

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: May 5, 2016

Findings Date: May 5, 2016

Project Analyst: Mike McKillip

Team Leader: Fatimah Wilson

Project ID #: J-11129-16

Facility: Triangle Springs

FID #: 150205

County: Wake

Applicants: Triangle Springs, LLC

Propstone, LLC

Project: Develop 22 adult chemical dependency beds pursuant to the need determination in the 2016 SMFP for a total of 34 chemical dependency beds upon completion of the project, Project I.D. # J-11036-15 and Project I.D. # J-11049-15

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

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

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

C

The applicants, Triangle Springs, LLC and Propstone, LLC [**Triangle Springs**] propose to develop 22 adult chemical dependency treatment beds at a new facility to be located at 10901 World Trade Boulevard in Morrisville (Wake County).

Need Determination

The 2016 State Medical Facilities Plan (SMFP) contains a need methodology for determining the number of new adult chemical dependency treatment beds needed by service area. Application of the need methodology in the 2016 SMFP identified a need for 22 additional

adult chemical dependency treatment beds in the Central Region. The applicants do not propose to add more than 22 beds; therefore, the application is conforming with the need determination in the 2016 SMFP.

Policies

There are two policies in the 2016 SMFP which are applicable to this review: Policy MH-1: Linkages between Treatment Settings and Policy GEN-3: Basic Principles.

Policy MH-1 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.”

Exhibit 16 contains a copy of a letter dated February 15, 2016, from the applicants to Alliance Behavior Healthcare, the LME-MCO, inviting them to comment on the proposed project. The application is conforming to Policy MH-1.

Policy GEN-3: Basic Principles, 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 Section II.2, pages 34-35, and Section III.2, pages 70-71, the applicants describe how they believe the proposed project would promote safety and quality. Exhibit 9 contains a copy of the applicants’ *“Organizational Quality Improvement Plan.”* The information provided by the applicants is reasonable and adequately supports the determination that the applicants’ proposal would promote safety and quality.

Promote Equitable Access

In Section III.2, pages 69-70, and Section VI, pages 87-96, the applicants describe how they believe the project would promote equitable access to chemical dependency treatment services. The information provided by the applicants is reasonable and adequately supports the determination that the applicants’ proposal will promote equitable access.

Maximizing Healthcare Value

The applicants describe how they believe the proposed project would maximize healthcare value in Section III.2. On page 71, the applicants state:

“Triangle Springs believes that its proposed facility will maximize healthcare value. Additional access to adult chemical dependency beds will reduce strain on local emergency departments and general acute care hospital beds. Substance abuse patients will be appropriately treated within a dedicated inpatient facility rather than extended stays in an emergency department or observation unit.”

The information provided by the applicants is reasonable and adequately supports the determination that the applicants’ proposal would maximize healthcare value.

The applicants adequately demonstrate how their projected volumes incorporate the concepts of quality, equitable access and maximum value for resources expended in meeting the need identified in the 2016 SMFP. See Criterion (3) for discussion regarding the need for the project which is incorporated herein by reference. See Criterion (5) for discussion regarding revenues and costs which is incorporated herein by reference. Therefore, the application is consistent with Policy GEN-3.

Conclusion

In summary, the applicants adequately demonstrate that their proposal is consistent with the need determination in the 2016 SMFP for new adult chemical dependency treatment beds, Policy MH-1 and Policy GEN-3. 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

On August 28, 2015, the applicants, Triangle Springs, were approved (Project I.D. #J-11036-15) to develop 43 adult psychiatric inpatient beds at a new psychiatric facility to be located in Raleigh (Wake County) pursuant to the need determination in the 2015 SMFP. On November 13, 2015, the applicants were approved (Project I.D. #J-11049-15) to develop 12 adult chemical dependency treatment beds pursuant to the need determination in the 2015 SMFP as part of that same new facility. In this application, the applicants propose to develop 22 adult chemical dependency treatment beds pursuant to the need determination in the 2016 SMFP as part of that same new facility. Therefore, upon completion of the project, the new facility will

include a total of 77 beds, 43 adult psychiatric inpatient beds and 34 adult chemical dependency treatment beds. In Section II.1, page 20, the applicants state,

“The chemical dependency treatment beds proposed in this application will be developed in conjunction with, and in the same facility as, the previously approved 43 inpatient adult psychiatric beds and 12 adult inpatient chemical dependency beds. As such, the proposed chemical dependency beds will not be developed as a stand-alone 22-bed facility, but rather will be developed and operated alongside the previously approved beds as a 77-bed combination facility serving both psychiatric and chemical dependency patients and needs....”

