

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: June 20, 2018

Findings Date: June 20, 2018

Project Analyst: Tanya S. Rupp

Team Leader: Fatimah Wilson

Project ID #: O-11457-18

Facility: The Brunswick Community, LLC

FID #: 150394

County: Brunswick

Applicants: The Brunswick Community, LLC

Brunswick AL Properties, LLC

Project: Cost overrun on Project I.D. # O-11061-15 (Construct a new 110-bed ACH facility with a 48-bed special care unit in Sunset Beach)

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

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

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

NA

The applicants, The Brunswick Community, LLC and Brunswick AL Properties, LLC propose a cost overrun for Project I.D. #O-11061-15 (construct a new 110-bed adult care home facility with a 48-bed special care unit in Sunset Beach).

A certificate of need was issued on July 1, 2016 for Project I.D. # O-11061-15 and authorized a capital cost of \$6,266,527. The current application is for a cost overrun of \$2,233,473. The original application was approved for development of the new adult care home (ACH) on Ocean Highway in Sunset Beach. On June 15, 2017, pursuant to a material compliance determination, the Agency approved a site change to a township in Shallotte, also in Brunswick County. In Section IX.2, page 25, the applicants state the original site contained wetlands and was not suitable for building. In Section I.9, page 4, the applicants state the cost overrun is a

result of an increase in costs of land purchase, predevelopment activities (soil testing) and general contractor bids.

In the original application, the applicants projected occupancy and offering of services by October 2017. In this cost overrun application, the applicants project occupancy and offering of services by October 2019. There is no material change in scope from the originally approved project in this application.

Need Determination

The applicants do not propose to increase the number of licensed beds in any category, add any new health services or acquire equipment for which there is a need determination in the 2018 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations in the 2018 SMFP that are applicable to this review.

Policies

Project I.D. # O-11061-15 was found to be consistent with Policy GEN-3 and Policy GEN-4 in the 2015 SMFP in the original review. The applicants propose no changes in the current application that would affect that determination. There are no other policies in the 2018 SMFP that are applicable to this review.

Conclusion

The applicants were previously approved to construct a new 110-bed ACH facility with a 48-bed special care unit in Sunset Beach. The applicants were subsequently approved to develop the facility on a new site in Shallotte, also in Brunswick County. In the original review, the application was conforming to this Criterion. The applicants propose no changes in the current application that would affect that determination. Therefore, this criterion is not applicable to this review.

- (2) Repealed effective July 1, 1987.
- (3) The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.

C

The applicants propose a cost overrun for Project I.D. # O-11061-15 (construct a new 110-bed ACH facility with a 48-bed special care unit in Sunset Beach).

A certificate of need was issued on July 1, 2016 for Project I.D. # O-11061-15 and authorized a capital cost of \$6,266,527. The current application is for a cost overrun of \$2,233,473. The original application was approved for development of the new adult care home (ACH) on

Ocean Highway in Sunset Beach. On June 15, 2017, pursuant to a material compliance determination, the Agency approved a site change to a township in Shallotte, also in Brunswick County. The last progress report submitted to the Agency on February 12, 2018 states that development is delayed due to the site change and the increase in materials and construction that led to this cost overrun application.

Patient Origin

On page 211, the 2018 SMFP defines the service area for adult care home beds as the adult care home bed planning area in which the beds are located. The SMFP states that each county in North Carolina (with the exception of Hyde and Tyrell) is a separate adult care home bed planning area. Thus, the service area for the facility consists of Brunswick County. Facilities may serve residents of counties not included in their service area.

In Project I.D. #O-11061-15, the applicants were approved to construct a new 110-bed adult care home facility with a 48-bed special care unit in Sunset Beach. Thereafter, pursuant to a material compliance determination approved by the Agency on June 15, 2017, the applicants were approved to change the site from Sunset Beach to Shallotte, also in Brunswick County. The current application is for a cost overrun for that project. In Project I.D. # O-11061-15, the applicants adequately identified the population to be served and no changes are proposed in this application that would affect that determination.

Analysis of Need

In Section I.9, page 4, the applicants state the following to explain the reason for the proposed cost overrun:

“The basis for submission of this cost overrun application is that land purchase, predevelopment activities (soil testing), and general contractor bids were greater than the original application estimates.”

