

Comments in Opposition to
Project ID # F-011329-17
North Carolina Home Health

Comments Submitted by PruittHealth Home Health - Charlotte

Pursuant to NCGS § 131E-185, PruittHealth Home Health - Charlotte submits the following comments in opposition to the North Carolina Home Health (NCHH) CON application.

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

- (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.

NCHH fails to adequately identify the population to be served by the proposed project or the need that this population has for the services proposed. The statistical data that NCHH provides to “substantiate the existence of an unmet need” for the home health agency consists of four tables with no relationship to either each other nor does it substantiate an unmet need. On page 25, the first table shows the historical growth of the Mecklenburg County population and of unduplicated home health patients from Mecklenburg County from 2012 through 2015. However, NCHH does not relate this data to an unmet need in the county. On page 26, the second table presents counties with 65+ populations over 15,000 and the home health use rate for 65+ per 1,000 population. NCHH concludes that because the use rate in Mecklenburg County is lower than the use rates in other counties that an unmet need exists; however, NCHH fails to show any relationship to an unmet need based on use rate.

The following table presents the table data through Mecklenburg County, but also adds two columns relating to the number of Medicare-certified home health agencies within the county and the number of home health clients per agency.

| County | 65+ | HH Pts 65+ | HH Pts per 1,000 | HH Agencies | Clients per HH Agency |
|-------------|---------|------------|------------------|-------------|-----------------------|
| Gaston | 32,185 | 4,670 | 145.10 | 5 | 934 |
| Cleveland | 16,984 | 2,369 | 139.48 | 2 | 1,185 |
| Cabarrus | 24,610 | 3,259 | 132.43 | 2 | 1,630 |
| Catawba | 25,495 | 3,369 | 132.14 | 5 | 674 |
| Randolph | 23,314 | 2,974 | 127.56 | 4 | 744 |
| Forsyth | 53,754 | 6,759 | 125.74 | 9 | 751 |
| Robeson | 18,288 | 2,277 | 124.51 | 4 | 569 |
| Wayne | 18,672 | 2,321 | 124.30 | 2 | 1,161 |
| Onslow | 16,915 | 1,990 | 117.65 | 3 | 663 |
| Iredell | 25,101 | 2,890 | 115.13 | 4 | 723 |
| New Hanover | 35,367 | 4,022 | 113.72 | 2 | 2,011 |
| Rowan | 22,707 | 2,533 | 111.55 | 4 | 633 |
| Wake | 104,215 | 11,586 | 111.17 | 12 | 966 |
| Alamance | 25,521 | 2,796 | 109.56 | 4 | 699 |
| Guilford | 72,892 | 7,811 | 107.16 | 7 | 1,116 |
| Pitt | 20,643 | 2,211 | 107.11 | 3 | 737 |
| Mecklenburg | 106,622 | 11,332 | 106.28 | 11 | 1,030 |

However, it is unclear how it is reasonable for NCHH to conclusively state on page 26 that,

“The data in the previous table supports a need for increased access to home health services in Mecklenburg County.”

NCHH does not consider county demographics, such as urban or rural, race, income, as possible determinants for higher home health utilization. In fact, when the number of Medicare-certified home health agencies within the county is identified, NCHH's supposition is nullified. Gaston County, with the highest use rate of 145.1 home health patients per 1,000 population, only has 5 Medicare-certified home health agencies within the county, and averages 934 home health patients per agency, a mere 10% lower than Mecklenburg County's 1,030 home health patients per Medicare-certified home health agency. Therefore, it begs the question as to how adding a Medicare-certified home health agency to Mecklenburg County will increase utilization from 106.28 per 1,000 population to 145.10 per 1,000 population.

On page 27, the third table illustrates the project growth in Mecklenburg County 65+ age group from 2017 through 2023 but, here, NCHH fails to relate this growth to an unmet need.

Finally, on page 27, the fourth table is a comparison of home health data between North Carolina and the United States, but NCHH again fails to relate any of this data to an unmet need in Mecklenburg County for a Medicare-certified home health agency, leaving the analyst to draw their own conclusions.

In response to Section III.4(c), page 34, NCHH presents a table showing that 100.0% of its patients will originate from Mecklenburg County; however, this patient origin does not match any other patient volume identified throughout the application as shown in the following table:

| Application Page | Year 1 | Year 2 | Year 3 |
|------------------|--------|--------|--------|
| Page 34 | 561 | 586 | 611 |
| Page 39 | 281 | 381 | 489 |
| Page 41 | 281 | 381 | 489 |
| Page 44 | 281 | 381 | 489 |
| Page 48 | 280 | 380 | 489 |

On page 47, within Step 11 of the NCHH utilization methodology, NCHH includes the following table to illustrate Patient Visit Payor Mix for Year 1 and Year 2.

| Payor | Year 1 | Year 2 |
|-------------------|--------|--------|
| Medicare | 88.2% | 88.2% |
| Medicaid | 7.1% | 7.1% |
| Private Insurance | 18.0% | 18.0% |
| Self Pay | 0.8% | 0.8% |
| Others | 4.9% | 4.9% |
| Total | 18.9% | 118.9% |

However, the table on page 46 has no resemblance to the payor mix used in the pro forma financial statements on page 87, which shows the following payor mix percentage for both the Form D - Gross Revenue Worksheet and the Form E – Net Revenue.