The proposed project requires an increase of 1,522 square feet to the total facility over that which was estimated in the previously approved applications in order to accommodate the additional 22 beds. The footprint of the facility is materially the same from that proposed in the previously approved applications, albeit 1,522 square feet larger, and the functional space components within the building are materially the same. However, the configuration of the space within the footprint of the building differs somewhat in order to incorporate the 22 chemical dependency beds proposed in this application.”

Population to be Served

On page 387, the 2016 SMFP defines the service area for chemical dependency treatment beds as *“the mental health planning region in which the bed is located.”* Thus, the service area consists of the counties in HSA’s II, III, IV and V, as listed in Table 16B of the 2016 SMFP. Facilities may serve residents of counties not included in their service area.

Triangle Springs is currently approved for 43 adult inpatient psychiatric beds and 12 adult chemical dependency treatment beds, but is not yet licensed. Thus, the facility has no historical patient origin. In Section III.6, page 77, the applicants provide the projected patient origin for adult chemical dependency treatment services during the first two full fiscal years following project completion, as summarized in the table below.

**Triangle Springs Adult Chemical Dependency Treatment Beds
Projected Patient Origin (CY2018-CY2019)**

County	Percent of Total Patients
Wake	53.6%
Durham	22.1%
Cumberland	1.3%
Johnston	0.6%
Other*	22.4%
TOTAL	100.0%

*The applicants provide a list of the counties included in the *“Other”* category on page 76 of the application.

In Section III.6, pages 76-77, the applicants describe their assumptions regarding projected patient origin as follows:

“As discussed in Section III.1.b, Triangle Springs determined adult inpatient chemical dependency utilization based on its previously approved projected adult inpatient psychiatric and chemical dependency utilization. In projecting patient origin, Triangle Springs believes it is reasonable to assume that its proposed chemical dependency bed patient origin will be consistent with its prior applications, as shown in the following assumptions and methodology. ... Triangle Springs based its immigration assumption from the average historical experience of Holly Hill Hospital and UNC Hospitals at WakeBrook. Similarly, Triangle Springs determined its projected patient origin for psychiatric beds based on the average experience of these two existing hospitals, adjusted for the proposed location’s proximity to Durham County.”

The applicants adequately identified the population proposed to be served.

Analysis of Need

In Section III.1(a) and (b) of the application, the applicants describe the factors which they state support the need for the proposed project, including:

- The 2016 SMFP need determination methodology indicates a 54-bed deficit in the Alliance Behavioral Healthcare LME-MCO (pages 39-40).
- Historical and projected growth in the service area population (pages 40-42).
- Community Health Need Assessments prepared by local acute care hospitals and the long emergency department wait times experienced by behavioral health patients waiting to be placed in an inpatient bed (pages 42-44).
- Recent actions by the North Carolina General Assembly to encourage a new statewide effort to improve mental health and substance abuse crisis services in North Carolina (pages 44-45).
- The expected effects of expanded insurance coverage for mental health and substance abuse treatment services mandated under the Affordable Care Act (pages 45-47).
- The need for an alternative provider of psychiatric inpatient services with a focus on outcomes, development of alternative approaches, and the medically underserved (pages 47-51).
- The need for better geographic distribution of psychiatric inpatient services within the service area (pages 51-54).
- The high historical utilization rates experienced by state alcohol and drug treatment centers (pages 55-58).

Projected Utilization

In Section IV.1, page 80, the applicants provide projected utilization for 34 adult chemical dependency treatment beds, including 12 previously approved beds and the 22 beds proposed in this application, through the first three years of operation following completion of the project (CY2018-CY2020), which is summarized below.

