

## ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

### FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: December 5, 2014

PROJECT ANALYST: Fatimah Wilson

INTERIM CHIEF: Martha Frisone

PROJECT I.D. NUMBER: Project I.D. #F-10325-14/ Charlotte Health Care Center (68), Inc., Huntersville H & R Re, Limited Partnership and Huntersville H & R Ops, Limited Partnership / Cost overrun for Project I.D. #F-8681-11 to develop a new 90 bed nursing facility in Huntersville by relocating 60 approved but undeveloped beds pursuant to Project I.D. #F-7838-07 and Project I.D. #F-8434-09 (cost overrun) and 30 existing beds from Charlotte Health Care Center / Mecklenburg County

### REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

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

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

C

The applicants, Charlotte Health Care Center (68), Inc., Huntersville H&R Re, Limited Partnership (Lessor) and Huntersville H&R Ops, Limited Partnership (Lessee) (collectively referred to as Charlotte Health Care Center), propose a cost overrun to Project I.D. #F-8681-11 to develop a new 90-bed nursing facility (NF) in Huntersville by relocating 60 approved but undeveloped beds pursuant to Project I.D. #F-7838-07 and Project I.D. #F-8434-09 (cost overrun) and 30 existing beds from Charlotte Health Care Center. Effective October 1, 2007, Charlotte Health Care Center was issued a certificate of need (CON) to add 60 nursing facility beds to the existing facility for a total of 180 nursing facility (NF) beds (Project I.D. #F-7837-07). The approved capital cost was \$3.8 million and the project was scheduled to be complete by October 1, 2009. Effective February 12, 2010, Charlotte Health Care Center was issued another CON, Project I.D. #F-8434-09, as a cost overrun to Project I.D. #F-7838-07. The approved capital cost was \$4,767,759 (\$3,800,000 + \$967,759) and the project was scheduled to be complete by May 1, 2011. Effective November 29, 2011, Charlotte Health Care Center

was issued a CON, Project I.D. #F-8681-11, to develop a new 90-bed NF in Huntersville by relocating 60 approved but undeveloped beds authorized in Project I.D. #F-7838-07 and Project I.D. #F-8434-09 (cost overrun) and 30 existing beds from Charlotte Health Care Center. The approved capital cost was \$11.2 million and the project was scheduled to be complete by October 1, 2014. This application, Project I.D. #F-10325-14, is a cost overrun for Project I.D. #F-8681-11. In Section VI.2, page 44, the applicants state that the previously approved capital cost of \$11,200,000 is now projected to be \$15,514,744, an increase of 38.5% [ $(\$15,514,744/\$11,200,000) - 1 = 0.385$ ]. The applicants propose that the project will be complete by October 1, 2016.

### **Need Determination**

The applicants do not propose to increase the number of licensed beds in any category, add any new health services or acquire equipment for which there is a need determination in the 2014 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations in the 2014 SMFP that are applicable to this review.

### **Policies**

Policy GEN-3: BASIC PRINCIPLES, page 38, of the 2014 SMFP is not applicable to this review. In Project I.D. #F-8681-11, the application was consistent with Policy GEN-3. The applicants propose no changes in the current application that would affect that determination.

Policy GEN-4: ENERGY EFFICIENCY AND SUSTAINABILITY FOR HEALTH SERVICE FACILITIES is applicable to this review because the applicants are proposing a capital expenditure greater than \$2 million.

**Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities** states:

*“Any person proposing a capital expenditure greater than \$2 million to develop, replace, renovate, or add to a health service facility pursuant to G.S. 131E-178 shall include in its certificate of need application a written statement describing the project’s plan to assure improved energy efficiency and water conservation.*

*In approving a certificate of need proposing an expenditure greater than \$5 million to develop, replace, renovate, or add to a health service facility pursuant to G.S. 131E-178, the Certificate of Need Section shall impose a condition requiring the applicant to develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy GEN 4.*

*Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan for energy efficiency and*

*water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy-GEN 4. The plan shall not adversely affect patient or resident health, safety, or infection control."*

In Project I.D. #F-8681-11, the application was consistent with Policy GEN-4. The applicants propose no changes in the current application that would affect that determination.

### **Conclusion**

In summary, the applicants were previously approved to develop a new 90-bed nursing facility in Huntersville by relocating 60 approved but undeveloped beds pursuant to Project I.D. #F-7838-07 and Project I.D. #F-8434-09 (cost overrun) and 30 existing beds from Charlotte Health Care Center. In Project I.D. #F-8681-11, the application was conforming to this Criterion, and the applicants propose no changes in the current application that would affect that determination. Consequently, the application is conforming to this Criterion.

- (2) Repealed effective July 1, 1987.
- (3) The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.

