30/16</b>
Patient Days	14,957	25,459
Occupancy Rate	54.6%	92.7%
# of Beds	75	75

As shown in the table above, in the second FFY of operation, Raeford Manor projects the 75 ACH beds will operate at 93% of capacity [ $25,459/365/75 = 0.93$ ].

In Section III, pages 19-23 and Section IV.3, page 26 and supplemental materials, the applicants provide the assumptions and methodology utilized to project utilization for the 75 ACH beds. On pages 19-21, Raeford Manor states that there is only one existing and operational adult care home in Hoke County, Open Arms Retirement Center. Open Arms Retirement Center is licensed for 90 ACH beds of which 22 are licensed SCU beds. The applicants state that *“In a telephone conversation with the Hoke County Adult Care Home Specialist, Joyce Fairly, on June 12, 2013, the applicants learned that the only other adult care home in the County, Open Arms Retirement Center, caps its occupancy at 80, even though it has 90 licensed beds.”* The applicants state, that according to its 2013 and 2012 License Renewal Applications, Open Arms Retirement Center reported a census of 79 residents on August 1, 2012 and 78 residents on August 1, 2011, respectively.

Furthermore, Raeford Manor states that the Hoke County Adult Care Home Specialist also stated that based on an “educated guess” between 20% and 25% of the Hoke County residents who come to the Adult Care Home Specialist for referrals must go outside the county for care. It is an “educated guess” because the Adult Care Home Specialist does not keep records of this type of data. Based on the same telephone conversation, Raeford Manor also reports that the Adult Care Home Specialist *“added that there are probably many more people just leaving the county for adult care without coming to her first because the one adult care home in Hoke County is consistently full.”*

The applicants further addressed projected utilization of ACH beds in supplemental materials which is summarized below. Raeford Manor has not been operational since December 2009. The applicants utilized actual utilization data from the last three years of operation: 2006, 2007 and 2008. The assumptions and methodology are described below.

Step 1:

Obtain Hoke County population data for the population age 65 and over, which is illustrated in the table below.

Hoke County Population 65+

Year	65 to 74	75 to 84	85+	Total	% increase to 2014
2006	1,873	1,002	289	3,164	38.3%
2007	1,913	1,011	299	3,223	35.7%
2008	1,966	1,065	306	3,337	31.1%
2014	2,770	1,211	394	4,375	

\*Applicants source: NC Office of State Budget and Management

Step 2:

Obtain patient census data for all ACH beds in Hoke County during 2006 – 2008, as shown in the table below.

Census Data for all ACH Beds in Hoke County 2006-2008

Year	Raeford Manor	Open Arms Retirement Center (subtracting out SCU patients)	Autumn Care of Raeford	Total
2006	56	64-22 = 42	0	100
2007	57	53-22 = 31	0	88
2008	58	55-22= 33	0	91

Raeford Manor states that the census of the 8 ACH beds located in Autumn Care of Raeford for the years 2006 through 2008 is unknown, so, to be conservative, a patient census of “0” was assumed. Furthermore, the applicants subtracted the 22 SCU beds at Open Arms.

Step 3:

Determine the population growth factor and apply it to the total patient census in 2006, 2007, and 2008 to project patient census in 2014.

Year	Total ACH Census (excluding SCU residents)	Percentage Increase in Population 65+	Projected 2014 Total ACH Census	2014 ACH Bed Inventory (excluding Alzheimers/Dementia beds)*	2014 ACH Occupancy Rate
2006	100	38.3%	138	119	116%
2007	88	35.7%	119	119	100%
2008	91	31.1%	119	119	100%

\*The 2014 ACH bed inventory is calculated as follows: Raeford Manor- 75; Open Arms-90; Autumn Care of Raeford- 8 for a total of 173 from which 54 SCU beds are subtracted (22 SCU beds- Open Arms and the proposed 32 Alzheimers/Dementia beds at Raeford Manor) for a total of 119 ACH beds.

As shown in the table above, applying the population growth factor to the total ACH census (excluding SCU residents) in 2007 and 2008, the applicants project that 119 Hoke County residents 65 and older will need an ACH bed in 2014. In conclusion, the applicants state *“Using historical utilization and projected population growth, the applicants were able to project that there is enough need in Hoke County to operate the Raeford Manor adult care home beds in a new location. Given that need in 2014 is expected to meet or exceed inventory, it is safe to say that Raeford Manor can rely on a utilization of at least 93%.”*

In addition, Raeford Manor states that there is a need for more Alzheimers/Dementia beds or Special Care Unit (SCU) beds in Hoke County. The applicants propose a 32-bed Alzheimers/Dementia Memory Support unit but it will not be a licensed SCU. On page 20 of the application, Raeford Manor states that Open Arms Retirement Center *“reported that in its most recent license renewal application that 21 of its 22 special care were occupied.”* See also Exhibit 24.

