



North Carolina Department of Health and Human Services
Division of Health Service Regulation

Pat McCrory
Governor

Aldona Z. Vos, M.D.
Ambassador (Ret.)
Secretary DHHS

Drexdal Pratt
Division Director

November 8, 2013

Gary S. Qualls
430 Davis Drive, Suite 400
Morrisville, NC 27560

No Review

Facility or Business: Crawley Memorial Hospital, Inc. / Carolinas ContinueCare Hospital, Inc.
Project Description: Continue with Project I.D. #C-8737-11 while Crawley Memorial Hospital, Inc. merges with Carolinas ContinueCare Hospital, Inc.
County: Cleveland
FID#: 923127

Dear Mr. Qualls:

The Certificate of Need Section (CON Section) received your letter of October 24, 2013 regarding the above referenced proposal. Based on the CON law **in effect on the date of this response to your request**, the proposal described in your correspondence is not governed by, and therefore, does not currently require a certificate of need. However, please note that if the CON law is subsequently amended such that the above referenced proposal would require a certificate of need, this determination does not authorize you to proceed to develop the above referenced proposal when the new law becomes effective.

Moreover, you need to contact the Construction and Nursing Home Licensure and Certification Sections of the Division of Health Service Regulation to determine if they have any requirements for development of the proposed project.

It should be noted that this determination is binding only for the facts represented by you. Consequently, if changes are made in the project or in the facts provided in your correspondence referenced above, a new determination as to whether a certificate of need is required would need to be made by the Certificate of Need Section. Changes in a project include, but are not limited to: (1) increases in the capital cost; (2) acquisition of medical equipment not included in the original cost estimate; (3) modifications in the design of the project; (4) change in location; and (5) any increase in the number of square feet to be constructed.



Certificate of Need Section

www.ncdhhs.gov

Telephone: 919-855-3873 • Fax: 919-733-8139

Location: Edgerton Building • 809 Ruggles Drive • Raleigh, NC 27603

Mailing Address: 2704 Mail Service Center • Raleigh, NC 27699-2704

An Equal Opportunity/ Affirmative Action Employer



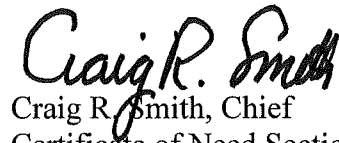
Gary S. Qualls
November 8, 2013
Page 2

Please contact the CON Section if you have any questions. Also, in all future correspondence you should reference the Facility I.D. # (FID) if the facility is licensed.

Sincerely,



Julie Halatek, Project Analyst



Craig R. Smith, Chief
Certificate of Need Section

cc: Medical Facilities Planning Section, DHSR
Steven Lewis, Construction Section, DHSR
Beverly Speroff, Nursing Home Licensure and Certification Section, DHSR

Julie

K&L Gates LLP
Post Office Box 14210
Research Triangle Park, NC 27709-4210

430 Davis Drive, Suite 400
Morrisville, NC 27560

T 919.466.1190 www.klgates.com

October 24, 2013



VIA HAND DELIVERY

Mr. Craig R. Smith
Chief, Certificate of Need Section
Division of Health Service Regulation
North Carolina Department of Health & Human Services
809 Ruggles Drive
Raleigh, NC 27603

Re: Acquisition of Crawley Memorial Hospital
Exemption Notice and Good Cause Transfer

Hospital: License No. H0236, Facility ID No. 120232

Dear Mr. Smith:

The purpose of this letter is to provide notice of an acquisition to the North Carolina Department of Health and Human Services, Division of Health Service Regulation, Certificate of Need (“CON”) Section (the “Agency”) and to seek a good cause transfer of certain certificates of need (“CONs”) involving our clients, Cleveland County HealthCare System (“CCHS”)¹ and Crawley Memorial Hospital, Inc. (“Crawley”).

Crawley will be merging into Carolinas ContinueCare Hospital, Inc. (“ContinueCare Inc.”). Such merger will be referred to throughout this letter as the “Transaction.” This Transaction is exempt from review under N.C. Gen. Stat. § 131E-184(a)(8). In addition, CCHS, Crawley, and ContinueCare Inc. request a “good cause” transfer concerning certain CON projects that are currently under development where CCHS and Crawley hold CON rights.

¹ CCHS owns and operates Cleveland Regional Medical Center and Kings Mountain Hospital.

Mr. Craig R. Smith
October 24, 2013
Page 2

I. BACKGROUND

On December 16, 2011, the Agency issued Findings approving the request by CCHS and Crawley to relocate 28 long-term care hospital beds from Crawley, a long term care hospital (“LTACH”), to Kings Mountain Hospital in space which Crawley was slated to lease from CCHS as the owner of Kings Mountain Hospital (the “LTACH CON Project”). See Exhibit 1, Agency Findings for Project ID No. C-8736-11. On January 18, 2012, the Agency issued a CON to CCHS and Crawley for the project. See Exhibit 2, LTACH CON Project CON. On December 16, 2011, the Agency also issued Findings approving a request by CCHS to relocate ten (10) nursing facility beds from Kings Mountain Hospital and ten (10) nursing facility beds from the Crawley campus to Cleveland Pines Nursing Center (“Cleveland Pines”).² See Exhibit 3, Agency Findings for Project ID No. C-8737-11. On January 18, 2012, the Agency issued a CON to CCHS for relocation of the nursing facility beds to Cleveland Pines. See Exhibit 4, Cleveland Pines CON.