### C

The applicants, Charlotte Health Care Center (68), Inc., Huntersville H&R Re, Limited Partnership (Lessor) and Huntersville H&R Ops, Limited Partnership (Lessee) (collectively referred to as Charlotte Health Care Center), propose a cost overrun to Project I.D. #F-8681-11 to develop a new 90 bed nursing facility in Huntersville by relocating 60 approved but undeveloped beds pursuant to Project I.D. #F-7838-07 and Project I.D. #F-8434-09 (cost overrun) and 30 existing beds from Charlotte Health Care Center. Effective October 1, 2007, Charlotte Health Care Center was issued a certificate of need (CON) to add 60 nursing facility beds to the existing facility for a total of 180 nursing facility (NF) beds (Project I.D. #F-7837-07). The approved capital cost was \$3.8 million and the project was scheduled to be complete by October 1, 2009. Effective February 12, 2010, Charlotte Health Care Center was issued another CON, Project I.D. #F-8434-09, as a cost overrun to Project I.D. #F-7838-07. The approved capital cost was \$4,767,759 (\$3,800,000 + \$967,759) and the project was scheduled to be complete by May 1, 2011. Effective November 29, 2011, Charlotte Health Care Center was issued a CON, Project I.D. #F-8681-11, to develop a new 90 bed NF in Huntersville by relocating 60 approved but undeveloped beds authorized in Project I.D. #F-7838-07 and Project I.D. #F-8434-09 (cost overrun) and 30 existing beds from Charlotte Health Care Center. The approved capital cost was \$11.2 million and the project was scheduled to be

complete by October 1, 2014. This application, Project I.D. #F-10325-14 is a cost overrun to Project I.D. #F-8681-11. In Section VI, page 44, the applicants indicate that the previously approved capital cost of \$11,200,000 (Project I.D. #F-8681-11) is now projected to be \$15,514,744, an increase of 38.5% [ $(\$15,514,744/\$11,200,000) - 1 = 0.385$ ]. The applicants propose that the project will be complete by October 1, 2016.

In Section I.8, page 9, when asked to provide a brief description of the project, the applicants state that the proposed project is for a capital cost overrun for an approved 90-bed skilled nursing and rehabilitation facility (Project I.D. #F-8681-11), which is under active development. In Section IX, page 64, the applicants state that the design footprint will be increased from 51,735 originally approved square feet to 55,628 square feet as proposed in this application. The increase in square feet is to accommodate the design changes to the facility.

### **Population to be Served**

In Section II, page 14, the applicants state, “*The proposed scope of services to be provided remain unchanged from those proposed, described and approved in Project I.D. #F-8681-11.*” The applicants state in supplemental information that the projected patient origin for the first full federal fiscal year of operation of the facility, as shown in the table below, is the same as proposed in the original application.

<b>County</b>	<b>Projected % of Total NF Residents</b>
Mecklenburg	85.0%
Gaston	2.0%
Lincoln	4.0%
Iredell	4.0%
Cabarrus	1.0%
Other	4.0%
<b>Total</b>	<b>100.0%</b>

The applicants adequately identified the population to be served.

### **Analysis of Need**

In Section III.1, pages 37-43 of the original application, the applicants described the need to develop a new 90-bed NF in Huntersville.

In the executive summary on page 5, the applicants state the following reasons for the proposed cost overrun:

- Huntersville’s ‘New Urbanism’ development standards and criteria, which added \$600,000 to the project’s capital cost.

- Construction costs in general have inflated by \$750,000, and the all facility generator added \$350,000.
- ‘Culture-changing’ building and equipment features which will benefit residents by affording more opportunities for privacy (all residents will now have private rooms), independence, and rehabilitation, added approximately \$2,133,000.

In Exhibit 3, page 154, the applicants construction manager describes design changes to the proposed facility resulting in increased construction costs.

*“The major items effecting the cost difference between the original project design and as currently proposed include the following:*

- *Approximately 20,000 c.y. of imported fill to balance the site (\$130,000)*
- *Increased retaining walls and sidewalks (\$120,000)*
- *More extensive landscaping throughout the site (\$100,000)*
- *Increased SWM ponds and bio filtering system (\$125,000)*
- *Additional Site Lighting (\$125,000)*
- *Additional 1,900 +/- s.f. associated with the change in unit mix (\$250,000)*
- *Additional 350 +/- s.f. of building space, staircase, connecting sidewalks and retaining wall associated with extra front door facing Boren Street (\$175,000)*
- *Increasing the size of the generator from 300 kw to 600 kw (\$350,000)*
- *Additional equipment associated with adding serving kitchens and cafes to each neighborhood (\$100,000)*
- *Additional patient room amenities including cabinetry, refrigerators, microwaves and outside porches (\$30,000)*
- *Creating an enclosed 1,000 s.f. climate controlled mobility garden with stairs, ramps, walking path with multi-surfaces and sitting areas (\$600,000)*
- *Non-traditional exterior walls with varying heights and materials and mansard roof (\$450,000)*
- *Covered connecting corridor (\$65,000)*
- *Changes to Mechanical, Electrical and Plumbing codes (\$175,000)*
- *Electrical and plumbing fixtures (\$175,000)*
- *Construction manager fee (\$113,000)*
- *Miscellaneous (\$300,000)”*

In Exhibit 3, page 156, the applicants’ project manager describes site changes to the proposed facility resulting in increased construction costs.