Operating Year 1 – CY2018	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Chemical Dependency Treatment Beds	34	34	34	34	34
Patient Days of Care	1,239	1,971	2,190	2,283	7,682
Average Length of Stay (ALOS)	8.0	8.0	8.0	8.0	8.0
Occupancy Rate	40.5%	63.0%	70.0%	73.0%	61.9%

Operating Year 2 – CY2019	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Chemical Dependency Treatment Beds	34	34	34	34	34
Patient Days of Care	2,295	2,401	2,487	2,581	9,762
Average Length of Stay (ALOS)	8.0	8.0	8.0	8.0	8.0
Occupancy Rate	75.0%	77.6%	79.5%	82.5%	78.7%

Operating Year 3 – CY2020	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Chemical Dependency Treatment Beds	34	34	34	34	34
Patient Days of Care	2,509	2,661	2,759	2,618	10,542
Average Length of Stay (ALOS)	8.0	8.0	8.0	8.0	8.0
Occupancy Rate	82.0%	86.0%	88.1%	83.7%	85.0%

As shown in the above table, the applicants project they will have an occupancy rate of 85% by the fourth quarter of the third operating year (CY2020), which exceeds the utilization standards required in 10A NCAC 14C .2503(b). The applicants describe the assumptions and methodology used to project utilization in Section III.1(b), pages 59-66, which are summarized below.

First, the applicants project the adult population of the Alliance Behavioral Health LME service area based on data obtained from the North Carolina Office of State and Budget Management for the period FFY2014 through FFY2021 (See table on page 60). Then, the applicants project the population use rates for chemical dependency inpatient services. On page 60, the applicants state,

“In order to remain conservative, as well as consistent with the 2016 SMFP, Triangle Springs projects that the inpatient chemical dependency use rate (days per 1,000 population) will remain constant from FFY 2014 to 2017 at 15.4 days per 1,000 adult population. The inpatient chemical dependency use rate has increased significantly since 2010 (16.9 percent CAGR as shown above). However, the use rate declined from 2013 to 2014. As such, Triangle Springs believes it is reasonable to assume no use rate growth in future years. ... Triangle Springs believes these use rate projections are conservative because they are well below the rate of growth experienced historically.”

The applicants apply the projected use rates for the years FFY 2017 through FFY 2021 to the projected adult population in the service area to project the total adult psychiatric inpatient days of care, as shown in the following table:

**Alliance Behavioral Healthcare LME-MCO Service Area
 Projected Adult Chemical Dependency Inpatient Days of Care**

	FFY17	FFY18	FFY19	FFY20	FFY21	CAGR
Total Population	1,881,094	1,911,122	1,942,369	1,973,876	2,005,338	1.6%
Use Rate per 1,000	15.4	15.4	15.4	15.4	15.4	0.0%
Chemical Dependency Days of Care (All ages)	29,057	29,521	30,003	30,490	30,976	1.6%
Adult Chemical Dependency Days of Care (91%)	26,442	26,864	27,303	27,746	28,188	1.6%

Source: Table on page 61 of the application.

The applicants then convert the projections from a federal fiscal year (FFY) basis to a calendar year (CY) basis for the first three project years as follows:

	CY2018	CY2019	CY2020
Adult Chemical Dependency Days of Care	26,547	26,974	27,414

Source: Table on page 62 of the application.

The applicants assume that the Triangle Springs facility will have a chemical dependency treatment bed market share of 35.8 percent. On pages 62-63, the applicants state,

“As a result of the proposed project, Triangle Springs will operate 51.5 percent of the total adult inpatient chemical dependency beds in the ABH LME service area (54 percent = 34 Triangle Springs beds + 66 total beds comprised of 34 at Triangle Springs + 28 at Holly Hill + four at Cape Fear Valley Medical Center).

As Triangle Springs will have a 51.5 percent bed share of the adult inpatient chemical dependency beds in the ABH LME service area and given the existing and projected deficit of these beds, Triangle Springs believes it is reasonable to assume that its market share of the ABH LME service area will be greater than previously projected.

In its analysis of inpatient behavioral health facilities in the ABH LME service area (as found in Triangle Springs’ 43 bed adult inpatient psychiatric bed CON application, Project ID # J-11036-15 and excerpted in Exhibit 15), Triangle Springs assumed that its market share would have a ratio of 0.70 to its bed share based on the experience of Holly Hill Hospital. Triangle Springs believes that this ratio is a reasonable basis for projecting its adult inpatient chemical dependency market share for the ABH LME service area....

Based on the assumption that Triangle Springs’ adult inpatient chemical dependency market share will have a ratio of 0.70 to its share of adult inpatient chemical dependency beds in the ABH LME service area, Triangle Springs assumes that its market share will be 35.8 percent (35.8 percent = 0.70 X 51.5 percent beds share). Consistent with its prior applications, Triangle Springs assumes that its first year

market share will be 85 percent of the assumed share (30.4 percent = 85 percent X 35.8 percent) and that in subsequent years it will achieve 35.8 percent.

