

REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: June 14, 2019

Findings Date: June 14, 2019

Project Analyst: Celia C. Inman

Team Leader: Gloria C. Hale

Project ID #: D-11693-19

Facility: Mitchell House

FID #: 120180

County: Mitchell

Applicants: Mitchell House One, LLC

Spruce Pine Propco Holdings, LLC

Project: Add no more than 20 ACH beds for a total of no more than 100 ACH beds pursuant to a need determination in the 2019 SMFP

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

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

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

C

The applicants, Mitchell House One, LLC and Spruce Pine Propco Holdings, LLC, own and operate Mitchell House, an 80-bed adult care home (ACH) facility located in Mitchell County. The applicants propose to add 20 ACH beds pursuant to the 2019 State Medical Facilities Plan (SMFP) need determination for a total of 100 (52 ACH beds and 48 special care unit (SCU) beds) upon project completion.

Need Determination

Table 11D in the 2019 SMFP, on page 253, shows there is a need determination for 20 ACH beds in Mitchell County. This application proposes to develop 20 ACH beds in Mitchell County. The application is consistent with the need determination.

Policies

There are three policies in the 2019 SMFP which are applicable to this review: Policy LTC-3: Certification of Beds for Special Assistance, Policy GEN-3: Basic Principles, and Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities.

Policy LTC-3: Certification of Beds for Special Assistance, on page 24 of the 2019 SMFP, states:

“Certificate of need applicants proposing to develop new adult care home beds pursuant to a need determination shall demonstrate that the proposed beds will be certified for special assistance and that at least 5 percent of the projected days of care in the third full fiscal year of operation shall be provided to residents receiving State-County Special Assistance.”

In Section B, page 17, the applicants state that approximately 12 of the 20 ACH beds proposed to be added to Mitchell House will be reserved for Medicaid and Special Assistance residents. The applicants further state:

“This ratio of Medicaid/Special Assistance beds to private pay bed beds greatly exceeds the required 5% of projected days of care required by Policy LTC-3 and will provide access to quality and affordable assisted living services to underserved populations in Mitchell County.”

In Section L.3, page 58, the applicants project that 55.21% of the total ACH days of care in the third full fiscal year will be provided to residents receiving County Assistance.

The applicant adequately demonstrates that at least 5% of the projected days of care will be provided to residents receiving State-County Special Assistance. The application is consistent with Policy LTC-3.

Policy GEN-3: Basic Principles, on page 31 of the 2019 SMFP, 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 - The applicants describe how they believe the proposed project would promote safety and quality in Section B.10(a), pages 18-19; Section O, page 62; and referenced exhibits. 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 – The applicants describe how they believe the proposed project would promote equitable access in Section B.10(b), page 19; Section L, pages 56-59; and referenced exhibits. The information provided by the applicants is reasonable and adequately supports the determination that the applicants' proposal would promote equitable access.

Maximize Healthcare Value – The applicant describes how it believes the proposed project would maximize healthcare value in Section B.10(c), pages 19-20; Section K, pages 52-53, and Section N, page 60. 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 the projected volumes incorporate the concepts of quality, equitable access and maximum value for resources expended in meeting the need for Mitchell County ACH beds. The application is consistent with Policy GEN-3.

Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities, on page 31 of the 2019 SMFP, states:

“Any person proposing a capital expenditure greater than \$2 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178 shall include in its certificate of need application a written statement describing the project’s plan to assure improved energy efficiency and water conservation.

In approving a certificate of need proposing an expenditure greater than \$5 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178, Certificate of Need shall impose a condition requiring the applicant to develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy GEN-4.

Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan of energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy GEN-4. The plan shall not adversely affect patient or resident health, safety or infection control.”

The proposed capital expenditure for this project is greater than \$2 million and less than \$5 million; therefore, Policy GEN-4 is applicable to this review. In Section B.11, page 21, the applicants provide a written commitment assuring improved energy efficiency and water conservation in its construction project. The applicants state that the addition to Mitchell House will be constructed to utilize the latest technologies to assure maximum energy efficiency. The applicants further state that the energy efficient design will allow for the fulfillment of the 2019 SMFP Policy GEN-4.