*“There are several factors related to these above average site construction costs including the following:*

- *The Town of Huntersville required the building be within 25' of the Boren Street sidewalk from this side of the building. Due to the topography on this end of the site and the building configuration for this type of use, an additional 20,000 +/- cubic yards of fill dirt was required for the site. This requirement also added 300 +/- linear feet of retaining walls, an 18 riser staircase and an additional sidewalk network to tie into the Boren Street sidewalk, as well as landscaping.*
- *Meeting the stormwater requirements of Mecklenburg County required one large sand filter basin (approximately 10,000 +/- square feet in total size).*
- *Due to existing topography and grading constraints, approximately 310 +/- linear feet of retaining wall was required at the rear of the site to avoid impacting existing easements and an existing dry detention basin.*
- *Extensive buffer and landscaping were required by the Town of Huntersville and the Architectural Review Committee of the office park in which the facility is located."*

In Exhibit 3, page 157, the applicants' architect describes design changes to the proposed facility resulting in increased construction costs.

*"There are three main architectural design changes that are contributing to these higher costs including: 'cultural change' modifications, design criteria enforced by the Town of Huntersville and generator sizing for emergency power.*

*The original Huntersville's plans had some elements of 'culture change', mainly the neighborhood concept. The revised plans, however, have embraced even more culture change ideas by expanding the meal service options in each neighborhood, providing more patient amenities and common area space, increasing patient privacy and enhancing the rehab services."*

The architect also states that each neighborhood will now include the following:

- a full service kitchen;
- a café area;
- an enclosed corridor;
- private bedrooms in either a private room unit with a full bathroom or a companion suite where two separate bedrooms share a foyer and full bathroom;
- patient room amenities (tea kitchen);
- outside porches (to five patient rooms); and
- an enclosed mobility garden

The additional capital cost proposed by the applicants is a result of design changes to the facility that will enhance the "Neighborhood Environment" and allow the facility to more effectively and efficiently comply with Policy NH-8. Policy NH-8 on page 39 in the 2014 SMFP states, "*Certificate of need applicants proposing new nursing facilities, replacement*

*nursing facilities, and projects associated with the expansion and/or renovation of existing nursing facilities shall pursue innovative approaches in care practices, work place practices and environmental design that address quality of care and quality of life needs of the residents. These plans could include innovative design elements that encourage less institutional, more home-like settings, privacy, autonomy and resident choice, among others.”*

Also on page 5, the applicants state that the environment enhancements described by the architect and construction manager demonstrate their commitment to making the nursing home safer, more comfortable, more sociable, more individualized and more therapeutic for residents, thus increasing quality of care.

As previously stated, this application for a cost overrun seeks approval only for the increased capital cost of the project, as a result of an increase in the aforementioned costs. The original project scope will not be changed.

The following table from Section VI, page 44, lists the originally approved capital costs, the proposed costs and the variance of the two that are associated with this cost overrun application.

**Huntersville Health and Rehabilitation Center  
 Project Capital Costs**

<b>COST DESCRIPTION</b>	<b>PREVIOUSLY APPROVED PROJECT I.D. #F-8681-11</b>	<b>CURRENT PROPOSAL</b>	<b>VARIANCE</b>	<b>% CHANGE</b>
Site/Site Prep <sup>1</sup>	\$2,552,250	\$3,133,904	\$581,654	22.8%
Construction Cost <sup>2</sup>	\$5,690,850	\$9,228,225	\$3,537,375	62.2%
Miscellaneous:				
Equipment/Furnishings	\$1,104,931	\$1,132,208	\$27,277	2.5%
Consultant Fees <sup>3</sup>	\$509,225	\$639,042	\$129,817	25.5%
Financing Costs/Interest <sup>4</sup>	\$760,632	\$915,115	\$154,483	20.3%
Contingency <sup>5</sup>	\$582,112	\$466,250	(\$115,862)	(19.9%)
Sub Total Miscellaneous	\$2,956,900	\$3,152,615	\$195,715	6.6%
<b>E. Total Capital Cost</b>	<b>\$11,200,000</b>	<b>\$15,514,744</b>	<b>\$4,314,744</b>	<b>38.5%</b>

As shown in the table above, the cost overrun is largely due to increased construction costs and associated A&E costs as a result of the proposed design changes. In addition, the

<sup>1</sup> Site preparation costs increased due to the stipulations of Huntersville’s site planning Urban Design Standards as noted in the Civil Engineer letter in Exhibit 3.

