

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: January 24, 2014

PROJECT ANALYST: Michael J. McKillip

INTERIM CHIEF: Martha J. Frisone

PROJECT I.D. NUMBER: F-10217-13 / Carolinas ContinueCare Hospital, Inc. and The Charlotte-Mecklenburg Hospital Authority / Develop a separately licensed 35-bed long-term care hospital on the 4th floor of CMC-University Hospital / 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.

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Carolinas ContinueCare Hospital, Inc. [**ContinueCare, Inc.**] and The Charlotte-Mecklenburg Hospital Authority [**CMHA or CHS**] propose to develop a separately licensed 35-bed long-term care hospital (LTCH) in leased space on the 4th floor of CMC-University Hospital. There are no need determinations in the 2013 State Medical Facilities Plan (SMFP) that are applicable to this review. However, Policy GEN-4 of the 2013 SMFP is applicable to this review.

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 Section III.2, pages 71-72, the applicants state:

"The project's plan to assure improved energy and water conservation in accordance with Policy Gen-4 requirements is discussed below. ... CHS and ContinueCare, Inc. will work with experienced architects and engineers to develop this proposed project to ensure energy efficient systems are an inherent part of the proposed project to the degree appropriate with the proposed renovations. The design team for the proposed project has Energy Star, Leadership in Energy and Environmental Design (LEED) and Hospitals for a Healthy Environment Green Guide for Healthcare (GGHC) experience. Together the team seeks to deliver the following:

- Upgrade any impacted plumbing fixtures to conserve water and reduce domestic water usage compared to a traditional hospital.*
- Utilize existing natural lighting where possible to augment electrical lighting and reduce electricity usage compared to a traditional hospital.*
- Design any impacted systems for maximum efficiency and life cycle benefits within each mechanical system: heating, cooling, water, and sewer.*
- Use energy guidelines of the US Department of Housing and Urban Development, US Department of Energy, and the American Society of Heating, Refrigeration, and Air Conditioning Engineers for the design of healthcare facilities."*

The applicants provided a written statement describing their plans to assure improved energy efficiency and water conservation in the proposed project. Therefore, the application is consistent with Policy GEN-4, and 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, Carolinas ContinueCare Hospital, Inc. (ContinueCare, Inc.) and The Charlotte-Mecklenburg Hospital Authority (CMHA or CHS) d/b/a Carolinas Medical Center-University (CMC-University), propose to develop a separately licensed 35-bed long-term care hospital (LTCH) on the 4th floor of CMC-University. In Section I.11, page 10, the applicants state ContinueCare, Inc. is a wholly owned subsidiary of Carolinas Community Care, LLC (CCC). In Section I.6, page 8, the applicants identify CCC as the management company for the proposed LTCH. In Section II.1, pages 21-23, the applicants describe the project as follows:

“ContinueCare, Inc. proposes to develop a separately licensed, certified, and accredited long-term care hospital-within-a-hospital in leased space located on the fourth floor of CMC-University. Under the hospital-within-a-hospital model, an unrelated third party leases a wing of the host general hospital and operates a separately licensed hospital that exclusively serves long-stay, acutely ill patients. ... In order to preserve the ‘arms-length’ and unrelated third-part relationship between the host hospital and the operator of the hospital-within-a-hospital LTCH, the Centers for Medicare and Medicaid Services (CMS) has promulgated very specific regulations that require strict adherence. ... ContinueCare, Inc. will meet these requirements. The proposed LTCH will be separately licensed by the State of North Carolina and certified by Medicare as a long-term care hospital provider. The LTCH Board will be comprised of individuals who do not have positions of control within CMC-University. Management of the proposed LTCH will be separate from management of CMC-University. Although medical staff members may be common between the two hospitals, members of the medical staff of the proposed LTCH will be credentialed separately and independently of CMC-University’s credentialing process....”

ContinueCare, Inc. will pay an annual lease payment in return for the space. ... In addition, ContinueCare, Inc. will purchase certain ancillary services from CMC-University, including:

- *Pastoral Services*
- *Laboratory Services*
- *Radiology Services*
- *Surgery Services*
- *Dietary Services*
- *Laundry and Linen Services*
- *Information Services*
- *Hospitalists Services*
- *Biomedical Services*
- *Outpatient Services*
- *72 Hour Inpatient Services*

- *Biohazard Waste Disposal*
- *Transfusion Services*
- *Transcription Services*
- *ER Coverage*”

In Section II.1, page 24, the applicants state:

“The proposed project will include renovation of approximately 12,880 square feet of space located on the fourth floor at CMC-University. ... As illustrated on the existing line drawings included in Exhibit 8, the fourth floor of the of the medical center currently houses 28 acute care beds. These 28 acute care beds will be relocated to other floors of the medical center in conjunction with the proposed project as illustrated in the proposed line drawings included in Exhibit 8....

