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CON Section

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June 1, 2010

Craig Smith, Chief
Certificate of Need Section
Division of Health Service Regulation
North Carolina Department of Health and Human Services
701 Barbour Drive
Raleigh, North Carolina 27626-0530

RE: Comments on Home Health CON Applications for Wake County

Dear Mr. Smith:

Enclosed please find comments prepared by 3HC, regarding the competing CON applications for one new Medicare-certified Home Health Agency to meet the need identified in the *2010 State Medical Facilities Plan* for Wake County. We trust that you will take these comments into consideration during the Agency's review of the applications.

If you have any questions about the information presented here, please feel free to contact me at (919) 735-1387. I look forward to seeing you at the public hearing.

Sincerely,

N. Dean Lee

N. Dean Lee
President and CEO

**COMMENTS ABOUT COMPETING CERTIFICATE OF NEED APPLICATIONS
HOME HEALTH NEED DETERMINATION FOR WAKE COUNTY**

**SUBMITTED BY HOME HEALTH AND HOSPICE CARE, INC.
JUNE 1, 2010**

Seven applicants submitted Certificate of Need (CON) applications in response to the need identified in the *2010 State Medical Facilities Plan (SMFP)* for one additional Medicare-certified Home Health Agency in Wake County. In accordance with N.C.G.S. §131E-185(a.1)(1), this document includes comments relating to the representations made by the other applicants, and a discussion about whether the material in those applications complies with the relevant review criteria, plans, and standards. These comments also address the issue of which of the competing proposals represents the most effective alternative for development of a new Medicare-certified home health program in Wake County.

Specifically, the CON Section, in making the decision, should consider several key issues. These include, but are not limited to:

- (1) The extent to which the proposed project represents a cost-effective alternative for developing a new Medicare-certified home health program;
- (2) The extent to which the proposed projects project reasonable costs and charges per patient visit,
- (3) The reasonableness of the patient and patient visit utilization projections developed by the applicants.
- (4) The extent to which an applicant best understands and matches the community need for the spectrum of home care services, and demonstrates community support for the proposed project.
- (5) The extent to which the proposed project will enhance competition among home health providers;
- (6) The extent to which the proposed project will increase and improve accessibility to home health services for the residents of the service area;
- (7) The extent to which the competing applicants submitted full and complete applications with consistent information.

Cost Effectiveness

In the current economic climate, effective initiatives to contain unnecessary costs and expenditures are especially important to promote value in healthcare. In the current healthcare marketplace, declining reimbursement rates and increased government regulations are increasingly placing downward pressure on healthcare providers, demanding them to effectively do more with less.

Charges and Costs

Cost of care is a major concern with healthcare payors and the public. Therefore, the projected average procedure charge is an important measure of consumer value. 3HC proposes the lowest average charge per visit of all applicants. The following table demonstrates that 3HC's proposal is the most effective alternative by offering the most competitive charges.

**Average Charge per Patient
Project Year 2**

Provider	Average Charge/Patient
3HC	\$2,283
Innovative Senior Care	\$2,298
Assisted Care	\$2,591
Community Home Health	\$2,606
Continuum	\$2,728
United Health Services	\$3,132
Suncrest Home Health	\$3,187

Source: CON Applications

3HC also proposes to maintain a consistent average charge throughout the initial two years of the project. In fact, 3HC is the only applicant which does not propose to increase charges during the second project year. This is indicative of 3HC's ability to utilize economies of scale and deliver care in a cost-effective manner. Current recessionary economic conditions make low average charges especially important to patients, payors, and providers. 3HC's low average charges make its application the least costly and most effective alternative.

In addition, 3HC proposes the lowest average cost per visit among all competing applicants. The table below summarizes the applicants' projected cost per visit.

**Average Cost per Visit
Project Year 2**

Provider	Average Cost per Visit
3HC	\$113
Innovative Senior Care	\$123
Community Home Health	\$129
Assisted Care	\$132
United Health Services	\$138
Continuum	\$139
Suncrest Home Health	\$163

Source: CON Applications

Additionally, 3HC proposes one of the lowest costs per patient throughout the initial two project years. Below is a summary of competing applicants' proposed costs.