In Section K, page 53, the applicants provide examples of strategies to be incorporated as energy saving features into the construction plans. The applicants adequately demonstrate that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation. The application is consistent with Policy GEN-4.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and
- 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 do not propose to develop more ACH beds than are determined to be needed in the service area.
- The applicants adequately demonstrate that the proposal is consistent with the applicable policies for the following reasons:
 - The applicants adequately demonstrate how the projected volumes incorporate the concepts of quality, equitable access and maximum value for resources expended in meeting the need for Mitchell County ACH beds.
 - The applicants adequately demonstrate that at least 5% of the projected days of care will be provided to residents receiving State-County Special Assistance.
 - The applicants adequately demonstrate that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation.

(2) Repealed effective July 1, 1987.

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

C

The applicants propose to add 20 ACH beds to the existing Mitchell House for a total of 100 ACH beds (52 ACH beds and 48 SCU beds).

Patient Origin

On page 219, the 2019 SMFP defines the service area for ACH beds as “*the county in which the adult care home bed is located.*” Mitchell House is located in Mitchell County, thus, the service area for this project is Mitchell County. Facilities may also serve residents of counties not included in their service area.

In Section C.2, pages 24-25, the applicants provide the historical and projected patient origin at Mitchell House, as summarized in the following tables.

**Mitchell House
 Historical Patient Origin
 Last Full Fiscal Year
 3/1/18-3/1/19**

County or State	General ACH Beds Percent of Patients*	SCU ACH Beds Percent of Patients*	Total ACH Beds Percent of Patients
Avery	1.80%	8.11%	9.91%
Buncombe	0.90%	0.90%	1.80%
Burke	0.00%	1.80%	1.80%
Forsyth	0.90%	0.00%	0.90%
Gaston	0.00%	0.90%	0.90%
Guilford	0.00%	0.90%	0.90%
Haywood	0.90%	0.00%	0.90%
Henderson	0.90%	0.90%	1.80%
McDowell	1.80%	7.21%	9.01%
Mecklenburg	0.90%	0.00%	0.90%
Mitchell	24.32%	32.43%	56.76%
Rowan	0.90%	0.00%	0.90%
Rutherford	0.90%	0.00%	0.90%
Scotland	0.90%	0.00%	0.90%
Swain	0.90%	0.00%	0.90%
Watauga	0.90%	0.00%	0.90%
Yancey	3.60%	2.70%	6.31%
Outside of NC	0.00%	3.60%	3.60%
Total	40.54%	59.46%	100.00%

Source: Section C, pages 24-25

Totals may not sum due to rounding

*The applicants provide percent of general and SCU patients as a percent of total patients

**Mitchell House
Projected Patient Origin for 20 New General ACH Beds
Third Full Fiscal Year
10/1/24-9/30/25**

County or State	General ACH Beds Number of Patients	Percent of General ACH Patients
Avery	1	5.00%
Buncombe	1	5.00%
Haywood	1	5.00%
Henderson	1	5.00%
McDowell	1	5.00%
Mitchell	12	60.00%
Rutherford	1	5.00%
Yancey	2	10.00%
Total	20	100.00%

Source: Section C, page 25

Totals may not sum due to rounding

*The applicants provide percent of the 20 new general ACH patients only

In Section C, page 25, the applicants provide the assumptions and methodology used to project its patient origin, stating that the resident population to be served in the new 20 general ACH beds will “*closely trend*” to the general ACH resident population served by Mitchell House during the past full fiscal year. Additional details on Mitchell House patient origin and county statistics are provided in Exhibit C.3. The applicants’ assumptions are reasonable and adequately supported.