The proposed LTCH will house 35 private patient rooms, each with its own bathroom as illustrated in the proposed line drawings included in Exhibit 8. Since LTCHs care for critically chronically ill patients, some of whom require isolation protocols, the facility will include two isolation rooms. ... In addition to the 35 beds, the proposed LTCH will include administrative and ancillary and support space. The administrative areas will include offices for the director, nurse manager, education, rehab manager, and respiratory therapist. Administrative areas will also include storage and conference rooms. Ancillary and support areas will include storage rooms, a centralized nurses station, clean and soiled utility rooms, a nourishment room, a social work room, therapy rooms (physical and cardiopulmonary/respiratory therapy), and a medical records room. Other support spaces include a staff lounge and a waiting area.”

Population to be Served

In Section III.5, page 77, the applicants provide projected patient origin for the proposed LTCH in the first two years of operation (FY2016-FY2017), as shown in the table below.

County	Patients Percent of Total
Cabarrus	34%
Mecklenburg	23%
Rowan	5%
Union	4%
Stanly	4%
Other*	31%
TOTAL	100.0%

*The applicants identify the counties included in the “Other” category on page 77 of the application.

On page 77 of the application, the applicants state, “ContinueCare, Inc. determined the patient origin for all patients deemed appropriate for LTCH care currently served by the identified referring hospitals. These percentages were applied to the respective capture rates by facility and compiled to determine the patient origin at the proposed facility.” The applicants adequately identified the population proposed to be served.

Need for the Project

In Section III.1(a) of the application, the applicants describe the factors supporting the need for the proposed project, including the need to accommodate the number of high acuity, long-stay patients in Mecklenburg County and surrounding areas (pages 35-40), the need to alleviate capacity constraints at Carolinas Medical Center (CMC) hospitals in the Charlotte area (pages 41-43), CMS reimbursement constraints and incentives (page 43), and population growth and aging in Mecklenburg County (pages 44-47).

In Section IV.1, page 84, the applicants provide the projected number of patient days to be provided at the proposed LTCH during the first three operating years of the proposed project, which are summarized below:

ContinueCare, Inc. Projected LTCH Utilization

Fiscal Year	Licensed LTCH Beds	Patient Days	Average Daily Census	Percent Change	Average Occupancy Rate
Year 1 - FY2016	35	6,004	16.5	---	47.1%
Year 2 - FY2017	35	9,581	26.3	59.4%	75.1%
Year 3 - FY2018	35	10,220	28.0	6.5%	80.0%

As shown in the table above, ContinueCare, Inc. projects to provide 10,220 patient days of care in the third operating year and, therefore, projects an average annual occupancy rate of 80 percent in the third operating year.

In Section III.1(b), pages 48-70, the applicants describe the assumptions and methodology used to project the number of patient days to be provided during the first three years of operation as follows:

“At this point in time, no methodology for calculating the potential number of patients in need of the specialized care provided by an LTCH has been commonly adopted by national or state regulatory bodies. Based on the experience of CHC, ContinueCare, Inc. has chosen a methodology that isolates individual patient utilization data based upon diagnosis, age, and length of stay and is similar to other methodologies that have been used in other approved CON applications....”

The need methodology used to determine patients days for Carolinas ContinueCare Hospital is calculated using actual CY 2012 individual patient utilization for the hospitals shown below, which are expected to be the primary source of admissions to the proposed LTCH.

<i>Hospitals Analyzed</i>
<i>CMC</i>
<i>CMC-Mercy</i>
<i>CMC-NorthEast</i>
<i>CMC-Union</i>
<i>CMC-University</i>
<i>Stanly Regional Medical Center (SRMC)</i>

ContinueCare, Inc. believes the hospitals listed above, all of which are owned or managed by CHS [Carolinas HealthCare System], would likely refer some or all of their patients appropriate for long-term hospital care to the proposed LTCH. This project is part of a broader strategy developed by CHS to optimize the delivery of care in the most appropriate setting for patients. Both CHS hospitals and other acute care providers will benefit from the services provided at Carolinas ContinueCare Hospital. LTCHs offer highly specialized services and are fewer in number than short-term acute care hospitals, and as a result, ContinueCare, Inc. believes it will have broad geographic referral patterns...Based on the experience of its parent (CHC), the geography and travel patterns in its market, the limited availability of LTCH services within the region, and the fact that only CHS-related hospitals are included in the above analysis, ContinueCare, Inc. believes it is reasonable to assume that 20 percent of its volume will be attributable other referral sources.”