<sup>2</sup> Construction cost increase is explained in detail in the Construction Manager’s letter in Exhibit 3.

<sup>3</sup> Consultant fees increased due to the additional costs to the project for redesign fees for building and site, as well as the value engineering process.

<sup>4</sup> Interest and financing cost increase is directly driven by the increased construction and site preparation costs.

<sup>5</sup> The contingency cost is reduced because cost-risk is reduced due to the advanced stage of the project’s pre-construction development status.

applicants state on page 45 that the project does include two new, up-dated types of rehabilitation therapy equipment which were not included in the original CON proposal:

- Ultra G Anti-gravity treadmill - \$45,000
- Functional Squat Machine - \$35,000

However, the applicants state that these pieces of equipment were able to be absorbed into the approved budget with little impact, adding only a 2.5% cost increase to the furnishings and equipment category. The applicants state that the new equipment will enhance the rehab therapy services residents will receive. Exhibit 9 includes a listing of furnishings and equipment proposed to be purchased.

Projected Utilization

The applicants provide the projected utilization of Huntersville Health and Rehabilitation Center for the first and second full fiscal years of the project in Section III, pages 27-28, and is illustrated as follows:

**Huntersville Health and Rehabilitation Center  
 Projected Utilization  
 October 1, 2016 – September 30, 2017**

	<b>1<sup>st</sup> Qtr. 10/01/16 – 12/30/16</b>	<b>2<sup>nd</sup> Qtr. 1/01/17 – 3/31/17</b>	<b>3<sup>rd</sup> Qtr. 4/01/17 – 6/30/17</b>	<b>4<sup>th</sup> Qtr. 7/01/17 – 9/30/17</b>	<b>Total</b>
<b># of Beds</b>	90	90	90	90	90
<b>Patient Days</b>	3,312	5,401	7,405	7,728	23,846
<b>Occupancy Rate</b>	40.0%	66.7%	90.4%	93.3%	72.6%

**Huntersville Health and Rehabilitation Center  
 Projected Utilization  
 October 1, 2017 – September 30, 2018**

	<b>1<sup>st</sup> Qtr. 10/01/17 – 12/30/17</b>	<b>2<sup>nd</sup> Qtr. 1/01/18 – 3/31/18</b>	<b>3<sup>rd</sup> Qtr. 4/01/18 – 6/30/18</b>	<b>4<sup>th</sup> Qtr. 7/01/18 – 9/30/18</b>	<b>Total</b>
<b># of Beds</b>	90	90	90	90	90
<b>Patient Days</b>	7,728	7,560	7,644	7,728	30,660
<b>Occupancy Rate</b>	93.3%	93.3%	93.3%	93.3%	93.3%

In Section III.2, page 23, the applicants state that projected utilization for the facility is based on 2014 Nursing Home Licensure Renewal Application (LRA) data. However, in supplemental information, the applicants state that the reference to 2014 LRA data was an error. The applicants state in supplemental information that the referenced data used to project utilization was derived from using 2012 Nursing Home LRA data. The applicants further discuss the methodology and assumptions used to project utilization in the proformas, Section VIII, page 61. On page 61, the applicants state the new facility would begin operations with 20 residents who desire a transfer to the new facility and then will fill-up at a

net increase rate of four new residents per week until the facility achieved 93.3% occupancy in the eight month of operations. The applicants adequately demonstrate that the utilization projections are based on reasonable and adequately supported assumptions.

### Access

In Section III, pages 31-32 the applicants project 69.6% of patient days at the facility in operating year one (2017) and 69.0% of patient days in operating year two (2018) will come from patients receiving Medicaid. In Section IV.2, page 33, the applicants state, "*All persons having a need for nursing home services authorized by a physician licensed in North Carolina will have access to the proposed facility. The facility will be fully accessible to persons of all races, ethnic minorities, and religious beliefs.*" The applicants adequately demonstrate the extent to which all residents, including the medically underserved, will have access to its services.

### Conclusion

In summary, the applicants adequately identified the population to be served, adequately demonstrated the need for the cost overrun, and adequately demonstrated the extent to which all residents, including the medically underserved, will have access to the services. Therefore, the application is conforming to this criterion.

- (3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA

- (4) Where alternative methods of meeting the needs for the proposed project exist, the applicant shall demonstrate that the least costly or most effective alternative has been proposed.