Analysis of Need

In Section C, pages 26-31, the applicants explain why they believe the population projected to utilize the proposed services needs the proposed services. The applicants state:

- There is a need determination in the 2019 SMFP for 20 ACH beds in Mitchell County.
- Mitchell House is the only existing ACH in Mitchell County, provides high quality, affordable care, and has a special care unit which equips the facility to allow residents to “age in place”.
- Mitchell House has strong demand and is well utilized, with a FY2018 resident occupancy rate of over 91% of its overall licensed beds (32 general ACH beds and 48 SCU ACH beds), a 97% occupancy rate on its general ACH beds during FY2018, and a waiting list (Exhibit C.4).
- The Mitchell County population under 65 is expected to drop over the next 20 years while the senior population (75 and older) is expected to sizably increase, which will increase the existing shortage of affordable and high-quality assisted living placement options for seniors in Mitchell County.
- Mitchell County officials, health agencies, businesses, and individuals support the addition of the 20 beds. (Exhibit C.4)

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

- The 2019 SMFP projects a 17-bed deficit for Mitchell County and identifies a need for 20 additional ACH beds.
- The North Carolina Office of State Budget and Management (OSBM) projects that Mitchell County residents under the age of 75 will decrease by 3.14% between 2015 and 2038, while residents 75 and over will increase by 29.42% during the same time period, exacerbating the existing shortage of assisted living placement options for seniors in Mitchell County.
- The Mitchell House 2019 License Renewal Application (LRA), which covers the period from August 1, 2017 through July 31, 2018 shows that 62% of the total available bed days were devoted to residents who are on Medicaid or Special Assistance, 82% of its residents are over 75 years of age, and the resident/bed occupancy was 91%.
- The applicant provides documentation of broad community support for the proposed project in Exhibit C.4.

Projected Utilization

In Section Q, the applicants provide the historical (FY2018), interim (March 1, 2018 through February 28, 2019 only), and projected utilization FY2023-FY2025 (October 1 through September 30), as shown in the table below.

Mitchell House Utilization

	Historical	Interim	Projected		
	FY2018	3/1/18-2/28/19	FY2023	FY2024	FY2025
# General ACH Beds	32	32	52	52	52
Days of Care	11,098	11,193	15,391	18,254	18,250
Occupancy Rate	95.0%	95.8%	81.1%	96.2%	96.2%
#SCU ACH Beds	48	48	48	48	48
Days of Care	15,380	15,447	16,668	16,836	16,790
Occupancy Rate	87.8%	88.2%	95.1%	96.1%	95.8%
Total # ACH Beds	80	80	100	100	100
Days of Care	26,478	26,640	32,059	35,090	35,040
Occupancy Rate	90.7%	91.2%	87.8%	96.1%	96.0%

In Exhibits Q.1 and Q.2, the applicants provide the assumptions and methodology used to project utilization, which are summarized below.

- Historical utilization represents actual utilization for the last full fiscal year.
- October 1, 2022 (first month of operations in FY2023) begins operations with 81 of 100 beds filled.
- Fill-up rate is equal to 2 residents per month until ACH fills to 93.5% occupancy in the tenth month of the first year, July 2023 of FY2023.

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

- Projected utilization is based on the applicants' experience with occupancy at the existing facility. During 2018, the facility was at 91% occupancy with 73 of 80 beds filled.
- Projected utilization is based on Affinity Living Group's experience with occupancy and relocation of beds.

Access

In Section C.8, page 33, the applicants describe the access low-income people, racial and ethnic minorities, women, disabled people, the elderly, and underserved groups will have to the proposed services, and state that admissions will only be on written order of a physician. On page 33, the applicants state:

“Mitchell House [emphasis in original] will allow admission only on the written order of a physician. Persons whose health, habilitative, or rehabilitative needs cannot be met by the services offered in the facility will not be admitted.

Otherwise, all persons will be admitted to the facility without regard to their race, color, creed, age, national origin, handicap, sex, or source of payment.

. . . The Applicants intend to continue serving those with financial need with the proposed addition of 20 ACH Beds to Mitchell House [emphasis in original], and intend to maintain approximately 60% of the available beds as Medicaid/Special Assistance beds.”

In Section L, page 58, the applicants project that 44.79% of total ACH bed days will be private pay and 55.21% will be covered by County Special Assistance in the third full fiscal year (FY2025) following completion of the project. The projected payor mix is reasonable and adequately supported.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and
- information publicly available during the review and used by the Agency.