Consistent with its assumptions in its previously approved application and with the experience of other behavioral health providers in the ABH LME service area, Triangle Springs assumes an immigration rate of 22.4 percent from outside of the ABH LME service area.”

Based on these market share and in-migration assumptions, the applicants project the total “potential” adult chemical dependency treatment days of care to be provided to residents of the ABH LME service at the proposed facility in the first three operating years, as shown in the following table:

Triangle Springs Potential Days

	<i>PY1-CY18</i>	<i>PY2-CY19</i>	<i>PY3-CY20</i>
<i>Projected Adult Inpatient Chemical Dependency Days</i>	26,547	26,974	27,414
<i>Triangle Springs Share</i>	30.4%	35.8%	35.8%
<i>Triangle Springs Days Originating in ABH LME Service Area</i>	8,082	9,661	9,819
<i>Immigration Assumption</i>	22.4%	22.4%	22.4%
<i>Immigration Days = (ABH LME / [1 – 22.4%]) X 22.4%</i>	2,328	2,782	2,828
<i>Total Potential Days</i>	10,410	12,444	12,647
<i>ADC [Average Daily Census]</i>	28.5	34.1	34.6

Because the projected utilization exceeds the capacity of the proposed 34-bed chemical dependency unit, the applicants then adjust projected “potential” utilization downward to allow for capacity constraints. On pages 70-71, the applicants state,

“Given that its potential adult inpatient chemical dependency bed utilization exceeds its capacity, Triangle Springs projects that its utilization will result from assumed occupancy rates that reflect a ramp-up period as well as conservatively estimated efficient operations. Specifically, Triangle Springs assumes that the occupancy of its adult inpatient chemical dependency beds will be consistent with the projected occupancy of its adult inpatient psychiatric beds, as shown below.

Triangle Springs Occupancy Rates by Bed Type

	<i>PY1-CY18</i>	<i>PY2-CY19</i>	<i>PY3-CY20</i>
<i>Projected Adult Inpatient Psychiatric Bed Occupancy (Project ID # J-11036-15)</i>	61.9%	78.7%	85.0%
<i>Projected Adult Inpatient Chemical Dependency Bed Occupancy (Project ID # J-11049-15)</i>	61.9%	78.7%	85.0%

Triangle Springs believes this is reasonable for several reasons. The projected chemical dependency occupancy rates will result in utilization below what the facility could potentially expect based on reasonable market share and immigration

assumptions as shown in the prior step. Additionally, Triangle Springs expects to operate its facility in a cohesive fashion with patients appropriately spread between units, thus, occupancy rates by bed type will be similar. This consistency between bed types is further enabled by the prevalence of dual diagnosis patients, who will be provided with both psychiatric and substance abuse services, regardless of their specific bed unit. ... The table below provides the projected average daily census and patient days for the 34 total chemical dependency beds (22 currently proposed and 12 previously approved).

Triangle Springs Projected Adult Inpatient Chemical Dependency Beds

	<i>PY1-CY18</i>	<i>PY2-CY19</i>	<i>PY3-CY20</i>
<i>Assumed Occupancy Rate</i>	<i>61.9%</i>	<i>78.7%</i>	<i>85.0%</i>
<i>Beds</i>	<i>34</i>	<i>34</i>	<i>34</i>
<i>ADC</i>	<i>21.0</i>	<i>26.7</i>	<i>28.9</i>
<i>Total Days</i>	<i>7,682</i>	<i>9,762</i>	<i>10,542</i>

As shown above, the applicants' utilization projections are based on adult population projections for the ABH LME service area, projected use rates for adult chemical dependency services, and market share and in-migration projections that are based on the recent experience of existing providers in the proposed service area. Exhibit 27 contains letters of support for the proposed project from physicians and other behavioral health providers in the proposed service area. Projected utilization is based on reasonable and adequately supported assumptions. Therefore, the applicants adequately demonstrate the need to develop 22 adult chemical dependency treatment beds at the proposed new facility in Wake County.

Access

In Section VI.2, pages 87-88, the applicants state their commitment to provide services to all patients who need the services regardless of their ability to pay, racial/ethnic origin, age, gender, physical or mental conditions or other conditions that would classify them as underserved. In Section VI.9, page 94, the applicants project that 43 percent of patient days of care will be provided to Medicare or Medicaid recipients. The applicants adequately demonstrate the extent to which all residents, including underserved groups, will have access to the proposed services.