**Average Cost per Patient
Project Year 2**

Provider	Average Cost per Patient
Innovative Senior Care	\$1,854
3HC	\$1,999
Assisted Care	\$2,111
Community Home Health	\$2,249
Continuum	\$2,556
Suncrest Home Health	\$2,558
United Health Services	\$3,224

Source: CON Applications

Total administrative cost per visit is another key indicator in determining an applicant's cost effectiveness. Lower administrative costs demonstrate applicants' organizational efficiency, and result in a cost benefit realized for patients and payors. 3HC's administrative cost per is less than 1/3 that of several other applicants, and is the lowest

overall in the first project year. The table below shows the total administrative cost per visit for applicants in this batch review.

**Total Administrative Cost per Visit
Project Years 1 & 2**

	Project Year 2
Continuum	\$37
3HC	\$37
Assisted Care	\$48
Community Home Health	\$48
United Health Services	\$60
Innovative Senior Care	\$67
Suncrest Home Health	\$96

Source: CON Applications

It is also important to consider an applicant's proposed revenues per patient and per visit. This is indicative of the provider's profit-orientation and commitment to providing reasonable charges. 3HC proposes both the lowest reimbursement per patient and per visit among all applicants. Please refer to the tables on the following page for a summary of all applicants proposed reimbursements.

**Average Revenue per Visit
Project Year 2**

Provider	Avg. Revenue per Visit
3HC	\$116
Community Home Health	\$131
Innovative Senior Care	\$138
United Health Services	\$142
Assisted Care	\$145
Continuum	\$164
Suncrest Home Health	\$177

Source: CON Applications

**Average Revenue per Patient
Project Year 2**

Provider	Avg. Revenue per Patient
3HC	\$2,058
Innovative Senior Care	\$2,083
Community Home Health	\$2,286
Assisted Care	\$2,307
Suncrest Home Health	\$2,784
Continuum	\$3,018
United Health Services	\$3,300

Source: CON Applications

Additionally, 3HC projects a competitive ratio of net revenue/cost per visit. This measure is another important indicator of a provider's profit orientation and commitment to cost-effective medical care. Please see the following table.

**Ratio of Net Revenue per Visit to Cost per Visit
Project Year 2**

Provider	Revenue/Cost Ratio
Community Home Health	1.02
United Health Services	1.02
3HC	1.03
Assisted Care	1.09
Innovative Senior Care	1.12
Continuum	1.18
Suncrest Home Health	2.76

Source: CON Applications

In summary, 3HC's application is far and away the most effective alternative based on its demonstration of competitive charges and costs. 3HC's application is consistent with Policy GEN-3 of the 2010 SMFP, in projecting to maximize healthcare value for resources expended.

Utilization

3HC projects to serve the highest number of unduplicated patients in the first project year among all competing applicants. 3HC also projects a reasonable and conservative growth rate of 4.2% between the first and second project years. This utilization is based on its historical experience providing Medicare-certified home health services in Wake County (via its Johnston County agency). Other competing applicants failed to utilize methodology based on historical experience, and thus project unreasonable patient growth. Please refer to the following table.

**Total Unduplicated Patients
Project Years 1 & 2**

	3HC	Continuum	Innovative Senior Care Home Health	Assisted Care	United Health Services	Community HH	Suncrest Home Health
PY 1	477	444	230	444	420	80	444
PY 2	497	480	444	474	588	410	484
% Growth	4.2%	8.1%	93.0%	6.8%	40.0%	412.5%	9.0%

Source: CON Applications

Additionally, 3HC projects the highest number of patient visits among all competing applicants in the first project year. Again, several applicants project unrealistic growth in the number of patient visits between the first two project years. Please refer to the table below.

**Total Unduplicated Patients
Project Years 1 & 2**

	3HC	Continuum	Innovative Senior Care Home Health	Assisted Care	United Health Services	Community HH	Suncrest Home Health
PY 1	8,429	8,177	3,308	7,070	8,135	1,183	6,665
PY 2	8,782	8,839	6,705	7,550	13,710	7,134	7,611
% Growth	4.2%	8.1%	102.7%	6.8%	68.5%	503.0%	14.2%

Source: CON Applications

Several competing applicants do not project consistent growth between unduplicated patients and duplicated visits. These projections that portray duplicated patient visits increasing faster than unduplicated total patients are indicative of an inconsistent and inaccurate projection methodology. Specific comments regarding these methodologies are included in the later section regarding the individual applications.