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

- The applicants adequately identify the population to be served.
- The applicants adequately explain why the population to be served needs the services proposed in this application.
- Projected utilization is reasonable and adequately supported.

- The applicants project the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately support their assumptions.

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

NA

The applicants do not propose a reduction or elimination of a service.

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

CA

The applicants propose to add 20 ACH beds to Mitchell House for a total of 100 ACH beds.

In Section E, page 39, the applicants state that the only viable alternative for them to develop an additional 20 ACH beds in Mitchell County, pursuant to the need determination, is to add 20 beds at its only existing ACH facility in Mitchell County. The applicants further state that building a new facility with only 20 ACH beds would be economically and operationally unfeasible.

On page 39, the applicants state:

“If the Applicants are unable to add the 20 ACH Beds to Mitchell House [emphasis in original], the current need as identified will be unmet, and those potential residents in need of assisted living services in Mitchell County will look to resources outside of the county in order to meet their needs. In an effort to continue to provide quality, local service, the Applicants believe that the addition to Mitchell House [emphasis in original] is the only feasible choice to address the unmet need within Mitchell County.”

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

- The application is conforming to all statutory and regulatory review criteria.
- The applicants provide credible information to explain why they believe the proposed project is the most effective alternative.

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

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. Mitchell House One, LLC and Spruce Pine Propco Holdings, LLC shall materially comply with all representations made in the certificate of need application.**
- 2. Mitchell House One, LLC and Spruce Pine Propco Holdings, LLC shall add no more than 20 adult care home beds for a total of no more than 100 adult care home beds at Mitchell House upon completion of the project.**
- 3. Mitchell House shall provide care to recipients of State/County Special Assistance with Medicaid, commensurate with representations made in the application.**
- 4. For the first two years of operation following completion of the project, Mitchell House One, LLC and Spruce Pine Propco Holdings, LLC shall not increase private pay charges more than 5% of the projected private pay charges provided in Section Q of the application without first obtaining a determination from the Healthcare Planning and Certificate of Need Section that the proposed increase is in material compliance with the representations in the certificate of need application.**
- 5. 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, Mitchell House One, LLC and Spruce Pine Propco Holdings, 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.**
- 6. Mitchell House One, LLC and Spruce Pine Propco Holdings, 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 applicants propose to add 20 ACH beds to the existing Mitchell House for a total of 100 ACH beds.

Capital and Working Capital Costs

In Section Q, page 69, the applicants project the total capital cost of the project, as shown in the table below.

Closing Costs/Site Prep/ Construction/ Landscaping/Architect Fees	\$3,250,000
Equipment/Furniture	\$700,000
Financing Costs/Interest during Construction	\$425,000
Total	\$4,375,000

In Section F, pages 41-42, the applicants project there will be no start-up costs and initial operating expenses will be \$146,007 for a total working capital of \$146,007. The applicants provide the assumptions and methodology used to project the working capital needs of the project in Section F.3 and Exhibits Q.1 and Q.2.

Availability of Funds

In Section F, page 40, the applicants state that the capital costs for the project will be funded by a loan to Spruce Pine Propco Holdings, LLC. On page 42 and in Exhibit F.3, the applicants show that the working capital for the project will be funded by a loan to Mitchell House One, LLC.

Exhibits F.1 and F.3 contain letters dated April 3, 2019, from the Managing Director of Integrated Asset Advisors, confirming a willingness to provide funding to Spruce Pine Propco Holdings, LLC for the capital needs and to Mitchell House One, LLC for the working capital needs of the proposed project. Exhibits F.2 and F.4 contain amortization schedules for each proposed loan.

Financial Feasibility

In Section Q, the applicants provide pro forma financial statements for the first three full fiscal years of operation following completion of the project. In Form F.5, pages 82-83, the applicants project that revenues will exceed operating expenses in the first three operating years of the project, as summarized in the table below.