In Section IX.2, page 25, the applicants state the original site proposed for the project was discovered to contain wetlands and thus was not suitable for building. In addition, in supplemental information provided at the Agency’s request, the applicants state the increase in cost was unintentional and unavoidable for the following reasons:

- *“Lengthy delay related to CON appeal process.*
- *Cost of extensive soil testing for the initial property selected for the project.*
- *Cost to abate the wetlands was outrageous due to the prevalence and extensive location of the wetlands. Therefore the project site was rendered unusable.*
- *Lengthy pursuit of land in the same geographic location as the first selection deemed suitable for the project site.*
- *...*
- *...project supply costs doubled.*

- *Interview with the GC’s [general contractors] revealed that the supply cost escalation was due in large part to the horrific hurricanes of the last two years. Apparently, the cost of labor increased substantially due to simple equation of supply and demand. Additionally, the material costs jumped substantially for plywood and hardwood. Both products initiate in the storm ravaged areas of the US and therefore supply was diminished. Likewise, due to the extensive damage all over the US and even in our own North Carolina, the demand for the products increased beyond the capacity of mills to deliver.*
- *The economic ‘come back’ also contributed to the increased project costs for our project. Contractors and laborers alike have more work available as well as the ability to charge more for their skill.”*

The following table compares the previously approved capital cost and the proposed capital cost in this application, as reported on page 13 of the application.

THE BRUNSWICK COMMUNITY, LLC – PREVIOUSLY APPROVED VS. PROPOSED CAPITAL EXPENDITURES			
ITEM/CATEGORY	PREVIOUSLY APPROVED COST	TOTAL PROPOSED COST	TOTAL OVERRUN COST
Full Purchase Price of Land	\$200,000	\$605,000	\$405,000
Closing Cost & Legal Fees	\$15,000	\$23,000	\$8,000
Site Prep Costs	\$700,000	\$865,000	\$165,000
Cost of Construction	\$4,853,835	\$6,240,000	\$1,386,165
Contingency	\$242,692	\$312,000	\$69,308
Miscellaneous Project Costs	\$255,000	\$455,000	\$200,000
Total	\$6,266,527	\$8,500,000	\$2,233,473

In Section IX, the applicants provide a table that identifies the previously approved square footage and the additional 7,000 square feet of construction proposed in this cost overrun application. See the following table, from supplemental information provided to the Agency on June 13, 2018:

	PREVIOUSLY APPROVED SQUARE FEET	ADDITIONAL PROPOSED SQUARE FEET	TOTAL SQUARE FEET AT FACILITY COMPLETION
ANCILLARY AREAS			
Administration	680	360	1,040
Public Lobby	560	100	660
Mechanical Equipment	242	294	536
Housekeeping	120	49	169
General Storage	600	30	630
Laundry	610	93	703
Exam / Treatment	196	-196	0
Beauty Shop	254	177	431
Kitchen	840	792	1,632
Patient Dining	3,160	-789	2,371
Recreation, Activities, Common Areas	3,424	566	3,990
Staff Dining	220	15	235
Circulation Corridors	11,614	5,418	17,032
Subtotal Ancillary	22,520	6,909	29,429
NURSING UNITS			
Nurse's Station	0	476	476
Utility, Linen and Equipment Storage	0	792	792
Subtotal Nursing Units	0	1,298	1,298
ACH UNITS			
Resident Rooms	15,540	1,236	16,686
Resident Baths	4,850	-433	4,417
Other	1,227	-1,227	0
Subtotal ACH Units	21,527	-424	21,303 [21,103]*
TOTAL FACILITY	44,047		52,000 [51,830]*

*the numbers in brackets represent corrections made by the analyst

In supplemental information provided to the Agency on May 29, 2018, the applicants state that the proposed increase of 7,000 square feet of space is necessary to be compliant with all state and federal laws, while also allowing maximization of space to offer more private rooms for the residents the applicants propose to serve.

The applicants' representations regarding the need for an additional capital expenditure to develop the proposed facility are reasonable and adequately supported for the following reasons:

- The applicants demonstrate that the original site was in a flood plain and thus not conducive to project development.
- The applicants demonstrate the cost of supplies, material and labor have increased since the original application was approved.
- The applicants demonstrate that the increase in square footage as proposed in this application is necessary to ensure compliance with state and federal regulations.
- The applicants demonstrate that the project will better serve patients who desire private rooms.

