

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: March 20, 2019

Findings Date: March 20, 2019

Project Analyst: Tanya M. Saporito

Assistant Chief: Lisa Pittman

Project ID #: J-11608-18

Facility: The Rosewood Health Center

FID #: 050891

County: Wake

Applicant: The Cypress of Raleigh Club, Inc., The Cypress of Raleigh, LLC

Project: Add 21 NF beds under Policy NH-2, for a total of 57 NF beds upon project completion

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

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

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

CA

The applicants, The Cypress of Raleigh, LLC (COR), and The Cypress of Raleigh Club, Inc. (The Club) propose to add 21 nursing facility (NF) beds pursuant to Policy NH-2 to The Rosewood Health Center (Rosewood), for a total of 57 NF beds and four adult care home (ACH) beds. Rosewood is a nursing facility currently licensed for 36 NF beds and four ACH beds, and is part of a Continuing Care Retirement Community (CCRC), The Cypress of Raleigh Community (The Community). The Cypress of Raleigh, LLC will develop the project, and The Cypress of Raleigh Club, Inc. will operate the facility.

Need Determination

The proposed project does not involve the addition of any new health service facility beds, services or equipment for which there is a need determination in the 2018 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations applicable to this review.

Policies

There are two policies in the 2018 SMFP which are applicable to this review: *Policy NH-2: Plan Exemption for Continuing Care Retirement Communities* and *Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities*.

Policy NH-2, on pages 23-24 of the 2018 SMFP, states:

“Qualified continuing care retirement communities may include from the outset or add or convert bed capacity for nursing care without regard to the nursing care bed need shown in Chapter 10: Nursing Care Facilities. To qualify for such exemption, applications for certificates of need shall show that the proposed nursing care bed capacity:

- 1. Will only be developed concurrently with or subsequent to construction on the same site of facilities for both of the following levels of care:*
 - a. independent living accommodations (apartments and homes) for people who are able to carry out normal activities of daily living without assistance; such accommodations may be in the form of apartments, flats, houses, cottages and rooms;*
 - b. licensed adult care home beds for use by people who, because of age or disability, require some personal services, incidental medical services, and room and board to assure their safety and comfort.*
- 2. Will be used exclusively to meet the needs of people with whom the facility has continuing care contracts (in compliance with the North Carolina Department of Insurance statutes and rules) who have lived in a non-nursing unit of the continuing care retirement community for a period of at least 30 days. Exceptions shall be allowed when one spouse or sibling is admitted to the nursing unit at the time the other spouse or sibling moves into a non-nursing unit, or when the medical condition requiring nursing care was not known to exist or be imminent when the individual became a party to the continuing care contract.*
- 3. Reflects the number of nursing care beds required to meet the current or projected needs of residents with whom the facility has an agreement to provide continuing care after making use of all feasible alternatives to institutional nursing care.*
- 4. Will not be certified for participation in the Medicaid program.*

One hundred percent of the nursing care beds developed under this exemption shall be excluded from the inventory and the occupancy rate used to project nursing care bed need for the general population. Certificates of need issued under policies analogous to this policy in the North Carolina State Medical Facilities Plans subsequent to the 1985 State Medical Facilities Plan are automatically amended to conform to the provisions of this policy at the effective date of this policy. Certificates of need awarded pursuant to the provisions of Chapter 920 Session Laws 1983 or Chapter 445, Session Laws 1985 shall not be amended.”

In Section B.3, pages 12 - 13, the applicants provide responses that demonstrate compliance with the requirements of Policy NH-2, and provide supporting documentation in Exhibits B-3.1, B-3.2 and B-3.3.

The applicants adequately demonstrate conformance with the requirements of Policy NH-2.

Policy GEN-4, on page 33 of the 2018 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 is 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 \$5 million; therefore, Policy GEN-4 is applicable to this review. In Section B.10, page 17, the applicants state that the proposed building addition will be designed using energy efficiency materials and methods, in compliance with all applicable federal, state, and local requirements for energy efficiency and water conservation. In Exhibit F-1, the applicant includes a letter from the architect for the project that includes a written statement documenting the project’s plan to assure energy efficiency and water conservation.

The applicants adequately demonstrate that the application includes a written statement describing the project's plan to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4.