The applicants provide the assumptions and methodology used to project need for SCU beds in supplemental materials.

There is only one operational adult care facility in Hoke County, Open Arms Retirement Center (“Open Arms”) which is licensed for 90 beds. There is also a nursing facility which is licensed for 8 ACH beds. According to its 2013 Licensure Renewal Application, the total patient census at Open Arms on August 1, 2012 was 79 patients. Furthermore, as of the same date, 21 of the 22 SCU beds were occupied. In Section III, pages 19-20 and in supplemental materials, the applicants state that the Hoke County Adult Care Home Specialist informed them that Open Arms utilizes no more than 80 of its 90 licensed beds. Therefore, on August 1, 2012, Open Arms had an effective utilization rate of 98.8% ( $79 / 80 = 0.9875$ ). Assuming all 90 beds were in use, Open Arms had a utilization rate of 87.8% ( $79 / 90 = .8777$ ) on August 1, 2012. On the same date, the occupancy rate for the SCU beds was 95.5% ( $21/22 = 0.9545$ ).

The last year that the Adult Care Licensure Section of the Division of Health Service Regulation has records of patient census for both Raeford Manor and Open Arms is 2008. In 2008, the total patient census for Raeford Manor was 58 patients and for Open Arms the patient census was 55 patients for a total of 113 patients (including SCU patients). Between

Raeform Manor and Open Arms the total number of ACH beds in 2008 was 165. However, the Hoke County Adult Care Specialist told the applicant that Open Arms utilizes no more than 80 ACH beds which reduces the effective number of ACH beds in Hoke County to 155 ACH beds. The population of Hoke County 65 and older in 2008 was 3,337 and is projected to be 4,375 in 2014 (the start of the first project year following completion of the proposed project), an increase of 31.1%. Applying this percentage increase to the patient census of Hoke County adult care facilities in 2008 results in a projected patient census for ACH beds in 2014 of 148 ( $113 \times 1.311 = 148.14$ ), which is an utilization rate of 95.5% ( $148 / 155 = 0.9548$ ).

In summary, Raeform Manor adequately demonstrates the need to replace and relocate 75 ACH beds in Hoke County including the extent to which medically underserved groups will have access to the proposed home health services. See Criterion (13c) for discussion regarding access by medically underserved groups which is incorporated hereby as if set forth fully herein. 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.

### C

The applicants propose to replace and relocate 75 licensed but not operational ACH beds within Hoke County. According to MapQuest, the distance from the current site to the proposed site is approximately 8.21 miles and 11 minutes driving time. Thus, the replacement facility would be geographically accessible to the same population formerly served. Because the beds to be relocated are currently not occupied, no patients will be displaced as a result of the proposed project.

Furthermore, in the replacement adult care home facility, the applicants project 50.0% of all resident days for ACH beds will be provided to Medicaid recipients and 75.0% of all resident days for residents in the Alzheimers/Dementia unit will be provided to Medicaid recipients. At present, no medically underserved residents are being served by the 75 ACH beds to be replaced and relocated since it is not operational.

The application is conforming to this criterion.

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

### CA

In Section III.3, page 21, the applicants state:



*“In addition to the route chosen and proposed in this application, the applicants considered renovating the existing facility and constructing a new buildings on the same site. However, neither alternative would work, because the current site would not allow for a building large enough to accommodate the 75 adult care home beds under the current construction requirements regarding square footage per resident.”*

The applicants propose to construct a 75-bed replacement facility in the same county. The applicants do not propose to add new beds. Furthermore, the application is conforming to all applicable statutory and regulatory review criteria, and thus, the application is approvable. An application that cannot be approved is not an effective alternative.

The applicant adequately demonstrated that the proposal is its least costly or most effective alternative to meet the need to replace the 75 ACH beds destroyed by fire in 2009. Consequently, the application is conforming to this criterion and is approved subject to the following conditions.