CA

In Section II.5, pages 17-18, the applicants discuss three alternatives that were considered prior to submitting this application. The first of these was to abandon the project. The applicants state this alternative was not acceptable for the following reasons: 1) the project was approved after having met an identified need in Mecklenburg County, 2) the owners of the project have already invested over \$2.5 million in equity toward the project's development and 3) Charlotte Health Care Center would not be able to increase its number of private rooms to meet demand.

The applicants state the second alternative was to maintain the status quo by continuing to build the facility absent the up-dated 'culture changing' elements which the project has

incorporated into the floor plan, resulting in an additional 3,863 sq.ft. of construction. The applicants state this alternative was considered and not acceptable because it makes little sense to invest over \$11.2 million in a project which is believed inferior to the alternative being proposed. On page 17, the applicants state, *“Nursing homes in North Carolina are embracing the state’s efforts to promote the development of ‘culture changing’ environments in new facilities, and this proposal is an extension of that effort and philosophy.”* The applicants further state that the two primary factors which caused the square footage to increase by about 7% ( $55,628 - 51,735 = 3,893$ ;  $3,893 / 55,628 = 0.0699$  or 7%) are the replacement of “shoulder-to-shoulder” semi-private rooms with “companion suites” and the additional space for rehabilitation therapy services. The applicants state the benefits of these two factors alone stands to enhance resident comfort, quality of life and the delivery of resident treatment services. Therefore, maintaining the status quo will not be an effective alternative.

The third alternative considered by the applicants was to build the facility without the whole-facility generator or some of the other culture change features. The applicants state, on page 17,

*“This alternative was considered and not adopted, because, given the higher acuity levels of today’s nursing home patients, it makes good sense to undertake measures to insure full facility power in the event of a power outage emergency.*

*Additionally, the other ‘culture-change’ elements being proposed are easier and less expensive to include at this stage of development, rather than after the project’s completion. ”*

The applicants conclude that the proposed project is the most effective to meet the need for services, resident comfort and safety and ultimately, cost. In addition, the capital cost of the proposed project is reasonable based on the alternatives considered.

Furthermore, in Project I.D. #F-8681-11, the application was conforming to all other applicable statutory review criteria. An application that cannot be approved cannot be an effective alternative. The applicants adequately demonstrate that the proposal is the least costly or most effective alternative. The application is conforming to this Criterion and approved subject to the following conditions:

- 1. Charlotte Health Care Center (68), Inc., Huntersville H & R Re, Limited Partnership and Huntersville H & R Ops, Limited Partnership shall materially comply with the representations made in Project I.D. #F-8681-11 and this certificate of need application, Project I.D. #F-10325-14, including any supplemental information. In those instances where representations conflict, the certificate holders shall materially comply with the last made representation.**

- 2. Charlotte Health Care Center (68), Inc., Huntersville H & R Re, Limited Partnership and Huntersville H & R Ops, Limited Partnership shall comply with all conditions of approval on the certificate of need for Project I.D. #F-8681-11, except as specifically modified by the conditions of approval for this application, Project I.D. #F-10325-14.**
  - 3. Charlotte Health Care Center (68), Inc., Huntersville H & R Re, Limited Partnership and Huntersville H & R Ops, Limited Partnership shall develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant's representations in the written statement as described in paragraph one of Policy GEN-4.**
  - 4. The total capital expenditure for both projects combined shall be \$15,514,744.**
  - 5. Charlotte Health Care Center (68), Inc., Huntersville H & R Re, Limited Partnership and Huntersville H & R Ops, Limited Partnership shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to the issuance of the certificate of need.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

In Section VI.2, page 44, the applicants project the total capital expenditure for the proposal will be \$15,514,744, which includes:

Site Costs	\$3,133,904
Construction Costs	\$9,228,225
Equipment and Furniture	\$1,132,208
Consultant Fees	\$ 639,049
Financing Costs/Interest	\$ 915,115
Contingency	<u>\$ 466,250</u>
Total:	\$15,514,744

The following table illustrates the capital expenditure in the original application in comparison to the capital expenditure of the proposed project:

<b>COST DESCRIPTION</b>	<b>PREVIOUSLY APPROVED PROJECT I.D. #F-8681-11</b>	<b>CURRENT PROPOSAL</b>	<b>VARIANCE</b>	<b>% CHANGE</b>
Site/Site Prep	\$2,552,250	\$3,133,904	\$581,654	22.8%
Construction Cost	\$5,690,850	\$9,228,225	\$3,537,375	62.2%
Equipment/Furnishings	\$1,104,931	\$1,132,208	\$27,277	2.5%
Consultant Fees	\$509,225	\$639,042	\$129,817	25.5%
Financing Costs/Interest	\$760,632	\$915,115	\$154,483	20.3%
Contingency	\$582,112	\$466,250	(\$115,862)	(19.9%)
<b>Total Capital Cost</b>	<b>\$11,200,000</b>	<b>\$15,514,744</b>	<b>\$4,314,744</b>	<b>38.5%</b>

In Project I.D. #F-8681-11, the applicants were approved for a capital expenditure of \$11,200,000, thus the net capital expenditure for the current project is \$4,314,744. In Section VII.1, page 50 the applicants project that the total working capital needs for this project will be \$1,089,770. In Section VI.5, page 48, the applicants state the capital cost of the project will be financed with government or HUD loans (\$9,600,000) and the owner’s equity (\$5,914,744). In Section VII.2, page 50, the applicants state the working capital will be financed with unrestricted cash of the applicants.