On May 31, 2013, the Agency issued Findings approving a cost overrun application filed by CCHS and Crawley for the LTACH CON Project. See Exhibit 5. On July 2, 2013, the Agency issued a CON to Crawley³ for the LTACH CON Project Cost Overrun. See Exhibit 6.

Thus, as of today, the following two Crawley CON projects remain outstanding:

1. C-8736-11 - Cleveland County HealthCare System and Crawley Memorial Hospital, Inc./Relocate 28 long-term care hospital beds from Crawley Memorial Hospital to leased space in Kings Mountain/Cleveland County
2. C-10095-13 - Cost overrun for Project I.D. #C-8736-11

(collectively the “LTACH CON Projects”).

² CCHS owns Cleveland Pines.

³ Although the CON appears to be issued solely to Crawley, the CON should have been issued to CCHS as well, since CCHS was a co-applicant for the cost overrun application.

Mr. Craig R. Smith
October 24, 2013
Page 3

II. ACQUISITION OF LTACH

Effective on or about February 12, 2014, the Transaction is expected to occur, at which time Crawley will be merged into a new company, ContinueCare Inc. It is envisioned that ContinueCare Inc. will thus own and operate the 28-bed LTACH to be relocated to Kings Mountain pursuant to the LTACH CON Projects described herein above.

Carolinas Community Care, LLC (“CCC”) will own all of the stock of ContinueCare Inc. See Exhibit 7, LTACH Ownership Organizational Chart. Community Hospital Corporation (“Community Hospital”) will have a controlling interest in CCC. CCC will be a manager-managed limited liability company. CCC and ContinueCare Inc. will enter into a management agreement, pursuant to which CCC will manage the new 28-bed LTACH for ContinueCare Inc.

Under North Carolina law, a CON is required only prior to offering or developing a “new institutional health service.” “New institutional health service” includes a variety of services and activities, including a new health service facility. However, the North Carolina General Assembly has exempted certain types of proposals from CON review, pursuant to N.C. Gen. Stat. § 131E-184, including the acquisition of an existing health service facility, including equipment owned by the health service facility at the time of acquisition.

The Transaction involves only the acquisition of an existing LTACH, which falls within the purview of the statutory definition of “health service facility.” ContinueCare Inc.’s acquisition of the LTACH does not entail the separate purchase of any major medical equipment or any *per se* reviewable services. Thus, given that the transaction involves only the acquisition of an existing health service facility, it is exempt from CON review.

In addition, the Transaction agreement will specify that, in the event that the lease between CCHS and ContinueCare Inc. for the operation of the LTACH beds expires or is terminated for any reason, CCHS will retain a reversionary interest in the CON rights for the LTACH beds.

Mr. Craig R. Smith
October 24, 2013
Page 4

III. GOOD CAUSE TRANSFER

The two LTACH CON Projects currently under development (below) will require a good cause transfer:

1. C-8736-11 - Cleveland County HealthCare System and Crawley Memorial Hospital, Inc./Relocate 28 long-term care hospital beds from Crawley Memorial Hospital to leased space in Kings Mountain/Cleveland County
2. C-10095-13 - Cost overrun for Project I.D. #C-8736-11

To the extent that the Transaction is considered to be a transfer of the LTACH CON Projects, we are requesting approval for a “good cause” transfer of these CONs under N.C. Gen. Stat. § 131E-189 and 10A N.C.A.C. 14C.0502. We believe that good cause for such transfers exists.

This Transaction will serve to place the 28-bed LTACH into an ownership structure which is highly conducive to LTACH operations. Community Hospital has established this structure specifically to own, operate, and manage LTACHs. It is tailored to meet the hospital within hospital federal rules and is structured such that the LTACH will be managed by those with LTACH management experience. Therefore, this ownership and managerial structure will result in the 28-bed LTACH being owned and operated by an experienced LTACH provider.

Moreover, ContinueCare Inc. will materially comply with the representation in the LTACH CON Projects and the conditions placed on those projects via the CONs. In all material respects, the operations and development of these LTACH CON Projects will be the same as represented in the CON applications and in compliance with the issued CONs.

IV. NURSING HOME BEDS

Because Crawley will be merging into ContinueCare Inc., we are also seeking Agency confirmation that the CON for Project ID #C-8737-11 (the “SNF Relocation Project”), which sought to relocate ten (10) nursing facility beds from Crawley Memorial to Cleveland Pines is still valid despite the Transaction and need not receive good cause transfer approval. We believe this is the case because the ten (10) nursing facility beds will not be transferring to ContinueCare Inc. ownership, but will instead be relocated to Cleveland Pines,

Mr. Craig R. Smith
October 24, 2013
Page 5

just as contemplated in the SNF Relocation Project CON. The Transaction will in no way impact the relocation of the 10 nursing facility beds from Crawley to Cleveland Pines.