- 1. HC AL Investors, LLC and HC Operations, LLC shall materially comply with all representations made in the certificate of need application and in the supplemental information materials submitted during the review. In those instances where representations conflict, HC AL Investors, LLC and HC Operations, LLC shall materially comply with the last made representation.**
- 2. HC AL Investors, LLC and HC Operations, LLC shall construct a replacement adult care home facility (ACH) which shall be licensed for no more than 75 ACH beds upon project completion.**
- 3. For the first two years of operation following completion of the project, HC AL Investors, LLC and HC Operations, LLC 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 in the certificate of need application.**
- 4. HC AL Investors, LLC and HC Operations, LLC shall provide care to recipients of State/County Special Assistance with Medicaid for the facility, commensurate with representations made in Section VI. 2 and Exhibit 23 and supplemental materials.**
- 5. HC AL Investors, LLC and HC Operations, LLC 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. **HC AL Investors, LLC and HC Operations, LLC shall develop and implement an Energy Efficiency and Sustainability plan for the replacement facility that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes.**
  7. **HC AL Investors, LLC and HC Operations, LLC 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 85, the applicants project the total capital expenditure for the proposal will be \$6,827,171, which includes:

Site Costs	\$1,695,061
Construction Costs	\$3,668,549
Equipment and Furniture	\$ 650,000
Consultant Fees	\$ 673,587
Financing Costs	\$ 51,203
Interest during Construction	<u>\$ 88,759</u>
Total:	\$6,827,170

In supplemental materials, the applicants project that the total working capital needs for this project will be \$525,173.

In Section VIII.2, page 36, the applicants indicate that the capital cost of the project will be financed with a commercial loan and owner's equity. In supplemental materials the applicants state that the working capital will be financed with owners equity.

Exhibit 11 contains a copy of a letter from Synovus Bank, which states:

*“Synovus Bank hereby expresses its interest in providing to HK AL Investors, LLC (“HK AL”) construction and permanent financing for the proposed facility in Hoke County, North Carolina. The following is a summary of the terms and conditions that would apply to this transaction:*

*Borrower: HK AL Investors, LLC*  
*Purpose: Finance the construction of a 75-bed assisted living facility in Hoke County, NC*  
*Amount: \$5,120,377.74.”*

Exhibit 14 contains a letter dated June 6, 2013 signed by Michael O. Meeks, Certified Public Accountant, which states

*“I am Mr. James R. Smith’s personal accountant, and have worked on Mr. Smith’s behalf for over twenty years. In my capacity, I am fully aware of all of Mr. Smith’s current business interest, and of all presently planned future projects.*

*It is my understanding that HC AL Investors, LLC, of which Mr. Smith is a member, is intending to file a Certificate of Public Need (“COPN”) Application relating to 75 beds for an assisted living facility in Hoke County, North Carolina. I further understand that the project is expected to involve a total capital costs of \$6,827,170.33 of which 25% or \$1,706,792.58 will be funded by an equity contribution.*

*Based on Mr. Smith and Smith/Packett Med Com, LLC’s past performance in North Carolina, I have every belief that HC AL Investors, LLC, if issued a COPN, will be fully funded and developed according to the representation made in the COPN Application.*

*Based on my familiarity with Mr. Smith’s personal financial statements, it is clear that Mr. Smith has liquid financial assets in more than sufficient amounts to fund al of the equity requirements necessary to develop the Hoke County Assisted Living.”*

The applicants adequately demonstrate the availability of sufficient funds for the capital and working capital needs for this project.

In Section IX, page 40, the applicants projected charges/rates for the first two operating years following completion of the project. The private pay charge for a private room is projected to be \$113 for an ACH bed (non special care unit) and \$147.17 for a bed in the Alzheimers/Dementia unit in each of the first two full federal fiscal years.

Furthermore, in Form B, the applicants project that revenues will exceed operating costs in second full federal fiscal year following completion of the proposed project, as shown in the table below.

<b>Net Income</b>	<b>ACH (excluding special care units)</b>	<b>Special Care Units</b>	<b>Total Facility</b>
1 <sup>st</sup> Full FFY (2015)	(\$304,897)	(\$196,747)	(\$501,644)
2 <sup>nd</sup> Full FFY (2016)	\$183,294	\$39,582	\$222,877

Raeford Manor adequately demonstrates that projected revenues and operating costs are based on reasonable, credible and supported assumptions, including projected utilization.

In summary, Raeford Manor adequately demonstrated the availability of sufficient funds for the capital and working capital needs of the project and adequately demonstrated that the financial feasibility of the proposal is based upon reasonable projections of operating 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 applicants propose to replace and relocate 75 existing, but not operational ACH beds within the City of Raeford. After a fire in 2009, the facility was forced to cease operation and is unable to reopen without renovations. The new location is 8.21 miles away from the current location.