Exhibit 10 contains a copy of a letter dated August 29, 2014 from Lancaster Pollard, which states in part:

*“This is to confirm our commitment to Huntersville H&R Re, LP to provide construction and permanent financing pursuant to FHA Sec. 232 for their proposed 90 bed skilled nursing facility in Huntersville. We anticipate the loan to reflect the following terms and conditions:*

*Owner: Huntersville H&R Re, Limited Partnership, a single asset entity*

*Loan Amount: Up to \$9,600,000*

...

*The commitment is subject to receipt of a duly awarded Certificate of Need, approval of architectural exhibits by all applicable State and local agencies, and conformance with FHS underwriting standards. ...”*

Exhibit 10 also contains a letter dated September 9, 2014 from the Chief Financial Officer and Treasurer for Medical Facilities of North Carolina, Inc., which states in part:

*“This letter is to advise you that Medical Facilities of North Carolina, Inc. (“MFNC”), the general partner of Huntersville H&R Ops, LP and Huntersville H&R Re, LP, has adequate liquid assets available and, if necessary, will fund the anticipated additional balance of equity for the capital costs of approximately*

*\$3,414,744 and the working capital of approximately \$1,089,770, which includes \$130,000 for start-up costs, and any other necessary funding as needed for the above referenced nursing center. In the event the actual costs exceed these projected amounts, MFNC agrees to fund the difference. Any cash required for any funding would come from existing cash, marketable securities (investment reserves) and a line of credit to MFNC from Wells Fargo Bank. ”*

In Exhibit 10, the applicants provide a balance sheet as of August 31, 2014 for Huntersville H&R Re, Limited Partnership which shows \$2,471,855 in total assets, a consolidated balance sheet for MFNC as of September 30, 2013 which shows \$2,887,209 in cash and cash equivalents and \$2,022,466 in marketable securities and a \$2,000,000 line of credit from a financial institution, which totals \$9,381,530. The remaining capital costs needed to finance the project excluding the capital cost needed for construction is \$7,004,514.

The applicants adequately demonstrate the availability of sufficient funds for the capital and working capital needs for this project.

In Section VIII, pages 52-53, the applicants project charges/rates for the first two operating years following completion of the project. The private pay charge for a private room is projected to be \$250 and \$225 for a semi-private room in each of the first two full federal fiscal years. The applicants are proposing the same charges/rates in this application as proposed in the original application.

Furthermore, in Form B, the applicants project that revenues will exceed operating costs in second full federal fiscal year following completion of the proposed project, as shown in the table below.

Net Income			NF (excluding special care units)
1 <sup>st</sup> (2017)	Full	FFY	(\$889,658)
2 <sup>nd</sup> (2018)	Full	FFY	\$93,326

The applicants adequately demonstrate that projected revenues and operating costs are based on reasonable adequately supported assumptions, including projected utilization. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

In summary, the applicants adequately demonstrate the availability of sufficient funds for the capital and working capital needs of the project and adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of operating costs and revenues. Therefore, the application is conforming to this criterion.

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

C

The applicants were previously approved to develop a new 90 bed nursing facility in Huntersville by relocating 60 approved but undeveloped beds pursuant to Project I.D. #F-7838-07 and Project I.D. #F-8434-09 (cost overrun) and 30 existing beds from Charlotte Health Care Center. In Project I.D. #F-8681-11, the application was conforming to this Criterion, and the applicant proposes no changes in the current application that would affect that determination. Consequently, the application is conforming to this Criterion.

- (7) The applicant shall show evidence of the availability of resources, including health manpower and management personnel, for the provision of the services proposed to be provided.

C

The applicants propose to provide nursing staff twenty-four hours per day, seven days per week. In Section V, page 38, the applicants state that by FFY 2018 (the second full federal fiscal year), the new NF will be staffed by 87.0 full-time equivalent (FTE) positions. Adequate costs for the health manpower and management positions proposed by the applicants are budgeted in the pro forma financial statements. In Project I.D. #F-8681-11, the application was conforming to this Criterion, and the applicants propose no changes in the current application that would affect that determination. Consequently, the application is conforming to this Criterion.

