

Queen City Health Investors, LLC

Post Office Box 2568
Hickory, North Carolina, 28603

July 1, 2010

Mr. Craig Smith, Chief
Certificate of Need Section
Division of Health Service Regulation
NC Department of Health and Human Services
701 Barbour Drive
Raleigh, NC 27603

Received by the
CON Section

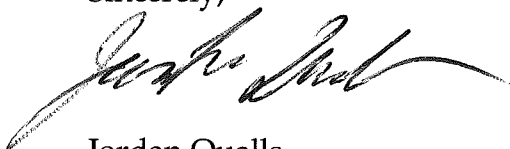
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RE: Written Comments and Letter of Support

Dear Mr. Smith:

Enclosed are written comments regarding the competitive review of adult care home CON applications in Mecklenburg County. Also enclosed is a letter of support from The Alzheimer's Association.

Sincerely,



Jordan Qualls
Authorized Representative of Queen City Health Investors, LLC
Authorized Representative of Queen City AL Holdings, LLC

Waltonwood at Ballantyne, LLC
Project ID 8515-F

1. The applicant is not in compliance with 10A NCAC 14C.1101 (a). The rezoning verification letter on Page 379 states the following:

Site #1 - *"The proposed use, Home for the Aged, is not permitted in the district, and would require a rezoning of the property with prescribed conditions."*

Site #2 - *"The proposed use, Home for the Aged, is permitted under prescribed conditions, but would also require new conditional rezoning."*

The applicant did not provide any information on the prescribed conditions required for development of an adult care home on either site.

2. The following is noted concerning this applicant's analysis of geographic need:
- a. The applicant subdivided Mecklenburg County into eight geographic regions based on zip codes and is proposing to locate in Region 8. Based on the table included on Page 88, there are four other regions in the county with a higher projected bed need. Additionally, Region 2 has the highest bed need in the county. Queen City Health Investors, LLC is proposing to locate in Region 2.
 - b. Based on the map included on Page 663, Region 8 is located adjacent to Region 7. By the applicant's own bed need analysis, Region 7 has a bed surplus of 512 beds. If Region 7 and Region 8 were combined, which would create a geographic region that is similar in size to the other regions in Mecklenburg County that were designated by the applicant, the combined area would have a significant bed surplus of 395 beds.
 - c. Based on the geographic regions included in the Queen City Health Investors application, the applicant is proposing to locate in Planning Area 11 and the South Planning Region. Based on our bed need analysis, the South Planning Region has a projected bed surplus of 539 beds.
 - d. Based on the map included on Page 405 of the Queen City Health Investors application, the 2009 median household income in Planning Area 11 is \$112,686, which is the highest among any planning area in Mecklenburg County and is significantly above the 2009 median household income of \$67,029 for Mecklenburg County.

3. The applicant fails to demonstrate the ability to fund working capital. The funding letter on Page 775 indicates that funding of construction, working capital, and permanent financing will be accomplished through the FHA 232 program. Working capital cannot be financed by the FHA 232 program. It must be funded by the borrower. Operating deficit escrows, if required by FHA, must be funded by the borrower at closing with cash or a letter of credit. Also, a Working Capital Deposit of 2% of the mortgage and escrow for Minor Movable Equipment of \$450 per bed is required at closing. These deposits must also be funded by the borrower at closing with cash or letters of credit.
4. It is important to note that the proposed project in this application is only a small portion of a much larger project that is planned and will include an independent living component, which is a non-reviewable project. Based on information provided on Page 147, the total project will be 274,400 square feet (62,562 square foot adult care home and 211,838 square foot independent living). It is estimated that the total project will cost in excess of \$30 million. If the adult care home component were approved, it appears that its development will be contingent on the applicant's ability to obtain funding for the entire planned project. If the applicant is unable to develop the independent living facility for any reason, there is no information provided that would indicate that the applicant would proceed with only the adult care home. There is insufficient information provided to assess whether the applicant can obtain funding for the entire planned project.
5. Typically, accessibility issues raised relate to low-income residents. This applicant has proposed that the SCU beds will be 100% Medicaid. Therefore, private pay residents will not have access to SCU beds at the proposed facility.
6. As of the date of the application, the applicant does not have any experience in the operation of adult care homes in North Carolina. The only other facility in North Carolina, Waltonwood Cary Parkway, is not yet operational based on the information provided on Page 17.
7. The applicant is projecting that the project will open on October 1, 2013, which is one full year later than the projected opening date of the Queen City Health Investors project. It is also noted on the timetable on Page 190 that the applicant has projected that the architectural drawing approval process will take a full year.
8. The applicant has the lowest projected wage rate for personal care aides (\$8.59 per hour) among the competing applicants.

9. On a per square foot basis, the applicant's projected utility expense (\$1.44 per square foot) is significantly lower than other applicants' projected utility expense.
10. The applicant has projected the lowest construction cost per square foot (\$68.49) among those applicants proposing new construction. Other applicants projected construction costs ranging from \$88.70 to \$110 per square foot.