**Mitchell House
Revenue and Expenses**

	PY1 FY2023	PY2 FY2024	PY3 FY2025
ACH Beds	100	100	100
Total Gross Revenues (Charges)	\$3,450,219	\$3,748,752	\$3,754,152
Total Contractual Adjustments	\$34,502	\$37,488	\$37,542
Total Net Revenue	\$3,415,717	\$3,711,264	\$3,716,610
Average Net Revenue per Bed	\$34,157	\$37,113	\$37,166
Total Operating Expenses (Costs)	\$3,281,658	\$3,364,516	\$3,363,711
Average Operating Expense per Bed	\$32,817	\$33,645	\$33,637
Net Income	\$134,059	\$346,748	\$352,899

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

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

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

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

C

The applicants propose to add 20 ACH beds to Mitchell House for a total of 100 ACH beds.

On page 219, the 2019 SMFP defines the service area for ACH beds as “*the county in which the adult care home bed is located.*” Mitchell House is located in Mitchell County; thus, the

service area for this project is Mitchell County. Facilities may also serve residents of counties not included in their service area.

Table 11A on page 236 of the 2019 SMFP shows Mitchell House is the only ACH facility in Mitchell County. Table 11C, page 251, shows Mitchell County with an occupancy rate of 82.27% and a projected deficit of 17 ACH beds.

In Section G, page 45, the applicants explain why they believe their proposal would not result in the unnecessary duplication of existing or approved ACH bed services in Mitchell County. The applicants state that the 2019 SMFP identifies a need for 20 ACH beds in Mitchell County; therefore, the proposal to add 20 ACH beds will not result in unnecessary duplication of existing or approved ACH beds.

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

- The project is pursuant to a need determination for 20 additional ACH beds in Mitchell County.
- The applicants adequately demonstrate the need for the 20 new beds in addition to the existing ACH beds.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and
- 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 Q, Form H, the applicants provide current and projected staffing for the proposed services in full-time equivalent (FTE) positions, as illustrated in the following table.

Position	Current FTEs	1st FFY FTEs	2nd FFY FTEs	3rd FFY FTEs
RNs	0.5	0.5	0.5	0.5
Personal Care Aides	44.0	33.1	33.9	33.8
Alzheimer's Coordinator	1.0	1.0	1.0	1.0
Staff Development Coordinator	1.0	1.0	1.0	1.0
Clerical	1.0	1.5	1.5	1.5
Dietary	6.5	5.2	5.6	5.6
Activities	1.0	1.2	1.3	1.3
Transportation	1.0	1.1	1.3	1.3
Laundry and Linen	0.5	0.7	0.9	0.9
Housekeeping	2.5	2.9	3.3	3.3
Plant Operation & Maintenance		1.0	1.0	1.0
Administration	1.0	1.0	1.0	1.0
TOTAL	60.0	50.3	52.3	52.2

Source: Form H in Section Q of the application
 Totals may not sum due to rounding

The assumptions and methodology, including worksheets, used to project staffing are provided in Exhibits Q.1 and Q.2. The projected staffing is lower than the current staffing; however, a comparison of the applicants' projected staffing with the projected staffing of other proposed ACH projects shows that the projected staffing above is reasonable. Adequate costs for the health manpower and management positions proposed by the applicants are budgeted in Form F.4, which is found in Section Q. In Section H, page 47, the applicants describe the methods used to recruit or fill new positions and their existing training and continuing education programs. On pages 47-48, the applicants discuss the physicians who will admit residents and provide medical services, as well as the facility administrators. The applicants provide supporting information in Exhibits H.1 and H.2.

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

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and
- information publicly available during the review and used by the Agency.

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

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

C

In Section I.1, page 49, the applicants state that rehabilitative and other support care will be provided through existing relationships and provide letters of support from providers of support services in Exhibits C.1, C.2, and C.4. Exhibits C.1 and C.2 document support from providers of food and pharmacy services, respectively. C.4 documents support from providers of rehabilitation and social services.

In Section I, page 49, the applicants describe their existing relationships with other local health care and social service providers.

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

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

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

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

NA

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

- (10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates: (a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and (b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers:

- (i) would be available under a contract of at least 5 years duration;
- (ii) would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
- (iii) would cost no more than if the services were provided by the HMO; and
- (iv) would be available in a manner which is administratively feasible to the HMO.