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 because the applicants adequately demonstrate that the proposal is consistent with Policy NH-2 and Policy GEN-4 for the following reasons:

- the applicants adequately document a plan for developing the proposed nursing facility beds on the same site as the independent living (IL) and ACH beds,
- the applicants adequately document a plan for developing the proposed nursing facility beds to be used exclusively to meet the needs of existing IL and ACH patients,
- the applicants adequately document the number of NF beds required to meet the current and projected needs of residents with whom the facility has an agreement to provide continuing care, after making use of all feasible alternatives to institutional nursing care,
- the applicants adequately document that the proposed additional NF beds will not be certified for participation in the Medicaid program, and
- the applicants provide a written statement that demonstrates that the project includes a plan for 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 21 NF beds to the existing nursing facility, pursuant to Policy NH-2, for a total of 57 NF beds and four ACH beds upon project completion. The NF and ACH beds are licensed as The Rosewood Health Center (Rosewood), and are part of an existing CCRC, The Cypress of Raleigh Community (the Community). The Community is licensed by the North Carolina Department of Insurance as The Cypress of Raleigh. Currently, The Community has 259 IL units, four ACH beds and 36 NF beds, and plans to add an additional 56 IL units by 2021.

In Section C.4, pages 21 - 22, the applicants state they conducted a population flow analysis that projects that with the addition of new IL units, the need for NF beds will necessarily increase, since the NF beds are utilized only by those residents of the IL units as the need for increased levels of care or episodic nursing care arises. The applicants state on page 56 that the NF beds requested in this application are only a small part of a larger CCCRC community, called The Cypress of Raleigh. When the Community was first developed, the applicants state it had 203 IL villas, and grew to a community of 259 IL units, 36 NF beds, and four ACH beds by the end of 2018. The Community plans to add an additional 56 IL units by 2021. With those additional units, the applicants state the demand for NF beds will increase. The addition of the proposed NF beds is the only certificate of need (CON) regulated component of the expansion.

Patient Origin

On page 183, the 2018 SMFP defines the service area for nursing facility beds as:

“A nursing care bed’s service area is the nursing care bed planning area in which the bed is located. Each of the 100 counties in the state is a separate nursing care bed planning area.”

The Cypress of Raleigh Community is located in Wake County. Thus, the service area for this project consists of Wake County. Facilities may serve residents of counties not included in their service area.

In Sections C.2 and C.3, pages 20 and 21, respectively, the applicants state that the current FY 2017, and projected patient origin (for all three project years, CY 2021, CY 2022, and CY 2023) for the nursing facility beds at Rosewood is Wake County because the NF beds are restricted for use to provide care to CCRC residents who have already entered into a residency agreement with Rosewood. The applicants state all of the historical residents are from Wake County, and no changes are anticipated.

The applicant’s assumptions are reasonable and adequately supported.

Analysis of Need

In Section C.4, pages 21 - 22, the applicants explain why the population projected to utilize the proposed additional NF beds needs the proposed NF beds. The applicants describe the key factors which support the need for the proposed project, as listed below:

- impact of adding IL units (page 21)
- demographic factors (page 21);
- projected population of Wake County (page 22); and
- historical occupancy at Rosewood (page 22).

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

- The total Wake County population is projected to grow by 10.73% from 2018 to 2023.
- The highest percentage of growth (31.10%) is projected in the 65+ age group, the group more likely to utilize nursing facility services.
- Rosewood NF beds operated at above 90% capacity in CY 2017.
- Rosewood is adding more IL units which will increase the total number of residents at Rosewood who will need future nursing facility services on site.

Projected Utilization

In Section Q, the applicants provide the historical and projected utilization for the facility’s NF and ACH beds. Section C. 7 requires the completion of Form C Utilization, which is found in Section Q and asks for the projected annual utilization data for the first three full federal fiscal years (FFY) after completion of the proposed project. In Section P, the applicants project that the project will be complete and services will be offered January 1, 2021. The applicants state the first three full FFY after completion of the project will be FY 2022, FY 2023 and FY 2024. The applicants’ projected utilization (Form C) is summarized below.

The Rosewood Health Center Form C Utilization

	PRIOR FULL YR CY 2017	INTERIM YR CY 2018	INTERIM YR CY 2019	INTERIM YR CY 2020*	1 ST FULL OY CY 2021	2 ND FULL OY CY 2022	3 RD FULL OY CY 2023
NF BEDS							
# of Beds	36	36	36	36	57	57	57
Patient Days	12,442	12,388	12,479	12,863	16,071	18,105	19,291
Occ. Rate	95%	94%	95%	98%	77%	87%	93%
ACH Beds							
# of Beds	4	4	4	4	4	4	4
Patient Days	1,435	1,435	1,435	1,435	1,435	1,435	1,435
Occ. Rate	98%	98%	98%	98%	98%	98%	98%

*CY2020 is a Leap Year. The projected utilization is irrespective of the extra day that year.

