ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS
C = Conforming
CA = Conditional
NC = Nonconforming
NA = Not Applicable

DECISION DATE: October 28, 2014
FINDINGS DATE: November 4, 2014

PROJECT ANALYST: Julie Halatek
INTERIM CHIEF: Martha J. Frisone

PROJECT I.D. NUMBER: E-10289-14 / MBHS of North Carolina, LLC and Alexander Hospital Investors, LLC / Develop a new child/adolescent chemical dependency treatment facility with 15 beds pursuant to a need determination in the 2014 State Medical Facilities Plan / Alexander

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.

CA

MBHS of North Carolina, LLC ("MBHS") and Alexander Hospital Investors, LLC ("AHI") propose to develop Alexander Youth Services (AYS), a new 15-bed child/adolescent chemical dependency treatment (substance abuse) facility. AYS will be located at 326 3rd Street SW in Taylorsville in Alexander County, on the same site as Alexander Hospital. AHI currently owns the land where the new facility will be developed and plans to construct the building that will house the new facility. AHI will then lease the building to MBHS, which will provide equipment and furniture for the facility.

Need Determination

The 2014 State Medical Facilities Plan (SMFP) identified a need for 15 new child/adolescent substance abuse beds in the Western Mental Health Planning Region which includes Alexander County. The Local Management Entity/Managed Care Organization (LME-MCO) for Alexander County is Smoky Mountain Center 2.

In Section II.1(e), pages 8-9, the applicants state they propose to provide inpatient treatment for individuals between the ages of 7-18 years old who suffer from chemical dependency. Note: the upper age limit is 17 years, not 18 years.

The proposal is consistent with the need determination.

Policies

There are three policies in the 2014 State Medical that are applicable to this review: Policy MH-1: Linkages Between Treatment Settings; Policy GEN-3: Basic Principles; and Policy GEN-4: Energy Efficiency And Sustainability For Health Service Facilities. Each of these policies is discussed below.

Policy MH-1: Linkages Between Treatment Settings

This policy states:

> *"An applicant for a certificate of need for psychiatric, substance abuse or intermediate care facilities for individuals with intellectual disabilities (ICF/IID) beds shall document that the affected local management entity-managed care organization has been contacted and invited to comment on the proposed services."*

In Section V.2(a), page 40, Section V.5(a), page 42, and in supplemental information received September 24, 2014, the applicants state they have conducted meetings with various agencies, including Smoky Mountain Center 2, and that other conversations have already taken place or will take place shortly with various agencies, including Smoky Mountain Center 2. The applicants state that information provided to Smoky Mountain Center 2 was received very well. However, the applicants do not adequately demonstrate they have invited Smoky Mountain Center 2 to comment on the proposal. The application is consistent with Policy MH-1 subject to Condition #3 in Criterion (4).

Policy GEN-3: Basic Principles

This policy states:

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

Promote Safety and Quality

In supplemental information received September 24, 2014, the applicants state they will hire a qualified risk manager and they have a comprehensive risk management plan in place to ensure quality and promote safety. The applicants provide a copy of their quality/performance improvement plan in Section II.2(a), pages 12-26. Therefore, the applicants adequately demonstrate that their proposal will promote safety and quality.

Promote Equitable Access

In supplemental information received September 24, 2014, the applicants state they will be enrolled as a North Carolina Medicaid provider as well as with other LME-MCOs. The applicants state they are committed to serving any youth requiring inpatient services for substance abuse treatment who meets medical necessity without regard for the ability to pay. The applicants adequately demonstrate that their proposal will promote equitable access.

Maximize Healthcare Value

In supplemental information received September 24, 2014, the applicants state they will be providing a service that will reduce the number of youth who, when in crisis, are seen in emergency rooms or other treatment settings that are not designed to meet their specialized treatment needs. The applicants state that their proposal will alleviate the burden on local outpatient mental health facilities that do not have the services to treat dual diagnosis patients properly. The applicants further state that by providing a full continuum of youth substance abuse services, from regular outpatient services up through inpatient treatment, they will enable youth to have a shorter acute length of stay (and thus reduce insurance costs). The applicants additionally state that, because the proposed facility will be built adjacent to Alexander Hospital and that land had been acquired prior to the development of this proposal, there will be a lower cost to develop the proposal. Therefore, the applicants adequately demonstrate that their proposal will maximize healthcare value for the resources expended.

<u>Policy GEN-4: Energy Efficiency And Sustainability For Health Service Facilities</u>

This policy 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 supplemental information received September 24, 2014, the applicants state they are designing the building to be in compliance with all applicable federal, state, and local requirements for energy efficiency and water conservation. The applicants state they have hired experienced architects and engineers, who have experience with energy conservation standards, to ensure energy efficiency is an inherent part of the proposal. The applicants adequately demonstrate that they included a written statement describing the project's plan to assure improved energy efficiency and water conservation.

Conclusion

In summary, the applicants adequately demonstrate that their proposal to develop a 15-bed substance abuse facility for children and adolescents is consistent with the need determination in the 2014 SMFP. The application is also consistent with Policy GEN-3 and Policy GEN-4. The application is consistent with Policy MH-1 subject to Condition #3 in Criterion (4). Therefore, the application is conforming to this criterion as conditioned.

(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

MBHS of North Carolina, LLC ("MBHS") and Alexander Hospital Investors, LLC ("AHI") proposes to develop Alexander Youth Services (AYS), a new 15-bed child/adolescent chemical dependency treatment (substance abuse) facility, located on the same site as Alexander Hospital.

Population to be Served

In Section II.1(e), pages 8-9, the applicants state that the facility will provide substance abuse services to children and adolescents ages 7-18 years old. Note: the upper age limit is 17 years, not 18 years.

In supplemental information received September 24, 2014, and October 22, 2014, the applicants state that the primary service area is generally defined as counties within a 100 mile radius to the east of Alexander County and those counties within a 150 mile radius to the west of Alexander County. The secondary service area is considered to be the counties lining the primary service area to the east, north, and south, and all remaining counties to the western edge of North Carolina. The counties in North Carolina that are not part of the primary or secondary service areas are included in the "All Other Counties" line in the table below:

Projected Patient Origin by County - AYS		
County	**% of population within primary service area**	**% of total admissions**
Alexander	1.57%	1.25%
Alleghany	0.41%	0.33%
Ashe	1.02%	0.81%

Avery	0.56%	0.45%
Buncombe	9.51%	7.61%
Burke	3.73%	2.98%
Caldwell	3.48%	2.78%
Catawba	6.93%	5.54%
Cleveland	4.22%	3.38%
Davidson	7.36%	5.89%
Davie	1.81%	1.44%
Forsyth	16.56%	13.24%
Gaston	9.41%	7.53%
Iredell	7.92%	6.34%
Lincoln	3.52%	2.82%
McDowell	1.86%	1.49%
Mitchell	0.56%	0.44%
Polk	0.74%	0.59%
Rowan	6.24%	4.99%
Rutherford	2.83%	2.26%
Surry	3.20%	2.56%
Watauga	1.35%	1.08%
Wilkes	2.94%	2.35%
Yadkin	1.65%	1.32%
Yancey	0.66%	0.53%
Primary Counties Total	**100.00%**	**80.00%**
Secondary Counties Total*		**12.00%**
All Other Counties Total**		**8.00%**
Total		**100.00%**

*According to the applicants, secondary counties include Cabarrus, Cherokee, Clay, Graham, Guilford, Haywood, Henderson, Jackson, Macon, Madison, Mecklenburg, Randolph, Rockingham, Stanly, Stokes, Swain, and Transylvania counties.
**According to the applicants, the remaining 56 counties are considered part of the "All Other Counties" category.