There is only one other existing adult care facility in Hoke County, Open Arms Retirement Center (“Open Arms”). Open Arms is also located in Raeford and is licensed for 90 ACH beds 22 of which are licensed as a SCU. According to the 2013 Licensure Renewal Application, the total patient census at Open Arms on August 1, 2012 was 79 patients. Furthermore, as of the same date, 21 of the 22 SCU beds were occupied. In Section III, pages 19-20 and in supplemental materials, the applicants state that the Hoke County Adult Care Home Specialist informed them that Open Arms utilizes no more than 80 of its 90 licensed beds. Therefore, on August 1, 2012, Open Arms had an effective utilization rate of 98.8% ( $79 / 80 = 0.9875$ ). Assuming all 90 beds were in use, Open Arms still had a utilization rate of 87.8% ( $79 / 90 = .8777$ ) on August 1, 2012. On the same date, the occupancy rate for Open Arms’s SCU beds was 95.5% ( $21/22 = 0.9545$ ).

The applicants adequately demonstrate the need to replace the 75 ACH beds destroyed by fire in 2009. See Criterion (3) for discussion which is incorporated hereby as if set forth fully herein. Consequently, the applicants adequately demonstrate that the proposed project would not result in the unnecessary duplication of existing or approved ACH beds in Hoke County. Therefore, 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

The applicants propose to provide personal care staff twenty-four hours per day, seven days per week. In Section VII., pages 32-33, the applicants state that by FFY2016 (the second full federal fiscal year), the proposed replacement adult care facility will be staffed by 35 full-time equivalent (FTE) positions. Adequate costs for the health manpower and management positions proposed by the applicants are budgeted in the pro forma financial statements. The applicants adequately demonstrate the availability of sufficient health manpower and management personnel to provide the proposed services. 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.

C

In Section II.1, pages 9-11, the applicants describe the ancillary and support services that will be provided by the facility or made available through agreements with other providers including dietary, transportation, dentistry, physician, respite, medication administration, personal care and beauty and barber services. In Exhibits 9 and 10, the applicants provide copies of letters sent to area physicians and a medical facility regarding their proposed project. The applicants adequately demonstrate that they will provide or make arrangements for the necessary ancillary and support services and that the proposed services will be coordinated with the existing health care community. 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

The applicants propose to construct a 38,075 square foot building at 9288 Fayetteville Road, Raeform to house the proposed replacement adult care facility. On page 44, the applicants state that 32,820 square feet will be heated. Construction costs are projected to be \$3,668,549 as stated in Section VIII.1, page 35 of the application. Exhibit 21 contains a letter dated June 4, 2013 from Gregg A. Munn, Chief Executive Officer, Integrated Construction, LLC, which states that the construction costs applicable to the 32,820 square feet of heated space are projected to be “\$3,350,760 +/- for the building only.” This corresponds with line 7 “cost of construction contracts” in Table VIII.1- Estimated Capital Costs on page 35.

Exhibit 22 details the energy and water saving features to be included in the proposed project which include: energy efficient lighting, building orientation to enhance day-lighting and passive solar, energy efficient water heating, right-sizing of the project to allow for operational efficiency, thermally insulated windows and water-efficient plumbing fixtures.

The applicants adequately demonstrate that the cost, design and means of construction represent the most reasonable alternative and that the construction costs will not unduly increase costs and charges for health services. See Criterion (5) for discussion of costs and charges which is incorporated hereby as if set forth fully herein. Therefore, the application is conforming with 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;

NA

In Section IV.1, page 25, the applicants state that the facility has not housed patients since the fire in December 2009.

- (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;

NA

In Section IV.1, page 25, the applicants state that the facility has not housed patients since the fire in December 2009.

- (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 Exhibit 23, the applicants project the following payor mix for the second full federal fiscal year of operation (FFY 2016).

Payor Category	ACH (excluding special care units)	Special Care Unit	Total ACH
Private Pay	50%	25%	100%
Medicaid	50%	75%	100%
Total	100%	100%	100%

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 Hoke County and statewide.

	2010 Total # of Medicaid Eligibles as % of Total Population *	2010 Total # of Medicaid Eligibles Age 21 and older as % of Total Population *	CY2008-2009 % Uninsured (Estimate by Cecil G. Sheps Center) *
Hoke	18.8%	6.9%	21.9%
Statewide	17%	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. This age group does not utilize the same health services at the same rate as older segments of the population, particularly adult care home services.