On pages 54-55, the applicants describe certain patient populations that were specifically excluded from their projections, including patients with a geometric mean length of stay (GMLOS)¹ greater than 14 days, patients with an average length of state in short-term acute care beds of less than 14 days, patients with obstetrics, rehabilitation, or behavioral health diagnoses, and patients age 18 years or younger. On page 55, the applicant states,

“The total number of LTCH patients is then determined by counting the remaining patient records. The table below shows a total of 2,762 LTCH-appropriate patients at the CHS referring hospitals.

¹ On page 49, the applicants state, *“The GMLOS is calculated by CMS and is used for purposes such as determining patients with lengths of stay that make them appropriate for care in a LTCH.”*

<i>Hospitals</i>	<i>CY 2012 LTCH Appropriate Patients</i>
<i>CMC</i>	<i>1,704</i>
<i>CMC-Mercy</i>	<i>201</i>
<i>CMC-NorthEast</i>	<i>627</i>
<i>CMC-Union</i>	<i>131</i>
<i>CMC-University</i>	<i>53</i>
<i>SRMC</i>	<i>46</i>
<i>TOTAL</i>	<i>2,762</i>

“Assuming an ALOS of 25 days, these 2,762 patients are expected to result in 69,050 LTCH days. As discussed above, ContinueCare, Inc. believes it will receive demand in addition to this from other referral sources. ... The assumption of an ALOS of 25 days is based on the fact that Medicare requires an ALOS of 25 days for reimbursement under the LTCH prospective payment system (PPS)....

The projected LTCH demand of 2,762 patients from CHS hospitals and the resulting 69,050 days demonstrates a need for 236 beds at a target occupancy rate of 80 percent, as shown below.

	<i>Projected LTCH Demand</i>
<i>Patients</i>	<i>2,762</i>
<i>Days</i>	<i>69,050</i>
<i>Average Daily Census</i>	<i>189</i>
<i>Bed Need at 80%</i>	<i>236</i>

The applicants note that there is one existing LTCH in Mecklenburg County, Carolinas Specialty Hospital, which operates 40 LTCH beds. On page 57, the applicants state,

“As noted, Carolinas Specialty Hospital currently operates its 40 beds at 81.4 percent occupancy which indicates a lack of capacity to serve the significantly greater need for LTCH services. ... In order to determine the expected referral patterns for the LTCH demand identified above, ContinueCare, Inc. consulted its lessor, CHS and considered the presence of Carolinas Specialty Hospital, which recently relocated to CMC-Pineville in South Charlotte. Based on these considerations, ContinueCare, Inc. expects the following referral patterns and resulting demand for beds from the hospitals identified above.

<i>Hospital</i>	<i>CY 2012 LTCH Appropriate Patients</i>	<i>Percent of Patients Referred to Carolinas ContinueCare Hospital</i>	<i>Patients Referred to Carolinas ContinueCare Hospital</i>
<i>CMC</i>	<i>1,704</i>	<i>50%</i>	<i>852</i>
<i>CMC-Mercy</i>	<i>201</i>	<i>50%</i>	<i>101</i>
<i>CMC-NorthEast</i>	<i>627</i>	<i>100%</i>	<i>627</i>
<i>CMC-Union</i>	<i>131</i>	<i>50%</i>	<i>66</i>

<i>CMC-University</i>	53	100%	53
<i>SRMC</i>	46	50%	23
<i>TOTAL</i>	2,762		1,721

With regard to the percentages of patients to be referred to the proposed LTCH, on page 58, the applicants state,

“Based on its location on the campus of CMC-University, ContinueCare, Inc. believes it is reasonable that it will receive 100 percent of referrals for LTCH services from CMC-University. Similarly, ContinueCare, Inc. believes that its proximity to CMC-NorthEast and by comparison, the distance from CMC-NorthEast to Carolinas Specialty Hospital, will result in the direction of 100 percent of CMC-NorthEast’s LTCH referrals to the proposed Carolinas ContinueCare Hospital. CMC, CMC-Mercy, CMC-Union, and SRMC are expected to refer 50 percent of their LTCH patients to Carolinas ContinueCare Hospital, with the remaining 50 percent expected to be referred to Carolinas Specialty Hospital. This assumption is reasonable given that the two LTCHs are effectively equidistant from each of the referring facilities. ... Given the fact that the discharge of these long-stay patients from the short-term acute care hospital has clear financial benefit to the referring hospital as well as a positive impact on clinical efficiencies and ultimately, on patient care, it is reasonable to assume that these referring hospitals will be willing to discharge their LTCH-appropriate patients. In addition, please see Exhibit 26 for letters of support from these facilities. Based on the expected referral patterns described above and the substantial demand in the market, ContinueCare, Inc. does not expect any change to the referral patterns to Carolinas Specialty Hospital; it is expected to operate at a high utilization for the foreseeable future.”