3HC’s utilization projections result in 17.7 visits per patient in the initial two project years. This is one of the highest among all competing applicants. 3HC expects the number of visits per patient to remain consistent, based on its historical experience providing home health services to residents of eastern North Carolina. Not all applicants project consistent visits per patient throughout the life of the project. The following table shows all competing applicants’ projected visits per patient for project years one and two.

**Projected Visits per Patient
Initial Two Project Years**

	3HC	Continuum	Innovative Senior Care Home Health	Assisted Care	United Health Services	Community Home Health	Suncrest Home Health
PY 1	17.7	18.4	14.4	15.9	19.4	14.8	15.0
PY 2	17.7	18.4	15.1	15.9	23.3	17.4	15.7

Source: CON Applications

In summary, 3HC projects to serve the most patients, and offers one of the highest ratios of visits per patient among the competitors in this batch review. 3HC also utilizes a sound and reasonable projection methodology, based on historical experience providing home health services in Wake County. Thus, 3HC’s application is the most effective alternative in terms of utilization by Wake County patients.

Physician Support

Another important factor to consider when evaluating competing proposals is the extent to local physicians supports each proposed project. Physicians refer patients for home health services, so physician support for home health agency applications is essential. Notably, 3HC received overwhelmingly more support than did any of the other competing applicants. Specifically, 3HC's application included 42 letters of support from referring physicians. The following table shows the level of physician support received by applicants.

Physician Letters of Support

Provider	Letters Of Support
3HC	43
Community Home Health	17
Suncrest Home Health	11
United Health Services	11
Assisted Care	8
Innovative Senior Care	2
Continuum	2

Source: CON Applications

In summary, 3HC's proposal to establish a Medicare-certified home health agency in Wake County is well supported by referring physicians, as evidenced by the many letters of support documented in its CON application.

Medically Underserved

A key factor in considering the relative accessibility of the alternative proposals is the extent to which each applicant expands access to the medically underserved, particularly Medicaid recipients. As indicated in the following table, in terms of access for the medically underserved Medicaid populations, 3HC's proposal represents an effective alternative. The table below summarizes the projected Medicaid portion of payor mixes for the competing applicants.

**Projected Medicaid Payor Mix
Project Year 2**

	Percent Medicaid
Community Home Health	17.00%
Continuum	15.41%
3HC	15.30%
United Health Services	12.62%
Innovative Senior Care	12.26%
Suncrest Home Health	9.00%
Assisted Care	7.70%

Source: CON Applications

3HC projects to serve one of the highest Medicaid percentages. This is indicative of 3HC's commitment to serving the medically needy and indigent with quality healthcare services. This philosophy is also consistent with the Access Basic Principle as described in the 2010 State Medical Facilities Plan.

Specialized Services

3HC was the only applicant to propose home health services uniquely targeted to pediatric patients. 3HC is an experienced provider of family-centered and team-based pediatric care, and specifically proposes to address the unique needs of technology-dependent children. No other applicant proposes to offer these services, which historically have remained in consistent demand in Wake County.

3HC was also one of only a few applicants to propose a comprehensive wound care program. There are many different types of wounds and treatments available for wounds. Some treatments work better on certain types of wounds than others. 3HC's wound care team has been able to heal patients' wounds faster and more effectively by using specialized products for various types of wounds. The 3HC comprehensive wound care program utilizes specialized technology and clinical personnel to provide superior care. No other applicant proposes to provide these unique services.

Specific Comments Regarding Competing Applicants

Continuum II Home Care and Hospice

Continuum does not propose a cost-effective alternative. Continuum proposes considerably higher average charges and costs than does 3HC. Continuum’s proposal does not provide patients or payors with competitive charges, but rather projects the third highest charge per patient. It also fails to demonstrate cost effectiveness by proposing the second highest cost per patient. The table below shows the difference in costs and charges between the Continuum and 3HC proposal.