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 45.9% for those age 20 and younger and 30.6% 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 applicants' 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 will have adequate access to the proposed services. 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 I.10, page 8, Raeford Manor states that the proposed adult care home will be managed by Saber Health Holdings which currently manages three adult care facilities located in North Carolina as well as two skilled nursing facilities. In Section V.4, page 27, the applicants state

*“Given the previous experience of Saber opening and managing new facilities, the applicants anticipate that relationships and referral agreements will be created with local agencies and persons in the position to refer residents. Additionally, the facility will reach out to local authorities, such as the Hoke County Adult Care Coordinator, to streamline the process of referring residents, especially those relying on Medicaid and County Special Assistance.”*

The applicants adequately demonstrate they will offer a range of means by which patients will have access to the proposed adult care home beds. 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

In Section V.1, page 27, the applicants state

*“There are no current agreements with health professional training programs. However, applicants are attempting to acquire such relationships.”*



*See Exhibit 8.”*

Exhibit 8 contains a copy of a letter from the applicants to Fayetteville Technical College offering to provide clinical training to nursing assistants.

The applicants adequately demonstrate that the proposed facility would accommodate the clinical needs of area health professional training programs. 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

Raeford Manor is not currently in operation. There is only one other existing adult care facility in Hoke County, Open Arms Retirement Center (“Open Arms”). Open Arms is also located in Raeford and is licensed for 90 ACH beds 22 of which are licensed as a SCU. According to the 2013 Licensure Renewal Application, the total patient census at Open Arms on August 1, 2012 was 79 patients. Furthermore, as of the same date, 21 of the 22 SCU beds were occupied. In Section III, pages 19-20 and in supplemental materials, the applicants state that the Hoke County Adult Care Home Specialist informed them that Open Arms utilizes no more than 80 of its 90 licensed beds. Therefore, on August 1, 2012 Open Arms had an effective utilization rate of 98.8% ( $79 / 80 = 0.9875$ ). Assuming all 90 beds were in use, Open Arms still had a utilization rate of 87.8% ( $79 / 90 = .8777$ ) on August 1, 2012. On the same date the occupancy rate of Open Arms’ SCU beds was 95.5% ( $21/22 = 0.9545$ ).

In Section VI.5, page 50 and supplemental materials, Raeford Manor discusses how any enhanced competition in the service area will have a positive impact upon the cost-effectiveness, quality and access to the proposed services. Raeford Manor states

*“The applicants propose a new facility that will allow for the highest quality of care available. Underserved groups, such as those relying on Medicaid, will be served by the new facility without regard to payor source. Potential residents will not be discriminated against with regard to their age, racial background, ethnic background, gender, handicap, sex, medical diagnosis. After Raeford Manor ceased operating in*

*December of 2009, residents of Hoke County lost one of only two adult care homes, forcing many to look outside of the county for care. This new facility would once again bring choice of adult care home to the residents of Hoke County. Beyond those only requiring regular adult care home beds, Raeform Manor would also provide an opportunity for those with Alzheimer's or dementia requiring a special care unit to have a second choice to stay within the county."*

The applicants state that with the proposed project providing "choice of care" for Hoke County residents within the county will increase competition within Hoke County leading to increased quality of care and decreased costs. Raeform Manor states that there currently is only one adult care facility in Hoke County and that *"Without competition, a single facility can monopolize on the provision of care in Hoke County, and, therefore, has no economic incentive to increase the quality of care and decrease costs."*

See also Sections II, III, V, VI and VII where Raeform Manor discusses the impact of the project on cost-effectiveness, quality and access. The information provided by Raeform Manor in those sections is reasonable and credible and adequately demonstrates that any enhanced competition in the service area includes a positive impact on the cost-effectiveness, quality and access to the proposed services. This determination is based on the information in the application and the following analysis:

- Raeform Manor adequately demonstrates the need to replace and relocate 75 ACH beds within Hoke County and that it is a cost-effective alternative;
- Raeform Manor will provide quality services; and
- Raeform Manor will 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.

NA

In Section IV.1, page 25, the applicants state that the facility has not been operational since the fire in December, 2009.

(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 Criteria and Standards for Nursing Facility or Adult Care Home Facility Services, promulgated in 10A NCAC 14C .1100, are not applicable because the applicants do not propose to establish new adult care home facility beds.