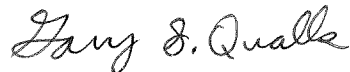
V. **CONCLUSION**

Based on the foregoing information, we hereby request the following:

1. Agency confirmation that the Transaction is exempt from CON review under N.C. Gen. Stat. § 131E-184(a)(8);
2. Agency approval of a good cause transfer for the LTACH CON Projects; and
3. Agency confirmation that the SNF Relocation Project does not require any further CON review or good cause transfer approval in light of the Transaction.

Thank you for your assistance in this matter. Please feel free to contact me if you have any questions or need further information.

Sincerely,

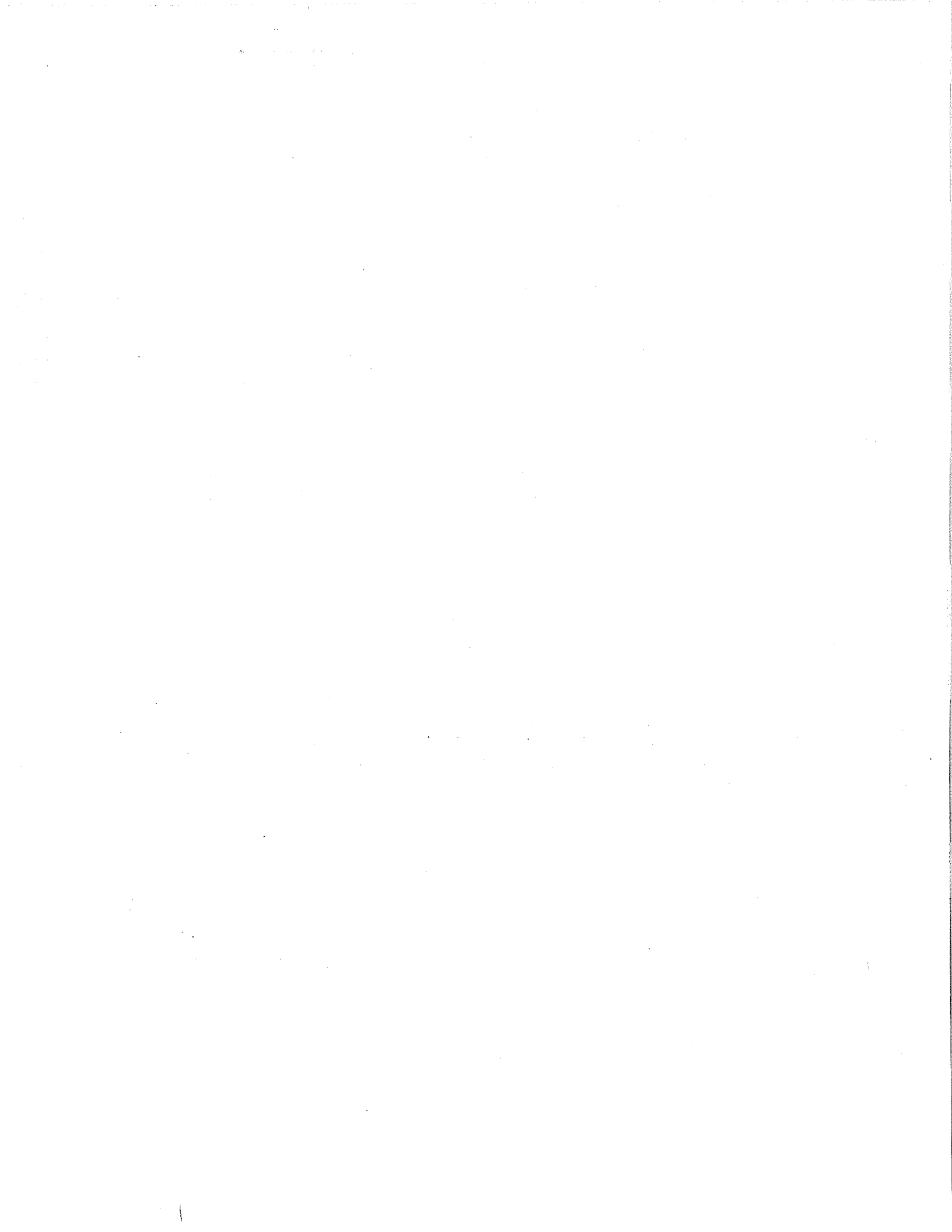


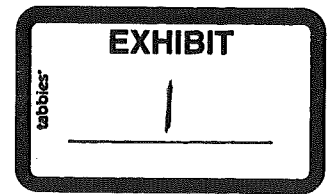
Gary S. Qualls

Mr. Craig R. Smith
October 24, 2013
Page 6

EXHIBITS

1. Agency Findings for Original Crawley LTACH CON Project (Project ID No. C-8736-11)
2. LTACH CON Project CON
3. Agency Findings for Cleveland Pines SNF Bed Relocation (Project ID No. C-8737-11)
4. Cleveland Pines CON
5. Agency Findings for LTACH CON Project Cost Overrun
6. CON for LTACH CON Project Cost Overrun
7. LTACH Ownership Organizational Chart





ATTACHMENT - REQUIRED STATES AGENCY FINDINGS

FINDINGS

C = Conforming
CA = Conditional
NC = Nonconforming
NA = Not Applicable

DATE: December 16, 2011
PROJECT ANALYST: Les Brown
CHIEF: Martha J. Frisone

PROJECT I.D. NUMBER: C-8736-11 / Cleveland County HealthCare System and Crawley Memorial Hospital, Inc. / Relocate 28 long-term care hospital beds from Crawley Memorial Hospital to leased space in Kings Mountain Hospital / Cleveland 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.