On pages 59-60, the applicants describe the basis for the projected utilization of proposed LTCH during the first three years of operation as follows:

*“Based on the assumed average length of stay of 25 days and a target occupancy rate of 80 percent, the **CHS referring hospital demand for Carolinas ContinueCare Hospital is expected to be 147 beds, well in excess of the proposed 35 beds.** [Emphasis in original]*

	<i>Projected LTCH Demand for Carolinas ContinueCare Hospital</i>
<i>Patients</i>	1,721
<i>Days</i>	43,025
<i>Average Daily Census</i>	118
<i>Bed Need at 80%</i>	147

Given that the projected demand from CHS referring hospitals, as well as the expected referrals from other referral sources, will be in excess of capacity, ContinueCare, Inc. has determined its future utilization based on ramp-up and occupancy assumptions. In its first year of operation, Carolinas ContinueCare Hospital project to operate at 47 percent of capacity. ContinueCare, Inc. expects this level of utilization based on its experience with other new facilities, as it will maintain a low census in its first months of operation while it demonstrates to CMS that its patients have an ALOS of 25 days or more to ensure reimbursement under the LTCH PPS rate. The occupancy level of 47 percent is based on assumed census of 12 patients on average over the first six months (or 34 percent occupancy) and a census of 21 patients over the final six months (or 60 percent occupancy). In its second and third year of operation, Carolinas ContinueCare Hospital projects to operate at 75 percent and 80 percent of capacity, respectively. Given the current demand for LTCH capacity, which is significantly greater than the proposed 35 beds can accommodate, ContinueCare, Inc. believes these projections are reasonable. Please see the table below for projected utilization for the three project years, which serve as the basis for the summary of utilization in Section IV and the financial projections following Section XII.

	Project Year One (7/1/15 to 6/30/16)	Project Year Two (7/1/16 to 6/30/17)	Project Year Three (7/1/17 to 6/30/18)
<i>Patients</i>	240	383	409
<i>Days</i>	6,004	9,581	10,220
<i>Average Daily Census</i>	16	26	28
<i>Occupancy of 35 Beds</i>	47%	75%	80%

As discussed above, the applicants identified all LTCH-appropriate admissions from the referring hospitals based on actual CY2012 data for those facilities, all of which are owned or managed by CHS. Also, based on their experience operating LTCH's in other markets, the applicants project that 20 percent of the total patients to be admitted to the proposed LTCH will originate from other referral sources. The applicants assumed the average length of stay for the LTCH patients will be 25 days, which is consistent with Medicare requirements for LTCH's. The applicants state the percentage of LTCH patients to be referred to the proposed LTCH from CHS referring hospitals is supported by the proximity of the proposed LTCH to those hospitals, and by discussions with CHS, the owner or manager of each of the referring hospitals. Based on the foregoing assumptions, the applicants project total patient days at the proposed LTCH will reach 10,220 in FY2018, which is equivalent to an average annual occupancy rate of 80 percent. Exhibit 26 contains letters from physicians and surgeons, and also from the executives for each of the referring CHS hospitals, expressing support for the proposed project. The projected utilization of the proposed LTCH is based on reasonable, credible and supported assumptions. ContinueCare, Inc. adequately demonstrates the need for a 35-bed LTCH to be located at CMC-University.

Access

The applicants project 73.5% of the patients will be covered by Medicare (65.2%) and Medicaid (8.3%). The applicants demonstrate adequate access for medically underserved groups to the proposed services.

In summary, the applicants adequately identified the population to be served, adequately demonstrated the need the population projected to be served has for the proposed project, and demonstrated all residents of the service area, and, in particular, underserved groups, are likely to have access to the services proposed. 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 III.3, pages 72-74, the applicants discuss the alternatives they considered prior to submitting this application, which include:

- a) Maintaining the status quo, which the applicants state was rejected because the only existing LTCH in Mecklenburg County is highly utilized and does not have capacity to meet the needs of all the patients who could benefit from the LTCH model of care. Based on an analysis by the applicants, there is a significant unmet need for LTCH services in Mecklenburg County and surrounding counties.
- b) Developing a freestanding LTCH in another location, which the applicants state was rejected because it is a less cost-effective alternative than the proposed hospital-within-a-hospital model. A freestanding facility would require new construction and the duplication of ancillary and support services.
- c) Leasing space in another hospital in Mecklenburg County, which the applicants state was rejected because CMC-University currently has adequate existing space to accommodate a 35-bed LTCH, and CMC-University is located in close proximity to the other CHS referring hospitals.

After considering those alternatives, the applicants state the alternative represented in the application is the most effective alternative.

Furthermore, the application is conforming to all other statutory and regulatory review criteria, and thus, is approvable. A project that cannot be approved cannot be an effective alternative.