- (8) The applicant shall demonstrate that the provider of the proposed services will make available, or otherwise make arrangements for, the provision of the necessary ancillary and support services. The applicant shall also demonstrate that the proposed service will be coordinated with the existing health care system.

C

The applicants state, in Section V, page 40, that as an established and growing provider of nursing care services in Mecklenburg County, Medical Facilities of North Carolina and the Charlotte Health Care Center already have strong and effective relationships established. Exhibit 5 contains support letters from members of the healthcare community. The applicants further state that most of the referrals for admissions will come from hospital discharge planners and the facility's Medical Director. In Project I.D. #F-8681-11, the application was conforming to this Criterion, and the applicants propose no changes in the current application that would affect that determination. Consequently, the application is conforming to this Criterion.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health

service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

- (10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates: (a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and (b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers:
- (i) would be available under a contract of at least 5 years duration;
  - (ii) would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
  - (iii) would cost no more than if the services were provided by the HMO; and
  - (iv) would be available in a manner which is administratively feasible to the HMO.

NA

- (11) Repealed effective July 1, 1987.
- (12) Applications involving construction shall demonstrate that the cost, design, and means of construction proposed represent the most reasonable alternative, and that the construction project will not unduly increase the costs of providing health services by the person proposing the construction project or the costs and charges to the public of providing health services by other persons, and that applicable energy saving features have been incorporated into the construction plans.

C

The additional capital cost proposed by the applicants is a result of design changes to the facility that will enhance the “Neighborhood Environment” and allow the facility to more effectively and efficiently comply with Policy NH-8. On page 5, the applicants state that the revised plans will embrace even more culture change ideas by expanding the meal service options in each neighborhood, providing more resident amenities and common area space, increasing resident privacy and enhancing the rehabilitation services.

As previously stated, this application for a cost overrun seeks approval only for the increased capital cost of the project, as a result of an increase in the aforementioned costs. The original project scope will not be changed. The discussion regarding analysis of need found in Criterion (3) is incorporated herein by reference.

In Section IX.3, page 64, the applicants provide the following table identifying the proposed square footage for each department/section in the new facility, as follows:

	PREVIOUSLY APPROVED SQUARE FEET PROJECT I.D. #F-8681-11	ESTIMATED SQUARE FEET OF NEW CONSTRUCTION
<b>Ancillary Areas</b>		
Administration	2,358	1,838
Public Lobby	630	588
Mech. Equipment	337	756
Housekeeping	369	316
General Storage	1,428	961
Laundry	531	564
Physical Therapy	3,065	4,054
Exam/Treatment	108	202
Beauty Shop	256	316
Kitchen	1,657	2,218
Patient Dining	3,231	2,298
Recreation, Activities & Common Use Areas	4,243	3,873
Staff Dining	228	211
Circulation/Corridors	9,515	11,637
Interior Partitions	Not Included	1,173
<b>Sub-Total Ancillary</b>	<b>28,455</b>	<b>31,005</b>
<b>Nursing Units</b>		
Nurses Station	558	570
Utility, Linen & Equip. Storage	2,319	2,888
Patient Rooms	14,910	16,382
Patient Baths	4,350	4,783
Other	1,143	
<b>Sub-Total Nursing Units</b>	<b>23,280</b>	<b>24,623</b>
<b>Total Square Feet</b>	<b>51,735</b>	<b>55,628</b>

The applicants state, in Section IX.3, page 64, that they propose an increase in square footage of the NF from 51,735 square feet to 55,628 square feet. Patient room and bath space will increase by 1,905 sq.ft. (9.9%) and rehab space will increase by 908 sq.ft. (20.9%), for a facility total space increase of 3,893 sq.ft. (7.5%). A line drawing of the facility is provided by the applicants in Exhibit 4.

In Section IX, page 66, the applicants describe the methods that will be used by the facility to maintain efficient energy operations and contain costs of utilities. In Project I.D. #F-8681-11, the application was consistent with Policy GEN-4. The applicants propose no changes in the current application that would affect that determination.

The applicants adequately demonstrate that the cost, design and means of construction represent the most reasonable alternative and that the construction costs will not unduly increase costs and charges for health services. The discussion of costs and charges found in Criterion (5) is incorporated herein by reference. Therefore, the application is conforming with this criterion.