The applicants provide the assumptions for the above projections on page 56 of Section Q, as summarized below:

- In Exhibit B-3.3, the applicants state that occupancy projections are based on historical resident data and prior experience with other communities managed by Life Care Services, LLC.
- By 2020, the applicants project that the available NF beds will be at 98% occupancy.
- The proposed additional NF beds are projected to be licensed and operational as of January 1, 2021.
- The applicants opened 57 new IL units in 2018, and plan to add 56 additional IL units by 2021, bringing the total IL units to 315.
- As additional IL units are added, the need for NF beds in the facility increases as well.
- The actuarial population analysis conducted by the applicants project in excess of 93% utilization by the third year of operation.

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

- Projected utilization is based upon historical utilization, combined with projected facility growth.
- Projected utilization is based upon actuarial studies that show an increase in the age 65+ population in Wake County
- The historical utilization of the NF beds at Rosewood has been over 95% in the last three years.

Access

In Section C.8, pages 23 - 24, the applicants state the construction of the 21 NF bed addition will emphasize access to all spaces both internally and externally to address the needs of the elderly. The applicants state:

“Handicapped persons will be accommodated through design and licensure requirements of the nursing facility. The Community and the Health Center [Rosewood] does not [sic] discriminate against any persons including those of racial and ethnic minorities... Because the CCRC requires entrance through upfront and ongoing costs, the Community, Health Center, and the project will not be directly accessible to low income individuals; however, by [providing] long term care to Community members through the designated Health Center, nursing home beds in the greater Raleigh area have more beds available to serve low income individuals including those eligible for Medicaid. Overall, bringing more nursing facility beds online in Wake County will help address the aging and growing population and the increasing needs for nursing facility beds.”

In Section L.1 (b), page 46, the applicants state that Rosewood’s payor mix for CY 2017 was 95% private pay and 5% Medicare. In Section L.3 (b), page 47, the applicants project the following payor mix for the third year of operation, CY 2023, which they state is based on historical experience:

The Rosewood Projected Payor Mix NF Beds CY 2023

PAYOR SOURCE	NF PATIENT DAYS	% OF TOTAL DAYS
Private Pay	16,192	84.0%
Medicare	3,099	16.0%
Total	19,291	100.0%

The projected payor mix is reasonable and adequately supported.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and
- remarks made at the public hearing.

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, and
- The applicants project the extent to which all residents, including underserved groups, will have access to the proposed services (payor mix) and adequately support those 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 are not proposing a reduction or elimination of a service, or the relocation of a facility or a service. 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 applicants propose to add 21 NF beds to its existing nursing facility, pursuant to Policy NH-2, for a total of 57 NF beds and four ACH beds at Rosewood, part of The Cypress of Raleigh Community CCRC.

In Section E.3, page 29, the applicants state they only considered maintaining the status quo, since the demand for additional NF beds is unique to the residents of this community and to these applicants. The applicants explain why maintaining the status quo is less effective than the alternative proposed in the application.

The applicants state that this proposal is the most effective alternative because maintaining the status quo would be detrimental to ongoing access to nursing care beds for The Rosewood Health Center's existing and prospective residents because:

- The utilization of NF beds is related to the utilization of the IL units at the CCRC.
- 57 new IL units opened in 2018 and are filling up quickly. 56 additional villas are planned for 2021, which will result in additional residents needing NF services.

- As a CCRC, the Community is required to have sufficient NF bed capacity to serve its residents.
- Actuarial studies conducted by the applicants project over 98% utilization by 2020, just before the additional IL units would be operational.
- The proposed new NF beds are needed to support the healthcare needs of The Cypress of Raleigh's present and future IL residents.