Conclusion

In summary, the applicants adequately identified the population to be served, demonstrated the need the population has for the project and adequately demonstrated the extent to which all residents, including underserved groups, will have access to the proposed services. Therefore, the application is conforming to this criterion.

- (3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons,

racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA

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

CA

In Section III.4, pages 73-74, the applicants describe the alternatives considered prior to submitting this application for the proposed project, which include:

- Maintain the Status Quo –The applicants state that maintaining the status quo is not an effective alternative due to the need for locally available adult chemical dependency treatment beds as documented in Section III.1 of the application.
- Develop the Beds Elsewhere in the Central Region – In Section III.1(a), pages 51-54, the applicants state that developing a new facility in another location in the Central Region is not the most effective alternative because Alliance Behavioral Health LME demonstrates the greatest need for adult chemical dependency beds in the Central Region.

After considering those alternatives, the applicants state the alternative represented in the application is the most effective alternative to meet the identified need.

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

In summary, the applicants adequately demonstrate that the proposal is the least costly or most effective alternative to meet the identified need. Therefore, the application is conforming to this criterion and approved subject to the following conditions.

- 1. Triangle Springs, LLC and Propstone, LLC shall materially comply with all representations made in the certificate of need application.**
- 2. Triangle Springs, LLC and Propstone, LLC shall develop no more than 22 adult chemical dependency treatment beds, for a total of no more than 34 adult chemical dependency treatment beds and 43 adult psychiatric inpatient beds upon completion of this project, Project I.D. # J-11036-15, and Project I.D. # J-11049-15.**
- 3. Triangle Springs, LLC and Propstone, LLC shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Healthcare Planning and 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, pages 109-110, the applicants state the total capital cost of the project is projected to be \$1,092,115, of which \$992,115 will be incurred by Propstone, LLC and \$100,000 will be incurred by Triangle Springs, LLC. In Section IX.1, pages 115-116, the applicants state there will be \$730,898 in start-up expenses and \$2,317,714 in initial operating expenses, for total working capital required of \$3,048,612.

Availability of Funds

In Section I.2, page 6, the applicants, Triangle Springs, LLC and Propstone, LLC, identify their parent company as Springstone, LLC. In Section VIII.2, page 115, the applicants state that the project capital costs will be funded by Welsh, Carson, Anderson & Stowe XI, LP. The applicants state, *“Welsh, Carson, Anderson, & Stowe XI, L.P. (WCAS) is a private equity company which holds a majority ownership stake in Springstone, LLC. WCAS has agreed to fund the proposed adult chemical dependency treatment beds to be developed through Springstone’s subsidiaries, Triangle Springs, LLC on property owned by Propstone, LLC.”* In Section IX.2, page 116, the applicants state that the working capital will also be funded by WCAS. In Exhibit 22, the applicants provide a letter dated February 15, 2016, from the Managing Member of WCAS XI Associates, LLC, documenting their intention to fund the capital and working capital for the proposed project. In Section VIII.8, page 112, the applicants state, *“Depending on the timing of the proposed project, the funds will be drawn from ‘Portfolio investments,’ ‘Escrow receivable,’ or ‘Cash and cash equivalents.’”* Exhibit 23 contains the WCAS Consolidated Balance Sheets which indicate that as of December 31, 2014, WCAS had \$3.0 billion in *“Portfolio investments,”* \$69.5 million in *“Escrow receivable”* and \$40.3 million in cash and cash equivalents. The applicants adequately demonstrate that sufficient funds will be available for the capital and working capital needs of the project.

Financial Feasibility

The applicants provided pro forma financial statements for the first three years of the project. In the pro forma financial statement for the entire facility (Form B), including 43 adult psychiatric inpatient beds and 34 adult chemical dependency treatment beds, the applicants project that revenues will exceed operating expenses in the second and third operating years of the project, as shown in the table below.