- The applicants do not propose to change the scope of services offered to the patients projected to be served.

Projected Utilization

In supplemental information provided to the Agency on June 11, 2018, the applicants provide projected utilization for the first two operating years of the project, as shown in the following table:

The Brunswick Community Projected Utilization, OY 1 and OY 2

	OY 1: 10/1/2019 – 9/30/2020				OY 2: 10/1/2020 – 9/30/2021			
	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3	QTR. 4
ADULT CARE HOME								
# Beds	62	62	62	62	62	62	62	62
Occupancy Rate	11.41%	32.37%	84.03%	90.94%	92.00%	92.00%	92.00%	92.00%
# Pt. Days	651	1,806	4,741	5,187	5,248	5,134	5,191	5,248
SPECIAL CARE UNITS								
# Beds	48	48	48	48	48	48	48	48
Occupancy Rate	29.48%	81.02%	93.75%	93.75%	93.75%	93.75%	93.75%	93.75%
# Pt. Days	1,302	3,500	4,095	4,140	4,140	4,050	4,095	4,140
TOTAL PROJECT								
# Beds	110	110	110	110	110	110	110	110
Occupancy Rate	19.30%	53.60%	88.27%	93.00%	93.00%	93.00%	93.00%	93.00%
# Pt. Days	1,953	5,306	8,836	9,327	9,388	9,184	9,286	9,388

The applicants state the methodology, fill-up rate and other assumptions used to project utilization in the original application apply to this application as well.

In Project I.D. #O-11061-15, the applicants adequately demonstrated that projected utilization was based on reasonable and adequately supported assumptions regarding continued growth in the patient population that utilizes the services proposed in the application. The applicants propose no changes in the current application that would affect that determination.

Access

In Project I.D. #O-11061-15, the applicants adequately demonstrated the extent to which all residents of the area, including underserved groups, are likely to have access to the proposed services. The applicants propose no changes in the current application that would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

- Supplemental information requested by the Agency
- Information publicly available during the review and used by the Agency

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

- The applicants adequately identify the population to be served in Project ID #O-11061-15, and the applicants do not project a change in that population.
- Projected utilization was deemed reasonable and adequately supported in Project ID #O-11061-15, and the applicants do not project any significant changes.
- The applicants project the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately support the assumptions.

- (3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA

In Project ID # O-11061-15, this Criterion was determined to be non-applicable, since the applicants were not proposing a reduction or elimination of a service, and were not proposing the relocation of a facility or service. In this application, the applicants do not propose any change that would affect that determination. Therefore, Criterion (3a) is not applicable to this review.

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

CA

The proposed project is for a cost overrun for Project I.D. #O-11061-15 (construct a new 110-bed ACH facility with a 48-bed special care unit in Sunset Beach).

In Section II.5, page 7, the applicants refer to Section II of the original application and state that *“nothing has changed since the original application.”* In supplemental information provided to the Agency on May 29, 2018, the applicants describe alternatives considered prior to submitting this cost overrun application, which include:

- Decreasing the square footage of the proposed facility – the applicants state that decreasing the total square footage, reducing the number of private beds or decreasing the size of common space is not consistent with maintaining quality of care and building efficiencies.

- Leave the proposed square footage as proposed in the original application – the applicants state that the increase of 7,000 square feet of space is necessary to be compliant with all state and federal laws, while also allowing maximization of space to offer more private rooms for the residents the applicants propose to serve.
- Eliminate the project entirely – the applicants state this option is not feasible because there is an unmet need in the service area for both assisted living and dementia care beds. Abandoning the project would mean those patients would not be served.

In supplemental information provided to the Agency on June 11, 2018, the applicants state this cost overrun application is the lowest cost opportunity for meeting the needs that Brunswick County patients have for ACH services. Likewise, the applicants state the cost overrun application represents the applicants' proposal to provide the highest quality of care for those services.

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

- The applicants were approved in Project ID #O-11061-15 to develop the project as proposed.
- The applicants' goals, to develop a state-of-the-art facility with ACH beds to serve the residents of Brunswick County as identified in Project ID #O-11061-15, are still in place in this cost overrun application.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Information which was publicly available during the review and used by the Agency.

