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Received by the
CON Section

30 JUN 2011 02 : 39 President

Craig R. Smith, Chief
Certificate of Need Section
North Carolina Department of Health and Human Services
Division of Facility Services
809 Ruggles Drive
Raleigh, NC 27603

Dear Mr. Smith,

Herewith please find enclosed Glenbridge Health and Rehabilitation comments relative to the competitive review process in Watauga County.

Very truly yours,



Gerald Boyle

In accordance with N.C.G.S. Section 131E-185(al)(1), Lynnhaven II, LLC d/b/a Glenbridge Health and Rehabilitation (“Glenbridge”), submits the following comments regarding the May 16, 2011 Certificate of Need Application Project I.D. # D-8685-11 submitted for the June 1, 2011 review cycle by Blowing Rock Hospital, Inc.

The following two CON application were submitted under Certificate of Need Review Category B for “proposals to increase the number of nursing care or adult care home beds in a county for which there is a need determination for additional beds”:

- D-8683-11: Lynnhaven II, LLC to add 30 nursing facility beds for a total of 154 nursing facility and 20 adult care home beds upon project completion; total project cost \$2,671,044.
- D-8685-11: Blowing Rock Hospital, Inc. to develop 30 nursing facility beds pursuant to the need determination in the 2011 SMFP and relocate 72 nursing facility beds from Blowing Rock Hospital to develop a new nursing facility with 102 nursing beds; total project cost \$19,247,424.

Glenbridge has reviewed the Blowing Rock Hospital application and based on that review, has reached the conclusion that the Blowing Rock Hospital Project is unapprovable. The following are some major concerns that Glenbridge has with the Blowing Rock Hospital application:

1. BRH is financially unstable. BRH is currently losing \$1 million per year (See page 11 of BRH’s CON application). BRH’s continued financial loss could impact the financial viability of the entire proposed project.
2. BRH makes false representation about its patient days. BRH on page 4 has identified 28 beds which are not included within BRH’s physical plant. The 28 beds are swing beds located at Davant Extended Care. BRH has attempted to inflate their utilization in order to meet the State’s 90% criteria in order to expand. The 28 beds are “swing beds” and are not part of BRH.

3. The CON application did not include any documents from any community sources identifying the unmet need in Watauga County. BRH's failure to include any documentation from community sources circumvents the entire planning process. BRH attempted to document what they wanted and not what was needed in Watauga County.
4. BRH has no continuity of management expertise. The facility has had both a new Administrator and Director of Nursing in the past two years. In addition, the new DON has only been there since January of this year. The CON application only contained one resume' relative to the new DON. Glenbridge has a proven track record relative to patient care. This track record is attributed to the staff at Glenbridge. Continuity is a very important element of providing quality services in a nursing care facility and the management of nursing care facilities.
5. The proposed cost per bed for BRH's is \$188,000 per bed or approximately \$100,000 more than the Glenbridge proposal.
6. BRH's corrected staffing is 3.21 nhppd compared to Glenbridge at 3.90 nhppd.

PROPOSED TIME SCHEDULE

BRH has proposed that their new facility will be opened by October 13, 2013. The proposed time schedule is totally unrealistic. The applicant stated that within 14 days from the date of the issuance of the CON, preliminary architectural drawings will be submitted (on December 16, 2011) with final drawings submitted by January 15, 2012. This projection is totally unrealistic and unattainable. The CON Regulations specify that you cannot incur any capital expenditures until such time that the CON has been issued. BRH is proposing a 16 day period to submit preliminary drawings without even having the site approved until April 15, 2012. DHCS's current policy requires a minimum of 6 to 8 weeks to receive drawings submitted to the agency for review. The above dictates that the applicant is **unrealistic** in its time schedule and will be **unable** to meet its proposed opening date of October 1, 2013.