	CY2018	CY2019	CY2020
Total Operating Revenue	\$12,665,082	\$17,597,054	\$19,331,671
Total Operating Expenses	\$14,975,8585	\$15,654,050	\$16,947,617
Net Income	(\$2,310,776)	\$1,943,004	\$2,384,055

The assumptions used by the applicants in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See the financial section of the application for the assumptions used regarding costs and charges. The discussion regarding utilization projections found in Criterion (3) is incorporated herein by reference. The applicants adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

Conclusion

In summary, the applicants adequately demonstrate that sufficient funds will be available for the capital and working capital needs of the project. Furthermore, the applicants adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and charges. 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

On August 28, 2015, the applicants, Triangle Springs, were approved (Project I.D. #J-11036-15) to develop 43 adult psychiatric inpatient beds at a new psychiatric facility to be located in Raleigh (Wake County) pursuant to the need determination in the 2015 SMFP. On November 13, 2015, the applicants were approved (Project I.D. #J-11049-15) to develop 12 adult chemical dependency treatment beds pursuant to the need determination in the 2015 SMFP as part of that same new facility. In this application, the applicants propose to develop 22 adult chemical dependency treatment beds pursuant to the need determination in the 2016 SMFP as part of that same new facility. Therefore, upon completion of the project, the new facility will include a total of 77 beds, including 43 adult psychiatric inpatient beds and 34 adult chemical dependency treatment beds.

On page 387, the 2016 SMFP defines the service area for chemical dependency treatment beds as “*the mental health planning region in which the bed is located.*” Thus, the service area consists of the counties in HSAs II, III, IV and V, as listed in Table 16B of the 2016 SMFP. Facilities may serve residents of counties not included in their service area.

According to the inventory of adult chemical dependency treatment beds in the Table 16A of the 2016 SMFP (page 388), there are a total of 346 adult chemical dependency treatment beds in the Central Region. However, in the applicants’ LME-MCO, Alliance Behavioral Health, there are two facilities with a total of 32 existing licensed adult chemical dependency treatment beds, as shown in the table below:

Name of Facility	County	Licensed Beds	License Pending	Total Adult Inventory
Holly Hill Hospital	Wake	28	0	28
Cape Fear Valley Medical Center	Cumberland	4	0	4
Totals		32	0	32

Source: 2016 SMFP, Table 16A, page 388.

Of the 582 existing adult chemical dependency treatment beds in North Carolina, excluding beds in State Hospitals, only 32 or 5.5% ($32/582 = 0.055$) are located in the applicants' LME-MCO.

In Section III.2, pages 68-71, the applicants state the development of the adult chemical dependency treatment beds as proposed will reduce the wait times for patients seeking admission to an inpatient treatment facility, and decrease the burden on overwhelmed hospital emergency departments in the service area. Also, the applicants state the development of these beds as proposed will improve access to adult chemical dependency treatment services for patients who are currently unable to access services due to a lack of adequate insurance coverage.

The applicants adequately demonstrate that the proposal would not result in an unnecessary duplication of existing or approved adult chemical dependency treatment services. 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

In Section VII.2, page 102, the applicants provide the proposed staffing for the entire facility, including 43 adult psychiatric inpatient beds and 34 adult chemical dependency treatment beds, in operating year 2 (CY2019), as shown in the table below.

Position	Number of Full-Time Equivalent (FTE) Positions
Psychiatrists	Contract
Psychologists	Contract
Therapists (Psychiatric social workers, etc.)	10.5
Psychiatric Registered Nurses	41.6
Housekeeping and Laundry	6.6
Nursing Assistants/Aides/Orderlies	44.3
Medical Records	1.0
Dietary	7.3
Engineering/Maintenance	1.8
Chief Executive Officer & Chief Financial Officer	2.0
Finance/Business Office	2.8
Other (Administrative/Clerical/Support)	45.3
TOTAL	163.2

Source: Table VII.2, page 102.

In Section VII.11, page 105, the applicants describe their experience and process for recruiting and retaining staff. Exhibit 27 of the application contains copies of letters from area physicians and other healthcare providers expressing support for the proposed project. 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 19-31, the applicants describe the manner in which they will provide the necessary ancillary and support services. Exhibit 27 contains letters of support from physicians and other health care providers. Also, Exhibit 27 contains a letter of support from WakeMed which expresses their intention to refer patients to the proposed facility. The applicants adequately demonstrate that necessary ancillary and support services are available and that the proposed services will be coordinated with the existing healthcare system. Therefore, the application is conforming to this criterion.