(13) The applicant shall demonstrate the contribution of the proposed service in meeting the health-related needs of the elderly and of members of medically underserved groups, such as medically indigent or low income persons, Medicaid and Medicare recipients, racial and ethnic minorities, women, and handicapped persons, which have traditionally experienced difficulties in obtaining equal access to the proposed services, particularly those needs identified in the State Health Plan as deserving of priority. For the purpose of determining the extent to which the proposed service will be accessible, the applicant shall show:

(a) The extent to which medically underserved populations currently use the applicant's existing services in comparison to the percentage of the population in the applicant's service area which is medically underserved;

NA

(b) Its past performance in meeting its obligation, if any, under any applicable regulations requiring provision of uncompensated care, community service, or access by minorities and handicapped persons to programs receiving federal assistance, including the existence of any civil rights access complaints against the applicant;

NA

(c) That the elderly and the medically underserved groups identified in this subdivision will be served by the applicant's proposed services and the extent to which each of these groups is expected to utilize the proposed services; and

C

In Section IV.2, page 33, the applicants state, *“All persons having a need for nursing home services authorized by a physician licensed in North Carolina will have access to the proposed facility. The facility will be fully accessible to persons of all races, ethnic minorities, and religious beliefs.”* The applicants provide projected utilization percentages for low income and medically underserved populations for the facility on page 34, illustrated as follows:

<b>Projected Patient Days/ Procedures as Percent of Total Utilization</b>	<b>Original Proposal Project I.D. # F-8681-11</b>	<b>Current Proposal</b>
Medicare	28.0%	27.4%
Medicaid	64.9%	69.0%
Self-Pay*	7.1%	3.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

\*Self-Pay includes indigent and charity care

As shown in the table above, approximately 69.0% of patient days at the facility for operating year two are projected to be for patients receiving Medicaid. In Section VIII, page 61, the applicants state that projected utilization was adjusted to reflect the

average payor mix data that was self-reported by Mecklenburg County nursing homes in their 2014 LRA. Moreover, in Project I.D. #F-8681-11, the application was conforming to this criterion, and the applicants propose no changes in the current application that would affect that determination. Consequently, the application is conforming to this Criterion.

- (d) That the applicant offers a range of means by which a person will have access to its services. Examples of a range of means are outpatient services, admission by house staff, and admission by personal physicians.

C

In Section IV.5, page 34, the applicants state,

*“Over 90% of admissions are expected to come from acute care hospitals. Referrals are also expected from home health agencies, hospice programs, county departments of social services, assisted living facilities, physicians, and word-of-mouth referrals.*

*Given the proposed facility’s location near Presbyterian Hospital-Huntersville, HHRC believes that the majority of admissions will originate from that hospital. Project I.D. #F-8681-11 has received letters of support from several professionals associate with Presbyterian Hospital. Those letters are in Exhibit 5.”*

Moreover, in Project I.D. #F-8681-11, the application was conforming to this criterion, and the applicants propose no changes in the current application that would affect that determination. Consequently, the application is conforming to this Criterion.

- (14) The applicant shall demonstrate that the proposed health services accommodate the clinical needs of health professional training programs in the area, as applicable.

C

In Project I.D. #F-8681-11, the application was conforming to this Criterion, and the applicants propose no changes in the current application that would affect that determination. Consequently, the application is conforming to this Criterion.

- (15) Repealed effective July 1, 1987.
- (16) Repealed effective July 1, 1987.
- (17) Repealed effective July 1, 1987.
- (18) Repealed effective July 1, 1987.
- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive

impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

C

The applicants were previously approved to develop a new 90 bed nursing facility in Huntersville by relocating 60 approved but undeveloped beds pursuant to Project I.D. #F-7838-07 and Project I.D. #F-8434-09 (cost overrun) and 30 existing beds from Charlotte Health Care Center. In Project I.D. #F-8681-11, the application was conforming to this Criterion, and the applicants propose no changes in the current application that would affect that determination. Consequently, the application is conforming to this Criterion.

- (19) Repealed effective July 1, 1987.
- (20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

C

The original application, Project I.D. #F-8681-11, was found to be conforming to this Criterion. According to the records in the Nursing Home Licensure and Certification Section of the Division of Health Service Regulation, no incidents have occurred at the Charlotte Health Center within the eighteen months immediately preceding the date of this decision for which any sanctions or penalties related to quality of care were imposed by the State. Therefore, the application is conforming to this criterion.

- (21) Repealed effective July 1, 1987.
- (b) The Department is authorized to adopt rules for the review of particular types of applications that will be used in addition to those criteria outlined in subsection (a) of this section and may vary according to the purpose for which a particular review is being conducted or the type of health service reviewed. No such rule adopted by the Department shall require an academic medical center teaching hospital, as defined by the State Medical Facilities Plan, to demonstrate that any facility or service at another hospital is being appropriately utilized in order for that academic medical center teaching hospital to be approved for the issuance of a certificate of need to develop any similar facility or service.

NA

The Criteria and Standards for Nursing Facility or Adult Care Home Facility Services, promulgated in 10A NCAC 14C .1100, are not applicable because the applicants do not propose to establish new nursing facility or adult care home beds.