In Section III.4(a), page 34, the applicants state:

> *"The rationale for identifying these counties as primary and secondary are taking into consideration the counties served by LME's as well as geographic location. Alexander County is located in the Smoky Mountain* [Center 2] *LME and borders Partners* [Behavioral Health Management] *LME. Most of the counties listed above are served by those two LME's except Mecklenburg County which includes the Charlotte metropolitan area. Also, given that there are only 26 substance abuse beds serving children and adolescents in the entire state, it is likely that families and agencies would travel to secure these services for their children. Although Taylorsville is within the 150 mile driving distance of several other counties, there are SA beds in Forsythe* [sic] *County which falls within the Centerpoint* [Human Services] *LME. It is anticipated there will be some clients who do come from other geographic areas throughout the state because of the lack of specialized substance abuse services for children & adolescents."*

The applicants adequately identify the population they propose to serve.

Analysis of Need

In supplemental information received September 24, 2014, the applicants state:

> *"After review of the existing beds for specialized substance abuse treatment for children & adolescents in NC, it was determined that there are only 26 beds currently operational throughout the entire state. ... After evaluating overall statistics related to the increased number of youth engaging in abuse of drugs and alcohol, it was determined that there was a need for 15 beds in this region for this purpose.*
>
> *Increasing additional resources for the treatment and early intervention decreases the risk for addiction issues in adulthood. Also, there is a correlation between addiction and development of co-occurring disorders and medical issues. Suicide is already one of the leading causes of death among youth and the abuse of substances increases the likelihood of depressive symptoms and suicidal behaviors."*

In supplemental information received October 10, 2014, the applicants include a copy of an article published in the Asheville Citizen Times on March 15, 2014. In that article, the applicants have highlighted particular information regarding substance abuse, including the statements below:

- Law enforcement and health officials in the western part of North Carolina are seeing an increasing number of cases involving substance abuse.

- A national study suggests that the Appalachian mountain region of the United States has been hit harder with this issue than the rest of the country.

- According to the Henderson County Sheriff's Office, emergency personnel are currently responding to 7-10 overdoses per week (both accidental and intentional).

- According to the North Carolina Division of Public Health, Henderson County (pop. 108,000) had 138 unintentional poisoning deaths from 2002-2012, with approximately 90 percent being medication related.

- According to a report issued by the nonprofit health organization Trust for America's Health in 2013, prescription drug-related deaths are higher than deaths from heroin and cocaine combined, and in 29 states, drug overdose deaths are higher than motor vehicle related deaths.

- According to the Buncombe County Health Director, leaders in Buncombe County have identified prescription drug use as a growing concern; this has led to the Asheville Buncombe Drug Commission, along with the Partnership for Substance Free Youth in Buncombe County, to apply for participation in Project Lazarus (a statewide initiative to decrease prescription drug abuse and related deaths).

- According to the Henderson County Sheriff's office, 3-4 deaths per month can be

attributed to overdoses.

- According to the Henderson County Sheriff's Office, 80-85 percent of crimes in Henderson County are linked to substance abuse.

In supplemental information received on September 24, 2014, and October 10, 2014, the applicants cite additional statistics to support the need for the substance abuse beds:

- According to the Oxford Research Journal, acute alcohol use is associated with suicide; people who commit suicide have high rates of positive blood alcohol; people under the influence of alcohol are more likely to attempt suicide and use more lethal methods to do so; and alcohol may be an important factor in suicides in individuals with no previous mental health history.

- According to Jason's Foundation, for middle and high school aged youth (12-18 years), suicide is the second leading cause of death; among college aged youth (18-22 years), suicide is the third leading cause of death; and overall, among youth aged 10-24 years, suicide is the second leading cause of death.

- In an article published in 2006 in the Journal for Substance Abuse, Research and Policy, nationwide, 4.0 percent of adolescents aged 12-17 years had an unmet need for alcohol abuse treatment, and 4.3 percent of the same age group had an unmet need for illicit drug abuse treatment; in contrast, for the same age groups in North Carolina, 4.6 percent had an unmet need for alcohol abuse treatment and 4.6 percent had an unmet need for illicit drug abuse treatment – thus, North Carolina has a higher than national average unmet need for substance abuse treatment.

- The following statement from the Alexander County Health Department website (www.alexanderhealth.com) is included by the applicants:

> *"Another emerging issue locally continues to be substance abuse. While substance abuse has been identified as a priority of several years, our focus has shifted from alcohol abuse to prescription drug abuse. Alexander County has seen a dramatic increase in prescription drug abuse in children and adult populations. Fatal drug overdoses are now the primary cause of death due to unintentional injury in the United States. Prescription drugs are the second most abused drug among young people ages 12-17. According to the National Center on Addiction and Drug Use at Columbia University, nearly nine million U.S. teens report that they can get prescription drugs illicitly within one day and 5 million say that they can get them within one hour. The Health Department has identified this as a priority issue locally and has begun work with local physicians, pharmacists, and local law enforcement to address the concern. This collation* [sic] *has provided Prescription Drug Drop Off events to allow residents an avenue to safely dispose of their unwanted or expired medications to keep them out of the hands of children or others who may abuse the medication. Work will continue to address this quickly expanding issue.*

> *Access to health care is an ongoing and emerging priority issue affecting our community. With no local hospital or urgent care facility the Health Department continues to work with local partners to address this concern. Our agency has applied for several grants to locate an urgent care type facility in our community that would be available to address citizens needs after hours and on weekends or holidays. We have not yet been successful in these grant opportunities, however we are constantly exploring opportunities that would allow the Health Department to provide more services to our residents. Currently many of our residents must go outside of the County to receive the medical services that they need. In many cases this burden is compounded by the fact that these residents many not have access to transportation resources to make to* [sic] *trip. The Health Department and other community agencies will continue to address this emerging issue."*

The applicants provide sufficient information in the application and supplemental information received by the CON Section on various dates to adequately document an unmet need for the proposed 15-bed substance abuse facility in Taylorsville in Alexander County.