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

- the applicants adequately demonstrate the need for the project, as proposed, and provide adequate documentation regarding the development of the proposed project, including all related costs,
- the applicants use reasonable and adequately supported assumptions to project utilization, and
- the data cited is reasonable to support the assumptions made with regard to the most effective alternative for development of the proposed project.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application,
- Information publicly available during the review and used by the Agency and
- remarks made at the public hearing

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 Cypress of Raleigh Club, Inc. and The Cypress of Raleigh, LLC shall materially comply with all representations made in the certificate of need application and any supplemental responses. In the event that representations conflict, The Cypress of Raleigh Club, Inc. and The Cypress of Raleigh, LLC shall materially comply with the last made representation.**
- 2. The Cypress of Raleigh Club, Inc. and The Cypress of Raleigh, LLC shall develop no more than 21 nursing facility beds pursuant to Policy NH-2 for a total of no more than 57 licensed nursing facility beds and 4 licensed adult care home beds upon completion of this project.**
- 3. The 21 additional Policy NH-2 nursing facility beds shall not be certified for participation in the Medicaid program.**

- 4. The Policy NH-2 nursing facility beds shall be used exclusively to meet the needs of persons with whom the facility has continuing care contracts (in compliance with the Department of Insurance statutes and regulations) who have lived in a non-nursing unit of the continuing care facility for a period of at least 30 days. Exceptions shall be allowed when one spouse or sibling is admitted to the nursing unit at the time the other spouse or sibling moves into a non-nursing unit, or when the medical condition requiring nursing care was not known to exist or be imminent when the individual became a party to the continuing care contract.**
 - 5. The new Policy NH-2 nursing facility beds shall be developed on the same site with the independent living units and licensed adult care home beds.**
 - 6. The Cypress of Raleigh Club, Inc. and The Cypress of Raleigh, LLC shall 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.**
 - 7. 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 Cypress of Raleigh Club, Inc. and The Cypress of Raleigh, 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.**
 - 8. The Cypress of Raleigh Club, Inc. and The Cypress of Raleigh, 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, The Cypress of Raleigh Club, Inc. and The Cypress of Raleigh, LLC, propose to add 21 NF beds to the existing nursing facility for a total of 57 NF beds and 4 ACH beds at The Rosewood Health Center, by constructing an addition to the Rosewood Health Center.

Capital and Working Capital Costs

In Section Q, Form F.1a, the applicants project the following capital cost:

Projected Capital Cost

Site Costs	\$237,100
Construction Costs	\$3,896,393
Miscellaneous Costs	\$1,755,439
Total	\$5,888,932

In Section Q, the applicants provide the assumptions used to project the capital cost. Exhibit F-1 contains the architect’s cost estimate for the site prep and construction contract, as listed above.

In Section F.3, page 32, the applicants state that Rosewood is an existing facility within The Cypress of Raleigh Community; therefore, there will be no start-up expenses or initial operating expenses associated with the project.

Availability of Funds

In Section F.2, page 30, the applicants project the following funding sources for the total project capital costs:

Sources of Capital Cost Financing

TYPE	TOTAL
Loans	\$4,000,000
Accumulated reserves or OE *	\$1,888,932
Total Financing	\$5,888,932

*OE = owner’s equity

In Section F.2, page 30, the applicants state that The Cypress of Raleigh, LLC will develop the project and The Cypress of Raleigh Club, Inc. will operate Rosewood. The Cypress of Raleigh, LLC will pay for the project, and The Cypress of Raleigh Club, Inc. will repay the \$1.8 million through management fees paid to The Cypress of Raleigh, LLC.

In Exhibit F-2.1, the applicants provide an October 3, 2018 letter from First Citizens Bank, which confirms the bank’s intent to provide financing in the amount of \$4 million for the project. In Exhibit F-2.2, the applicants provide an October 15, 2018 letter from the managing partner of The Cypress of Raleigh, LLC, which confirms the total project capital cost of approximately \$6 million. The letter states, in part:

“The Cypress of Raleigh, LLC (Developer) and The Cypress of Raleigh Club, Inc. (Operator) are co-applicants for a 21 bed expansion to the Rosewood Health Center. The total capital cost of the project is estimated to be approximately \$6,000,000. The Developer will solely fund the project through a combination of cash on hand and a maximum loan of \$4,000,000, to be provided by First Citizens Bank. ... The Cypress of Raleigh, LLC has sufficient cash reserves to fund the \$2,000,000 portion of the project capital costs.”

Further, The Cypress of Raleigh, LLC expects to have additional cash reserves generated in 2018 from the sales of homes in a recently completed community expansion which may significantly reduce (or negate entirely) the need for a bank loan.”

In Section F.2, page 30, the applicants state that, upon project completion, the management fees paid to The Cypress of Raleigh, LLC will cover the debt associated with this project.