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

- 1. The Brunswick Community, LLC and Brunswick AL Properties, LLC shall materially comply with the representations in this application and the representations in Project I.D. #O-11061-15 and supplemental information provided to the Agency during the review of this application. Where representations conflict, The Brunswick Community, LLC and Brunswick AL Properties, LLC shall materially comply with the last made representation.**

2. **The total approved capital expenditure for Project I.D. #O-11457-18 is \$8,500,000, an increase of \$2,233,473 over the previously approved capital expenditure of \$6,266,527.**
 3. **The Brunswick Community, LLC and Brunswick AL Properties, LLC shall not acquire as part of this project any equipment that is not included in the project's proposed capital expenditures in Section VI of the application and that would otherwise require a certificate of need.**
 4. **No later than three months after the last day of each of the first three full years of operation following initiation of the services authorized by this certificate of need, The Brunswick Community, LLC shall submit, on the form provided by the Healthcare Planning and Certificate of Need Section, an annual report containing the:**
 - a. **Payor mix for the services authorized in this certificate of need.**
 - b. **Utilization of the services authorized in this certificate of need.**
 - c. **Revenues and operating costs for the services authorized in this certificate of need.**
 - d. **Average gross revenue per unit of service.**
 - e. **Average net revenue per unit of service.**
 - f. **Average operating cost per unit of service.**
 5. **The Brunswick Community, LLC and Brunswick AL Properties, LLC shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Agency in writing prior to issuance of the certificate of need.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

The proposed project is for a cost overrun for Project I.D. #O-11061-15 (construct a new 110-bed ACH facility with a 48-bed special care unit in Sunset Beach).

Capital and Working Capital Costs

The total capital cost is now expected to be \$8,500,000, an increase of \$2,233,473 over the previously approved Project I.D. #O-11061-15 capital cost of \$6,266,527, which is above the allowed 115 percent overage for capital expenditures. The following table compares the previously approved capital cost and the proposed capital cost in this application, as reported on pages 13 - 15.

THE BRUNSWICK COMMUNITY, LLC – PREVIOUSLY APPROVED VS. PROPOSED CAPITAL EXPENDITURES			
ITEM/CATEGORY	PREVIOUSLY APPROVED COST	TOTAL PROPOSED COST	TOTAL OVERRUN COST
Full Purchase Price of Land	\$200,000	\$605,000	\$405,000
Closing Cost & Legal Fees	\$15,000	\$23,000	\$8,000
Site Prep Costs	\$700,000	\$865,000	\$165,000
Cost of Construction	\$4,853,835	\$6,240,000	\$1,386,165
Contingency	\$242,692	\$312,000	\$69,308
Miscellaneous Project Costs	\$255,000	\$455,000	\$200,000
Total	\$6,266,527	\$8,500,000	\$2,233,473

In Section VII, page 19, the applicants project an increase in the start-up costs and initial operating expenses, as shown in the following table:

EXPENSE	PREVIOUSLY APPROVED COST	PROPOSED COST	DIFFERENCE
Start-Up Expenses	\$55,000	\$55,000	\$0
Estimated Initial Operating Period	8 months	9 months	1 month
Initial Operating Expenses	\$203,791	\$250,138	\$46,959
Total Working Capital Required	\$258,791	\$305,138	\$46,959

In Section XII.1, page 19 of the application, the applicants show that the start-up period is projected to be one month longer than in the original application, Project ID #O-11061-15. Thus it is reasonable to project an increase in start-up costs and initial operating expenses.

Availability of Funds

In Section VI.5, page 16, the applicants state the previously approved capital cost of \$6,266,527 was to be funded with the owner’s assets, which is confirmed in the original application, Project ID #O-11061-15. In Section VI.5, page 16, the applicants state that, after they filed the original application, they elected to finance the originally approved amount through a conventional bank loan, and use owner’s assets for the amount of the cost overrun plus the projected start-up costs and initial operating expenses. In Exhibit 1, the applicants provide a March 15, 2017 letter from Southern Bank which commits a loan in an amount up to \$6,800,000 for the project. On page 16 of the application, the applicants state C. Saunders Roberson, Jr. and Stanley A. Figlewski, the owners of Community Real Estate Holding Company, Inc. (the parent company of the applicants) will fund the difference of \$2,233,473 as reflected in this cost overrun application with the owner’s equity. In supplemental information provided to the Agency on May 29, 2018, the applicants provided two letters dated May 29, 2018 from each of the owners of Community Real Estate Holding Company, Inc. Each letter documents that the owner will commit personal assets to funding the project, even in the event that additional funds are needed for this project. In additional supplemental information provided to the Agency, the applicants provided updated financial statements dated May 29, 2018 for Community Real Estate Holding Company, Inc. Those documents

confirm the availability of sufficient funds for the cost overrun amount and the working capital needs as documented in this application.