UTILIZATION

BRH states on page 63 of its CON application that they are proposing a new facility and therefore, are not required to adhere to the CON criteria of 90% occupancy in order to expand. It is Glenbridge's contention that BRH is proposing a "replacement facility" coupled with a 30-bed expansion rather than a new facility.

With this in mind, the following addresses BRH's utilization statistics presented in their CON application.

1. BRH on page 63 of its CON application has depicted a Historical Utilization Table from July 2010 through March 2011. This states that the average occupancy during this period was 97.38% including July 2010 at 104.7%. BRH further states that once the new facility is open and operating from day one, BRH will transfer 70 residents to its new facility.
2. A review of BRH's License Renewal Application in Exhibit 13- September 2010 states that the facility only had 58 SNF residents or 80.5% occupancy. The Critical Care Access Hospital had 7 residents.
3. In addition, the review of BRH's cost report depicts an overall occupancy rate from October 1, 2009 through September 30, 2010 filed on April 5, 2011 of 88.65%. It should be noted that an overlay exists with the license renewal application, cost reports and CON application of three months from July through September. It is obvious that discrepancies exist between the license renewal application, cost report and BRH's Certificate of Need application.
4. It can only be assumed that BRH utilized the patient days from the critical care hospital to augment its utilization statistics. BRH reported their historical utilization for July through September 2010 of 6,660 patient days in Table IV of the CON application. The Medicaid cost report filed April 5,

2011 only depicted 5,726 patient days. This was a 16% documented overstatement.

5. For the reasons stated above, a 95% projected occupancy rate may not be achievable and should be questioned in light of unsubstantiated historical utilization.
6. The CON Form A representing costs for the year that ended September 30, 2010 cannot be reconciled to the applicants' last Medicaid cost report of September 30, 2010 filed on April 5, 2011. Since Form A is the starting point for forecasting pro-forma year one and year two costs, it is impossible to determine if BRH's forecasted expenses are materially accurate and substantiated by historical results.

FINANCIAL ANALYSIS

Blowing Rock Hospital CON application is filled with financial errors which made its proposal financially unfeasible. The errors are as follows:

Examples of erroneous expenses are as follows:

- A. The Health Care Assessment or HCA tagged as “Medicaid Assessment fee” by BRH is grossly miscalculated and understated. The error is \$97,612 in year one and \$100,275 in year two.
- B. It is Glenbridge Health and Rehabilitation’s position that BRH’s proposal is not a new facility but rather a “replacement facility”. As such, the applicant utilized the Medicaid rate for a new facility rather for a replacement facility. In utilizing the incorrect rate, the applicant artificially inflated the Medicaid reimbursement rate by \$13.53 per day or \$288,845 for first year and \$296,713 for the second year.
- C. In comparing Tables VII.1 and VII.2 and VII.3 overall wages actually **decreased**. This is unexplainable.
- D. The applicant ignored the “other payer” category and lumped the patient days into Medicare mix. The “other payer” category does not reimburse as much as Medicare reimbursement. This also inflates anticipated revenue.
- E. BRH drastically under estimated Dietary Costs. BRH’s proposed raw food cost is \$100,000 less in the CON pro-forma from the Medicaid cost report. Form A states a raw food cost of \$249,535 while Form B states a raw food cost of \$145,011. This does not even take into consideration the additional 28 residents for the new beds.

F. BRH included in Table VII.4 (2 FRE's) for restorative aides but were not included in shift schedule VII.2. A correct schedule VII.4 would compute nursing hours PPD at 3.21 vs. 3.32 as reported.

Glenbridge utilizing identifiable and impacted errors and discrepancies created a revised Schedule B year two. The identified errors totaled more than one million dollars and resulted in a net loss of approximately \$701,000.00. A \$700,000.00 loss at 95% occupancy renders this CON project financially unrealistic and thus not feasible. Please see attached revised Schedule B.