NA

Cleveland County HealthCare System (CCHS) includes three acute care hospitals: Cleveland Regional Medical Center (CRMC) in Shelby, Kings Mountain Hospital (KMH) in Kings Mountain and Crawley Memorial Hospital (CMH) in Boiling Springs. CCHS proposes to relocate 28 long-term care hospital beds from CMH to KMH in space to be leased from KMH by CMH. CMH is a long-term care hospital (LTCH) which was certified as a LTCH on April 29, 2010. CMH proposes to de-license an additional 13 of the total 41 existing LTCH beds. As part of the proposed project, KMH will de-license 25 acute care beds to accommodate the relocation of the CMH LTCH beds. In a separate certificate-of-need (CON) application (Project ID #C-8737-11), CMH proposes to relocate 10 nursing facility beds to Cleveland Pines Nursing Center. Upon completion of both projects, no licensed beds in any category will remain at CMH. On page 15 the applicants states: "CMH anticipates transferring its real property to CCHS as repayment of debt owed to CCHS in an amount equal to the market value of the CMH property. CCHS will determine if it will utilize the property or place it for sale."

The applicants do not propose to increase the number of licensed beds in any category, add services or acquire equipment for which there is a need determination in the *2011 State Medical Facilities Plan (2011 SMFP)*. There are no policies in the *2011 SMFP* which are applicable to this review. Therefore, this criterion is not applicable to this review.

- (2) Repealed effective July 1, 1987.
- (3) The applicants 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, Cleveland County HealthCare System (CCHS) and Crawley Memorial Hospital, Inc. (CMH) propose to relocate 28 long-term care hospital beds from CMH in Boiling Springs to KMH in space to be leased from KMH by CMH. CMH is a long-term care hospital (LTCH) which was certified as a LTCH on April 29, 2010. CCHS proposes to de-license an additional 13 of the total 41 existing LTCH beds at CMH. As part of the proposed project, KMH will de-license 25 acute care beds to accommodate the relocation of the CMH LTCH beds. The LTCH will be managed by Acuity Healthcare Management, LLC (Acuity).

In Section II.1, pages 16-17, the applicants state:

“Patients benefiting from LTCH services may require recovery from heart attacks or cardiac surgical procedures; wound management and wounds following vascular or other surgery; pulmonary management for tracheotomies; oncology recovery, including chemotherapy and radiation therapy; rehabilitation for cerebral vascular accidents (CVAs) or for complications following orthopedic surgery; or care for medically complex conditions combined with diabetes, digestive disorders or renal disorders/failure.

...

While patients are commonly ventilator-dependent or chronically ill, LTCH services provide responsive care to a wide spectrum of conditions, including:

- *Medically complex*
- *General debilitation*
- *Oncology*
- *Wound care*

- *Respiratory infections and disorders*
- *Ventilator dependency*
- *Cardiac care*
- *Antibiotic treatment*
- *Stroke*
- *HIV*
- *Rehabilitation related diagnoses with complex or tertiary needs*
- *Post surgical care”*

Population to be Served

In Section III.4, page 50, and Section III.5(c), page 52, the applicants provide the current and projected patient origin, as shown in the following table.

County	% of Total Patients	
	Current CY 2010	Projected CY 2013 – CY 2015
Cleveland	66.99%	66.99%
Rutherford	14.56%	14.56%
Gaston	6.80%	6.80%
South Carolina	4.85%	4.85%
Burke	3.88%	3.88%
Lincoln	0.97%	0.97%
McDowell	0.97%	0.97%
Other Stattes	0.97%	0.97%
Total	100.0%	100.0%

On page 52 the applicants assume that the patient origin is not expected to change in the new location. The applicants adequately identify the population proposed to be served.

Need to Relocate CMH LTCH

In Section III.1(b), pages 26-33, the applicants states the following reasons that the facility needs to be relocated:

Facility Deficiencies: On page 26 the applicants state that the 34-year old physical plant is oversized for the current LTCH services. Several major items need to be replaced, including the boiler, emergency power system, roof and HVAC system. The facility needs to be sprinkled by 2013 to remain in compliance with licensure regulations.

Population - Aging: The 65+ population is projected to be a greater percentage of the population during the next five years, increasing from 14.7% in 2011 to 16.1% in 2016. While the total

county population is projected to increase from 99,607 in 2011 to 101,533 in 2016 (1.9%), the 65+ population is projected to increase from 14,644 to 16,318 (11.4%) during the same period.

Population – Income: The per capita income in Cleveland County was \$18,978 in 2009, compared to the states per capita income of \$24,547. Many of the county residents do not have the money to travel long distances for LTCH services.