Projected Utilization

In the supplemental information received on October 22, 2014, the applicants state that their utilization projections began with determining the primary and secondary service areas. In supplemental information received October 10, 2014, regarding the determination of primary and secondary service areas, the applicants state:

> *"Due to the lack of child and adolescent inpatient substance abuse services across the state there is not any real specific patient origin statistics within North Carolina for this particular service. The assumptions of the patient origin were made based on two factors. The first is the facilities* [sic] *planned marketing efforts and the second was derived from the framework of the projected patient origin for the previous CON applications from Holly Hill and Brynn Marr for their projected percentages of admissions by patient origin.*
>
> *The facility plans to focus 80% of its marketing efforts into the primary service areas, 12% into the secondary service areas, and 8% of its efforts to the other service areas of the state. Our current marketing and research efforts have focused on the primary and secondary service areas and have received verbal reports of need that would support this assumption. This coupled with the fact that there are no similar treatment options in the primary or secondary service areas make a strong case to support these assumptions.*
>
> *In reviewing the CON's submitted for acute child and adolescent psychiatric hospital beds it has been noted that Holly Hill and Brynn Marr projected 80% to 85% of their admissions would come from what could be defined as their primary areas of services and list 15%-20% of admission from all other areas. AYA* [sic] *has decided to look at*

this as three separate areas, thus breaking out the all other areas into a secondary and other areas market which comprise the estimated 20% of admissions that come from outside the primary service area. …"

In supplemental information received September 24, 2014, the applicants, in every quarter, assume the average length of stay (ALOS) will be six days. The applicants state:

"In factoring the average length of stay we looked at ALOS for facilities in North Carolina that provide acute inpatient psychiatric services, a facility in Louisiana that provides acute inpatient psychiatric services with a high Medicaid payor source, and statistics on substance abuse length of stay in an acute inpatient setting. The models were chosen due to the access [sic] *of information and also we were able to use this information alongside the substance abuse statistics to create a very conservative projection for the average length of stay for AYS.*

In the first year in operation (2013) a sister facility to AYS located in Louisiana, Northlake Behavioral Health, reported an average length of stay in our predominately Medicaid acute adolescent services programs at an ALOS of 7.2. This is a 44 bed program and provides services to the child and adolescent age groups that would be served at AYS. We recently compared this data to information provided for the Child & Adolescent Acute Psychiatric Inpatient ALOS's reported in recent Certificate of Need Applications submitted by Brynn Marr Hospital and Strategic Center – Garner. Brynn Marr's records reported the 2008-2012 average ALOS at 10.06 and Strategic reported a three quarter ALOS of 9.9 for their 2013 records. We also used the information from the below table stemming from the article Chisolm and Kelleher Substance Abuse Treatment, Prevention, and Policy.

This project is for a proposed unit unlike many other in the state. Therefore, no historical data is available for the utilization of the specific services. That being said AYS is predicting that the substance abuse program will have slightly lower ALOS than the states Acute Child and Adolescent Psychiatric programs and the other documented sources. These predictions are based on the ALOS information given, general statistics on substance abuse length of stay, and the professional experience of the leaders within the parent company. The projected utilization data is based off the above information ALOS of 6 days per stay, which is a conservative estimate for this program."

In supplemental information received on September 24, 2014, the applicants provide the following projected utilization by quarter for the first three operating years:

Projected Utilization by Quarter – AYS Operating Years One, Two, and Three			
Quarter	**Client Days**	**Occupancy Rate**	**# of Certified Beds**
1	276	20%	15
2	553	40%	15
3	819	60%	15
4	1,018	76%	15
Year 1 Total	**2,666**	**49%**	**15**

5	1,165	84%	15
6	1,258	91%	15
7	1,274	93%	15
8	1,260	93%	15
Year 2 Total	**4,957**	**91%**	**15**
9	1,288	93%	15
10	1,288	93%	15
11	1,274	93%	15
12	1,260	93%	15
Year 3 Total	**5,110**	**93%**	**15**

In supplemental information received October 22, 2014, the applicants state:

> *"The capacity or increased ADC* [Average Daily Census] *by quarter were projected looking at three major factors; marketing, staffing and program integration. Marketing for the facility will start prior to opening, but will continually increase throughout the first two years. As the facility establishes a strong stream of referral providers for the service the projected census increases. While marketing efforts will connect the facility with increased numbers of patients needing services the facility must take a responsible approach to growth, especially in the first four quarters of operations.*
>
> *Responsible growth refers to having the appropriate number of staff members, trained appropriately to effectively integrate and fully implement the set program. Hiring of staff will be staggered to meet the program requirements and projected census goals.*
>
> *Acknowledging that this is a brand new facility and not an off-shoot of one that is already established, a methodical approach to growth has been applied to this program in order to acclimate the market to our presence, the staff members to the work, and the program to the facility."*

In supplemental information received September 24, 2014, in response to a question about methodology used to project the total number of admissions by service area and by county, the applicants state:

> *"Population statistics for child* [sic] *and adolescents between the ages 5-17 were compiled for each county. We budgeted that total admissions from the primary service areas will account for 80% of total admissions. The breakout budgeted for each primary service area will be a percentage of their child and adolescent population (0.09% in year one/0.17% in year two). The secondary service areas will are* [sic] *budgeted to account for 12% and the All Other Counties combined will be expected to contribute 8% of total admissions. Both of these figures are based on a percentage of each areas* [sic] *child and adolescent population. Secondary areas are budgeted 0.01% in year one and 0.02% in year two, while All Other Counties are set at .007% in year one and 0.01% in year two.*

In naming the addressing [sic] *Primary Regions more emphasis has been placed on the western region as this is the highest area of unmet need for these services, as evident* [sic] *by the lack of child and adolescent substance abuse beds in these areas. See Exhibit M in the exhibit section with the Original CON Application."*

Exhibit M contains a map showing the regions of the state and how many child/adolescent substance abuse beds and facilities each region has.

In supplemental information received September 24, 2014, the applicants provide the following table to illustrate the results of the calculations described above:

Utilization Projections – AYS – Operating Years One and Two							
Service Area*	**Pop. Estimate (5-17 yrs)**	**% of Pop. in Primary Service Area**	**% of Admits**	**Total Admits OY1**	**Total Admits OY2**	**Breakout % OY1**	**Breakout % OY2**
Primary Service Area	387,195	100.00%	80.00%	355	661	0.09%	0.17%
Secondary Service Area	408,988	N/A	12.00%	53	99	0.01%	0.02%
All Other Counties	893,996	N/A	8.00%	36	66	0.00%	0.01%
Total	**1,690,179**	**N/A**	**100.00%**	**444**	**826**	**0.03%**	**0.05%**

***Primary Service Area:** Alexander, Alleghany, Ashe, Avery, Buncombe, Burke, Caldwell, Catawba, Cleveland, Davidson, Davie, Forsyth, Gaston, Iredell, Lincoln, McDowell, Mitchell, Polk, Rowan, Rutherford, Surry, Watauga, Wilkes, Yadkin, and Yancey counties. **Secondary Service Area:** Cabarrus, Cherokee, Clay, Graham, Guilford, Haywood, Henderson, Jackson, Macon, Madison, Mecklenburg, Randolph, Rockingham, Stanly, Stokes, Swain, and Transylvania counties. **All Other Counties:** the remaining 56 counties in North Carolina.