**Average Charge and Cost per Patient
Project Year 2**

	Continuum	3HC	Difference
Average Charge	\$2,728	\$2,283	+\$445
Average Cost	\$2,556	\$1,999	+\$557

Source: CON Applications

- In addition to high average charges and costs per patients, Continuum has the second highest average cost per visit.
- Additionally, Continuum has the second highest average revenue per visit and per patient. Continuum’s net revenue per visit to cost per visit ratio is less favorable than 3HC’s. These measures are important indicators of a provider’s profit orientation and commitment to cost-effective medical care. Continuum’s revenue/cost per visit ratio is 1.18 in the second project year. By comparison, 3HC’s project year 2 ratio is more favorable at 1.03. This is indicative of a provider’s commitment to offering competitive charges and efficient care; not just profit orientation.

- Continuum does not demonstrate adequate physician or community support. Continuum only received only two letters of support from a referring physician. Conversely, 3HC received 43 letters of support from local referring physicians. This lack of support from referring physicians is not adequate to support Continuum’s projected utilization.

Continuum received very few letters of support from the Wake County community at large. Letters of support are indicative of a provider’s ability to offer attract patients and gain adequate market share to remain viable. This is especially critical in a highly competitive environment like the Wake County home health services market. Continuum’s lack of support from area physicians and community representatives suggest they will be unable to meet their projected patient utilization.

- Continuum projects lower salaries than 3HC for CNAs. Therefore, Continuum is a less effective alternative in regard to CNA salaries.

**CNA Salaries
Project Year 2**

	CNA
3HC	\$27,637
Continuum	\$25,146

Source: CON Applications

- Continuum also proposes high project capital costs of \$88,750. Alternatively, 3HC proposes the lowest project capital expense of only \$40,000.

Innovative Senior Care and Home Health

- Innovative's utilization projection methodology is flawed. Innovative projects to increase its unduplicated patients from 230 to 444 between the initial two project years. This is a 93% annual increase, and is unreasonable and unsupported by its projection methodology.

Similarly, Innovative proposes to increase its duplicated visits from 3,308 to 6,705 in project years one and two respectively. This is a 103% annual increase and is also unreasonable.

- Innovative's proposed visits per patient are not consistent throughout the first two years of the project. Visits per patient increased from 14.4 in year one to 15.1 in year two. There is no justification as to why patients will utilize more duplicated visits in the second project year than the first.

Innovative utilizes two need projection methodologies; both of which are unreasonable and inconsistent with the 2010 SMFP. Innovative's need projection methodologies for Wake County home health patients project 2,753 and 1,043 patients in need. The 2010 SMFP projects 444 patients in need. These projections are unreasonably high and also inconsistent with a 164% difference existing between them.

- Innovative's application projects to serve a low number of patients and visits. Innovative only projects to meet the 444 patient performance threshold in the second year of the project.
- As an entity owned by individuals located out of state, far from Wake County, Innovative offered minimal evidence of physician and community support for its proposed project. Innovative's application only included letters of support from 2 referring physicians and physician assistants. This lack of support indicates Innovative may not be able to attract adequate referral volume; the source of patients for home health services.

Innovative also only received 7 letters of support from non-physician community representatives.

On page 33 of their application, Innovative states that *ISC’s Wake-based facilities referred 201 patients to home health care during 2009*. However, Innovative only documents 2 letters of support from referring clinicians. This may be indicative of referring physician’s dissatisfaction with their patients’ home health care.

Alternatively, 3HC received 43 physician letters of support and 56 letters of from community representatives.

Letters of support are indicative of a provider’s ability to offer attract patients and control adequate market share to remain viable. This is especially critical in a highly competitive environment like the Wake County home health services market. Innovative’s lack of support from area physicians and community representatives suggests they are not the most effective alternative for meeting the established need.

- Innovative proposes only 2.02 nursing FTEs for Project Year 2. This is not sufficient to reasonably meet the demands of the projected patients.
- Innovative projects lower salaries than 3HC for both RNs and CNAs. Clinical salaries are a significant contributing factor in recruitment and retention of staff. Competitive nursing salaries help providers attract and retain top talent, and patients benefit accordingly from increased quality care. Therefore, Innovative is a less effective alternative in regard to clinical salaries. The table below shows a comparison of Innovative and 3HC’s projected clinical salaries.