The audited financial statements of The Cypress of Raleigh, LLC, provided in Exhibit F-2.3, page 220, show available cash reserves in the amount of \$1,762,675, leaving a balance of \$126,257. However, as noted above, the letter in Exhibit F-2.2 states that sales of homes will generate income sufficient to “*significantly reduce (or negate entirely) the need for a bank loan*”. In addition, the North Carolina Department of Insurance is the Agency that licenses CCRCs. The Agency reviewed the website, which provides, among other information, updated financial reports and “*Forecasted Statements of Activities*” for each licensed community. The Agency reviewed the reports for The Cypress of Raleigh, LLC¹, and determined that the applicant has sufficient cash reserves, or will have sufficient cash reserves on hand to fund the capital needs of the project.

Financial Feasibility

The applicants provide pro forma financial statements for the first three full fiscal years of operation following completion of the project, which are calendar years (CY) 2021, 2022 and 2023. In Form F.5, the applicants project that operating expenses will exceed revenues in the first operating year of the project for the total health facility and for NF beds only in the first operating year of the project. In addition, the applicants project that revenues will exceed operating expenses in the second and third operating years for the total health facility, as shown in the tables below.

The Rosewood Projected NF and ACH Revenue and Expenses, 1st Project Year (CY 2021)

	NF	ACH	TOTAL FACILITY
Total Patient Days	16,071	1,435	17,506
Total Gross Revenues (Charges)	\$6,323,082	\$604,196	\$6,927,277
Total Net Revenue	\$5,576,526	\$604,196	\$6,180,722
Average Net Revenue per Patient Day	\$347	\$421	\$353
Total Operating Expenses (Costs)	\$5,888,868	\$525,825	\$6,414,693
Average Operating Expense per Patient Day	\$366	\$366	\$366
Net Income	(\$312,342)	\$78,371	(\$233,971)

*Numbers may not sum due to rounding

¹ [http://www.ncdoi.com/SE/Documents/CCRC/DisclosureStatements/The%20Cypress%20of%20Raleigh%20\(2018\).pdf](http://www.ncdoi.com/SE/Documents/CCRC/DisclosureStatements/The%20Cypress%20of%20Raleigh%20(2018).pdf)

The Rosewood Projected NF and ACH Revenue and Expenses, 2nd Project Year (CY 2022)

	NF	ACH	TOTAL FACILITY
Total Patient Days	18,105	1,435	19,540
Total Gross Revenues (Charges)	\$7,310,962	\$623,026	\$7,933,988
Total Net Revenue	\$6,455,269	\$623,026	\$7,078,295
Average Net Revenue per Patient Day	\$357	\$434	\$362
Total Operating Expenses (Costs)	\$6,539,892	\$518,351	\$7,058,243
Average Operating Expense per Patient Day	\$361	\$361	\$361
Net Income	(\$84,623)	\$104,675	\$20,052

*Numbers may not sum due to rounding

The Rosewood Projected NF and ACH Revenue and Expenses, 3rd Project Year (CY 2023)

	NF	ACH	TOTAL FACILITY
Total Patient Days	19,291	1,435	20,726
Total Gross Revenues (Charges)	\$8,280,168	\$663,853	\$8,944,021
Total Net Revenue	\$7,346,867	\$663,853	\$8,010,720
Average Net Revenue per Patient Day	\$381	\$463	\$387
Total Operating Expenses (Costs)	\$7,214,827	\$536,689	\$7,751,516
Average Operating Expense per Patient Day	\$374	\$374	\$374
Net Income	\$132,040	\$127,164	\$259,204

*Numbers may not sum due to rounding

The assumptions used by the applicant 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,
- exhibits to the application,
- Information publicly available during the review and used by the Agency and
- remarks made at the public hearing.

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 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 21 NF beds to the existing nursing facility, pursuant to Policy NH-2, for a total of 57 NF beds and four ACH beds at Rosewood upon project completion.

On page 183, the 2018 SMFP defines the service area for nursing care beds as the nursing bed care planning area in which the bed is located. Each of the 100 counties in the state is a separate nursing care bed planning area. Thus, the service area for this project consists of Mecklenburg County. Facilities may serve residents of counties not included in their service area.

On pages 197 - 198 of the 2018 SMFP, Table 10A documents that there are a total of 30 existing or approved facilities in Wake County that offer or will offer NF services. The table below is a summary of those 30 facilities in Wake County, recreated from the 2018 SMFP, Chapter 10, Table 10A (pages 197 - 198) and Table 10C (page 206). There is a projected surplus of 75 NF beds in 2021 for Wake County.