Medicaid Access: Five of the nine LTCHs in North Carolina did not admit Medicaid patients in FFY 2010. CMH provided the highest percentage of Medicaid patients (26.6%) in FFY 2010, more than twice the percentage of the second highest Medicaid LTCH, Highsmith-Rainey Memorial Hospital (13.2%).

Geographic Access: Boiling Springs is a small town in the rural, southwest part of Cleveland County. It includes less than 5% of the county's population.

On page 33 the applicants state that some patients do not want to be admitted there because CMH has a small medical staff and is perceived by some residents to be a nursing home. The applicants states: “[R]elocating CMH’s LTCH beds from Boiling Springs to Kings Mountain will relocate existing healthcare services to a larger, older population center with an existing continuum of acute care services.”

The applicants adequately demonstrate the need to relocate the existing LTCH from Boiling Springs to Kings Mountain. The LTCH is currently licensed for 41 LTCH beds. Upon completion of the project, it will be licensed for only 28 LTCH beds.

Projected Utilization

On pages 34-45 the applicants project utilization using the following assumptions:

“Step 1: Projected Discharges from Referring Hospitals

...

[T]o project LTCH patients for the proposed project, CMH reviewed historical discharges at CRMC, KMH, RH [Rutherford Hospital] and GMH [Gaston Memorial Hospital].

**General Acute Care Discharges
 FY 2008 - FY 2010**

	FY 2008	FY 2009	FY 2010	2-Yr CAGR
<i>CRMC Discharges</i>	8,453	8,276	8,803	2.0%
<i>KMH Discharges</i>	1,685	1,675	1,725	1.2%
<i>RH Discharges</i>	5,924	5,836	5,441	-4.2%
<i>GMH Discharges</i>	19,353	20,397	21,677	5.8%

Source: Hospital License Renewal Applications

CMH projects its LTCH utilization to continue to increase based on existing referral relationships and projected discharges from referring hospitals. To project discharges at CRMC, KMH, RH and GMH, CMH applied the respective two-year compound annual growth rates to FY2010 utilization, with the exception of RH, which was held constant with no growth.

**General Acute Care Discharges
 FY2011-FY2015**

	FY2011	FY2012	FY2013	FY2014	FY2015	CAGR
<i>CRMC Discharges</i>	8,983	9,167	9,355	9,547	9,743	2.0%
<i>KMH Discharges</i>	1,745	1,766	1,787	1,808	1,829	1.2%
<i>RH Discharges</i>	5,441	5,441	5,441	5,441	5,441	0.0%
<i>GMH Discharges</i>	22,942	24,280	25,697	27,196	28,782	5.8%

Totals may not foot due to rounding.

CMH began operating as an LTCH in January 2010, thus it's [sic] historical and year to date data is based on a calendar year (Jan-Dec). Likewise, CMH's projected utilization is based on a calendar year. Therefore, to remain consistent, CMH converted the referring hospitals' projected discharges from federal fiscal year to calendar year. As an example, CRMC's converted CY 2010 discharges are approximately $8,848 = (.75 \times 8,803) + (.25 \times 8,983)$.

**General Acute Care Discharges
 CY 2010 – CY 2015**

	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
<i>CRMC Discharges</i>	8,848	9,029	9,214	9,403	9,596	9,793
<i>KMH Discharges</i>	1,730	1,751	1,771	1,792	1,813	1,835
<i>RH Discharges</i>	5,441	5,441	5,441	5,441	5,441	5,441
<i>GMH Discharges</i>	21,993	23,276	24,634	26,071	27,592	29,202

Totals may not foot due to rounding.

CMH utilized the data from Acuity's LTCH discharge analysis [see application identified as Project ID #C-8043-08] to project the number of LTCH candidates from referring hospitals. As described previously, the Acuity analysis determined 2.02 percent of discharges from CRMC and 1.40 percent of discharges from KMH are appropriate for LTCH beds. CMH applied the average LTCH conversion percentage of 1.89 percent to hospital discharges outside of Cleveland County. This is consistent with CMH's previously approved methodology for projecting LTCH utilization. Please refer to Exhibit 12 for a copy of Acuity's LTCH analysis, which summarizes the LTCH conversion percentages.

Estimated/Projected LTCH Candidates

Facility Name	LTCH Conversion %	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
<i>CRMC</i>	2.02%	179	182	186	190	194	198
<i>KMH</i>	1.40%	24	25	25	25	25	26
<i>RH</i>	1.89%	103	103	103	103	103	103
<i>GMH</i>	1.89%	416	440	466	493	521	552

*Source: Projected general acute discharges x LTCH conversion percentage
 (provided in Acuity LTCH analysis provided in Exhibit 12).*

Totals may not foot due to rounding.

Step 2: Project LTCH Market Share

CMH compared its historical LTCH admissions to the estimated CY 2010 and CY 2011 LTCH candidates in the previous table. The following table summarizes CMH's LTCH market share based on LTCH candidates at referring hospitals.