**Clinical Salaries
Project Year 2**

	RN	CNA
3HC	\$64,058	\$27,637
Innovative	\$62,790	\$21,341

Source: CON Applications

- Innovative does not project to serve as much Medicaid and self-pay/indigent care as 3HC. Access to the medically underserved is more effectively expanded by applicants projecting to serve a higher percentage of Medicaid and indigent patients. Innovative only proposes a Medicaid payor mix of 12.26% while 3HC proposes to serve 15.3%. Additionally, Innovative does not project to serve any self-pay/indigent care in their payor mix while 3HC proposes 2.6%. Innovative is not as effective an alternative as 3HC by not serving as much Medicaid and indigent care.
- Innovative does not propose a cost-effective alternative. Innovative proposes considerably higher administrative costs per visit than does 3HC. The table below shows the difference in administrative cost between Innovative and 3HC’s proposals.

**Average Administrative Cost per Visit
Project Year 2**

	3HC	Innovative
Average Administrative Cost per Visit	\$37	\$67

Source: CON Applications

Innovative’s proposal fails to demonstrate cost effectiveness by proposing high administrative costs per patient.

- Innovative also proposes high project capital costs of \$95,215. Alternatively, 3HC proposes the lowest project capital expense of only \$40,000.

Additionally, Innovative’s revenue per visit to cost per visit ratio is 1.12 in the second project year. 3HC’s project year 2 ratio is more favorable at 1.03. This measure is an important indicator of a provider’s profit orientation and commitment to cost-effective medical care.

Assisted Care

- Assisted Care projects to serve the lowest percentage of Medicaid patients of all applicants. In fact, Assisted Care only proposes 7.7% of its payor mix to be Medicaid patients; barely over half of 3HC's 15.3%. Assisted Care's application is the least effective alternative at expanding access to the medically underserved as identified by the access basic principle in the 2010 SMFP.
- Assisted Care does not project to serve as many patients and visits as 3HC. Assisted Care also does not propose to provide as many visits per patient as 3HC.
- Assisted Care did not receive adequate physician or community support. Assisted Care's application only included letters of support from 8 referring physicians and physician assistants. This lack of support indicates Assisted Care may not be able to attract adequate Wake County referral volume; the source of patients for home health services.

Additionally, the established need is for home health patients in Wake County. Physicians practicing in New Hanover and Pender counties are unlikely to see these patients and thus their support will not drive Assisted Care's projected utilization.

Alternatively, 3HC received 43 physician letters of support, all of which practice within range of Wake County to refer patients to 3HC.

Letters of support are indicative of a provider's ability to offer attract patients and control adequate market share to remain viable. This is especially critical in a highly competitive environment like the Wake County home health services market. Assisted Care's lack of support from area physicians and community representatives suggests they are not the most effective alternative for meeting the established need.

- Assisted Care projects lower salaries than 3HC for both RNs and CNAs. Clinical salaries are a significant contributing factor in recruitment and retention of staff. Competitive nursing salaries help providers attract and retain top talent, and patients benefit accordingly from increased quality care. Therefore, Assisted Care is a less effective alternative in regard to clinical salaries. The table below shows a comparison of Assisted Care and 3HC's projected clinical salaries.

Clinical Salaries Project Year 2

	RN	CNA
3HC	\$64,058	\$27,637
Assisted Care	\$56,650	\$25,709

Source: CON Applications

- Assisted Care does not propose a cost-effective alternative. Assisted Care proposes considerably higher average charges and costs than does 3HC. The table below shows a summary of average costs and charges between Assisted Care and 3HC's proposal.

Summary of Average Charges and Costs Project Year 2

	3HC	Assisted Care
Average Charge	\$2,283	\$2,591
Average Cost per Patient	\$1,999	\$2,111
Average Cost per Visit	\$113	\$133

Source: CON Applications

Assisted Care also proposes higher administrative costs per visit than does 3HC. Higher administrative costs are indicative of less organizational efficiency and these additional costs are eventually incurred by patients and payors. Assisted Care proposes an average administrative cost per visit of \$47.68 in the second year of the project. 3HC proposes an average administrative cost of only \$37.30 in year two. Therefore 3HC is the more effective alternative in regard to low administrative costs.