PLANNING REGIONS:

EXISTING NURSING FACILITY	ADDRESS	CENSUS TRACT (PLANNING REGION)	TOWNSHIP	NF BEDS IN SMFP INVENTORY*
BRH (proposed)			Blue Ridge	72
Glenbridge (existing)			Blue Ridge	124+20 144 Total

Source: 2011 License Renewal Applications

*Does not include any beds that are listed as "exclusions" in the 2011 SMFP

PRIVATE ROOMS:

APPLICANT	PROPOSED # OF PRIVATE BEDS	PROPOSED # SEMIPRIVATE BEDS	PERCENT NEW PRIVATE BEDS OF TOTAL NEW BEDS
BRH	78	24	77%
Glenbridge	18	136	12%

ACCESS BY UNDERSERVED GROUPS:

APPLICANT	PROJECTED MEDICAID PATIENT DAYS AS A % OF TOTAL PATIENT DAYS ⁽¹⁾
BRH	61.6
Glenbridge	70.0

PRIVATE PAY CHARGES:

APPLICANT	PROPOSED PRIVATE PAY CHARGES – YEAR 2	
	PRIVATE ROOM	SEMIPRIVATE ROOM
BRH	226	207
Glenbridge	225	209

OPERATING COSTS:

APPLICANT	DIRECT COST (LESS ANCILLARY) PER PATIENT DAY	INDIRECT COST PER PATIENT DAY	TOTAL DIRECT COST (LESS ANCILLARY) PLUS INDIRECT COST PER PATIENT DAY
BRH	103.74	71.77	217.40
Glenbridge	109.42	66.07	198.49

STAFFING:

APPLICANT	PROJECTED ANNUAL SALARY FOR ONE FTE REGISTERED NURSE (RN) POSITION
BRH	51,600
Glenbridge	48,500

APPLICANT	PROJECTED ANNUAL SALARY FOR ONE FTE LICENSED PRACTICAL NURSE (LPN) POSITION
BRH	34,200
Glenbridge	40,200

APPLICANT	PROJECTED ANNUAL SALARY DIRECTOR OF NURSING
BRH	106,000
Glenbridge	84,000

APPLICANT	PROJECTED HOURLY RATE FOR NURSE AIDE POSITIONS*
BRH	10.92
Glenbridge	11.13

APPLICANT	PROJECTED ANNUAL SALARY FOR THE ASSISTANT DIRECTOR OF NURSING
BRH	63,600
Glenbridge	55,000

APPLICANT	TAXES AND BENEFITS AS AN AVERAGE % OF SALARIES
BRH	30%
Glenbridge	16%

NURSING HOURS PER PATIENT DAY:

APPLICANT	TOTAL DIRECT CARE NHPPD*
BRH	3.32 Corrected 3.21
Glenbridge	3.90

APPLICANT	LICENSED (RNS & LPNS) DIRECT CARE NHPPD
BRH	1.43
Glenbridge	1.30

CONCLUSION

Glenbridge has provided sufficient documentation to demonstrate that Blowing Rock Hospital's CON application as presented does not meet the criteria necessary for approval in that the project is not financially feasible and the BRH project for a replacement facility does not have the necessary utilization of 90% to proceed.

Therefore, Glenbridge Health and Rehabilitation is the only viable application that meets all the criteria of the CON statutes.

Form B Yr 2 Gross Profit

\$316,136

Errors in Proformas and Supporting Schedules:

Incorrect assumption inflating direct portion of Medicaid Rate, \$107.86 used vs. \$94.33 (rate per DMA Apr - Jun 2011)	\$	13.53	
X Medicaid Days Year 2		21,930	(\$296,713)
Error in Computing Health Care Assessment, should have used \$12.75 X Non-Medicare Days	\$	12.75	
X Non-Medicare Days Year 2		29,794	
Properly computed amount	\$	379,874	
Amount Reported in Form C Year 2 as "M/Caid pt assess fee"	\$	279,599	(\$100,275)
Table VII.3 Staff Development Coordinator Wage	\$	63,600	
Form C Yr 2 Staff Development Coordinator Wage	\$	52,000	(\$11,600)
Compounded by error in taxes and benefits		30%	(\$3,480)
Table VII.3 Laundry/Hskp Wages	\$	169,400	
Form C Yr 2 Laundry/Hskp Wages	\$	162,976	(\$6,424)
Compounded by error in taxes and benefits		30%	(\$1,927)
Table VII.3 Physical Therapy Wages	\$	163,700	
Form C Yr 2 PT Wages	\$	86,944	(\$76,756)
Failure to include any taxes and benefits on PT Wages, computed on VII.3 wages of \$163,700		30%	(\$49,110)
Failure to include any taxes and benefits on OT Wages, computed on VII.3 wages of \$52,000		30%	(\$15,600)
Table VII.3 Respiratory Therapy Wages	\$	50,000	
Form C Yr 2 RT Wages	\$	37,400	(\$12,600)
Failure to include any taxes and benefits on RT Wages, computed on VII.3 wages of \$50,000		30%	(\$15,000)
Table VII.3 Administrator Wages	\$	133,000	
Form C Yr 2 Administrator Wages (error favorable to applicant)	\$	137,000	\$4,000
Compounded by error in taxes and benefits (favorable)		30%	\$1,200
Table VII.3 Admin Sec Wages	\$	36,700	
Form C Yr 2 Admin Sec Wages	\$	26,000	(\$10,700)
Compounded by error in taxes and benefits		30%	(\$3,210)
Table VII.3 Receptionist Wages	\$	36,700	
Form C Yr 2 Receptionist Wages	\$	26,000	(\$10,700)
Compounded by error in taxes and benefits		30%	(\$3,210)
Subtotal easily identifiable errors in Proforma Sch B and C			<u>(\$612,105)</u>

Estimated errors, not exactly quantifiable:

Raw food cost from 09/10 Medicaid cost report	\$	228,597	
Inpatient Days from 09/10 Medicaid cost report		23,298	
Actual cost PPD from cost report	\$	9.81	
Raw food cost from Form C Year 2 proforma, including shrinkage and spoilage on separate line	\$	182,584	
Inpatient Days from Table IV.2, Yr 2		35,369	
Cost PPD	\$	5.16	
Cost PPD differential is unreasonable, and even gross cost is less in proformas than the actual gross cost with less patient days. Multiply difference by proforma days	\$	(4.65)	(\$164,466)
Dietary Supplies cost from 09/10 Medicaid cost report	\$	17,318	
Inpatient Days from 09/10 Medicaid cost report		23,298	
Actual cost PPD from cost report	\$	0.74	
Dietary supplies cost from Form C Year 2 proforma	\$	-	
Inpatient Days from Table IV.2, Yr 2		35,369	
Cost PPD	\$	-	
Cost PPD differential is unreasonable, and applicant failed to include any cost at all for dietary supplies. Multiply difference by proforma days	\$	(0.74)	(\$26,173)
Physician fees cost from 09/10 Medicaid cost report	\$	93,898	
Physician fees cost from Form C Proformas, conservatively assumes no inflation or increase for 30 bed addition	\$	-	(\$93,898)
Direct Nursing Care Wages per Table VII.1, included RN, LPN and CNA wages for total of 54 FTEs	\$	1,759,620	
Direct Nursing Care Wages per Table VII.3 and Form C, Yr 2, included RN, LPN and CNA wages for total of 56.56 FTEs	\$	1,723,596	
Difference, inexplicable how the applicant can show reduced direct care wages with increase in patient days and Medicare utilization. Included error X 2 as a very conservative estimate. Also inexplicable how applicant can only project an additional 2.56 FTEs in direct care staff.	\$	(36,024)	(\$72,048)
Compounded by error in taxes and benefits		30%	(\$21,614)
Patient Activities Wages per 09/10 Medicaid Cost Report	\$	69,654	
Patient Activities Wages per Form C Yr 2 Proforma	\$	48,930	
Difference, will conservatively reflect error equal to difference			(\$20,724)
Compounded by error in taxes and benefits		30%	(\$6,217)
Subtotal subjective but identifiable errors in Proforma Sch B and C			<u>(\$405,141)</u>
ADJUSTED FORM B YEAR 2 GROSS LOSS			<u><u>(\$701,109)</u></u>