In summary, the applicants adequately demonstrate that the proposal is the least costly or most effective alternative to meet the need. Therefore, the application is conforming to this criterion and approved subject to the following conditions:

- 1. Carolinas ContinueCare Hospital, Inc. and The Charlotte-Mecklenburg Hospital Authority shall materially comply with all representations made in the certificate of need application.**
 - 2. Carolinas ContinueCare Hospital, Inc. and The Charlotte-Mecklenburg Hospital Authority shall develop a separately licensed long-term care hospital with no more than 35 licensed beds to be located at Carolinas Medical Center-University.**
 - 3. Carolinas ContinueCare Hospital, Inc. and The Charlotte-Mecklenburg Hospital Authority shall not acquire, as part of this project, any equipment that is not included in the project's proposed capital expenditure in Section VIII of the application or that would otherwise require a certificate of need.**
 - 4. Carolinas ContinueCare Hospital, Inc. and The Charlotte-Mecklenburg Hospital Authority shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to 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 VIII.1, page 110, the applicants project the capital cost for the project will be \$3,198,452, of which CHS will fund \$2,475,000 and ContinueCare, Inc. will fund \$723,452. In Section VIII.3, the applicants state CHS will finance the capital costs with accumulated reserves, and ContinueCare, Inc. will fund the capital costs with a bank loan. In Section IX.1, the applicants project \$357,911 in start-up expenses and \$2,101,170 in initial operating expenses, for total required working capital of \$2,459,081. In Section IX.3, the applicants state the working capital will be funded with a line of credit to be extended from CHS to ContinueCare, Inc. In Exhibit 21, the applicants provide a letter from the Executive Vice President and Chief Financial Officer for CHS, which states

“As a requirement of the Certificate of Need application process, I have been asked to document the availability of funds for the acquisition of equipment

and furniture as well as renovations of the proposed space in conjunction [sic] Carolinas ContinueCare Hospital, Inc.'s proposal to develop a long-term care hospital (LTCH) on the fourth floor of Carolinas Medical Center-University.

As the Chief Financial Officer for The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System, I am responsible for the financial operations of the System. As such, I am very familiar with the organization's financial position.

Please accept this letter as documentation of The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System's intent to extend a line of credit of up to \$2.5 million to fund Carolinas ContinueCare Hospital, Inc.'s start-up expenses and working capital deficits for this project. ... In addition, the total capital expenditure for the System's portion of the project is estimated to be \$2,475,000. The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System will fund this portion of the capital cost from existing accumulated reserves. ... For verification of the availability of these funds and our ability to finance these projects internally, please refer to the line items 'Cash and cash equivalents' and 'Other assets: designated as funded depreciation' in the audited financial statements included with this Certificate of Need application."

Exhibit 23 of the application contains audited financial statements for The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System (CHS) for the year ended December 31, 2012, which document that CHS had \$24.4 million in cash and cash equivalents and \$114.9 million in "Other assets: Designated as funded depreciation" as of December 31, 2012.

In Exhibit 21, the applicants provide a letter from the President and Chief Executive Officer for Amegy Bank of Texas, which states

"Amegy Bank, N.A. has been contacted by Carolinas ContinueCare Hospital, Inc. (ContinueCare, Inc.) in regard to its application with your department for a Certificate of Need. Specifically, ContinueCare, Inc. has indicated to us that it is proposing to develop a long-term care hospital (LTCH) in existing space located on the fourth floor of Carolinas Medical Center-University (CMC-University). ... In this regard, ContinueCare, Inc. has requested that Amegy Bank consider providing a loan for costs associated with the proposed LTCH project that are the responsibility of ContinueCare, Inc., which are equal to \$723,452. The proposed financing will be in form of a 3 to 5 year term note with a fixed interest rate in the range of 5.0% percent and 5.5%. It is our understanding that ContinueCare, Inc. will use the funds to develop the project as proposed in its Certificate of Need Application.

Amegy Bank has conducted a preliminary review of the financial condition of ContinueCare, Inc. and its class A member Community Hospital Corporation and, based on this review, we are willing to consider providing financing for the project.”

The applicants adequately demonstrated the availability of sufficient funds for the capital and working capital needs of the proposal.

In the pro forma financial statements for the proposed LTCH (Form B), the applicants project revenues will exceed expenses in the second and third operating years, as shown below:

Carolinas ContinueCare Hospital

	FY2016 Year 1	FY2017 Year 2	FY2018 Year 3
Total Revenue	\$8,887,032	\$14,465,062	\$15,737,987
Total Expenses	\$9,856,514	\$13,580,250	\$14,578,639
Net Income (Loss)	(\$969,482)	\$884,812	\$1,159,348

Operating costs and revenues are based on reasonable assumptions including projected utilization. See the pro forma financial statements in the application for the assumptions. See Criterion (3) for discussion regarding utilization assumptions which is incorporated hereby as if set forth fully herein. The applicants adequately demonstrated that the financial feasibility of the proposal is based upon reasonable projections of operating costs and revenues, and the application is conforming with 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 propose to develop a separately licensed 35-bed long-term care hospital (LTCH) in on the 4th floor of CMC-University. The following table shows the LTCH bed utilization for the existing North Carolina long-term care hospitals for FFY2012.