**Crawley Memorial Hospital
 Estimated LTCH Market Share**

<i>Facility Name</i>	<i>CY 2010 LTCH Candidates</i>	<i>CY 2010 CMH Admissions</i>	<i>CY 2010 CMH Market Share</i>	<i>CY 2011 LTCH Candidates</i>	<i>CY 2011 CMH Admissions*</i>	<i>CY 2011 CMH Market Share</i>
<i>CRMC</i>	179	64	35.8%	182	63	34.8%
<i>KMH</i>	24	6	24.8%	25	19	76.9%
<i>RH</i>	103	8	7.8%	103	10	10.0%
<i>GMH</i>	416	4	1.0%	440	7	1.6%

**Annualized based on six months data*

Source: CMH LTCH admissions ÷ estimated LTCH candidates at referring hospitals

Totals may not foot due to rounding.

Based on its limited experience since becoming certified as a LTCH, CMH is currently receiving referrals from the previous hospitals. As described at length in this Section, utilization at CMH is suppressed for several reasons; however, CMH will endeavor to continue to increase its LTCH market share from CRMC, KMH, RH and GMH. Indeed, CMH's LTCH market share from KMH has already increased from 24.8 percent in 2010 to 76.9 percent based on annualized 2011 utilization. CMH anticipates the relocation of its LTCH services to Kings Mountain will further increase its market share at KMH because CMH will operate as a hospital within KMH. Additionally, relocating the LTCH services to Kings Mountain will ameliorate the false perceptions in the local community associated with the facility being located in Boiling Springs. This will facilitate increased LTCH market share from CRMC. The following table summarizes CMH's projected LTCH market share for referring hospitals.

**Crawley Memorial Hospital
 Projected LTCH Market Share**

<i>Facility Name</i>	<i>FY2012</i>	<i>FY2013</i>	<i>FY2014</i>	<i>FY2015</i>
<i>CRMC</i>	45.0%	50.0%	55.0%	60.0%
<i>KMH</i>	80.0%	85.0%	85.0%	85.0%
<i>RH</i>	12.0%	15.0%	20.0%	20.0%
<i>GMH</i>	2.0%	3.0%	4.0%	4.0%

Source: Crawley Memorial Hospital projected market share assumptions

CMH projects its LTCH market shares based on the following rationale:

- *The projected market shares are based on the actual experience of CMH since it began operating as a LTCH hospital in 2010.*
- *During the last 18 months, CMH has continued to experience increasing LTCH referrals from the previously identified hospitals.*
- *Based on year to date referrals (Jan-Jun), CMH's 2011 days of care are projected to increase over 46 percent, and discharges are projected to increase over 38 percent compared to 2010.*
- *CMH anticipates the relocation of its LTCH services to Kings Mountain will further increase its market share at KMH because CMH will operate as a hospital within KMH. KMH is an applicants for and supports the proposed project.*
- *As part of CCHS, CRMC supports the proposed project and will continue to refer LTCH patients to CMH.*
- *Relocating the LTCH beds to Kings Mountain will improve geographic access for patients discharged from GMH. Kings Mountain is 15 miles (20 minutes) from GMH, compared to 35 miles (45 minutes) from Boiling Springs to Gastonia.*
- *CMH is one of only two LTCH providers in HSA I. The other provider is Asheville Specialty Hospital (ASH) in Buncombe County, which operated at over 70 percent occupancy during FY2010. ASH is located 93 miles (1 hour, 40 minutes) from Kings Mountain.*
- *The closest provider to CMH is Carolinas Specialty Hospital (CSH), which is also managed by Acuity and owned by CHS, CCHS's parent company. CSH is also large enough and well-established in its own market that CMH's projections would have only a minimal impact on its existing operations. During FY 2010, CSH's occupancy was 80.6 percent.*
- *Relocating the LTCH services to Kings Mountain will ameliorate the false perceptions in the local community associated with the facility being located in Boiling Springs.*
- *The newly renovated spaces at KMH will be consistent with contemporary healthcare standards and be more appealing from a patient perspective.*

Step 3: Project CMH LTCH Admissions/Discharges

Referrals from CRMC, KMH, RH and GMH currently make up 80 percent of CMH's LTCH admissions. In addition, CMH receives approximately 20 percent of referrals from more than a dozen other referral sources.

...

CMH projects that as its market share increases from its four primary referral sources, the percent of referral from 'other' referral sources (e.g. those included in previous list), will decrease to 15 percent. The following table provides projected LTCH admissions from CMH's referral sources.

**Crawley Memorial Hospital
 Projected LTCH Admissions**

<i>Facility Name</i>	<i>CY2012</i>	<i>CY2013</i>	<i>CY2014</i>	<i>CY2015</i>
<i>CRMC</i>	84	95	107	119
<i>KMH</i>	20	21	22	22
<i>RH</i>	12	15	21	21
<i>GMH</i>	9	15	21	22
<i>Other Referral Sources* (15%)</i>	23	26	30	32
Total	147	172	200	215

**Other referral sources include (but are not limited to) the facilities identified previously in this Section. Totals may not foot due to rounding.*

Step 4: Project LTCH ALOS [average length of stay] & Days of Care

An LTCH is a hospital in which the average length of stay for all patients exceeds 25 days. The average length of stay (ALOS) for an LTCH is computed by dividing the total number of inpatient days by the number of total discharges for the reporting period. To project ALOS for the proposed project, CMH reviewed its current ALOS, the projected ALOS in its previously approved CON application (Project ID# C-8043-08) and the ALOS for existing LTCH providers in North Carolina. ...