| Payor | Year 1 | Year 2 |
|-------------------------------------|--------|--------|
| Self Pay / Indigent / Charity | 0.6% | 0.6% |
| Medicare / Medicare Managed Care | 88.2% | 88.2% |
| Medicaid | 6.6% | 6.6% |
| Commercial insurance & Managed Care | 3.9% | 3.9% |
| Managed Care | 0.0% | 0.0% |
| Other (Specify) & Worker Comp. | 0.6% | 0.6% |
| Total | 100.0% | 100.0% |

NCHH cannot respond that this is a simple “clerical” issue. In both tables, the Medicare percentage is consistent at 88.2%, but no other payor mix percentages are consistent. The agency cannot assume that the percentage used in the pro forma financial statement is the more accurate of the two sets of payor mixes provided in the application. The following table compares the payor mixes side by side.

| Payor | Year 1 | | Year 2 | |
|-------------------------------------|---------|---------|---------|---------|
| | Page 47 | Page 87 | Page 47 | Page 87 |
| Self Pay / Indigent / Charity | 0.6% | 0.8% | 0.6% | 0.8% |
| Medicare / Medicare Managed Care | 88.2% | 88.2% | 88.2% | 88.2% |
| Medicaid | 6.6% | 7.1% | 6.6% | 7.1% |
| Commercial insurance & Managed Care | 3.9% | 18.0% | 3.9% | 18.0% |
| Managed Care | 0.0% | 0.0% | 0.0% | 0.0% |
| Other (Specify) & Worker Comp. | 0.6% | 4.9% | 0.6% | 4.9% |
| TOTAL | 18.9% | 100% | 118.9% | 100% |

- (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.

On page 13, NCHH begins its discussion of three alternatives that it considered, 1) maintain the status quo, 2) joint venture, and 3) develop an agency to serve Mecklenburg County. However, NCHH failed to discuss the most obvious alternative of providing home health services from its home health agency in Forest City, Rutherford County. This alternative would not require a CON as NCHH would simply be providing home health services as allowed by NC regulations.

10A NCAC 13J .1110 (f) states,

(f) Documentation of supervisory visits shall be maintained in the agency's records and shall contain:

- (1) date of visit;
- (2) findings of visit; and
- (3) signature of person performing the visit.

In order to assure effective supervision of services provided by in-home aides, geographic service areas for these services shall be limited to the area which includes the county where the agency is located, counties that are contiguous with the county where the agency is located or within 90 minutes driving time from the site where the agency is located, whichever is greater.

Nearly every portion of Mecklenburg County is located within a 90-minute drive time from Forest City. Providing care to the residents of Mecklenburg County from a home office in Forest City would not be unusual for the applicant as its home health agency located in Garner, Wake County serves patients in Person County, which is not a contiguous county, but is located within a 90 minute drive from Garner.

- (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.

Payor Mix

As discussed in Criterion (3), NCHH fails to demonstrate that its payor mix is reasonable, credible, or supported.

NCHH cannot respond that this is a simple “clerical” issue. In both tables, the Medicare percentage is consistent at 88.2%, but no other payor mix percentages are consistent. The agency cannot assume that the percentage used in the pro forma financial statement is the more accurate of the two sets of payor mixes provided in the application. The following table compares the payor mixes side by side.

| Payor | Year 1 | | Year 2 | |
|-------------------------------------|---------|---------|---------|---------|
| | Page 47 | Page 87 | Page 47 | Page 87 |
| Self Pay / Indigent / Charity | 0.6% | 0.8% | 0.6% | 0.8% |
| Medicare / Medicare Managed Care | 88.2% | 88.2% | 88.2% | 88.2% |
| Medicaid | 6.6% | 7.1% | 6.6% | 7.1% |
| Commercial insurance & Managed Care | 3.9% | 18.0% | 3.9% | 18.0% |
| Managed Care | 0.0% | 0.0% | 0.0% | 0.0% |
| Other (Specify) & Worker Comp. | 0.6% | 4.9% | 0.6% | 4.9% |

Pro Forma Financial Statements

NCHH also does not provide enough data or assumptions for the Agency to determine if the pro forma financial statements are reasonable, credible, or supported.

The pro forma financial statement begins on page 81 and ends on page 91 with no additional information provided in either the application or the exhibits. The following bullet points present the inadequacies of the NCHH pro forma financial statement assumptions:

) Form A – Cash

Assumption: Adjusted per Cash Flow.

Issue: Cash Flow worksheet not provided for review.

) Form A – Patient Receivables

Assumption: Average 60 days.

Issue: Not consistent with net revenue on page 88.

Year 1: $\$867,198 / 365 \text{ days} * 60 \text{ days} = \$142,553$ NOT $\$140,836$

Year 2: $\$1,200,243 / 365 \text{ days} * 60 \text{ days} = \$197,300$ NOT $\$195,023$

) Form A – Accounts Payable

Assumption: 30 days.

Issue: No identification of expenses included in Accounts Payable.

) Form B: Gross Revenue

Assumption: LHC charge description masters coupled with current procedure mix average per case and volume.

Issue: LHC charge description masters coupled with current procedure mix average per case and volume not provided for review.