Assisted care is not the best alternative for maximizing healthcare value for resources expended. Assisted care projects higher revenue per visit and revenue per patient than 3HC.

Additionally, Assisted Care's net revenue/cost per visit ratio is less favorable than 3HC's. This measure is an important indicator of a provider's profit

orientation and commitment to cost-effective medical care. Assisted Care’s revenue per visit to cost per visit ratio is 1.09 in the second project year. 3HC’s project year 2 ratio is more favorable at 1.03. This is indicative of a provider’s commitment to offering competitive charges and efficient care; not just profit orientation.

United Health Services

- United provides no justification for its Medicare payor mix assumption of 80%. This percentage has no similarity to the current home health payor mix in Wake County, as documented by the license renewal applications for existing home health agencies, summarized in the table below. United’s application simply refers to United’s nursing home operation experience in other counties and states. This is not a reasonable basis for such a high Medicare payor mix for home health services in Wake County.

FY2009 Payor Mix

Wake County Home Health Agencies

Payment Source	Combined Total
<i>Medicare</i>	64.7%
<i>Medicaid</i>	10.5%
<i>Private</i>	21.6%
<i>Indigent</i>	2.6%
<i>Other</i>	0.6%
Total	100.0%

- United’s projected unduplicated patients, duplicated visits, and visits per patient are flawed and unrealistic.

United projects to increase their unduplicated patients from 420 to 588 between the first 2 project years. This is a 40% annual increase and is unreasonable and unsupported by United’s projection methodology.

Similarly, United proposes to increase its duplicated visits from 8,135 to 13,710 in project years one and two respectively. This is a 69% annual increase and is also unreasonable.

The methodology used to project this utilization is based on the gradual increase in admittance throughout the first two project years. United states on page 134 of their application:

In Project Year 1, UHCW proposes to admit four unduplicated clients per week in month one, seven unduplicated clients per week in month two, nine unduplicated patient per week in three through nine, 10 unduplicated clients per week in months 10 and 100, and 11 unduplicated clients per week in month 12. This methodology will yield 420 unduplicated clients admitted in project year 1.

IN Project Year 2, UHCW proposes to admit 11 unduplicated clients per week in months one through three, 12 unduplicated clients per week in months four though six, and 13 unduplicated clients per week in the last six months. This methodology will yield 588 unduplicated clients admitted in project year 2. Methodology assumes four weeks in a month.

UHCW assumes Project Year 3 total client estimates will mirror projected year 2 estimates. UHC assumes agency capacity will stabilize between Project Year 2 and 3.

However, United provides no justification for the number of additional patients being added each week or why this patient volume is expected to increase at the described rate. This unfounded methodology undermines United's projected patients and visits which are unreasonably high and experience unrealistic growth.

Additionally, United's projected visits per patient are not consistent throughout the first two project years. Projected visits per patient increased from 19.4 in year one to 23.3 in year two. There is no justification as to why patients will utilize more duplicated visits in the second project year than the first.

- United's low-level of physician support does not support their high patient and visit volume projections. As an entity owned by individuals located out of state, far from Wake County, United offered minimal evidence of physician and community support for its proposed project. United only documented 11 letters of support

from referring physicians and physician assistants. Additionally, one of these letters, bates-stamped 1119 in exhibit 42 of their application, cites no knowledge of United’s agency and only offers an endorsement in the name of free-enterprise.

Conversely, 3HC documents 43 letters from local clinicians stating their support and intent to refer patients to 3HC’s proposed Medicare-certified home health agency.

- United does not project to serve as much Medicaid and self-pay/indigent care as 3HC. Access to the medically underserved is more effectively expanded by applicants projecting to serve a higher percentage of Medicaid and indigent patients. United only proposes a Medicaid payor mix of 12.62% while 3HC proposes to serve 15.3%. Additionally, United does not project to serve as much self-pay/indigent care in their payor mix as 3HC. 3HC proposes 2.6% while United only proposes 1.34%. United is not as effective an alternative as 3HC by not serving as much Medicaid and indigent care.
- United does not propose a cost-effective alternative. United proposes the highest average cost per patient and the second highest average charge per patient. The table below shows the considerably large difference in costs and charges between United and 3HC’s proposals.