The Villages at Mecklenburg Assisted Living, LLC
Project ID 8517-F

1. The majority of this application was done on an application form used for a nursing home replacement application. As a result, the majority of the 12 sections of the application do not provide all of the information required from applicants for adult care home beds. For example, in Section I, responses to Question 10 and Question 11 are missing. In Section III, a number of key responses related to the need for the adult care home project are missing as a result of using the wrong form. Section V does not contain the required information regarding community contacts. In Section VII, responses to Question 5 and Question 6 are missing.
2. The letters from the real estate broker included on Page 445 through Page 447 do not technically indicate that the various sites referenced in the letters are available for acquisition. These letters only indicate that the broker has contacted the property owner to begin preliminary negotiations at the instruction of the applicant.
3. The information provided in the application with respect to zoning is inadequate to determine if the proposed project is an allowable use under the current zoning of the primary and secondary sites and whether the project meets any required development conditions within the zoning classification for the two sites.
4. The applicant used townships as a basis for projecting bed need. Please see Page 29 of the Queen City Health Investors application for a discussion on why townships are not a good basis for projecting adult care home bed need in Mecklenburg County. The applicant provided a gross bed need calculation but did not provide the net need after deducting each township's planning inventory of beds, and no supporting calculation was provided for the gross bed need by township. Also, the gross bed need by township on Page 85 adds up to 2,869 beds while the gross need for Mecklenburg County in the SMFP is 2,799 beds.
5. There is an inconsistency in staffing information provided. On Page 127, the applicant indicates that each employee works a 40-hour week. On Page 128, the applicant lists a number of staff positions that work 7.5 hour shifts.
6. The applicant's staffing schedule does not have any laundry staff (see Page 133).
7. The applicant is projecting that the project will open on October 1, 2013, which is one full year later than the projected opening date of the Queen City Health Investors project.

Brookdale Place of South Charlotte, LLC
Project ID 8518-F

1. The applicant does not have a history of serving low-income residents. As described on Page 70, Brookdale Place of South Charlotte is currently 100% private pay. Following the project opening, the applicant is projecting that the facility will serve a minimal (10%) percentage of low-income residents.
2. The applicant did not demonstrate the need for additional adult care home beds in this geographic area of Mecklenburg County. No bed need analysis was provided. Based on Queen City Health Investors bed need analysis, this facility is located in Planning Area 12 in the South Planning Region. Both Planning Area 12 (surplus of 506 beds) and the South Planning Region (surplus of 539 beds) are significantly over-bedded.
3. Following the proposed project's opening and fill-up, the applicant is projecting that its 73 regular ACH beds will only be 84.7% occupied. The total facility meets the 85% threshold only because of the higher projected occupancy in the 15 existing SCU beds.
4. No additional SCU beds are proposed. Any discussion of the SCU beds in the application are for an existing service and it is emphasized that these beds are not part of this proposal.
5. The applicant did not contact DSS regarding adult care home occupancy rates and the need for beds (see Page 41).
6. The applicant did not provide sufficient evidence that no additional working capital was required for the proposed project. Section IX, Question 4 requires all applicants to provide cash flow projections for the initial operating period.
7. On Form B (Page 124), the applicant appears to have included revenue of a third party therapy provider, ISC Therapy, in the revenue projections for the facility.
8. The applicant has the highest projected private pay rates among the competing applicants for its private and semi-private regular adult care home beds.

Preston House I, LLC
Project ID 8522-F

1. The applicant did not adequately address the applicable policies of the State Medical Facilities Plan. There is no discussion of Policy GEN-3 – Basic Principles.
2. The projected utilization by low-income residents (56.8%) is not supported by the historical utilization of Preston House by low-income residents (29.8%) – see Page 85.
3. The applicant did not provide any analysis of the need for beds in its geographic location within Mecklenburg County.
4. While likely a typographical error, the applicant presents information on the tables on Page 77 that indicates that the majority of the residents of the facility will be from Iredell County.
5. The applicant has the highest private pay charge for SCU semi-private beds and also has the highest private pay charge for SCU private beds among those applicants proposing SCU beds (Brookdale Place has a higher rate for private SCU beds but is not proposing any new SCU beds).
6. In comparing Form A (Page 134) with Form B in the second operating year (Page 139), it is noted that net income will be lower after opening of the proposed 40-bed addition than with the existing 40 beds that are in operation, which would indicate that the additional 40 beds will generate an operating loss.
7. On Page 53, the applicant did not provide any information from DSS regarding current occupancy rates at existing adult care homes.