In supplemental information received October 22, 2014, the applicants provide their assumptions and methodology used to calculate the "breakout percentage" in each operating year and how that was used to project patient origin by county. The applicants state:

"Example:

				Total Admits		*% of Pop Admitted*	
County	***Pop Estimate (Age 5-17)***	***% of Pop in the Primary Area***	***% Total Admits***	***Year One***	***Year Two***	***Year One***	***Year Two***
Alexander County, NC	*5,994*	*1.57%*	*1.25%*	*6*	*10*	*0.09%*	*0.17%*

The model takes in account Alexander County's ("AC") identified population (5,994) and then shows the percentage this population (1.57%) is of the total primary service area population (382,699). Since the primary service area will account for 80% of total admissions the population percentage of 1.57% was multiplied by 80% thus creating the "% of Total Admits" factor (1.25%). This factor is then multiplied by the total projected admissions in both year one (444) and year two (826), which calculated the projected total admissions for AC in year one (6) and year two (10). Once admissions from AC were calculated, year one and two's projected admissions were divided by AC's Pop Estimate (5,994), which calculated the % of Pop Admitted by area in year one (0.09%) and year two (0.17%)."

Although in the case of Alexander County, the breakout percentage does not equal 0.09 percent for operating year one (444 X 0.0125 = 5.55 = 6; 6 / 5,994 = 0.0010 = 0.10%), it does equal 0.17 percent for operating year two (826 X 0.0125 = 10.325 = 10; 10 / 5,994 = 0.00166 = 0.17%). Additionally, when the projected total admissions for operating year one and operating year two are calculated together rather than separately, the percentages are 0.09 percent and 0.17 percent:

- Total admissions OY1 = 444
- Total admissions from Primary Service Area, OY1 = 444 X 0.80 = 355.2 = 355
- Total population of Primary Service Area, OY1 = 387,195
- Breakout percentage, OY1 = 355 / 387,195 = 0.0009 = 0.09%

- Total admissions OY2 = 826
- Total admissions from Primary Service Area, OY2 = 826 X 0.80 = 660.8 = 661
- Total population of Primary Service Area, OY2 = 387,195
- Breakout percentage, OY2 = 661 / 387,195 = 0.0017 = 0.17%

The applicants state, as quoted previously, that they used these same calculations to determine the number of admissions from the secondary service area and all other counties.

In supplemental information, the applicants project the number of admissions by county during operating years one and two, as shown below:

Projected Admissions by County - AYS							
				Total Admits		**% of Pop. Admits**	
County	**Pop. Estimate (Ages 5-17)**	**% of Pop. w/in Primary Service Area**	**% of Total Admissions**	**Year One**	**Year Two**	**Year One**	**Year Two**
Alexander	5,994	1.57%	1.25%	6	10	0.09%	0.17%
Alleghany	1,560	0.41%	0.33%	1	3	0.09%	0.17%
Ashe	3,898	1.02%	0.81%	4	7	0.09%	0.17%
Avery	2,133	0.56%	0.45%	2	4	0.09%	0.17%
Buncombe	36,399	9.51%	7.61%	34	63	0.09%	0.17%
Burke	14,257	3.73%	2.98%	13	25	0.09%	0.17%
Caldwell	13,303	3.48%	2.78%	12	23	0.09%	0.17%

Catawba	26,506	6.93%	5.54%	25	46	0.09%	0.17%
Cleveland	16,150	4.22%	3.38%	15	28	0.09%	0.17%
Davidson	28,182	7.36%	5.89%	26	49	0.09%	0.17%
Davie	6,908	1.81%	1.44%	6	12	0.09%	0.17%
Forsyth	63,359	16.56%	13.24%	59	109	0.09%	0.17%
Gaston	36,008	9.41%	7.53%	33	62	0.09%	0.17%
Iredell	30,312	7.92%	6.34%	28	52	0.09%	0.17%
Lincoln	13,470	3.52%	2.82%	13	23	0.09%	0.17%
McDowell	7,119	1.86%	1.49%	7	12	0.09%	0.17%
Mitchell	2,126	0.56%	0.44%	2	4	0.09%	0.17%
Polk	2,827	0.74%	0.59%	3	5	0.09%	0.17%
Rowan	23,866	6.24%	4.99%	22	41	0.09%	0.17%
Rutherford	10,828	2.83%	2.26%	10	19	0.09%	0.17%
Surry	12,249	3.20%	2.56%	11	21	0.09%	0.17%
Watauga	5,162	1.35%	1.08%	5	9	0.09%	0.17%
Wilkes	11,252	2.94%	2.35%	10	19	0.09%	0.17%
Yadkin	6,302	1.65%	1.32%	6	11	0.09%	0.17%
Yancey	2,529	0.66%	0.53%	2	4	0.09%	0.17%
Primary Counties Total	**382,699**	**100.00%**	**80.00%**	**355**	**661**	0.09%	0.17%
Secondary Counties Total*	**411,784**	**N/A**	**12.00%**	**53**	**99**	**0.01%**	**0.02%**
All Other Counties Total**	**893,996**	**N/A**	**8.00%**	**36**	**66**	**0.00%**	**0.01%**
Total	**1,690,179**	**N/A**	**100.00%**	**444**	**826**	**0.03%**	**0.05%**

*According to the applicants, secondary counties include Cabarrus, Cherokee, Clay, Graham, Guilford, Haywood, Henderson, Jackson, Macon, Madison, Mecklenburg, Randolph, Rockingham, Stanly, Stokes, Swain, and Transylvania counties.
**According to the applicants, the remaining 56 counties are considered part of the "All Other Counties" category.

The applicants adequately document that projected utilization is based on reasonable and adequately supported assumptions.

Access to Services

In Section VI.2, page 45, the applicants state:

> *"Admission and treatment of all individuals will be done without regard to race, color, sex, national origin, gender, handicap, or ability to pay. Since this program will serve only children and adolescents ages 10-18, serving adults ages 18 and over will not be within the admission criteria. ...*
>
> *It is the policy of the facility not to retain an individual who requires services beyond those for which the facility is licensed or has the functional ability to provide. There is no distinction in the eligibility for, or in the manner of providing any individual service provided by the facility or by others in or outside the facility. The services of this facility are available without distinction to all individuals and visitors regardless of race, color, sex, national origin, handicap, age, gender or ability to pay."*

In Section VI.4, page 46, the applicants state the facility will not require any financial payment prior to or upon admission to the facility.

In Section VI.9, page 51, the applicants provide the projected payor mix during the second operating year, as shown in the following table:

AYS Projected Payor Mix Operating Year Two		
Payor	**Days as % of Utilization**	**% of Total Revenue**
Medicaid	60%	53%
Commercial Insurance	20%	23%
Other	20%	24%
Total	**100%**	**100%**

As shown in the table above, the applicants project that 60 percent of the patients will be covered by Medicaid, 20 percent will be covered by commercial insurance, and 20 percent will be "Other."