NA

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

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

C

The applicants propose to add 20 ACH beds to Mitchell House for a total of 100 ACH beds.

In Section K.1, page 52, the applicants propose to construct an 8,381 square foot addition to the existing facility. Line drawings and a site plan are provided in Exhibits K.1 and K.2, respectively.

On page 52, the applicants adequately explain how the cost, design, and means of construction represent the most reasonable alternative for the proposal.

In Section K.3(b), pages 52-53, the applicants adequately explain why the proposal will not unduly increase the costs to the applicant of providing the proposed services or the costs and charges to the public for the proposed services.

In Section B.11, pages 20-21 and Section K.3(c), page 53 and identified by the applicants as (a), the applicants identify any applicable energy saving features that will be incorporated into the construction plans and provide supporting documentation in Exhibit K.1.

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

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

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

C

In Section L, page 57, the applicants state that 38.65% of Mitchell House's total paid bed days (March 1, 2018 through February 28, 2019) were private pay and 61.35% of total paid bed days were covered by County Special Assistance.

In Section L, page 56, the applicants provide the following comparison.

	Percentage of Total Patients Served by the Mitchell House Facility during the Last Full FY	Percentage of the Population of the Service Area
Female	68.5%	50.8%
Male	31.5%	49.2%
Unknown	0.0%	0.0%
64 and Younger	4.5%	75.1%
65 and Older	95.5%	24.9%
American Indian	0.9%	0.9%
Asian	0.0%	0.7%
Black or African-American	0.9%	0.7%
Native Hawaiian or Pacific Islander	0.0%	0.2%
White or Caucasian	98.2%	92.0%
Other Race	0.0%	5.5%
Declined / Unavailable	0.0%	0.0%

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

Based on that review, the Agency concludes that the application documents the extent to which medically underserved populations currently use the applicants' existing services in comparison to the percentage of the population in the applicants' service area which is medically underserved. Therefore, the application is conforming to this criterion.

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

C

Regarding any obligation to provide uncompensated care, community service, or access by minorities and persons with disabilities, in Section L, page 57, the applicants state that they are not obligated to provide uncompensated care, community service, or access by minorities and persons with disabilities.

In Section L, page 57, the applicants state that during the last five years, there have been no patient civil rights access complaints filed against the facility or any similar facilities owned by the applicants or a related entity and located in North Carolina.

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

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

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

C

In Section L, page 58, the applicants project that 44.79% of total paid bed days will be private pay and 55.21% of total paid bed days will be covered by County Special Assistance in the third full fiscal year (FY2025) following completion of the project. The discussion related to payor mix in Criterion (3) is incorporated herein by reference.

In Exhibits Q.1 and Q.2, the applicants provide the assumptions and methodology used to project payor mix during the third full fiscal year of operation following completion of the project. The projected payor mix is reasonable and adequately supported for the following reasons:

- The projected payor mix is based on the historical payor mix adjusted for future expectations.
- The applicants incorporate the experience of its management group, Affinity Living Group in its projections.

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

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

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

C

In Section L, page 58, the applicants adequately describe the range of means by which patients will have access to the proposed services.

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

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

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

C

In Section M, page 59, the applicants adequately describe the extent to which area health professional training programs will have access to the facility for training purposes.

Conclusion

The Agency reviewed the:

- application, and
- exhibits to the application.

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

(15) Repealed effective July 1, 1987.

(16) Repealed effective July 1, 1987.

(17) Repealed effective July 1, 1987.

(18) Repealed effective July 1, 1987.

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

C

The applicants propose to add 20 ACH beds to Mitchell House for a total of 100 ACH beds.

On page 219, the 2019 SMFP defines the service area for ACH beds as “*the county in which the adult care home bed is located.*” Mitchell House is located in Mitchell County; thus, the service area for this project is Mitchell County. Facilities may also serve residents of counties not included in their service area.

Table 11A on page 236 of the 2019 SMFP shows Mitchell House is the only ACH facility in Mitchell County. Table 11C, page 251, shows Mitchell County with an occupancy rate of 82.27% and a projected deficit of 17 ACH beds.