**Crawley Memorial Hospital
 LTCH ALOS Data**

	<i>ALOS (Days)</i>
<i>Annualized CY 2011</i>	25.0
<i>Previously Approved C-8043-08</i>	30.0

Source: CMH, CON Project ID# C-8043-08

CMH projects its ALOS will gradually increase by one day (net increase) each year through the third project year. This is conservative compared to the ALOS utilized in its previously approved LTCH CON (30.0 days) and compared to the ALOS for all North Carolina LTCH facilities (37.0 days).

**Crawley Memorial Hospital
 Projected ALOS**

	CY 2012	CY 2013	CY 2014	CY 2015
LTCH ALOS	26.0	27.0	28.0	29.0

CMH applied the projected LTCH ALOS to projected LTCH admissions so as to project days of care for the proposed project. For information purposes, CMH assumes annual LTCH admissions and LTCH discharges will be equal. During CY 2010, CMH had 103 admissions and 100 discharges, thus the difference is not materially significant.

**Crawley Memorial Hospital
 Projected LTCH Days of Care**

	CY 2012	CY 2013	CY 2014	CY 2015
LTCH Days of Care	3,831	4,654	5,587	6,249

Source: ALOS x LTCH admissions
 Totals may not foot due to rounding.

The following table summarizes CMH's projected LTCH utilization.

**Crawley Memorial Hospital
 LTCH Utilization**

	FY 2012	FY 2013	FY 2014	FY 2015
LTCH Beds	41	28	28	28
Discharges	147	172	200	215
Days of Care	3,831	4,654	5,587	6,249
ALOS	26	27	28	29
ADC	10.5	12.7	15.3	17.1
% Occupancy	25.6%	45.5%	54.7%	61.1%

Totals may not foot due to rounding.

As shown in the table above, in the third operating year, the applicants project the occupancy rate for the 28 LTCH beds will be 61.1%. Projected utilization is based on reasonable, credible and supported assumptions.

In summary, the applicants adequately identify the population proposed to be served and demonstrate the need the population to be served has for the proposed replacement LTCH beds. Therefore, the application is conforming with this criterion.

- (3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicants 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.

C

The applicants propose to relocate 28 LTCH beds from CMH to KMH 20 miles away and de-license 13 of CMH's existing LTCH beds. The applicants propose to serve the same patient population. On page 54 the applicants state that the proposed relocation will not result in any changes in services, costs to patients, access by medically underserved populations or payor mix. On page 55 the applicants state that the reduction in licensed LTCH beds will not have a negative impact on the patients served because the remaining 28 beds will be adequate to serve the projected ADC in CY 2015 (Year 3) of 17 patients. Therefore, the application is conforming with this criterion.

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

CA

In Section III.3, pages 47-49, the applicants discuss the alternatives considered prior to submission of this application, including maintaining the status quo, constructing a new facility, relocating the beds to another facility and relocating the beds to KMH. Therefore, the application is conforming with this criterion and approved subject to the following conditions:

- 1. Cleveland County HealthCare System and Crawley Memorial Hospital, Inc. shall materially comply with all representations made in the certificate of need application.**
- 2. Crawley Memorial Hospital shall be licensed for no more than 28 long-term care hospital beds.**
- 3. Upon completion of the project, Crawley Memorial Hospital, Inc. shall take the steps necessary to de-license 13 long term care hospital beds.**

4. **Upon project completion, Kings Mountain Hospital shall take the steps necessary to de-license 25 acute care beds and shall be licensed for no more than 47 acute care beds.**
 5. **Cleveland County HealthCare System and Crawley Memorial Hospital, Inc. 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.**
 6. **Cleveland County HealthCare System and Crawley Memorial Hospital, Inc. 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 86, the applicants project that the total capital cost of the project will be \$1,418,151, which includes:

Construction Costs	\$743,379
Fixed Equipment	\$65,000
Moveable Equipment	\$200,000
Architect and Engineering Fees	\$91,672
Miscellaneous	\$318,100
TOTAL	\$1,418,151

In Section IX, page 92, the applicants state that there will be no start-up expenses or initial operating expenses. In Section VIII.3, page 87, the applicants state that the project will be funded with accumulated reserves of CCHS. Exhibit 19 contains a letter dated September 13, 2011 from the Vice President/Chief Financial Officer of CCHS, which states:

"[T]his letter serves to document and certify the availability and sufficiency of cash and accumulated reserves to fund the proposed relocation of the long-term care hospital (LTCH) from Crawley Memorial Hospital in Boiling Springs to renovated space within Kings Mountain Hospital (thus creating a hospital within a hospital in Kings Mountain). It is anticipated that the project costs will be approximately \$1.4 million."

Exhibit 20 includes the audited financial statements for CCHS. As of December 31, 2010, CCHS had \$11,135,000 in cash and cash equivalents, \$4,410,000 in short-term investments and \$254,538,000 in total assets. The applicants adequately demonstrate the availability of sufficient funds for the capital needs of the project.