**Average Charge and Cost per Patient
Project Year 2**

	United	3HC	Difference
Average Charge	\$3,132	\$2,283	+\$848
Average Cost	\$3,224	\$1,999	+\$1,225

Source: CON Applications

- United is not the best alternative for maximizing healthcare value for resources expended. United projects the highest revenue per patient and is less favorable to 3HC.
- United also proposes high project capital costs of \$99,245. Alternatively, 3HC proposes the lowest project capital expense among all applicants of only \$40,000.

- United proposes higher administrative cost per visit than does 3HC. Higher administrative costs are indicative of less organizational efficiency and these additional costs are eventually incurred by patients and payors. United proposes an average administrative cost per visit of \$60.37 in the second year of the project. 3HC proposes an average administrative cost of only \$37.30 in year two. Therefore 3HC is the more effective alternative in regard to low administrative costs.

Community Home Health

- Community's projected patient volume of 410 patients during project year two does not satisfy the Agency's projected deficit of 444 patients in Wake County in 2011.
- Community projects unrealistic growth in unduplicated patients and duplicated visits. Community projects to increase its unduplicated patients from 80 to 410 between the initial two project years. This is a 413% annual increase, and is unreasonable and unsupported by Community's projection methodology.

Community also proposes to increase its duplicated visits from 1,183 to 7,134 in project years one and two respectively. This is a 503% annual increase and is also unreasonable.

- Additionally, Community's projected visits per patient are not consistent throughout the first two project years. Projected visits per patient increased from 14.8 in year one to 17.4 in year two. There is no justification as to why patients will utilize more duplicated visits in the second project year than the first.
- Community does not propose a cost-effective alternative. Community proposes considerably higher average charges and costs than does 3HC in the second

project year. The table below shows a comparison of the average charge and costs per patient as proposed in Community and 3HC’s applications.

**Average Charge and Cost per Patient
Project Year 2**

	Community	3HC	Difference
Average Charge	\$2,606	\$2,283	+\$323
Average Cost	\$2,249	\$1,999	+\$249

Source: CON Applications

Additionally, Community proposes a higher average cost per visit than does 3HC. Community proposes an average cost per visit of \$129, while 3HC proposes to provide home health visits for only \$113.

- Community provides no justification for its Medicare payor mix assumption of 70%. This percentage has no similarity to the current home health payor mix in Wake County, as documented by the license renewal applications for existing home health agencies. Community’s application simply makes an unsubstantiated Medicare assumption. This is not a reasonable basis for such a high Medicare payor mix for home health services in Wake County.
- Community proposes the highest project capital costs among all competing applicants, as shown in the table below. Alternatively, 3HC proposes the lowest project capital cost of all applicants.

Project Capital Costs

Provider	Total Capital Costs
3HC	\$40,000
Assisted Care	\$44,900
Continuum	\$88,750
Innovative Senior Care	\$95,215
United Health Services	\$99,245
Suncrest Home Health	\$99,900
Community Home Health	\$135,000

Source: CON Applications

- Community proposes a higher administrative cost per visit than does 3HC. Higher administrative costs are indicative of less organizational efficiency and these additional costs are eventually incurred by patients and payors. Community proposes an average administrative cost per visit of \$47.80 in the second year of the project. 3HC proposes an average administrative cost of only \$37.30 in year two. Therefore 3HC is the more effective alternative in regard to low administrative costs.
- Community did not receive adequate physician or community support. Community's application only included letters of support from 17 referring physicians and physician assistants. This lack of support indicates Community may not be able to attract adequate Wake County referral volume; the source of patients for home health services.

Alternatively, 3HC received 43 physician letters of support, all of which practice within range of Wake County to refer patients to 3HC.

Letters of support are indicative of a provider's ability to offer attract patients and control adequate market share to remain viable. This is especially critical in a highly competitive environment like the Wake County home health services market. Community's lack of support from area physicians and community representatives suggests they are not the most effective alternative for meeting the established need.

Suncrest Home Health

- Suncrest is not a cost effective alternative. Suncrest proposes the highest average cost per visit. Additionally, Suncrest proposes the highest average charge per patient and the second highest average cost per patient. The table below shows a comparison of the average charge and costs per patient as proposed in Suncrest and 3HC’s applications.