) Form B: Net Revenue

Assumption: Forecasted payor mix utilization, current contractual agreements with managed care payors, and prevailing governmental rates.

Issue: Forecasted payor mix utilization, current contractual agreements with managed care payors, and prevailing governmental rates not provided for review.

) Form B: Charity Care

Assumption: 0.6% of Gross Revenue per Financial Model Assumption.

Issue: Per page 56, Section VI.7, NCHH states, "LHC Group charity care was around 1.5% of gross revenue", but identifies only 0.29% of gross revenues for charity care in the pro forma in Year 2.

) Form B: Bad Debt

Assumption: 1.6% of Gross Revenue per Financial Model Assumption.

Issue: Per page 56, Section VI.7, NCHH states, "LHC Group charity care was around 2.0% of gross revenue", but identifies only 1.53% of gross revenues for charity care in the pro forma in Year 2.

) Form B: Travel Expenses

Assumption: 2.0% annual inflation per Financial Model Assumption.

Issue: No basis for per visit travel expense provided in assumptions.

) Form B: Medical Supplies

Assumption: 2.0% annual inflation per Financial Model Assumption.

Issue: No basis for per visit medical supply expense provided in assumptions.

) Form B: Other Supplies

Assumption: 2.0% annual inflation per Financial Model Assumption.

Issue: No basis for per visit other supply expense provided in assumptions.

) Form B: Travel/Training Expenses

Assumption: 2.0% annual inflation per Financial Model Assumption.

Issue: No basis for travel/training expense provided in assumptions.

) Form B: Central Office Overhead

Assumption: 9% of charges per Financial Model Assumption.

Issue: Not consistent with charges on page 87.

Year 1: $\$1,423,859 * 9.0\% = \$128,147$ NOT $\$76,046$

Year 2: $\$1,970,691 * 9.0\% = \$177,362$ NOT $\$105,305$

) Form B: Promotions/Public Relations

Assumption: 2.0% annual inflation per Financial Model Assumption.

Issue: No basis for promotion/public relations expense provided in assumptions.

) Form B: Telephone/Communications

Assumption: 2.0% annual inflation per Financial Model Assumption.

Issue: No basis for telephone/communications expense provided in assumptions.

) Form B: Rent/Lease Expense

Assumption: No assumption per Financial Model Assumption.

Issue: Page 284, primary site letter includes 3,755 square feet and no price per square foot rate.

Page 283, secondary site letter includes 7,200 square feet and \$13.95 per square foot rate or \$100,440 per year.

Page 282, tertiary site letter includes 24,500 square feet and \$10.00-\$16.00 per square foot rate or up to \$392,000 per year.

) Form B: Utilities

Assumption: "In Lease" and 2.0% annual inflation per Financial Model Assumption.

Issue: No supporting documents indicate that utility expenses are included in the lease rate.

- J Form B: License/Dues/Subscriptions
Assumption: 2.0% annual inflation per Financial Model Assumption.
Issue: No basis for license/dues/subscriptions expense provided in assumptions.

- J Form B: Insurance
Assumption: 2.0% annual inflation per Financial Model Assumption.
Issue: No basis for insurance expense provided in assumptions.

- J Form B: Postage
Assumption: 2.0% annual inflation per Financial Model Assumption.
Issue: No basis for postage expense provided in assumptions.

- J Form B: Legal/Accounting
Assumption: 2.0% annual inflation per Financial Model Assumption.
Issue: No basis for legal/accounting expense provided in assumptions.

- J Form B: Data Processing
Assumption: 2.0% annual inflation per Financial Model Assumption.
Issue: No basis for data processing expense provided in assumptions.

Availability of Funds

NCHH fails to demonstrate that availability of funds for the project's capital costs and working capital requirements. On page 68, NCHH identifies Total Capital Cost of Project as \$69,000 and on page 71, NCHH identifies a Total Working Capital Requirement of \$185,506. However, on page 91 (Annual Amortization Costs), NCHH identifies \$69,000 in capital costs (Market Analysis and Equipment) and \$209,384 in working capital, for a difference of \$23,878. Furthermore, Exhibit 12 on page 185 is a funding letter from Joshua Proffitt stating that LHC Group will "fund the capital expenditure for the full project cost or \$69,000" and will "fund the working capital for the project which are expected to be \$69,000". This letter from the CFO/Treasurer indicated that LHC Group will fund \$138,000 [\$69,000 + \$69,000] rather than the capital costs and working capital costs of \$254,506 [\$69,000 + \$185,506] from

pages 68 and 71 or the capital costs and working capital costs of \$278,384 [$\$69,000 + \$209,384$] from page 91.

- (6) The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

NCHH fails to adequately demonstrate the need for the proposed project. See Criterion (3) for discussion. Consequently, NCHH did not adequately demonstrate that its proposal will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

- (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.