2017 NF INVENTORY AND 2021 NEED PROJECTIONS FOR WAKE COUNTY	
# Facilities with NF Beds	30
# Beds in Hospitals	175
# Beds in Nursing Facilities	2,275
Total # Licensed Beds	2,450
# CON Approved Beds (License Pending)	221
Total # NF Beds Available	2,671
Total # NF Beds in Planning Inventory	2,326
Projected Bed Utilization with Vacancy Factor*	2,251
Projected Bed Surplus (Deficit)	75

*Calculated by dividing Projected Bed Utilization by 95%.

Table 10C of the 2018 SMFP shows that the occupancy rate for Wake County nursing facility beds is 88.4%, which indicates they are well-utilized. The applicants are applying for additional NF beds pursuant to Policy NH-2 to serve only existing residents of The Cypress of Raleigh CCRC; thus, the relative utilization of other Wake County nursing facilities and NF beds is not relevant to this review.

In Section G, page 36, the applicants explain why the proposal would not result in the unnecessary duplication of existing or approved NF services in Wake County. The applicant states:

“The Cypress of Raleigh is an existing CCRC in Wake County that only serves its resident members. Therefore, the proposed project will not duplicate any services within the service area. The proposed beds are requested under SMFP Policy NH-2, which recognizes that beds developed as part of a CCRC are not considered in

the inventory of nursing facility beds used to generate the need methodology in the SMFP.”

The applicants adequately demonstrate that the addition of 21 NF beds pursuant to Policy NH-2 at The Rosewood Health Center will not result in an unnecessary duplication of the existing or approved services in Wake County for the following reasons:

- the applicants adequately demonstrate the need that current and projected IL and assisted living residents at Rosewood have for the 21 additional Policy NH-2 beds at the CCRC,
- the applicants adequately document that the additional 21 beds will be used exclusively by residents of The Cypress of Raleigh CCRC, and
- the applicants adequately demonstrate that the proposed NF beds are needed in addition to the existing or approved nursing facility beds.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and
- remarks made at the public hearing.

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, as summarized below.

The Rosewood Health Center Current and Projected FTE Positions

STAFF POSITION	CURRENT AS OF 2018	INTERIM AS OF 2019	INTERIM AS OF 2020	OY 1 CY 2021	OY 2 CY 2022	OY 3 CY 2023
RNs	2.38	3.94	3.96	3.96	3.96	3.96
LPNs	11.39	11.32	11.40	16.40	16.40	16.40
Aides	21.34	22.61	22.82	30.82	30.82	30.82
Director of Nursing	1.00	1.00	1.00	1.00	1.00	1.00
Assistant Director of Nursing	2.17	2.00	2.00	2.00	2.00	2.00
MDS Nurse	1.00	0.81	1.00	1.00	1.00	1.00
Clerical	0.73	--	--	--	--	--
Reception/Administrative*	1.51	4.00	4.00	4.00	4.00	4.00
Dietary	0.84	0.95	0.95	2.95	2.95	2.95
Social Services	1.00	1.00	1.00	1.00	1.00	1.00
Activities	1.00	1.00	1.00	2.00	2.00	2.00
Laundry and Linen	1.37	1.50	1.50	1.50	1.50	1.50
Housekeeping	14.36	16.60	16.60	17.60	17.60	17.60
Plant Operation & Maintenance	2.88	3.44	3.44	3.44	3.44	3.44
Administration	0.94	1.13	1.13	1.13	1.13	1.13
Total FTE Positions*	64	71	72	88.80	88.80	88.80

*Totals may not sum due to rounding

Source: Form H in Section Q of the application

The assumptions and methodology used to project staffing are provided in Section H.2, page 37, and in Section Q, Form F.4. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in the pro forma financial statements in Section Q.

In Section H, page 37, the applicants describe the methods used to recruit or fill new positions. In Section H, Page 37, and Exhibit H-3, the applicants describe the existing and continuing education programs. In Exhibit H-4.2, the applicants provide a letter from the current Medical Director confirming his support for the project and his intent to continue to serve in that capacity.

The applicants adequately demonstrate the availability of adequate health manpower and management personnel for the provision of the proposed services.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and

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 39, the applicants state that Rosewood is part of the CCRC, The Cypress of Raleigh. The CCRC provides all ancillary and support services through its Management Services Agreement with Life Care Services, LLC. A copy of that Management Services Agreement is provided in Exhibit A-10.2.