**Average Charge and Cost per Patient
Project Year 2**

	Suncrest	3HC	Difference
Average Charge	\$3,187	\$2,283	+\$904
Average Cost	\$2,588	\$1,999	+\$589

Source: CON Applications

- Suncrest provides no justification for its Medicare payor mix assumption of 75%. This percentage has no similarity to the current home health payor mix in Wake County, as documented by the license renewal applications for existing home health agencies. Suncrest’s application simply makes an unsubstantiated Medicare assumption. This is not a reasonable basis for such a high Medicare payor mix for home health services in Wake County. And in fact, Suncrest’s application provides contradictory information regarding the projected payor mix. The payor mix table shown in Section X.12 does not match the payor mix table included in the assumptions page shown in Exhibit 10 of the application.
- Suncrest projected only 9.0% Medicaid payor mix. This is the second lowest of all the applicants, and significantly below 3HC’s projected 15.3% Medicaid payor mix. Additionally, Suncrest does not project to serve any self-pay/indigent care in their payor mix while 3HC proposes 2.6%. Access to the medically underserved is more effectively expanded by applicants projecting to serve a higher percentage of Medicaid and indigent patients. Suncrest is not as effective an alternative as 3HC by not expanding access to the medically underserved.
- Suncrest projects the highest total administrative cost per visit. The total administrative cost per visit proposed in Suncrest’s application is more than double the total administrative cost per visit proposed by 3HC.

- Suncrest proposes to serve fewer unduplicated patients and duplicated visits than does 3HC.
- Suncrest's projected visits per patient are not consistent throughout the initial two project years. Projected visits per patient increased from 15.0 in year one to 15.7 in year two. There is no justification as to why patients will utilize more duplicated visits in the second project year than the first.
- As an entity owned by individuals located out of state, far from Wake County, Suncrest did not receive adequate physician or community support to support their projected utilization. Suncrest's application only included letters of support from 11 referring physicians and physician assistants. Additionally, one of these physicians practices outside of North Carolina and is thus unlikely to refer patients to Suncrest. This lack of support indicates Suncrest may not be able to attract adequate Wake County referral volume; the source of patients for home health services.

Alternatively, 3HC received 43 physician letters of support, all of which practice within or within range of Wake County to refer patients to 3HC.

Letters of support are indicative of a provider's ability to offer attract patients and control adequate market share to remain viable. This is especially critical in a highly competitive environment like the Wake County home health services market. Suncrest's lack of support from area physicians and community representatives suggests they are not the most effective alternative for meeting the established need.

- Suncrest is not the best alternative for maximizing healthcare value for resources expended. Suncrest projects the highest revenue per visit and the highest ratio of net revenue per visit to cost per visit.

- Suncrest projects lower salaries than 3HC for CNAs. Therefore, Suncrest is a less effective alternative in regard to CNA salaries.

**CNA Salaries
Project Year 2**

	CNA
3HC	\$27,637
Suncrest	\$27,295

Source: CON Applications

In summary, the CON Section, in making the decision, should consider several key issues. These include, but are not limited to:

- (1) The extent to which the proposed project represents a cost-effective alternative for developing a new Medicare-certified home health program;
- (2) The extent to which the proposed projects project reasonable costs and charges per patient visit,
- (3) The reasonableness of the patient and patient visit utilization projections developed by the applicants.
- (4) The extent to which an applicant best understands and matches the community need for the spectrum of home care services, and demonstrates community support for the proposed project.
- (5) The extent to which the proposed project will enhance competition among home health providers;
- (6) The extent to which the proposed project will increase and improve accessibility to home health services for the residents of the service area;
- (7) The extent to which the competing applicants submitted full and complete applications with consistent information.

3HC is well positioned to service the local home health needs. We are eastern North Carolina healthcare providers who have provided high quality home health services to the residents of Wake County for several years. Our proposed project provides the

greatest access to care to residents of the service area, and is targeted to serving underserved residents of Wake County. Our proposed charges and costs are reasonable and the most competitive. The competing applications do not satisfy all of the CON review criteria. We believe the 3HC application demonstrates that we are the most effective alternative that satisfies all CON Review criteria, and that comprehensively meets the needs of Wake County as well.