In supplemental information received October 22, 2014, the applicants state:

> *"The other insurance category will include private insurance payors'* [sic] *that the facility will be paneled* [sic]. *Examples of these are Blue Cross Blue Shield, United Healthcare, and Humana. The payor mix is based on assumptions from* [sic] *pulled from the AYS sister facility in Louisiana (Northlake Behavioral Health)* [in] *conjunction with Meridian Behavioral Health Executives' experience in the industry experience* [sic]*."*

The applicants adequately demonstrate 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 proposed services.

<u>Conclusion</u>

In summary, the applicants adequately:

- Identify the population to be served.
- Demonstrate the need that this population has for the services proposed.
- Demonstrate 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 proposed services.

Consequently, the application is conforming to this criterion.

(3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served

will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA

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

CA

In supplemental information received on September 24, 2014, the applicants identified the alternatives considered and the reasons the applicants concluded they were not the most effective alternative, as described below:

- Provide Outpatient Treatment: the applicants state that this is not an effective alternative because many youth with substance abuse issues continue to face school and peer pressure, lack of family understanding, and continued access to substances.

- Provide Inpatient Treatment on a General Psychiatric Unit: the applicants state this is not an effective alternative because the treatment doesn't provide the level of care necessary to treat substance abuse issues. The applicants state that some therapy groups might cover some of the same topics as in a substance abuse facility, there are additional needs that substance abusers have, and because of the limited number of therapy sessions during an inpatient stay, the needs of substance abusers are not met.

- Placement in an Out-of-Area Inpatient Substance Abuse Treatment Program: the applicants state that, while many programs actively suggest changing one's friends and geography, the role of family support is vital for the adolescent population to establish ongoing treatment compliance and effective relapse prevention plans. The applicants also state that because insurance coverage is often at the out-of-network level, the programs can be cost-prohibitive, and family therapy sessions on the phone, if needed due to financial considerations with distance, are not as effective.

- Admittance to an Emergency Room: the applicants state that this is not an effective alternative because after the emergency room provides detoxification in emergency situations, the patient is discharged from the facility with no further therapeutic intervention. The applicants state that because from a medical standpoint, substance abusers who are not acutely suffering a life-threatening condition do not get the care and attention that is needed, beyond perhaps an evaluation that identifies treatment needs for the patient.

The applicants adequately demonstrate that the proposal is the least costly or most effective alternative to meet the need for the proposed inpatient child/adolescent substance abuse services.

Furthermore, the application is conforming or conditionally 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.

Therefore, the application is conforming to this criterion and approved subject to the following conditions.

1. **MBHS of North Carolina, LLC, and Alexander Hospital Investors, 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, MBHS of North Carolina, LLC, and Alexander Hospital Investors, LLC shall materially comply with the last made representation.**

2. **MBHS of North Carolina, LLC, and Alexander Hospital Investors, LLC shall develop no more than one new inpatient child/adolescent chemical dependency treatment facility with a total licensed bed complement of no more than 15 inpatient child/adolescent chemical dependency treatment beds.**

3. **Prior to the issuance of the certificate of need, MBHS of North Carolina, LLC and Alexander Hospital Investors, LLC shall provide a letter addressed to Smoky Mountain Center 2 inviting the LME-MCO to comment on the proposal.**

4. **Prior to the issuance of the certificate of need, MBHS of North Carolina, LLC shall provide copies of the two most recent financial reports.**

5. **Prior to the issuance of the certificate of need, Alexander Hospital Investors, LLC shall provide documentation of the availability of funding for its portion of the projected capital costs (commercial loan of $2,306,000).**

6. **Prior to the issuance of the certificate of need, MBHS of North Carolina, LLC and Alexander Hospital Investors, LLC shall provide documentation of the availability of funding for the projected working capital costs ($722,141).**
7. **MBHS of North Carolina, LLC, and Alexander Hospital Investors, 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.

CA

Capital and Working Capital Costs

Capital Cost

Because there are two applicants responsible for capital costs, Section VIII has been completed in its entirety for each individual applicant, breaking out the capital costs that each applicant will be responsible for. The applicants state the total projected capital cost combined is $2,496,000.

In Section VIII.1(a) (for the lessee), pages 58-59, MBHS projects a total capital cost of $190,000; including $70,000 for moveable equipment purchases or leases, $95,000 for furniture, $5,000 for legal fees, and $20,000 for other supplies and items.

In Section VIII.1(a) (for the lessor), pages 63-64, AHI projects a total capital cost of $2,306,000; including $250,000 for site preparation costs; $1,912,500 for the construction contract, $118,500 in consultant fees, and $25,000 for landscaping.

Working Capital Costs

In Section IX.1 – Section IX.3, pages 68-70, the applicants project that the start-up expenses will be $267,719. In response to the question in Section IX.2(b), page 70, the applicants state that the total estimated initial operating expenses will be $402,255. However, in the table provided in response to the question, the applicants' calculations project estimated initial operating expenses of $454,421. In response to the question in Section IX.3, page 70, the applicants state the projected total working capital cost will be $722,141, which is consistent with the projected initial operating expenses provided in the table mentioned above. The applicants also state their source of financing for the total of $722,141, lending credibility to the calculations in the table on page 70 of the application [$267,219 + $454,421 = $722,141].

Availability of Funds

In Section VIII.2 (for the lessee), page 60, MBHS states that its portion of the capital costs will be funded by accumulated reserves. Exhibit B contains a letter dated May 14, 2014, signed by the Chief Financial Officer of Meridian Behavioral Health Systems, LLC, which states that MBHS has sufficient funds to cover the projected capital cost of $190,000. However, MBHS does not provide adequate documentation of the availability of the funding for the projected capital cost. In Section VIII.8(a), page 61, in response to a question asking for the two most recent audited financial reports of the applicants, the applicants state that the question is not applicable. However, MBHS is required to demonstrate that it has or will have sufficient funds and the financial statements are necessary. Therefore, MBHS adequately demonstrates the availability of sufficient funds for its projected capital costs subject to Condition #4 in Criterion (4).

In Section VIII.2 (for the lessor), page 65, AHI states that its portion of the capital costs will be funded by a conventional loan. Exhibit A contains a letter dated May 15, 2014, signed by the Managing Principal of Stirling Realty Advisors, offering to finance capital costs in the

amount of $2,300,000. Exhibit A also contains an amortization schedule for the loan. However, the offer from Stirling Realty Advisors is $6,000 less than the capital costs that AHI projects. Therefore, AHI adequately demonstrates the availability of sufficient funds for its projected capital costs subject to Condition #5 in Criterion (4).