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

NA

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

NA

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

C

The applicants propose to develop the 22 adult chemical dependency treatment beds in a new facility to be located at 10901 World Trade Boulevard in Raleigh, which will also accommodate 43 adult psychiatric inpatient beds previously approved in Project I.D. # J-11036-15, and 12 adult chemical dependency treatment beds previously approved in Project I.D. # J-11049-15. Exhibit 26 contains a letter from an architect that estimates that the construction costs for the 22 additional adult chemical dependency beds proposed in this application will be \$912,833, which is consistent with the project capital cost projections provided by the applicants in Section VIII.1, page 109 of the application. The additional capital cost associated with this project is \$1,092,115, as discussed in Criterion (5). In Section III.2, pages 71-72, the applicants describe the methods that will be used by the facility to maintain efficient energy operations and contain the costs of utilities. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference. The applicants adequately demonstrate that the cost, design and means of construction represent the most reasonable alternative, and that the construction cost will not unduly increase costs and charges for health services. 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.9, page 92, the applicants provide the projected payer mix for the adult chemical dependency treatment beds for the second full operating year following completion of the proposed project, as shown in the following table.

Payers	Percent of Total Patient Days
Self Pay/Indigent/Charity	13.0%
Medicare/Medicare Managed Care	31.0%
Medicaid	1.0%
Managed Care/Commercial	51.5%
Other Government/TriCare	3.5%
TOTAL	100.0%

Source: Application page 92.

On pages 92-93, the applicants provide the assumptions and methodology used to project payer mix. The applicants state,

“The payor mix for the proposed project is based on the experience of Springstone, applied to the proposed service area. As a new provider, Triangle Springs does not yet have a contract with an LME-MCO, the organizations that provide coverage for the proposed service for North Carolina Medicaid recipients under a Medicaid waiver. As discussed elsewhere in the application,

Medicaid patients between the ages of 22 and 64 are prohibited under federal rules from receiving the proposed services, unless under an approved Medicaid waiver, such as those operated by the LME-MCOs. ... As such, Triangle Springs conservatively assumes that it will provide coverage for these patients through charity care and write-offs for self-pay patients, not Medicaid.”

In Section VI.9, page 94, the applicants provide the projected payer mix for the second full operating year following completion of the proposed project, assuming they are able to enter into a contract with the LME-MCO, Alliance Behavioral Health, as summarized in the table below.

Payers	Percent of Total Patient Days
Self Pay/Indigent/Charity	1.0%
Medicare/Medicare Managed Care	30.3%
Medicaid	12.7%
Managed Care/Commercial	52.5%
Other Government/TriCare	3.4%
TOTAL	100.0%

Source: Application page 99.

On page 94, the applicants state,

“If Triangle Springs is able to enter into a contract for patients of the LME-MCO, or if the IMD exclusion for adult Medicaid patients in a freestanding psychiatric hospital is repealed, as a Medicaid-certified facility, Triangle Springs will be able to accept Medicaid patients. ... As shown, the difference in the table above compared to the payor mix table without an LME contract is the shift of patients from self-pay/charity to Medicaid. ... Triangle Springs believes the payor mix projected in the table above is reasonable, and reaffirms its commitment to working with the local LME-MCOs to establish a contract to care for Medicaid-eligible patients under the Medicaid managed care program.”

As shown in the table above, the applicants project that 43% of all adult chemical dependency treatment days of care will be provided to recipients of Medicare and Medicaid, assuming they are able to enter into a contract with Alliance Behavioral Health. The applicants demonstrated that medically underserved population will have adequate access to the services offered at Triangle Springs. Therefore, the application is conforming to this criterion.

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

C

In Section VI.6, pages 89-90, the applicants describe the range of means by which a person will have access to Triangle Springs' services, including self-admission, physician referral, patient's family, hospitals, residential care facilities and outpatient providers. The applicants adequately demonstrate that the facility will offer a range of means by which patients will have access to adult chemical dependency treatment services. 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 82, the applicants state that all existing Springstone hospitals in other states have established relationships with local community training programs, and the applicants expect to offer the same opportunities to local health professional training programs. Exhibit 17 contains copies of correspondence to area health professional training programs expressing an interest on the part of the applicants to enter into clinical training agreements. The information provided is reasonable and credible and supports a finding of conformity 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

On August 28, 2015, the applicants, Triangle Springs, were approved (Project I.D. #J-11036-15) to develop 43 adult psychiatric inpatient beds at a new psychiatric facility to be located in Raleigh pursuant to the need determination in the 2015 SMFP. On November 13, 2015, the applicants were approved (Project I.D. #J-11049-15) to develop 12 adult chemical dependency treatment beds pursuant to the need determination in the 2015 SMFP as part of that same new facility. In this application, the applicants propose to develop 22 adult chemical dependency

treatment beds pursuant to the need determination in the 2016 SMFP as part of that same new facility. Therefore, upon completion of the project, the new facility will include a total of 77 beds, including 43 adult psychiatric inpatient beds and 34 adult chemical dependency treatment beds.