Financial Feasibility

In the original application, Project ID #O-11061-15, the applicants projected that revenues will not exceed expenses in project year one, but will exceed expenses in project years two and three. In this cost overrun application, the applicants project that revenues will exceed expenses in project years two and three. The following tables show the revenue projections as presented in the first application, and the projections submitted in this cost overrun application:

The Brunswick Community Projections Project ID #O-11061-15

ACH BEDS	YEAR 1 FFY2018	YEAR 2 FFY2019	YEAR 3 FFY2020
Projected # of Patient Days	12,385	20,821	20,878
Projected Average Charge (Gross Patient Revenue / Projected # of Patient Days)	\$88	\$88	\$88
Gross Patient Revenue	\$1,094,674	\$1,835,839	\$1,840,791
Deductions from Gross Patient Revenue	\$0	\$0	\$0
Other Revenue	\$0	\$4,543	\$4,543
Total Net Revenue	\$1,094,674	\$1,840,382	\$1,845,334
Total Expenses	\$1,306,249	\$1,768,789	\$1,769,024
Net Income	(\$211,575)	\$71,593	\$76,310
SCU BEDS			
Projected # of Patient Days	13,037	16,425	16,470
Projected Average Charge (Gross Patient Revenue / Projected # of Patient Days)	\$107	\$106	\$106
Gross Patient Revenue	\$1,393,775	\$1,747,580	\$1,750,658
Deductions from Gross Patient Revenue	\$0	\$0	\$0
Other Revenue	\$0	\$5,781	\$5,781
Total Net Revenue	\$1,393,775	\$1,753,361	\$1,756,439
Total Expenses	\$1,386,144	\$1,719,177	\$1,719,359
Net Income	\$7,631	\$34,184	\$37,081
TOTAL LICENSED ACH BEDS (ACH AND SCU)			
Projected # of Patient Days	25,422	37,246	37,348
Gross Patient Revenue	\$2,488,449	\$3,583,419	\$3,591,449
Deductions from Gross Patient Revenue	\$0	\$0	\$0
Other Revenue	\$0	\$10,324	\$10,324
Total Net Revenue	\$2,488,449	\$3,593,743	\$3,601,773
Total Expenses	\$2,692,393	\$3,487,966	\$3,488,383
Net Income	\$(203,944)	\$105,778	\$113,391

The Brunswick Community Projections Project ID #O-11457-18

ACH BEDS	YEAR 1 FFY 2020 (10/19 – 09/20)	YEAR 2 FFY 2019 (10/20 – 09/21)	YEAR 3 FFY 2020 (10/21 – 09/22)
Total Patient Days	12,385	20,821	20,878
Total Gross Revenue (Charges)	\$1,121,987	\$1,886,279	\$1,891,354
Average Net Revenue Per Patient Day	(\$17.80)	\$3.86	\$4.08
Total Operating Expenses (Costs)	\$1,342,364	\$1,805,825	\$1,806,069
Average Operating Expense Per Patient Day	\$108.38	\$86.73	\$86.51
Net Revenue	(\$220,377)	\$80,454	\$85,285
SCU BEDS			
Total Patient Days	13,037	16,425	16,470
Total Gross Revenue (Charges)	\$1,447,961	\$1,821,649	\$1,824,914
Average Net Revenue Per Patient Day	\$2.59	\$4.49	\$4.67
Total Operating Expenses (Costs)	\$1,414,104	\$1,747,850	\$1,748,039
Average Operating Expense Per Patient Day	\$108.46	\$106.41	\$106.13
Net Revenue	\$33,857	\$73,799	\$76,876
TOTAL LICENSED ACH BEDS (ACH AND SCU)			
Total Patient Days	25,422	37,246	37,348
Total Gross Revenue (Charges)	\$2,569,948	\$3,707,928	\$3,716,268
Average Net Revenue Per Patient Day	(\$7.33)	\$4.14	\$4.34
Total Operating Expenses (Costs)	\$2,756,468	\$3,553,675	\$3,554,107
Average Operating Expense Per Patient Day	\$108.42	\$95.41	\$95.16
Net Revenue	(\$186,520)	\$154,253	\$162,161

This cost overrun application proposes to offer services by October 1, 2019, which is two years later than proposed in Project I.D. #O-11061-15.