In Section IX.4, pages 70-71, the applicants state that the projected working capital costs of $722,141 will be financed from accumulated reserves. In Section IX.7, page 72, the applicants state that Exhibit B contains documentation of the availability of the accumulated reserves to be used. However, neither Exhibit B nor any other exhibit contains such documentation. Therefore, the applicants adequately demonstrate the availability of sufficient funds for the projected working capital costs subject to Condition #6 in Criterion (4).

Financial Feasibility

Included in the supplemental information received on October 10, 2014, is Form B – Statement of Operating Results and Retained Earnings. In Form B, the applicants project that expenses will exceed revenues in the first year of operation and revenues will exceed expenses in the second year of operation. Projected revenues and expenses are based on reasonable and adequately supported assumptions, including projected utilization. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

Conclusion

In summary, the applicants adequately demonstrate the availability of sufficient funds for the capital and working capital needs of the project subject to Conditions #4, #5, and #6 in Criterion (4). Furthermore, the applicants adequately demonstrate the immediate and long-term financial feasibility of the proposal is based on reasonable projections of costs and charges. Consequently, the application is conforming to this criterion as conditioned.

(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

MBHS of North Carolina, LLC ("MBHS"), and Alexander Hospital Investors, LLC ("AHI") propose to develop Alexander Youth Services (AYS), a new 15-bed child/adolescent chemical dependency treatment (substance abuse) facility on the same site as Alexander Hospital.

In Section III.1(a), page 32, the applicants state that there are currently only 26 child/adolescent substance abuse beds in operation in the state of North Carolina. In the Western Mental Health Planning Region, there are currently six existing child/adolescent substance abuse beds, all of which are located in the Western Highlands Network LME-MCO (in Buncombe County). There are no such beds in Alexander County or in either of the

Smoky Mountain Center LME-MCOs. There has been a need determination in the SMFP for at least 11 child/adolescent substance abuse beds since 2011; this is the first application that has been received for the need determination for child/adolescent substance abuse beds in the Western Region since prior to 2011. The discussion regarding the need for the 15 child/adolescent substance abuse beds found in Criterion (3) is incorporated herein by reference.

The applicants adequately demonstrate that the proposed project will not result in unnecessary duplication of existing or approved child/adolescent substance abuse services in the Western Mental Health Planning Region. Consequently, the application is conforming with this criterion.

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

C

In Section VII.6, page 55, the applicants provide information regarding the staffing during the first operating year of the proposed facility, as shown in the following table.

Proposed Staff For AYS – Operating Year 1				
Position	**Number of FTEs**	**Annual Salary**	**Annual Consultant Hours**	**Hourly Consultant Fee**
Registered Nurse	4.2	$68,640		
Certified Substance Abuse Counselor	2.0	$53,000		
Activity Therapist	1.0	$41,600		
Health Care Technician	11.0	$25,153		
Social Worker	2.0	$41,800		
Medical Records Technician	1.0	$33,280		
Medical Director/Physician			480	$60,000
Pharmacy Consultant			1,040	$60,000
Utilization Review	1.0	$51,480		
Recreation Therapist	1.0	$41,600		
Orientation/Training	2.0	$31,200		
Property Maintenance Staff	1.0	$34,320		
Administrator	1.0	$93,600		
Personnel	1.0	$43,680		
Business Officer	1.0	$45,000		
Marketing	1.0	$52,000		
TOTAL	**30.2***		**1,520**	

*On page 55, the applicants list the total number of FTEs as 28.2, which appears to be a mathematical error.

In Section VII.11, page 57, the applicants state that due to the proposed location near a number of regional health programs and facilities, they believe there are more than enough qualified candidates to staff the facility. The applicants also state that because of the length of time before services are provided, they will have ample time to interview and screen for the right candidates. Exhibit N contains documents outlining the job descriptions for several types of employees that will staff the facility.

In supplemental information received October 22, 2014, in response to a question from the Project Analyst asking for information about the proposed facility's medical director, the applicants state:

> *"AYS is not a currently operating facility and will be a start-up. Due to the timeframes of the CON application/approval process, building review, and new construction build* [sic] *AYS has not contracted with a medical director for this facility. Once construction of the facility commences a full recruiting plan will be implemented which will identify a medical director. The goal is to have a medical director identified six months prior to the opening of the facility and actively under contract providing supervision no later than three months prior to opening. This will allow appropriate time, before serving patients, for the medical director to provide support for program implementation, policy/procedure review, and staff training. AYS' parent company Meridian Behavioral Health System has a network of physicians to provide support in program development up until a medical director is named."*

The applicants adequately demonstrate the availability of resources, including health manpower and management personnel, for the level of services proposed. Consequently, 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(f), pages 9-10, the applicants identify the required ancillary and support services that will be provided. The applicants state that therapy services, substance abuse counseling, medical records services, administrative services, admissions services, direct care services, and nursing care services will all be provided by the staff of AYS. The applicants state that psychiatric MD services and medical MD services will be provided by a facility paid consultant or via a contract that will be billed to the patient. In supplemental information received October 22, 2014, the applicants state that the exact nature of the reimbursement for the provider will depend on the agreement reached with that provider. All services will be available as of March 1, 2016.

In Sections V.2 – V.4, pages 40-42, the applicants state they have identified specific providers of services within the existing health care system that they intend to initiate contact with and develop relationships with closer to the opening of the facility. The applicants list, by name, facilities that they intend to establish transfer agreements with; specific local physicians that they intend to develop relationships with; and specific local providers of other health care services that they intend to develop relationships with. Exhibit K contains a draft of a letter to be sent to these facilities and professionals. In supplemental information received on September 24, 2014, the applicants state that they had initially intended to begin contacting the identified facilities and professionals on or around October 1, 2015; however, the applicants state that they have moved the date that the letters will be sent out to October 10, 2014. Exhibit L contains letters from various members of the community, including different types of medical providers, expressing support for the proposed project.

The applicants adequately demonstrate that they will make available or otherwise make arrangements for the provision of the necessary ancillary and support services. Additionally, the applicants adequately demonstrate that the proposed project will be coordinated with the existing health care system. Consequently, the application is conforming to this criterion.

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

NA

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

NA

(11) Repealed effective July 1, 1987.

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

C

In Section VIII.1 (for the lessor), page 64, the applicants project the cost of construction will be $1,912,500. On page 64, the applicants state preliminary bids were obtained from an experienced contractor based on the initial site and building plans. In supplemental information received September 24, 2014, the applicants demonstrate that applicable energy saving features have been incorporated into the construction plans. Exhibit Q contains a letter dated May 13, 2014, signed by an employee of DIGroupArchitecture, LLC, stating they have been commissioned by AHI to develop the construction documents, and they will design the building to all applicable standards and codes.

The applicants adequately demonstrate that the cost, design, and means of construction represent the most reasonable alternative for the proposed construction project. Furthermore, the applicants adequately demonstrate that the proposed construction project would not unduly increase the costs and charges of providing child/adolescent substance abuse services. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference. The applicants adequately demonstrate that applicable energy saving features have been incorporated into the construction plans. Therefore, the application is conforming to this criterion.