In Section I.2, page 39, the applicants state that, as part of a larger CCRC community, ancillary and support services to be provided to residents of The Rosewood Health Center will be provided through the CCRC's management company, Life Care Services, LLC. The applicants state that, in the event of an emergency, The CCRC has transfer agreements in place with the local hospital and another CCRC. The applicants provide supporting documentation in Exhibits I-2.1 and I-2.2.

The applicants adequately demonstrate that necessary ancillary and support services are available and that the proposed services will be coordinated with the existing healthcare system.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and

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. 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 applicant is not an HMO. 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, The Cypress of Raleigh Club, Inc. and The Cypress of Raleigh, LLC, propose to add 21 nursing facility (NF) beds pursuant to Policy NH-2 to The Rosewood Health Center (Rosewood), for a total of 57 NF beds and four adult care home (ACH) beds. The Cypress of Raleigh, LLC will develop the project, and The Cypress of Raleigh Club, Inc. will operate the facility. The health service facility is part of The Cypress of Raleigh Community, a continuing care retirement community (CCRC) in Raleigh, Wake County.

In Section K, page 42, the applicants state that the project involves the construction of a 16,351 square foot addition to The Rosewood Health Center. Line drawings of the existing facility and the proposed expansion are provided in Exhibit K-1.

On page 42, the applicant adequately explain how the cost, design and means of construction represent the most reasonable alternative for the proposal and provides supporting documentation in Exhibit F-4.

In Section K.3(b), page 42, the applicants adequately explain why the project 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 K.3, page 43, the applicants describe methods that are incorporated into the construction plans to maintain energy efficiency and water conservation operations and contain the costs of utilities, stating that they plan to implement several techniques and policies.

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and

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.1(b), page 46, the applicants provide the historical payor mix during CY 2017 for NF beds and ACH beds at The Rosewood Health Center as shown in the following table:

The Rosewood Health Center Payor Mix, CY 2017

PAYOR SOURCE	NF DAYS	% OF TOTAL NF DAYS	ACH DAYS	% OF TOTAL ACH DAYS
Private Pay	11,891	95%	1,319	91.9%
Medicare	623	5%	70	4.8%
Insurance	--	--	46	3.3%
Total	12,442	100%	1,435	100.0%

In Section L.1(a), page 45, the applicants provide the following comparison.

The Cypress of Raleigh Last Full FFY

	PERCENTAGE OF TOTAL PATIENTS DURING THE LAST FULL FY	PERCENTAGE OF THE SERVICE AREA POPULATION
Female	73%	51.9%
Male	27%	48.1%
Unknown	0%	0.0%
64 and Younger	0%	88.9%
65 and Older	100%	11.1%
American Indian	0%	0.5%
Asian	0%	6.5%
Black or African-American	0%	18.7%
Native Hawaiian or Pacific Islander	0%	0.0%
White or Caucasian	100%	57.9%
Other Race	0%	16.4%
Declined / Unavailable	0%	0.0%

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 applicant's existing services in comparison to the percentage of the population in the applicant's 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.1, page 46, the applicants state it is under no obligation under any applicable federal regulations to provide uncompensated care, community service, or access by minorities and handicapped persons.

In Section L.2(d), page 46, the applicants state that no civil rights access complaints have been filed against The Cypress of Raleigh. In Section A.10, page 9, the applicants state that The Rosewood Health Center is the only nursing facility or adult care home operated by the applicants in North Carolina.

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.3, page 47, the applicants project that in the third year of operation, CY 2023, 84% of its NF residents will be private pay, and 16% will be recipients of Medicare, as shown in the following table:

The Rosewood Health Center Projected Payor Mix, CY 2023

PAYOR SOURCE	NF DAYS	% OF TOTAL NF DAYS	ACH DAYS	% OF TOTAL ACH DAYS
Private Pay	16,192	84%	1,098	76.5%
Medicare	3,099	16%	210	14.6%
Insurance	--	--	127	8.9%
Total	19,291	100%	1,435	100.0%

In supplemental information requested by the Agency and received on March 1, 2019, the applicants provide the assumptions and methodology used to project payor mix during the third full year of operation following completion of the project.

Policy NH-2: Plan Exemption for Continuing Care Retirement Communities requires the applicant to use the proposed additional NF beds exclusively to meet the needs of people with whom the facility has continuing care contracts and who have lived at the CCRC for at least 30 days. The Policy also prohibits the applicant from participation in the Medicaid program and serving State-County Special Assistance recipients in the Policy NH-2 beds.