Liberty Healthcare Properties of Mecklenburg County, LLC
Project ID 8524-F

1. Based on the following findings, the applicant has significantly understated its capital costs for the proposed project:
 - a. The capital cost budget on Page 84 and Page 85 has a total projected capital cost of \$1,397,285.
 - b. Through several statements in the application, the applicant has incorrectly characterized this project as a bed conversion. Currently, the applicant operates a skilled nursing facility in the building. However, all 289 of the licensed nursing facility beds have been approved for replacement by Project F-7910-07 and Project F-7911-07, whereby the nursing facility beds are being relocated to two new nursing facilities in Matthews and Mint Hill. The combined approved cost of these two replacement facilities is approximately \$22.5 million. Once these beds are replaced, the existing building will not have any licensed beds of any type to convert and the land, building, and equipment that remains will become part of the proposed adult care home.
 - c. The applicant states that the existing building was purchased for \$7,000,000 in 2003 (see Page 84). The applicant also states that the existing mortgage, which has a balance of \$5,687,755 (Page 493), will remain in place. A lender letter on Page 495 also indicates the existing mortgage will remain in place.
 - d. If the existing mortgage balance is to remain in place, then the corresponding assets funded by this mortgage must be included in the capital costs. The mortgage balance will be classified as a liability and the balance sheet must have corresponding assets to offset this \$5.7 million liability, which would include land, building and equipment.
2. From information already on file with the CON Section, the existing building that will house the adult care home beds is not a suitable alternative for adult care home bed approval. The following is a summary of statements contained in the nursing facility replacement application for Churchill Commons Nursing & Rehabilitation Center of Mint Hill (Page 39 and Page 40), which was filed to replace a portion of the 289 nursing facility beds:

"The need for a replacement facility is evidenced by the following:

1. *Original building was constructed in 1963 and was used as a civil defense location.*
2. *The building contains 289 beds which is not conducive to a home life [sic] atmosphere, but rather an institution.*
3. *Facility is a six-story structure with 177,000 square feet of space.*
4. *The size of the facility, 289 beds, and the six story structure does not lend itself to the delivery of good quality of patient care which Liberty prides itself on.*
5. *Liberty is very limited in what can be accomplished relative to refurbishing the building.*
6. *The facility is limited relative to energy and operational efficiencies which can currently be achieved (i.e. seven dining rooms, additional nursing stations)."*

"The building is not conducive to rendering quality patient care; the facility is more institutional rather than a home like atmosphere."

"Alternative 1 – Continue current operations of Liberty's 289-bed facility. This operation [sic] is the least desirable. The facility is too institutionalized and it is extremely inefficient."

3. Despite the statements above about the deficiencies of the physical plant, the inability to deliver efficient and good quality care in the building, and the large size of the nursing facility (289 beds) currently being operated in the building, Liberty proposes to increase the number of licensed beds to 340 adult care home beds in the same building.
4. The applicant makes several statements regarding the benefits of retrofitting an existing building at a lower cost versus new construction. It is noted that the applicant's own actions of applying for the replacement of the nursing facility beds in two facilities with a total combined project cost of \$22.5 million will create the situation of the unused building once the nursing facility beds are moved.
5. Based on review of the SMFP adult care home bed inventory, it is noted that the largest licensed adult care home in the State of North Carolina is 201 beds (The Commons at Brightmore – New Hanover County) and the second largest adult care home is 180 beds (First Assembly Living Center – Cabarrus County). The proposed project of 340 beds would be by far the largest adult care home in the

state. Of note, the largest existing adult care home in Mecklenburg County is only 125 beds (Charlotte Square).

6. The applicant's projections of revenues are flawed. Based on Form B (Page 115) for the second year of operation, the average projected revenue per patient day in the SCU beds is \$119.97 (\$2,101,816 divided by 17,520 patient days). Based on information provided on Table X.4B (Page 99), private pay rates for the SCU beds are \$105 and \$95, and the special assistance rate for the SCU beds is \$98.49. No individual rate is higher than \$105, yet the average revenue per patient day for the SCU beds is \$119.97.
7. No amortization schedule is included for the existing \$5,687,755 mortgage that will remain in place on the building.
8. The following are findings related to bed need by geographic location:
 - a. The applicant used townships as a basis for projecting bed need. Please see Page 29 of the Queen City Health Investors application for a discussion on why townships are not a good basis for projecting adult care home bed need in Mecklenburg County.
 - b. Based on our analysis of bed need, Liberty is proposing to locate in the East Planning Region, which has a projected bed surplus of 14 beds. If all 340 beds were awarded to Liberty, this surplus would grow to 354 beds and other geographic areas of need would not receive any approved beds.
 - c. Approval of all of the 340 available beds in one location would be counter to the basic assumptions of the SMFP bed need methodology, which includes the following: *"A goal of the planning process is a reasonable level of parity among citizens in their geographic access to adult care home facilities."*
9. The applicant total projected staff is only 0.37 FTEs per licensed bed, which is the lowest among the competing applicants.
10. The applicant has projected only 1.24 direct care staff hours per patient day for the regular ACH beds, which is the lowest among the competing applicants.
11. The applicant has projected 2.83 direct care staff hours per patient day for the SCU beds, which is the lowest among the competing applicants.
12. The applicant is proposing a total of 50 SCU beds out of 340 beds, which represents only 14.7% of the total beds. If this project were approved, an insufficient number of SCU beds would be approved out of the 340 available

beds. Additional SCU beds are one of the greatest areas of need in Mecklenburg County.

Mount Tabor Community Development Corporation
Project ID 8526-F

1. This application contains incomplete responses and is missing numerous required tables. As a result, the application fails to meet numerous CON review criteria and cannot be approved as submitted.
2. Because of the findings described above for this application, all comparative review findings discussed in other sections of these comments do not include a comparison with this applicant.