Project I.D. # O-11061-15 was determined to be conforming to this criterion with regard to the original proposal. The changes in operating expenses are immaterial and are accounted for by the necessity of a site change, increases in raw materials and labor, and thus do not affect the previous determination of conformity. The assumptions used in preparation of the pro forma financial statements, which were provided in supplemental information received on May 29, 2018, are reasonable, including projected utilization, costs and charges. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Information publicly available during the review and used by the Agency

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

- The applicants adequately demonstrate that the capital and working capital costs are based on reasonable and adequately supported assumptions.
 - The applicants adequately demonstrate availability of sufficient funds for the capital and working capital needs of the proposal.
 - The applicants adequately demonstrate sufficient funds for the operating needs of the proposal and that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.
- (6) The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

C

The proposed project is for a cost overrun for Project I.D. #O-11061-15 (construct a new 110-bed ACH facility with a 48-bed special care unit in Sunset Beach).

On page 211, the 2018 SMFP defines the service area for adult care home beds as the adult care home bed planning area in which the beds are located. The SMFP states that each county in North Carolina (with the exception of Hyde and Tyrell) are separate adult care home bed planning areas. Thus, the service area for the facility consists of Brunswick County. Facilities may serve residents of counties not included in their service area.

In Project I.D. #O-11061-15, the applicants were approved to construct a new 110-bed ACH facility with a 48-bed special care unit in Sunset Beach. Pursuant to a material compliance determination approved on June 15, 2017, the proposed location for the facility was changed from Sunset Beach to Shallotte, still in Brunswick County. The current application is for a cost overrun for that project. In Project I.D. # O-11061-15, the applicants adequately demonstrated that the project would not result in unnecessary duplication of existing or approved adult care home services and no changes are proposed in this application that affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Information which was publicly available during the review and used by the Agency.

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

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

C

In Section V.1, page 11, the applicants state that there are no changes in the staffing levels or positions from the original project.

In Project I.D. # O-11061-15, the application was found conforming to this criterion, and the applicants propose no changes in the current application that would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Information which was publicly available during the review and used by the Agency.

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

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

C

In Project I.D. # O-11061-15, the application was found conforming to this criterion, and the applicants propose no changes in the current application that would affect that determination.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information requested by the Agency
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health

service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

In Project ID #O-11061-15, the applicants did not project to provide the proposed services to a substantial number of persons residing in Health Service Areas (HSAs) that are not adjacent to the HSA in which the services will be offered. Furthermore, the applicants do not project to provide the proposed services to a substantial number of persons residing in other states that are not adjacent to the North Carolina county in which the services will be offered. Therefore, Criterion (9) is not applicable to this review.

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

NA

In Project ID #O-11061-15, none of the applicants was an HMO. In this application, the applicants do not propose any change that would affect that determination. Therefore, Criterion (10) is not applicable to this review.

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

C

The application under review is for a cost overrun for Project I.D. #O-11061-15. In the original application, the applicants proposed to develop a 44,047 SF ACH with 110 beds, 48 of which will be SCU beds. This cost overrun application proposes to develop a 52,000 SF ACH with 110 beds, 48 of which will be SCU beds. Thus the applicants plan to increase the total square

footage of the facility by approximately 7,000 square feet. In Section IX, page 27, the applicants state the facility will have 42 private rooms and 34 semi-private rooms. In supplemental information received on June 13, 2018, the applicants provide the total square footage for the facility, as shown in the following table:

	PREVIOUSLY APPROVED SQUARE FEET	ADDITIONAL PROPOSED SQUARE FEET	TOTAL SQUARE FEET AT FACILITY COMPLETION
ANCILLARY AREAS			
Administration	680	360	1,040
Public Lobby	560	100	660
Mechanical Equipment	242	294	536
Housekeeping	120	49	169
General Storage	600	30	630
Laundry	610	93	703
Exam / Treatment	196	-196	0
Beauty Shop	254	177	431
Kitchen	840	792	1,632
Patient Dining	3,160	-789	2,371
Recreation, Activities, Common Areas	3,424	566	3,990
Staff Dining	220	15	235
Circulation Corridors	11,614	5,418	17,032
Subtotal Ancillary	22,520	6,909	29,429
NURSING UNITS			
Nurse's Station	0	476	476
Utility, Linen and Equipment Storage	0	792	792
Subtotal Nursing Units	0	1,298	1,298
ACH UNITS			
Resident Rooms	15,540	1,236	16,686
Resident Baths	4,850	-433	4,417
Other	1,227	-1,227	0
Subtotal ACH Units	21,527	-424	21,303 [21,103]*
TOTAL FACILITY	44,047		52,000 [51,830]*

*The number in brackets represents the corrections made by the analyst

In supplemental information provided to the Agency on May 29, 2018, the applicants state that the proposed increase of 7,000 square feet of space is necessary to be compliant with all state and federal laws, while also allowing maximization of space to offer more private rooms for the residents the applicants propose to serve.

In supplemental information provided to the Agency on June 11, 2018, the applicants identify applicable energy saving features that will be incorporated into the construction plans for the proposed facility.

Conclusion

The Agency reviewed the:

- Application
- Exhibits to the application

- Supplemental information requested by the Agency
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion.

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

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

NA

In Project I.D. #O-11061-15, this Criterion was found to be not applicable, because neither the applicants nor any related entities own, operate or manage any existing facilities located in the service area. There are no changes in this application that would affect that determination. Therefore, Criterion (13a) is not applicable to this review.

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

C

Regarding any obligation to provide uncompensated care, community service or access by minorities and persons with disabilities, the application was conforming to this criterion in Project I.D. # O-11061-15 and the applicants propose no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information provided to the Agency
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion.

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

C

In Project I.D. # O-11061-15 the application was conforming to this criterion and the applicants propose no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information provided to the Agency
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion.

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

C

In Project I.D. # O-11061-15 the application was conforming to this criterion and the applicants propose no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information provided to the Agency
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion.

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

C

In Project I.D. # O-11061-15 the application was conforming to this criterion and the applicants propose no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information provided to the Agency
- Information which was publicly available during the review and used by the Agency.

Based on that review, the Agency concludes that the application is conforming to this criterion.

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

C

The applicant proposes a cost overrun for Project I.D. # O-11061-15 which authorized the facility to develop a 110-bed ACH with a 48-bed SCU.

In Project I.D. # O-11061-15 the application was conforming to this criterion and the applicants propose no changes in the current cost overrun application that would affect that determination.

The Agency reviewed the:

- Application
- Exhibits to the application
- Supplemental information provided to the Agency
- Information which was publicly available during the review and used by the Agency.

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

- (19) Repealed effective July 1, 1987.

- (20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

C

In supplemental information provided to the Agency on June 13, 2018, the applicants state that they do not own, lease, or manage any other facilities in North Carolina. The management company that will manage the facility, Hedgehog Healthcare Associates, LLC manages two other facilities in North Carolina, Cedar Cove Assisted Living in New Hanover County and West Bladen Assisted Living in Bladen County. According to the files in the Adult Care Licensure Section, DHSR, one facility (Cedar Cove) had one incident related to quality of care during the 18 months preceding submission of this application through the date of this decision. The files in the Adult Care Licensure Section provide information regarding those deficiencies and a subsequent plan of correction for the facility. After reviewing and considering information provided by the applicants and by the Adult Care Licensure Section, and considering the quality of care provided at each of the two facilities managed by Hedgehog Healthcare Associates, LLC, the applicants provide sufficient evidence that quality care has been provided in the past and adequately demonstrate that there is no pattern of substandard quality of care. Therefore, the application is conforming to this criterion.

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

NA

In Project I.D. #O-11061-15, the applicants were found conforming to all applicable *Criteria and Standards for Nursing Facility or Adult Care Home Services promulgated in 10A NCAC 14C .1101*, and the applicants propose no changes in the current application that would affect that determination. Consequently, this criterion is not applicable to the cost overrun application.