NCHH's proposed staffing for Project Year 2 is insufficient. To determine this, the projected visits are divided by the visits per day assumption, which results in the total work days required to complete the visits. The resulting quotient is divided by 260 work days per year (2,080 work hours per year per FTE position / 8 hours per day = 260 work days per year). This results in the number of required FTE positions. The number of required FTE positions is then compared to the number of projected FTE positions provided by NCHH in Section VII, page 65.

| | Visits per Page 49 | Visits per FTE per Day | Visits / Visits per Day | FTEs Required | FTEs Proposed per Page 65 | Total Visits that can be Treated by FTE Proposed |
|-------------------------|--------------------|------------------------|-------------------------|---------------|---------------------------|--|
| RN | 3,702 | 5.0 | 740 | 2.85 | 3.00 | |
| Certified Nursing Asst. | 301 | 5.2 | 58 | 0.22 | 0.40 | |
| Medical Social Worker | 64 | 3.5 | 18 | 0.07 | 0.30 | |
| Physical Therapist | 2,885 | 5.4 | 534 | 2.05 | 2.00 | 2,808 |
| Occupational Therapist | 754 | 5.3 | 142 | 0.55 | 0.60 | |
| Speech Therapist | 236 | 5.4 | 44 | 0.17 | 0.20 | |

As shown in the table above, NCHH's projected FTE positions in Project Year 2 are less than the required FTE positions as calculated for physical therapists. Furthermore, NCHH does not propose to use contract staff. Thus, NCHH did not adequately demonstrate that it proposes adequate staffing for the visits it projects to perform during the second operating year for physical therapy. Consequently, NCHH did not adequately demonstrate the availability of sufficient health manpower for physical therapy.

NCHH identifies several employees in its policies that it fails to account for in its staffing model. The unaccounted for staff include:

-) Clinical Transition Coordinator – “Clinical Patient Liaisons” – Page 11
-) Facility Manager – Employee On-Boarding – Page 183
-) Eligibility/Authorization Specialist – Insurance Eligibility and Verification Policy – Page 285
-) Patient Financial Representative – Patient Financial Responsibility – Page 289

It is clear that NCHH does not include these positions in its staffing model nor in its pro forma financial statements.

NCHH fails to provide evidence that its primary or secondary sites are available for either purchase or lease. In Section XI.1(d), NCHH must “provide a letter from the realtor or owner of the site that documents that the site is available for lease or acquisition.” In Exhibit 13, page 284 and 285, NCHH provides letters from the Director of Facilities and Fleet Management for its parent company, LHC Group. Karl Comeaux is neither the realtor nor the owner of the proposed sites. Additionally, Karl Comeaux is not a licensed realtor in the State of North Carolina per the North Carolina Real Estate Commission database. NCHH fails to document that any proposed site is available for either purchase or lease.

- (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.

NCHH fails to provide any supporting documentation that it has the ability to establish a referral network within the service area, Mecklenburg County. It would appear that NCHH developed its CON application in isolation, only within its offices in Louisiana. NCHH provides letters that it mailed to hospital presidents/CEOs and Practice Managers, but never identifies a single referral source by name within Mecklenburg County that it contacted and who responded back to NCHH.

On page 35, NCHH discounts the need to establish a referral network and merely states that "Obtaining the small volume of home health patients projected by NCHH, approximately 2% market share, of the Mecklenburg County home health market would not be overwhelming for an experienced provider." One would believe that an experienced provider would be able to manage a single letter of support from the entire Mecklenburg County home health market.

Furthermore, on page 38, NCHH states, "NCHH projects that it will capture 1.4% of the Mecklenburg County home health market in Project Year 1; which will increase to only 2.2% by Project Year 3." It would appear that NCHH believes that merely presenting that it will capture market share is the same as providing supporting documentation for that assumption.

Comments in Opposition to
Project ID # F-011341-17
Well Care Home Health of the Piedmont, Inc.

Comments Submitted by PruittHealth Home Health - Charlotte

Pursuant to NCGS § 131E-185, PruittHealth Home Health - Charlotte submits the following comments in opposition to the Well Care Home health of the Piedmont (WCHHP) CON application.

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

- (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.

WCHHP fails to adequately identify the population to be served by the proposed project or the need that this population has for the services proposed.

On page 76, WCHHP includes the following payor mix table for unduplicated patients:

| Payor | % of Total | Project Year 1 | Project Year 2 |
|-------------|------------|----------------|----------------|
| Medicare | 67.0% | 301 | 602 |
| Medicaid | 15.0% | 67 | 135 |
| Commercial | 17.0% | 76 | 153 |
| Indigent | 1.0% | 4 | 9 |
| Private Pay | 0.0% | 0 | 0 |
| Total | 100.0% | 449 | 898 |

In this table, WCHHP identifies 898 unduplicated patients in Year 2.

On page 51, WCHHP includes the following patient origin table for unduplicated patients:

| | 2018 | 2019 | 2020 |
|-----------------|--------|--------|--------|
| Mecklenburg Co. | 87.4% | 88.5% | 87.1% |
| Cabarrus Co. | 5.0% | 5.5% | 6.7% |
| Union Co. | 7.6% | 5.9% | 6.2% |
| Total | 100.0% | 100.0% | 100.0% |

In Year 2, 88.5 percent of the unduplicated patients are projected to originate from Mecklenburg County. This results in a projection of 795 unduplicated patients [898 patients x 88.5% = 795 patients]. However, on page 318 of the 2017 State Medical Facilities Plan, the standard need methodology shows a deficit of 560.8 home health patients in Mecklenburg County. WCHHP is projecting 235 more patients or 41.8 percent $[(795 - 560.8) / 560.8 \times 100 = 41.8\%]$ more patients than were identified in the standard need methodology in the State Medical Facilities Plan and did not include an additional need methodology to support the utilization of 235 more home health patients.