On page 387, the 2016 SMFP defines the service area for chemical dependency treatment beds as “*the mental health planning region in which the bed is located.*” Thus, the service area consists of the counties in HSA’s II, III, IV and V, as listed in Table 16B of the 2016 SMFP. Facilities may serve residents of counties not included in their service area.

According to the inventory of adult chemical dependency treatment beds in the Table 16A of the 2016 SMFP (page 388), there are a total of 346 adult chemical dependency treatment beds in the Central Region. However, in the applicant’s LME-MCO, Alliance Behavioral Health, there are two facilities with a total of 32 existing licensed adult chemical dependency treatment beds, as shown in the table below:

Name of Facility	County	Licensed Beds	License Pending	Total Adult Inventory
Holly Hill Hospital	Wake	28	0	28
Cape Fear Valley Medical Center	Cumberland	4	0	4
Totals		32	0	32

Source: 2016 SMFP, Table 16A, page 388.

Of the 582 existing adult chemical dependency treatment beds in North Carolina, excluding beds in State Hospitals, only 32 or 5.5% ($32/582 = 0.055$) are located in the applicants’ LME-MCO.

In Section III.2, pages 69-71, the applicants discuss how any enhanced competition will have a positive impact on the cost-effectiveness, quality and access to the proposed services. The applicants state

“As discussed above in Section III.1.a, the challenge for many patients is overcoming a lack of funding. While the medically underserved typically include Medicare, Medicaid, and the indigent uninsured, among others, Medicaid-eligible adults face a more difficult challenge for mental health services (including both psychiatric and substance abuse) than for physical health issues, as Medicaid does not cover treatment in an Institution for Mental Disease (IMD) for individuals between 22 and 64. ... Thus, Medicaid-eligible patients between 22 and 64 generally have no coverage for psychiatric care. ... While providers in the area typically provide two to three percent of their patient days for self-pay and charity care patients, under the assumptions that it will not receive payment from the LME-MCO, Triangle Springs is projecting an average of 13 percent of its days for self-pay and charity care, which includes otherwise Medicaid-eligible patients. ... Additionally, Triangle Springs believes its proposed location will increase geographic accessibility of these services in the region.”

From the inception of Springstone, the parent of Triangle Springs, management has focused on the need to 'move the needle' regarding the treatment of patients with mental health disorders. For many years, providers of behavioral health services, particularly those with a large national presence, have focused on treatment, without a high regard for outcomes. ... In contrast, Springstone facilities are committed to evidence-based approaches that improve outcomes for its patients. ... As such, the proposed facility will deliver high quality care to its patients.

Triangle Springs believes that its proposed facility will maximize healthcare value. Additional access to adult chemical dependency beds will reduce strain on local emergency departments and general acute care hospital beds. Substance abuse patients will be appropriately treated within a dedicated inpatient facility rather than extended stays in an emergency department or observation unit."

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

The information in the application is reasonable 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:

- The applicants adequately demonstrate the need for the project and that it is a cost-effective alternative. The discussions regarding the analysis of need and alternatives found in Criteria (3) and (4), respectively, are incorporated herein by reference.
- The applicants adequately demonstrate they will provide quality services. The discussion found in Criterion (1) is incorporated herein by reference.
- The applicants demonstrate that they will provide adequate access to medically underserved populations. The discussion regarding access found in Criteria (1) and (13) is incorporated herein by reference.

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

In Section I.12, page 10, the applicants state that they do not currently own, lease, or manage any chemical dependency treatment facilities in North Carolina.

(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* in 10A NCAC 14C .2500. The specific criteria are discussed below.

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- Triangle Springs is not an existing 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 Section IV.2, page 80, the applicants project occupancy of the chemical dependency treatment beds will be 85 percent by the fourth quarter of the third year 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- In Section III.1, pages 59-68, the applicants provide the assumptions and methodology for the projections.