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

(a) The extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved;

NA

(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

(c) That the elderly and the medically underserved groups identified in this subdivision will be served by the applicant's proposed services and the extent to which each of these groups is expected to utilize the proposed services; and

C

In Section VI.2, page 45, the applicants state:

> *"Admission and treatment of all individuals will be done without regard to race, color, sex, national origin, gender, handicap, or ability to pay. Since this program will serve only children and adolescents ages 10-18, serving adults ages 18 and over will not be within the admission criteria. ...*
>
> *It is the policy of the facility not to retain an individual who requires services beyond those for which the facility is licensed or has the functional ability to provide. There is no distinction in the eligibility for, or in the manner of providing any individual service provided by the facility or by others in or outside the facility. The services of this facility are available without distinction to all individuals and visitors regardless of race, color, sex, national origin, handicap, age, gender or ability to pay."*

In Section VI.4, page 46, the applicants state the facility will not require any financial payment prior to or upon admission to the facility.

In Section VI.9, page 51, the applicants provide the projected payor mix during the second operating year, as shown in the following table:

AYS Projected Payor Mix Operating Year Two		
Payor	**Days as % of Utilization**	**% of Total Revenue**
Medicaid	60%	53%
Commercial Insurance	20%	23%
Other	20%	24%
Total	**100%**	**100%**

As shown in the table above, the applicants project that 60 percent of the patients will be covered by Medicaid, 20 percent will be covered by commercial insurance, and 20 percent will be "Other."

In supplemental information received October 22, 2014, the applicants state:

> *"The other insurance category will include private insurance payors'* [sic] *that the facility will be paneled* [sic]. *Examples of these are Blue Cross Blue Shield, United Healthcare, and Humana. The payor mix is based on assumptions from* [sic] *pulled from the AYS sister facility in Louisiana (Northlake Behavioral Health)* [in] *conjunction with Meridian Behavioral Health Executives' experience in the industry experience* [sic]*."*

The applicants adequately document that medically underserved populations will have adequate access to the proposed services and the application is conforming to this criterion.

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

C

In Section VI.6, page 49, the applicants state that individuals will have access to the facility's services via referral, and the facility expects to receive referrals, from entities including (but not limited to):

> *"…Mental Health, Developmental Disability, Substance Abuse Authority, police, AA, hospitals, private mental health and primary care providers, parents, schools, mental hospitals."*

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, pages 39-40, the applicants state that they plan to send a letter to local academic institutions closer to the date of operation to establish formal training opportunities for students. The applicants list the following programs they intend to contact:

- UNC-Asheville, Department of Psychology
- Lenoir-Rhyne, Department of Psychology
- Western Carolina University Graduate School, College of Health & Human Services
- Appalachian State University, Departments of Psychology and Social Work

In Exhibit K, the applicants provide a template of the letter they plan to send to these programs. In supplemental information received September 24, 2014, the applicants state that they had planned to send these letters by October 1, 2015; however, they moved the date back to October 10, 2014.

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

MBHS of North Carolina, LLC (“MBHS”), and Alexander Hospital Investors, LLC (“AHI”) propose to develop Alexander Youth Services (AYS), a new 15-bed child/adolescent chemical dependency treatment (substance abuse) facility on the same site as Alexander Hospital.

In Section III.1(a), page 32, the applicants state that there are currently only 26 child/adolescent substance abuse beds in operation in the state of North Carolina. In the Western Mental Health Planning Region, there are currently six existing child/adolescent substance abuse beds, all of which are located in the Western Highlands Network LME-MCO (in Buncombe County). There are no such beds in Alexander County or in either of the Smoky Mountain Center LME-MCOs. There has been a need determination in the SMFP for at least 11 child/adolescent substance abuse beds since 2011; this is the first application that

has been received for the need determination for child/adolescent substance abuse beds in the Western Region since prior to 2011.

In supplemental information received October 22, 2014, the applicants state:

> *"There are only 26 beds of this type in the state of North Carolina, none of which are in an area that would be considered competition for this AYS. This project is unique in that it will provide services for a portion of the state's child and adolescent population that is currently under or improperly served. The addition of this program will open access to needed services for a projected 1,200 child and adolescent patients needing substance abuse treatment over the first two years of operations. …"*

See also Sections II, III, V, VI, VII, and supplemental information where the applicants discuss the impact of the project on cost-effectiveness, quality, and access.

The applicants adequately demonstrate that any enhanced competition will have a positive impact on the cost-effectiveness, quality, and access to the proposed services based on the information in the application and the following analysis:

- The applicants adequately demonstrate the need for a new 15-bed child/adolescent substance abuse facility in Alexander County. The applicants also demonstrate that the proposed project is a cost-effective alternative to meet the need to provide additional access to child/adolescent substance abuse services. The discussion regarding need and projected utilization found in Criterion (3) is incorporated herein by reference.

- The applicants adequately demonstrate they will provide quality services.

- The applicants adequately demonstrate they will provide adequate access to medically underserved populations.

Therefore, 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

(21) Repealed effective July 1, 1987.

(b) The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to

demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

C

The application is conforming to all applicable *Criteria and Standards for Substance Abuse/Chemical Dependency Treatment Beds* as promulgated in 10A NCAC 14C .2500. Each criterion is discussed below.

10A NCAC 14C .2502 INFORMATION REQUIRED OF APPLICANT

(a) An applicant proposing to establish new intensive treatment beds shall project resident origin by percentage by county of residence. All assumptions and the methodology for projecting occupancy shall be stated.

-C- In supplemental information received September 24, 2014, the applicants provide resident origin by percentage by county of residence, along with all assumptions and methodology used to project the occupancy. The discussion regarding population to be served found in Criterion (3) is incorporated herein by reference.

(b) An applicant proposing to establish new intensive treatment beds shall project an occupancy level for the entire facility for the first eight calendar quarters following the completion of the proposed project, including the average length of stay. All assumptions and the methodology for projecting occupancy shall be clearly stated.

-C- In supplemental information received on September 24, 2014, the applicants provide the following projected utilization by quarter for the first three operating years:

Projected Utilization by Quarter – AYS Operating Years One, Two, and Three

Quarter	Client Days	Occupancy Rate	# of Certified Beds
1	276	20%	15
2	553	40%	15
3	819	60%	15
4	1,018	76%	15
Year 1 Total	**2,666**	**49%**	**15**
5	1,165	84%	15
6	1,258	91%	15
7	1,274	93%	15
8	1,260	93%	15
Year 2 Total	**4,957**	**91%**	**15**
9	1,288	93%	15
10	1,288	93%	15
11	1,274	93%	15
12	1,260	93%	15
Year 3 Total	**5,110**	**93%**	**15**

The discussion regarding utilization, including the average length of stay, found in Criterion (3) is incorporated herein by reference.

(c) *If the applicant is an existing chemical dependency treatment facility, the applicant shall document the percentage of patients discharged from the facility that are readmitted to the facility at a later date.*

-NA- The applicants are not an existing chemical dependency treatment facility.