Based on the information included in the application, WCHHP does not adequately demonstrate that projected utilizations are based on reasonable, credible and supported assumptions.

- (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.

On page 13, WCHHP begins its discussion of three alternatives, 1) maintain the status quo, 2) office in another location, and 3) pursue project as proposed. However, WCHHP failed to discuss the alternative of providing home health services from its home health agency in Mocksville, Davie County. This alternative would not require a CON as WCHHP would simply be providing home health services as allowed by NC regulations.

10A NCAC 13J .1110 (f) states,

(f) Documentation of supervisory visits shall be maintained in the agency's records and shall contain:

- (1) date of visit;
- (2) findings of visit; and
- (3) signature of person performing the visit.

In order to assure effective supervision of services provided by in-home aides, geographic service areas for these services shall be limited to the area which includes the county where the agency is located, counties that are contiguous with the county where the agency is located or within 90 minutes driving time from the site where the agency is located, whichever is greater.

Nearly every portion of Mecklenburg County is located within a 90-minute drive time from Mocksville. This action would not be unusual for the applicant as its home health agency located in Raleigh, Wake County serves patients in Pitt County, which is not a contiguous county, but is located within a 90-minute drive from Raleigh.

- (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.

Pro Forma Financial Statements

WCHHP does not provide enough data or assumptions for the Agency to determine if the pro forma financial statements are reasonable, credible, or supported.

The pro forma financial statement begins after page 147 and ends at the end of the application. No additional information is provided in either the application or the exhibits. The following bullet points present the inadequacies of the WCHHP pro forma financial statement assumptions:

) Form A – Cash and Cash Equivalents

Assumption: None provided.

Issue: No assumptions provided to facilitate the reasonableness of the pro forma financial statements.

) Form A – Prepaid Expenses

Assumption: None provided.

Issue: No assumptions provided to facilitate the reasonableness of the pro forma financial statements.

) Form A – Accounts Receivable, net

Assumption: None provided.

Issue: No assumptions provided to facilitate the reasonableness of the pro forma financial statements.

) Form A – Property & Equipment, net

Assumption: None provided with the exception of Capital Cost Table in Section VIII, page 127.

Issue: No assumption directly addresses property and equipment. The Capital Cost Table in Section VIII, page 127, shows equipment and furniture totaling \$55,000 and Form B shows Year 1 depreciation expense of \$18,000. These values result in a Property & Equipment, net of \$37,000 [$\$55,000 - \$18,000$], which is different from the value in Form A of \$45,000.

) Form A – Other Assets

Assumption: None provided.

Issue: No acquisition of other assets is discussed in the application other than equipment and furniture.

) Form A – Accounts Payable

Assumption: None provided.

Issue: No assumptions provided to facilitate the reasonableness of the pro forma financial statements.

) Form A – Accrued Wages & Taxes Payable

Assumption: None provided.

Issue: No assumptions provided to facilitate the reasonableness of the pro forma financial statements.

) Form A – Estimated PTO Liability

Assumption: None provided.

Issue: No assumptions provided to facilitate the reasonableness of the pro forma financial statements.

) Form A – Deferred Revenue

Assumption: None provided.

Issue: No assumptions provided to facilitate the reasonableness of the pro forma financial statements.

- J Form B: Utilities
Assumption: 2.5% annual inflation.
Issue: No basis for utilities expense provided in assumptions.

- J Form B: Office Supplies
Assumption: 2.5% annual inflation.
Issue: No basis for office supply expense provided in assumptions.

- J Form B: Telephone
Assumption: 2.5% annual inflation.
Issue: No basis for telephone expense provided in assumptions.

- J Form B: Postage
Assumption: 2.5% annual inflation.
Issue: No basis for postage expense provided in assumptions.

- J Form B: Advertising
Assumption: 2.5% annual inflation.
Issue: No basis for advertising expense provided in assumptions.

- J Form B: Travel
Assumption: 2.5% annual inflation.
Issue: No basis for travel expense provided in assumptions.

- J Form B: Depreciation
Assumption: 2.5% annual inflation.
Issue: No basis for depreciation expense provided in assumptions.

) Form B: Education in Training
Assumption: 2.5% annual inflation.
Issue: No basis for Education in Training expense provided in assumptions.

) Form B: Other Selling Expenses
Assumption: 2.5% annual inflation.
Issue: No basis for other selling expense provided in assumptions.

) Form B: Miscellaneous Overhead
Assumption: 2.5% annual inflation.
Issue: No basis for miscellaneous overhead expense provided in assumptions.

Additionally, WCHHP does not adequately demonstrate that projected revenues and operating costs are based on reasonable, credible and supported assumptions regarding projected utilization. Please see the comments in Criterion (3) for discussion regarding projected utilization.

- (6) The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

NCHH fails to adequately demonstrate the need for the proposed project. See Criterion (3) for discussion. Consequently, NCHH did not adequately demonstrate that its proposal will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

- (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.