Blowing
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Pg #	Schedule	Comment
73	IV.1 Historical Utilization	Utilization for Jul - Sep 2010 does not agree with patient days for Jul - Sep 2010 per medicaid cost report. Extremely exaggerated figures. 6,660 days reported in CON for the quarter, vs. 5,726 per Medicaid cost report. 16% overstated. Furthermore, occupancy per cost report in last quarter is 86.4%. Was 88.65% for YE 9/10.
75	IV.2 Projected Utilization	95% may not be achievable and should be questioned in light of unsubstantiated historical utilization.
77	IV.3 Patient Days by Payor Category	No comments
87	IV.3 Footnote to payor mix	Footnote indicates that "Other" payers were ignored, and simply combined with Medicare Mix. These are obviously better paying patients than other, which is normally Hospice, VA.
96	VII.1	Table indicates 156 consultant hours total, but only 78 hours reflected for Med Dir, and no other hours shown. No sure how to quantify this error, if any. However, it is an error in the form as submitted by applicant.
101	VII.3	Comparing VII.1 to VII.2 and VII.3, overall wages actually decrease with the new SNF proposed. See Restated Form B Yr 2 for estimated impact on gross profit.
103	VII.4	Restorative Aides (2 FTEs) are included in VII.4 for nsg hrs per day, but are not included in shift schedule VII.2. Instruction on VII.2, pg 97 of PDF states to include "direct care nursing staff persons only." Blowing Rock properly omitted 2 restorative aides on this schedule, but did not omit the 2 when computing direct patient care. Seems disingenous to interpret "direct care nursing positions" one way for one schedule, and a different way for another schedule. A correct Schedule VII.4 would compute Nsg Hours PPD at 3.21 vs. the 3.32 reported.

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Pg #	Schedule	Comment
116	IX.4b Cash Flows	Too many errors in pro-formas to make this reliable. This schedule would show much larger cash deficits and likely never show a positive cash flow with a restated Sch B.
123, 124	X.4 Projected Rates	For Medicaid rate, used 107.86 direct + 31.85 indirect +12.75 HCA +12.96 FRV for total of 165.42. Should have used a direct component rate of 94.33 (rate from Apr - Jun 2011 per DMA rate setting). Artificially inflated the Medicaid rate by \$13.53 per day. A replacement facility does not warrant a new direct Medicaid rate component. Medicaid days in year 1 are 21,350 and year 2 are 21,930. See restated Sch B Yr 2 for effect of this error.
147 - 149	Sch A - Last full year	The Form A representing costs for year ended Sep 30, 2010 cannot be reconciled to the applicant's last Medicaid cost report. Since it assumed that the Medicaid cost report is the most reliable source of costs for the applicant's existing 72 SNF beds, and since the Form A is the starting point for forecasting Year 1 and Year 2 costs, it is impossible to determine if the applicants forecasted expenses are materially accurate and substantiated by historical results. See restated Sch B Yr 2 for identifiable and estimable effects of some of the more significant differences.
153,156	Form C HCA	The Health Care Assessment, or HCA, tagged as "M/Caid pt assess fee" by the applicant, is grossly miscalculated and understated. The error is \$97,612 in Yr 1 and \$100,275 in Yr 2. See restated Sch B Yr 2 for effect of this error on year 2 proforma operating results.
151	Form B	Using identifiable and imputable errors and discrepancies, we have created an adjusted Sch B, Yr 2. These errors total more than one million dollars, and render a revised net loss of approximately \$701,000. It is highly unlikely that this application is financially feasible when showing this much of a loss at 95% occupancy.