In Section N, pages 60-61, the applicants describe the expected effects of the proposed services on competition in the service area and discuss how any enhanced competition in the service area will promote cost-effectiveness, quality, and access to the proposed services. On page 60, the applicants state:

“The proposed project will have a positive effect on competition in the area, as the demand for these 20 ACH Beds may encourage other facilities to attempt to create a new facility in Mitchell County in order to compete with the proposed project. It will

also allow for additional options for seniors within Mitchell County, especially those that depend on Medicaid and Special Assistance.”

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

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

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and
- 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 Section A.7, page 11, the applicants state that they do not own or manage any ACH facilities in North Carolina, other than Mitchell House. The applicants further state that they have entered into a management agreement with Affinity Living Group, LLC, which operates over eighty adult care homes in North Carolina. The applicants provide a list of those facilities in Exhibit A.3.

In Exhibit O.3, the applicants provide a listing of the facilities managed by Affinity Living Group which have received Type A and B violations and penalties during the 18 months immediately preceding the submittal of the application. Eighteen facilities had one or more incidents related to quality of care. In Section O.3(b)(ii), pages 63-64, the applicants state:

“All violations received by said facilities have been resolved successfully with DHSR. It is the Applicants and the management company’s (Affinity Living Group, LLC) foremost goal and intent to comply with any [sic] all licensure requirements imposed by DHSR.”

After reviewing and considering information provided by the applicants and by the Adult Care Licensure Section and considering the quality of care provided at all 80 facilities, the applicants provide sufficient evidence that quality care has been provided in the past. Therefore, the application is conforming to this criterion.

(21) Repealed effective July 1, 1987.

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

C

The Criteria and Standards for Nursing Facility or Adult Care Home Services promulgated in 10A NCAC 14C .1100 are applicable to this review. The specific criteria are discussed below.

SECTION .1100 – CRITERIA AND STANDARDS FOR NURSING FACILITY OR ADULT CARE HOME SERVICES

10A NCAC 14C .1102 PERFORMANCE STANDARDS

(a) *An applicant proposing to add nursing facility beds to an existing facility, except an applicant proposing to transfer existing certified nursing facility beds from a State Psychiatric Hospital to a community facility, shall not be approved unless the average occupancy, over the nine months immediately preceding the submittal of the application, of the total number of licensed nursing facility beds within the facility in which the new beds are to be operated was at least 90 percent.*

-NA- The applicants do not propose to add nursing facility beds to an existing facility.

- (b) *An applicant proposing to establish a new nursing facility or add nursing facility beds to an existing facility, except an applicant proposing to transfer existing certified nursing facility beds from a State Psychiatric Hospital to a community facility, shall not be approved unless occupancy is projected to be at least 90 percent for the total number of nursing facility beds proposed to be operated, no later than two years following the completion of the proposed project. All assumptions, including the specific methodologies by which occupancies are projected, shall be clearly stated.*
- NA- The applicants do not propose to establish a new nursing facility or add nursing facility beds to an existing facility.
- (c) *An applicant proposing to add adult care home beds to an existing facility shall not be approved unless the average occupancy, over the nine months immediately preceding the submittal of the application, of the total number of licensed adult care home beds within the facility in which the new beds are to be operated was at least 85 percent.*
- C- In Section C, page 34, the applicants adequately demonstrate that the average occupancy of Mitchell House over the nine months (June 2018 through February 2019) preceding the submittal of the application was at least 85 percent.
- (d) *An applicant proposing to establish a new adult care home facility or add adult care home beds to an existing facility shall not be approved unless occupancy is projected to be at least 85 percent for the total number of adult care home beds proposed to be operated, no later than two years following the completion of the proposed project. All assumptions, including the specific methodologies by which occupancies are projected, shall be stated.*
- C- In Section Q, on Form C, the applicants project that the proposed facility will have an occupancy rate of at least 85 percent by the end of the second operating year following project completion. The applicants provide the assumptions and methodology to project utilization in Exhibits Q.1 and Q.2. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.