NCHH fails to provide evidence that its primary site is available for either purchase or lease. In Section XI.1(d), WCHHP must "provide a letter from the realtor or owner of the site that documents that the site is available for lease or acquisition." In Exhibit 2, WCHHP provides a letters relating to the secondary site that identifies 4,490 square feet leasable at \$23.00 per square foot. However, the primary site is not identified by either the proposed square footage or the proposed lease per square foot. The Agency cannot determine if WCHHP has allowed for adequate lease expense within its pro forma financial statements without the primary site's information. WCHHP fails to document that any proposed site is available for either purchase or lease.

COMPARATIVE ANALYSIS

Pursuant to G.S. 131E-183(a)(1) and the 2013 SMFP, no more than one new Medicare-certified home health agency may be approved for Mecklenburg County in this review. Because each application proposes to develop a new Medicare-certified home health agency in Mecklenburg County, all three applications cannot be approved. For the reasons set forth below and in the remainder of the findings, the application submitted by PruittHealth Home Health should be approved and all other applications should be disapproved.

Projected Access by Medicare Recipients

For each application in this review, the following table compares: a) the number of duplicated Medicare patients in Project Year 2; and b) duplicated Medicare patients as a percentage of total unduplicated patients. Generally, the application projecting the highest number or percentage is the most effective alternative with regard to these comparative factors. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|---------------------|------------------------------|-----------------------------------|
| | | Duplicated Patients | Duplicated Medicare Patients | % of Duplicated Medicare Patients |
| 1 | PruittHealth Home Health | 854 | 735 | 86.1% |
| 2 | North Carolina Home Health | 1,320 | 1,068 | 80.9% |
| 3 | Well Care Home Health | 3,008 | 2,015 | 67.0% |

As shown in the table above, in Project Year 2, PruittHealth Home Health projects to serve the highest percentage of duplicated Medicare patients and Well Care Home Health projects to serve the highest number of duplicated Medicare patients.

However, Well Care Home Health's projections of duplicated patients are not based on reasonable, credible or supported assumptions. Please see the discussion on Well Care Home Health's CON application. Therefore, the duplicated Medicare patients shown in the table for Well Care Home Health are not reliable. The application submitted by PruittHealth Home Health is the most effective alternative with regard to projected access by Medicare Recipients.

Projected Access by Medicaid Recipients

For each application in this review, the following table compares: a) the number of duplicated Medicaid patients in Project Year 2; and b) duplicated Medicaid patients as a percentage of total patients.

Generally, the application projecting the highest number or percentage is the most effective alternative with regard to these comparative factors. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|---------------------|--------------------------------|-------------------------------------|
| | | Duplicated Patients | Unduplicated Medicaid Patients | % of Unduplicated Medicaid Patients |
| 1 | Well Care Home Health | 3,008 | 451 | 15.0% |
| 2 | North Carolina Home Health | 1,320 | 119 | 9.0% |
| 3 | PruittHealth Home Health | 854 | 41 | 4.8% |

As shown in the table above, Well Care Home Health projects to serve the highest number of unduplicated Medicaid recipients and the highest percentage of unduplicated Medicaid patients in Project Year 2.

However, Well Care Home Health's projections of duplicated patients are not based on reasonable, credible or supported assumptions. Please see the discussion on Well Care Home Health's CON application. Therefore, the duplicated Medicare patients shown in the table for Well Care Home Health are not reliable.

Average Number of Visits per Unduplicated Patient

The majority of home health care services are covered by Medicare, which does not reimburse on a per visit basis. Rather, Medicare reimburses on a per episode basis. Thus, there is a financial disincentive to providing more visits per Medicare episode. The following table shows the average number of visits per unduplicated patient projected by each applicant in Project Year 2. Generally, the application proposing the highest number of visits per unduplicated patient is the more effective alternative with regard to this comparative factor. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|-----------------------|-------------|---------------------------------|
| | | Unduplicated Patients | # of Visits | Average # of Visits per Patient |
| 1 | PruittHealth Home Health | 598 | 15,720 | 26.3 |
| 2 | Well Care Home Health | 898 | 19,095 | 21.3 |
| 3 | North Carolina Home Health | 381 | 7,943 | 20.8 |

As shown in the table, PruittHealth Home Health is the most effective alternative with regard to the average number of visits per unduplicated patient.

Average Net Patient Revenue per Visit

Average net revenue per visit in Project Year 2 was calculated by dividing projected net revenue from Form B by the projected number of visits from Section IV, as shown in the table below. Generally, the application proposing the lowest average net revenue per visit is the more effective alternative with regard to this comparative factor. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|----------------|---------------------|--|
| | | # of Visits | Net Patient Revenue | Average Net Patient Revenue per Visits |
| 1 | PruittHealth Home Health | 15,720 | \$2,130,688 | \$135.54 |
| 2 | North Carolina Home Health | 7,943 | \$1,170,139 | \$147.32 |
| 3 | Well Care Home Health | 19,095 | \$3,072,264 | \$160.89 |

As shown in the table above, in Project Year 2, PruittHealth Home Health projects the lowest average net revenue per visit. Therefore, the application submitted by PruittHealth Home Health is the most effective alternative with regard to projected average net revenue per visit.