Utilization of the Existing North Carolina LTCH Beds

	Licensed LTCH Beds	FFY2012 LTCH Patient Days	Average Daily Census	Average Occupancy Percent
Asheville Specialty Hospital	34	8,731	23.9	70.4%
Carolinas Specialty Hospital	40	11,772	32.3	80.6%
Crawley Memorial Hospital	28	5,588	15.3	54.7%
Highsmith-Rainey Memorial Hospital	66	20,028	54.9	83.1%
Kindred Hospital-Greensboro	101	26,882	73.5	72.9%

LifeCare Hospital of North Carolina	50	14,222	39.0	77.9%
Select Specialty Hospital-Durham	30	7,218	19.8	65.9%
Select Specialty Hospital-Greensboro	30	3,973	10.9	36.3%
Select Specialty Hospital-Winston-Salem	42	11,303	31.0	73.7%
Statewide Totals	421	109,717	300.6	71.4%

Source: 2013 Hospital License Renewal Applications.

As shown in the table above, the 421 existing licensed LTCH beds in North Carolina had an average daily census (ADC) of 300.6 patients, and an average occupancy rate of 71.4 percent, in FY2012. Also, for the nine existing LTCH facilities in North Carolina, the average number of beds per facility was 47 [421/9 = 47] and the ADC per facility was 33.4 patients [300.6/9 = 33.4]. The target occupancy for a hospital with an ADC of 1-99 is 66.7%.

There is currently only one existing LTCH, Carolinas Specialty Hospital, located in Mecklenburg County. With regard to the utilization of Carolinas Specialty Hospital, in Section III.6, page 78, the applicants state,

“As discussed in Section III.1.(b), the demand for LTCH services identified by ContinueCare, Inc. exceeds the capacity to care for these patients. Carolinas Specialty Hospital is currently operating above target occupancy and does not have the capacity needed to serve the identified need.”

On page 58, the applicants state,

“Based on the expected referral patterns described above and the substantial demand in the market, ContinueCare, Inc. does not expect any change to the referral patterns to Carolinas Specialty Hospital; it is expected to operate at a high utilization for the foreseeable future.”

In Section IV.1, page 84, the applicants provide the projected number of patient days to be provided at the proposed LTCH during the first three operating years of the proposed project, which are summarized below:

ContinueCare, Inc. Projected LTCH Utilization

Fiscal Year	Licensed LTCH Beds	Patient Days	Average Daily Census	Percent Change	Average Occupancy Rate
Year 1 - FY2016	35	6,004	16.5	---	47.1%
Year 2 - FY2017	35	9,581	26.3	59.4%	75.1%
Year 3 - FY2018	35	10,220	28.0	6.5%	80.0%

As shown in the table above, ContinueCare, Inc. projects to provide 10,220 patient days of care in the third operating year and, therefore, projects an average annual occupancy rate of 80 percent in the third operating year. ContinueCare, Inc. adequately demonstrated the need to develop a 35-bed LTCH to be located at CMC-University. Consequently, the applicants adequately demonstrate the proposed project would not result in the unnecessary duplication of existing or approved health service capabilities or facilities in the applicants' service area. Therefore, the application is conforming with 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

In Section VII.1, pages 102-103, the applicants provide tables showing the proposed staffing for the LTCH at CMC-University, which is projected to include 79.4 full-time equivalent (FTE) employees in the second year of operation. In Section VII.3, page 104, and Section VII.6, page 105, the applicants describe their recruitment and retention procedures, and indicate that they do not anticipate any difficulties identifying, hiring, and retaining qualified staff for the proposed project. In Section VII.8, page 107, the applicants identify Michael Zgoda, M.D. as the Medical Director for the proposed LTCH. Exhibit 11 contains a letter from Dr. Zgoda indicating his willingness to serve as the Medical Director. Exhibit 26 of the application contains copies of letters from physician and surgeons expressing support for the proposed project. The applicants adequately demonstrate the availability of sufficient health manpower and management personnel to provide the proposed services. Therefore, 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.