The projected payor mix is reasonable and adequately supported for the following reasons:

- the projected payor mix is comparable to the historical payor mix,
- the proposed Policy NH-2 beds are prohibited from participation in the Medicaid program or the State-County Special Assistance program.

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.5, page 48, the applicants state patients will have access to the NF beds at Rosewood by physician referral.

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.1, page 49, the applicants respond to the question with “*Not applicable.*” However, the question does apply, and the applicants provide documentation of clinical and other training and service agreements in Exhibit H-3.

The Agency reviewed the:

- application, and
- exhibits to the application.

Based on that review, the Agency concludes that the applicant adequately demonstrates that the proposed services will accommodate the clinical needs of health professional training programs in the area; 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 21 NF beds to the existing nursing facility, pursuant to Policy NH-2, for a total of 57 NF beds and four ACH beds at Rosewood, which is part of The Cypress of Raleigh Community, upon project completion.

On page 183, the 2018 SMFP defines the service area for nursing care beds as the nursing bed care planning area in which the bed is located. Each of the 100 counties in the state is a separate nursing care bed planning area. Thus, the service area for this project consists of Mecklenburg County. Facilities may serve residents of counties not included in their service area.

On pages 197 - 198 of the 2018 SMFP, Table 10A documents that there are a total of 30 existing or approved facilities in Wake County that offer or will offer NF services. The table below is a summary of those 30 facilities in Wake County, recreated from the 2018 SMFP, Chapter 10, Table 10A (pages 197 - 198) and Table 10C (page 206). There is a projected surplus of 75 NF beds in 2021 for Wake County.

2017 NF INVENTORY AND 2021 NEED PROJECTIONS FOR WAKE COUNTY	
# Facilities with NF Beds	30
# Beds in Hospitals	175
# Beds in Nursing Facilities	2,275
Total # Licensed Beds	2,450
# CON Approved Beds (License Pending)	221
Total # NF Beds Available	2,671
Total # NF Beds in Planning Inventory	2,326
Projected Bed Utilization with Vacancy Factor*	2,251
Projected Bed Surplus (Deficit)	75

*Calculated by dividing Projected Bed Utilization by 95%.

Table 10C of the 2018 SMFP shows that the occupancy rate for Wake County nursing facility beds is 88.4%, which indicates they are well-utilized. The applicants are applying for additional NF beds pursuant to Policy NH-2 to serve only existing residents of The Cypress of Raleigh CCRC; thus, the relative utilization of other Wake County nursing facilities and NF beds is not relevant to this review.

In Section N, page 50, the applicants state that the proposed services will have no effect on competition in the service area because the proposed project is a NF addition to an existing CCRC.

Only the members of the CCRC can utilize the proposed NF beds . On page 50, the applicants state:

“The Cypress of Raleigh will have a positive impact on the cost effectiveness, quality of care, and access to care for its residents. The Cypress of Raleigh provides residents with numerous activities promoting a healthy lifestyle, all while providing good nutrition and close health monitoring and treatment. Residents of The Cypress of Raleigh are removed from the general patient pool which improves access to care for underserved individuals within the service area.”

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), and
- quality services will be provided (see Section O of the application and any exhibits).

Conclusion

The Agency reviewed the:

- application,
- exhibits to the application, and
- remarks made at the public hearing.

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.10, page 9, the applicants state The Rosewood is the only nursing facility or adult care home operated by the applicants in North Carolina. The applicants further state The Cypress of Raleigh has a quality assurance policy in place, a copy of which it provides in Exhibit O-1. The applicants provide a copy of the Licensure survey results in Exhibit O-3 which shows that the facility provided quality care in 2015, 2016 and 2017.

According to the files in the Nursing Home Licensure and Certification Section, DHSR, during the 18 months immediately preceding submission of the application through the date of this decision, there have been no incidents related to quality of care at The Rosewood Health Center. After reviewing and considering information provided by the applicant and by the Nursing Home Licensure and Certification Section and considering the quality of care

provided at The Pines at Davidson, the applicant provided 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.

NA

The applicants propose to add 21 NF beds pursuant to Policy NH-2. The Criteria and Standards for Nursing Facility or Adult Care Home Services promulgated in 10A NCAC 14C .1100 are not applicable to this review because beds added pursuant to Policy NH-2 are used exclusively to meet the needs of people with whom the facility has continuing care contracts who have lived in a non-nursing unit of the center for a period of at least 30 days.