Average Net Revenue per Unduplicated Patient

Average net revenue per unduplicated patient in Project Year 2 was calculated by dividing projected net revenue from Form B by the projected number of unduplicated patients from Section IV, as shown in the table below. Generally, the application proposing the lowest average net revenue per unduplicated patient is the more effective alternative with regard to this comparative factor. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|-----------------------|---------------------|--|
| | | Unduplicated Patients | Net Patient Revenue | Average Net Revenue per Unduplicated Patient |
| 1 | North Carolina Home Health | 381 | \$1,170,139 | \$3,071.23 |
| 2 | Well Care Home Health | 898 | \$3,072,264 | \$3,421.23 |
| 3 | PruittHealth Home Health | 598 | \$2,130,688 | \$3,563.02 |

As shown in the table above, North Carolina Home Health projects the lowest average net revenue per unduplicated patient in Project Year 2.

Average Total Operating Cost per Visit

The average total operating cost per visit in Project Year 2 was calculated by dividing projected operating costs from Form B by the total number of visits from Section IV, as shown in the table below. Generally, the application proposing the lowest average total operating cost per visit is the more effective alternative with regard to this comparative factor. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|----------------|----------------------|--|
| | | # of Visits | Total Operating Cost | Average Total Operating Cost per Visit |
| 1 | Well Care Home Health | 19,095 | \$2,126,368 | \$111.36 |
| 2 | North Carolina Home Health | 7,943 | \$1,043,484 | \$131.37 |
| 3 | PruittHealth Home Health | 15,720 | \$2,100,038 | \$133.59 |

As shown in the table above, in Project Year 2, Well Care Home Health projects the lowest average total operating cost per visit. However, Well Care Home Health's projected visits are not based on reasonable, credible or supported assumptions. Therefore, the cost per visit shown in the table above for Well Care Home Health is also not reliable.

Average Direct Care Operating Cost per Visit

The average direct care operating cost per visit in Project Year 2 was calculated by dividing projected direct care expenses from Form B by the total number of home health visits from Section IV, as shown in the table below. Generally, the application proposing the lowest direct care operating cost per visit is the more effective alternative with regard to this comparative factor. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|----------------|------------------------|------------------------------------|
| | | # of Visits | Total Direct Care Cost | Average Direct Care Cost per Visit |
| 1 | Well Care Home Health | 19,095 | \$1,399,016 | \$73.27 |
| 2 | North Carolina Home Health | 7,943 | \$643,451 | \$81.01 |
| 3 | PruittHealth Home Health | 15,720 | \$1,676,993 | \$106.68 |

As shown in the table above, in Project Year 2, Well Care Home Health projects the lowest average direct care operating cost per visit. However, Well Care Home Health's projected visits are not based on reasonable, credible or supported assumptions. Therefore, the per visit operating cost shown in the table above for Well Care Home Health is also not reliable.

Average Administrative Operating Cost per Visit

The average administrative operating cost per visit in Project Year 2 was calculated by dividing projected administrative operating costs from Form B by the total number of visits from Section IV.1, as shown in the table below. Generally, the application proposing the lowest average administrative operating cost per visit is the more effective alternative with regard to this comparative factor. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|----------------|---------------------|---------------------------------------|
| | | # of Visits | Administrative Cost | Average Administrative Cost per Visit |
| 1 | PruittHealth Home Health | 15,720 | \$423,045 | \$26.91 |
| 2 | Well Care Home Health | 19,095 | \$727,352 | \$38.09 |
| 3 | North Carolina Home Health | 7,943 | \$400,033 | \$50.36 |

As shown in the table above, PruittHealth Home Health projects the lowest average administrative operating cost per visit in Project Year 2. Thus, the application submitted by PruittHealth Home Health is the most effective alternative with regard to average administrative operating cost per visit.

Ratio of Average Net Revenue per Visit to Average Total Operating Cost per Visit

The ratios in the table below were calculated by dividing the average net revenue per visit in Project Year 2 by the average total operating cost per visit in Project Year 2. Generally, the application proposing the lowest ratio is the more effective alternative with regard to this comparative factor. However, the ratio must equal one or greater in order for the proposal to be financial feasible. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|-------------------------------|--|-------|
| | | Average Net Revenue per Visit | Average Total Operating Cost per Visit | Ratio |
| 1 | PruittHealth Home Health | \$135.54 | \$133.59 | 1.01 |
| 2 | North Carolina Home Health | \$147.32 | \$131.37 | 1.12 |
| 3 | Well Care Home Health | \$160.89 | \$111.36 | 1.44 |

As shown in the table above, PruittHealth Home Health projects the lowest ratio of net revenue to average total operating cost per visit in Project Year 2. Therefore, the application submitted by PruittHealth Home Health is the most effective alternative with regard to the ratio of net revenue per visit to average total operating cost per visit.

Average Direct Care Operating Cost per Visit as a percentage of Average Total Operating Cost per Visit

The percentages in the table below were calculated by dividing the average direct care cost per visit in Project Year 2 by the average total operating cost per visit in Project Year 2. Generally, the application proposing the highest percentage is the more effective alternative with regard to this comparative factor. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Agency | Project Year 2 | | |
|------|----------------------------|--|--|------------|
| | | Average Total Operating Cost per Visit | Average Direct Care Operating Cost per Visit | Percentage |
| 1 | PruittHealth Home Health | \$133.59 | \$106.68 | 79.9% |
| 2 | Well Care Home Health | \$111.36 | \$73.27 | 65.8% |
| 3 | North Carolina Home Health | \$131.37 | \$81.01 | 61.7% |

As shown in the table above, PruittHealth Home Health projects the highest percentage of average direct operating cost per visit to average total operating cost per visit in Project Year 2. Therefore, the application submitted by PruittHealth Home Health is the most effective alternative with regard to the ratio of average direct operating cost per visit to average total operating cost per visit.