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In Section II.2, pages 26-27, and Exhibit 7, the applicants document that all of the necessary ancillary and support services for the proposed services will be provided by the applicants or through a purchased services agreement with CMC-University. In Section V.2, page 87, the applicants state, "*ContinueCare, Inc. anticipates that many of the facilities with which CMC-University has transfer agreements will also request transfer agreements with the proposed LTCH once operational.*" Exhibit 16 contains a list of facilities with which CMC-University has transfer agreements, and a copy of a sample transfer agreement. Exhibit 26 contains copies of letters from physician and surgeons expressing support for the proposed project. The applicants adequately demonstrate that necessary ancillary and support services will be available and that the proposed project will be coordinated with the existing health care system. Therefore, the application is conforming with 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.

NA

The applicants propose to locate the 35-bed LTCH in existing renovated space on the fourth floor of CMC-University. No new construction is proposed as part of this project.

- (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;

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Carolinas ContinueCare Hospital is not an existing facility. CMHA operates several hospitals in Mecklenburg County, including CMC-University, the host hospital, which reported the following payer mix for inpatient services during FY2012:

CMC-University Payer Category	FY2012 Inpatient Days as % of Total
Self Pay/Indigent/Charity	7.9%
Medicare/Medicare Managed Care	35.2%
Medicaid	16.0%
Commercial Insurance	2.2%
Managed Care	37.6%
Other	1.1%
Total	100.0%

Source: 2013 Hospital License Renewal Application.

The Division of Medical Assistance (DMA) maintains a website which offers information regarding the number of persons eligible for Medicaid assistance and estimates of the percentage of uninsured for each county in North Carolina. More current data, particularly with regard to the estimated uninsured percentages, was not available.

County	Total # of Medicaid Eligibles as % of Total Population June 2010	Total # of Medicaid Eligibles Age 21 and older as % of Total Population June 2010	% Uninsured CY 2008-2009 (Estimate by Cecil G. Sheps Center)
Mecklenburg	15%	5.1%	20.1%
Statewide	17%	6.7%	19.7%

The majority of Medicaid eligibles are children under the age of 21. This age group does not utilize the same health services at the same rate as older segments of the population, particularly the LTCH services proposed in this application.

Moreover, the number of persons eligible for Medicaid assistance may be greater than the number of Medicaid eligibles who actually utilize health services. The DMA website includes information regarding dental services which illustrates this point. For dental services only, DMA provides a comparison of the number of persons eligible for dental services with the number actually receiving services. The statewide percentage of persons eligible to receive dental services who actually received dental services was 48.6% for those age 20 and younger and 31.6% for those age 21 and older. Similar

information is not provided on the website for other types of services covered by Medicaid. However, it is reasonable to assume that the percentage of those actually receiving other types of health services covered by Medicaid is less than the percentage that is eligible for those services.

The Office of State Budget & Management (OSBM) maintains a website which provides historical and projected population data for each county in North Carolina. In addition, data is available by age, race or gender. However, a direct comparison to the applicants' current payer mix would be of little value. The population data by age, race or gender does not include information on the number of elderly, minorities or women utilizing health services. Furthermore, OSBM's website does not include information on the number of handicapped persons.

The applicants demonstrate that medically underserved populations currently have adequate access to the applicants' existing services and are conforming to this criterion.

- (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;

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Recipients of Hill-Burton funds were required to provide uncompensated care, community service and access by minorities and handicapped persons. In Section VI.11, page 99, the applicants state:

“ContinueCare, Inc. is not expected to have any obligation under federal regulations to provide uncompensated care or community service. ContinueCare, Inc. does project, however, to provide bad debt and charity care. In addition, all services of the proposed LTCH will be provided in compliance with all federal regulations regarding access by minorities and handicapped persons, such as the Americans with Disabilities Act and Civil Rights Act.”

In Section VI.10 (a), page 98, the applicants state that no Office of Civil Rights complaints have been filed against them in last five years. The application is conforming to this criterion.

- (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 VI.14, page 100, the applicants provide the projected payer mix for the second full fiscal year of operation (FY2017) for the proposed LTCH, as shown in the table below.

Carolinas ContinueCare Hospital Payer Category	FY2017 Patient Days as % of Total
Self Pay/Indigent/Charity	12.3%
Medicare/Medicare Managed Care	65.2%
Medicaid	8.3%
Commercial Insurance/Managed Care	14.2%
Total	100.0%

On page 100, the applicants state, “*The projected payor mix is based on expected demand from Medicare patients, the experience of CHC and other LTCH facilities around the state, and the payor mix of the pool of non-Medicare patients that are expected to demand LTCH services, as identified in Section III.1.(b).*” On page 65, the applicants state 74.6% of total LTCH patients in FFY2012 were Medicare patients. The applicants demonstrate that medically underserved populations will have adequate access to the proposed services. Therefore, 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 VI.9(a), page 97, the applicants describe the range of means by which a person will have access to the proposed services. The information provided is reasonable and credible and supports a finding of conformity 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.