(d) *An applicant shall document that the following items are currently available or will be made available following completion of the project:*

(1) *admission criteria for clinical admissions to the facility or unit, including procedure for accepting emergency admissions;*

-C- In Exhibit G, the applicants provide a copy of the admissions policy for the proposed facility, including procedures for accepting emergency admissions.

(2) *client evaluation procedures, including preliminary evaluation and establishment of an individual treatment plan;*

-C- In Section II.2(b), pages 26-28, the applicants describe the facility's evaluation procedures, including preliminary evaluation and establishment of an individual treatment plan.

(3) *Procedures for referral and follow-up of clients to necessary outside services;*

-C- In Sections II.2(b) and II.2(e), pages 26-29, the applicants describe the facility's procedures for referral and follow-up of clients to necessary outside services.

(4) *Procedures for involvement of family in counseling process;*

-C- In Section II.2(d), pages 28-29, the applicants describe the facility's procedures for involvement of family in the counseling process.

(5) *Provision of an aftercare plan; and*

-C- In Section II.2(e), page 29, the applicants describe the facility's aftercare plan.

(6) *Quality assurance / utilization review plan.*

-C- In Section II.2(a), pages 12-26, the applicants provide their quality/performance improvement plan.

(e) *An applicant shall document the attempts made to establish working relationships with the health care providers and others that are anticipated to refer clients to the proposed intensive treatment beds.*

-C- In Sections V.2 – V.4, pages 40-42, the applicants state they have identified specific providers of services within the existing health care system that they intend to initiate contact with and develop relationships with closer to the opening of the facility. The applicants list, by name, facilities that they intend to establish transfer agreements with; specific local physicians that they intend to develop relationships with; and specific local providers of other health care services that they intend to develop relationships with. Exhibit K contains a draft of a letter to be sent to these facilities and professionals. In supplemental information received on September 24, 2014, the applicants state that they had initially intended to begin contacting the identified facilities and professionals on or around October 1, 2015; however, the applicants state that they have moved the date that the letters will be sent out to October 10, 2014.

(f) *An applicant shall provide copies of any current or proposed contracts or agreements or letters of intent to develop contracts or agreements for the provision of any services to the clients served in the chemical dependency treatment facility.*

-C- In Section II.1(f), pages 9-10, the applicants state that a licensed physician and a licensed addictionologist will be contracted to provide services to the clients. In supplemental information received October 22, 2014, the applicants provide a template of a letter which notifies the recipient providers of the new facility and that AYS has the intent to develop a contract or agreement with the recipient providers for the provision of services to the clients served at AYS.

(g) *An applicant shall document the provisions that will be made to obtain services for patients with a dual diagnosis of chemical dependency and psychiatric problems.*

-C- In Section II.2(f), pages 29-30, the applicants document the provisions that will be made to obtain services for patients with a dual diagnosis of chemical dependency and psychiatric problems.

(h) An applicant proposing to establish new intensive treatment beds shall specify the primary site on which the facility will be located, if such site is neither owned by nor under option by the applicant, the applicant shall provide a written commitment to pursue acquiring the site if and when a certificate of need application is approved, shall specify at least one alternate site on which the facility could be located should acquisition efforts relative to the primary site ultimately fail, and shall demonstrate that the primary site and alternate sites are available for acquisition.

-C- In Section XI.1, page 76, the applicants state that the proposed facility will be developed on the same site as Alexander Hospital, which is currently owned by AHI, located at 326 3rd Street SW in Taylorsville.

(i) An applicant proposing to establish new intensive treatment beds shall document that the services will be provided in a physical environment that conforms with the requirements in 10A NCAC 27G .0300 which are incorporated by reference including all subsequent amendments.

-C- In supplemental information received September 24, 2014, the applicants state that the services will be provided in a physical environment that conforms with all applicable national, state, and local requirements and codes.

10A NCAC 14C .2503 PERFORMANCE STANDARDS

(a) An applicant proposing additional intensive treatment beds shall not be approved unless overall occupancy, over the nine months immediately preceding the submittal of the application, of the total number of intensive treatment beds within the facility in which the beds are to be located has been:

(1) 75 percent for facilities with a total of 1 through 15 intensive treatment beds; or
(2) 85 percent for facilities with a total of 16 or more intensive treatment beds.

-NA- This application is for a new facility.

(b) An applicant shall not be approved unless the overall occupancy of the total number of intensive treatment beds to be operated in the facility is projected by the fourth quarter of the third year of operation following completion of the project, to be:

(1) 75 percent for facilities with a total of 1 through 15 intensive treatment beds; or

(2) 85 percent for facilities with a total of 16 or more intensive treatment beds.

-C- In supplemental information received September 24, 2014, the applicants project the overall occupancy of the total number of beds to be operated in the facility to be 93 percent by the fourth quarter of the third year of operation following completion of the project. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

(c) The applicant shall document the specific methodology and assumptions by which occupancies are projected, including the average length of stay and anticipated recidivism rate.

-C- The applicants adequately document the specific methodology and assumptions by which they projected occupancy. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. In supplemental information received October 22, 2014, the applicants project a recidivism rate of 5.29 percent. The applicants state that this anticipated recidivism rate was based on a sister facility serving a similar age group and population that reported a recidivism rate of 5.29 percent for 2013.

10A NCAC 14C .2504 RESERVED FOR FUTURE CODIFICATION

10A NCAC 14C .2505 STAFFING AND STAFF TRAINING

(a) An applicant proposing to establish new intensive treatment beds shall document that clinical staff members will be:

(1) currently licensed or certified by the appropriate state licensure or certification boards; or

(2) supervised by staff who are licensed or certified by the appropriate state licensure or certification boards.

-C- In Section VII.5, pages 53-54, the applicants state that all clinical staff members will be currently licensed or certified by the appropriate state licensure or certification boards or supervised by staff who are licensed and certified by the appropriate state licensure or certification boards. Exhibit H contains the Licensing and Credentialing Policy for AYS. Exhibit N contains job descriptions which identify the licensure or certifications required for each position.

(b) An applicant proposing to establish new intensive treatment beds shall document that the staffing pattern in the facility is consistent with the staffing requirements contained in 10A NCAC 27G which are incorporated by reference including all subsequent amendments.

-C- In Section VII.3, page 53, the applicants state that staffing ratios will be determined and enforced based on applicable regulations. In supplemental information received

October 22, 2014, the applicants provide a list of positions (consistent with the requirements of 10A NCAC 27G .0503) that they intend to fill prior to the opening of AYS, and the applicants state:

> *"AYS is not a currently operating facility and will be a start-up. Due to the timeframes of the CON application/approval process, building review, and new construction build* [sic] *AYS has not contracted with a medical director for this facility. The* [sic] *once construction of the facility commences a full recruiting plan will be implemented. Construction is estimated to take 12 months, which is more than adequate time to complete recruitment, hire, and train individuals in the positions listed in this section."*