Nursing and Home Health Aide Salaries in Project Year 2

All four applicants propose to provide nursing and home health aide services with staff that are employees of the proposed home health agency. The tables below compare the proposed annual salary for registered nurses, licensed practical nurses and home health aides in Project Year 2. Generally, the application proposing the highest annual salary is the more effective alternative with regard to this comparative factor. The applications are listed in the table below in decreasing order of effectiveness.

| Rank | Applicant | Registered Nurse |
|------|----------------------------|------------------|
| 1 | PruittHealth Home Health | \$89,388 |
| 2 | Well Care Home Health | \$83,602 |
| 3 | North Carolina Home Health | \$54,545 |

| Rank | Applicant | Licensed Practical Nurse |
|------|----------------------------|--------------------------|
| 1 | PruittHealth Home Health | \$59,105 |
| 2 | Well Care Home Health | \$52,958 |
| 3 | North Carolina Home Health | \$46,854 |

| Rank | Applicant | Home Health Aide (CNA) |
|------|----------------------------|------------------------|
| 1 | PruittHealth Home Health | \$41,616 |
| 2 | Well Care Home Health | \$34,456 |
| 3 | North Carolina Home Health | \$30,272 |

Salaries are a significant contributing factor in recruitment and retention of staff. As shown in the table above:

-) PruittHealth Home Health projects the highest annual salary for a registered nurse in Project Year 2.
-) PruittHealth Home Health projects the highest annual salary for a home health aide in Project Year 2.
-) PruittHealth Home Health projects the highest annual salary for a licensed practical nurse in Project Year 2.

Thus, the application submitted by PruittHealth Home Health is the most effective alternative with regard to annual salary for registered nurses, licensed practical nurses, and home health aides.

SUMMARY

The following is a summary of the reasons the proposal submitted by PruittHealth Home Health is determined to be the most effective alternative in this review:

- J PruittHealth Home Health projects the second highest number of unduplicated Medicare patients and the highest percentage of unduplicated Medicare patients in Project Year 2; second only to Well Care Home Health, whose application should not be approvable.
- J PruittHealth Home Health projects the highest average number of visits per unduplicated patient in Project Year 2.
- J PruittHealth Home Health projects the lowest average net revenue per visit in Project Year 2.
- J PruittHealth Home Health projects the lowest average administrative operating cost per visit in Project Year 2.
- J PruittHealth Home Health projects the lowest ratio of average net revenue per visit to average total operating cost per visit in Project Year 2.
- J PruittHealth Home Health projects the highest average direct care operating cost per visit as a percentage of average total operating cost per visit in Project Year 2.
- J PruittHealth Home Health projects the highest annual salary for RNs in Project Year 2.
- J PruittHealth Home Health projects the highest annual salary for licensed practical nurses in Project Year 2.
- J PruittHealth Home Health projects the highest annual salary for home health aides in Project Year 2.

The following table:

- 1) Compares the proposal submitted by PruittHealth Home Health with the proposals submitted by the other applicants; and
- 2) Illustrates the reasons the approved application is determined to be a more effective alternative than the proposals submitted by the other applicants.

| Comparative Factor | PruittHealth | Well Care | NCHH |
|---|--------------|-----------|----------|
| # of Duplicated Medicare Patients | 735 | 2,015 | 1,068 |
| Duplicated Medicare Patients as a % of Total Duplicated Patients | 86.1% | 67.0% | 80.9% |
| # of Duplicated Medicaid Patients | 41 | 451 | 119 |
| Duplicated Medicaid Patients as a % of Total Duplicated Patients | 4.8% | 15.0% | 9.0% |
| Average Number of Visits per Unduplicated Patient | 26.3 | 21.3 | 20.8 |
| Average Net Revenue per Visit | \$135.54 | \$160.89 | \$147.32 |
| Average Net Revenue per Unduplicated Patient | \$3,563 | \$3,421 | \$3,071 |
| Average Total Operating Cost per Visit | \$133.59 | \$111.36 | \$131.37 |
| Average Direct Operating Cost per Visit | \$106.68 | \$73.27 | \$81.01 |
| Average Administrative Operating cost per Visit | \$26.91 | \$38.09 | \$50.36 |
| Ratio of Average Net Revenue per Visit to Average Total Operating Cost per Visit | 1.01 | 1.44 | 1.12 |
| Average Direct Care Operating Cost per Visit as a % of Average Total Operating Cost per Visit | 79.9% | 61.7% | 65.8% |
| Registered Nurse Salary | \$89,388 | \$83,602 | \$54,545 |
| Licensed Practical Nurse Salary | \$59,105 | \$52,958 | \$46,854 |
| Home Health Aide (CNA) Salary | \$41,616 | \$34,456 | \$30,272 |