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In Section V.1 of the application, the applicants state CMC-University has extensive relationships with many area health professional training programs, and that the proposed LTCH will be available as a potential clinical training site to those same programs. Exhibit 15 includes a list of institutions with which CMC-University has these arrangements, and a copy of a sample agreement. The information provided in Section V.1 is reasonable and credible and supports a finding of conformity 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.

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The applicants propose to develop a separately licensed 35-bed LTCH on the 4th floor of CMC-University. The following table shows the LTCH bed utilization for the existing North Carolina long-term care hospitals for FFY2012.

Utilization of the Existing North Carolina LTCH Beds

	Licensed LTCH Beds	FFY2012 LTCH Patient Days	Average Daily Census	Average Occupancy Percent
Asheville Specialty Hospital	34	8,731	23.9	70.4%
Carolinas Specialty Hospital	40	11,772	32.3	80.6%
Crawley Memorial Hospital	28	5,588	15.3	54.7%
Highsmith-Rainey Memorial Hospital	66	20,028	54.9	83.1%
Kindred Hospital-Greensboro	101	26,882	73.5	72.9%
LifeCare Hospital of North Carolina	50	14,222	39.0	77.9%
Select Specialty Hospital-Durham	30	7,218	19.8	65.9%
Select Specialty Hospital-Greensboro	30	3,973	10.9	36.3%
Select Specialty Hospital-Winston-Salem	42	11,303	31.0	73.7%
Statewide Totals	421	109,717	300.6	71.4%

Source: 2013 Hospital License Renewal Applications.

As shown in the table above, the 421 existing licensed LTCH beds in North Carolina had an average daily census (ADC) of 300.6 patients, and an average occupancy rate of 71.4 percent, in FY2012. Also, for the nine existing LTCH facilities in North Carolina, the average number of beds per facility was 47 [421/9 = 47] and the ADC per facility was 33.4 patients [300.6/9 = 33.4]. The target occupancy for a hospital with an ADC of 1-99 is 66.7%.

In Section V.7, pages 90-91, the applicants discuss the impact of the proposed project on competition in the service area including how any enhanced competition will have a positive impact on the cost-effectiveness, quality and access to acute care services. The applicants state,

“The proposed LTCH will enhance the quality of care available to the proposed patient population. While ContinueCare, Inc. believes that all of the referring hospitals provide

quality care, those facilities are properly focused on treating patients on a short-term basis, not for a prolonged period. Further, the availability of appropriate levels of rehabilitation and other specialty care are typically not available in a short-term acute care hospital.

The proposed LTCH in Charlotte will be only the second LTCH in Mecklenburg County. The other existing LTCH, Carolinas Specialty Hospital, is currently operating above target occupancy. As such, access to LTCH services for patients in the region is limited, necessitating additional beds for these patients. The proposed new LTCH will expand access by increasing the number of LTCH beds available in Mecklenburg County. In addition, although CMS imposes access limits for Medicare patients through the '25 percent rule,' Carolinas ContinueCare Hospital has proposed maximizing the number of Medicare patients as well as proposing a substantial amount of care to Medicaid patients, in order to maximize access to the medically underserved.

ContinueCare, Inc. believes that the proposed facility will increase the cost-effectiveness of caring for this unique patient population by transferring appropriate patients from a short-term acute care hospital to an LTCH. In this way, the proposed project will offer a more cost-effective setting for the care of long-stay acute care patients, as compared to treating patients in the ICU or medical/surgical units. Moreover, the proposed LTCH will be more cost-effective for the referring short-term acute care hospital as well as for the healthcare system as a whole.”

See also Sections II, III, V, VI and VII where the applicants discuss the impact of the project on cost-effectiveness, quality and access.

The information provided by the applicants in those sections is reasonable and credible and adequately demonstrates that any enhanced competition in the service area will have a positive impact on cost-effectiveness, quality and access to the proposed services. This determination is based on the information in the application and the following analysis:

- ◆ The applicants adequately demonstrate the need to develop a 35-bed LTCH to be located at CMC-University and that it is a cost-effective alternative;
- ◆ The applicants adequately demonstrate that they will provide quality services; and
- ◆ The applicants demonstrate that they will provide adequate access to medically underserved populations.

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.

Carolinas ContinueCare Hospital, Inc. (ContinueCare, Inc.) and The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas Medical Center-University (CMC-University) are co-applicants. ContinueCare, Inc. is not an existing provider. CMC-University is certified by CMS for Medicare and Medicaid participation, and licensed by the NC Department of Health and Human Services. According to files in the Acute and Home Care Licensure and Certification Section in the Division of Health Service Regulation, no incidents have occurred at CMC-University within the eighteen months immediately preceding the date of the 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