The following table illustrates projected revenues and expenses for each of the first three years of operation following completion of the project as reported by the applicants in Form B: Statement of Revenues and Expenses for Entire Facility.

	CY 2013 Year 1	CY 2014 Year 2	CY 2015 Year 3
Net Revenue	\$5,990,260	\$7,335,821	\$8,368,733
Total Expenses	\$6,820,036	\$7,435,698	\$7,932,471
Net Income	(\$829,776)	(\$99,877)	\$436,262

As shown in the table above, the applicants project that net revenues will exceed total expenses in the third year of operation following completion of the project. Projected revenues and expenses are based upon reasonable assumptions, including projected utilization. See Criterion (3) for discussion of projected utilization.

In summary, the applicants adequately demonstrates the availability of sufficient funds for the capital needs of the project and adequately demonstrates that the financial feasibility of the proposal is based upon reasonable projections of costs and charges. Therefore, the application is conforming with this criterion.

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

C

CMH is an existing LTCH licensed for 41 beds located in Boiling Springs. It is the only LTCH in Cleveland County. The closest LTCHs are located in Asheville, Winston-Salem and Charlotte. The applicants propose to relocate 28 of the LTCH beds to KMH in Kings Mountain to establish a hospital-within-a-hospital in space to be leased from KMH. CMH will de-license 13 of the existing 41 beds as part of this project. The proposed project does not result in an increase in the number of LTCH beds located in Cleveland County. In fact, it results in a decrease in the number of LTCH beds in the area. The applicants adequately demonstrate that the proposal will not result in unnecessary duplication of existing or approved LTCH beds. Therefore, the application is conforming with this criterion.

- (7) The applicants 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 68-69, the applicants provide projected staffing at the LTCH during the second operating year following completion of the project, as shown in the table below. The number of full-time equivalent (FTE) positions will increase from the current staffing of 30.25 FTEs to 41.87 FTEs as a result of the project.

Position	# OF FTE POSITIONS
Registered Nurses	19.00
LPNs	2.00
Nursing Aides	4.50
Case Manager	1.00
Physical Therapist	5.38
Social Worker	1.00
Education	0.25
Quality	1.00
Medical Records	1.00
Administrator	1.00
Nursing Administrator	1.34
Admissions	1.00
Business Office / Accounting	1.00
Secretary	1.40
Receptionist	1.00
TOTAL	41.87

Exhibit 2 contains a management agreement between Acuity Healthcare Management, LLC (Acuity) and CMH. This agreement provides that Acuity will provide management services for day-to-day operation of the facility. The current medical director of CMH is Harmohan Singh, M.D. Exhibit 16 contains a letter from Dr. Singh expressing his willingness to continue to serve as medical director.

The applicants adequately demonstrate the availability of sufficient health manpower and management personnel for the provision of the proposed services. Therefore, the application is conforming with this criterion.

- (8) The applicants shall demonstrates 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 applicants shall also demonstrates that the proposed service will be coordinated with the existing health care system.

C

In Section II.2, page 18, the applicants provide a list of providers of the ancillary and support services to be provided at CMH. Exhibit 5 includes agreements with providers for the following services: eye care, laboratory, acute dialysis, hospice and physical, occupational and speech therapy. Exhibit 13 contains copies of transfer agreements with CRMC and KMH.

Exhibit 15 includes letters of support from physicians, other health care providers and community representatives.

The applicants adequately demonstrate that necessary ancillary and support services will be available and that the LTCH will be coordinated with the existing health care system. Therefore, the application is conforming with this criterion.

- (9) An applicants 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 applicants shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicants 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 applicants 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 demonstrates 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

- (13) The applicants 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 applicants shall show:
- (a) The extent to which medically underserved populations currently use the applicants's existing services in comparison to the percentage of the population in the applicants's service area which is medically underserved;

C

In Section VI.13, page 73, the applicants provide the payor mix for CMH during FY 2010, as shown in the table below:

PAYOR CATEGORY	% OF TOTAL PATIENT DAYS
Self Pay	0.54%
Medicare	70.83%
Medicaid	26.63%
Commercial Insurance/Managed Care	1.36%
Other	0.64%
Total	100.00%

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. The following table illustrates those percentages as of June 2010 and CY 2008, respectively. The data in the table were obtained on December 12, 2011. More current data, particularly with regard to the estimated uninsured percentages, were not available at that time.

	Total # of Medicaid Eligibles as % of Total Population	Total # of Medicaid Eligibles Age 21 and older as % of Total Population	% Uninsured CY 2008 (Estimate by Cecil G. Sheps Center)
County			
Cleveland	23%	10.6%	18.6%
Rutherford	21%	9.7%	18.5%
Gaston	20%	8.7%	19.0%
Burke	18%	7.8%	17.7%
Statewide	17%	6.8%	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 services offered by CMH.

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 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. However, as of December 12, 2011, no population data were available by age, race or gender. Even if the data were available, a direct comparison to the applicants's current payor mix would be of little value. The population data by age, race or gender do 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 existing services provided by CMH. Therefore, the application is conforming with 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 applicants;

C

On pages 71-72 the applicants state:

“CMH is not obligated under federal regulations to provide uncompensated care, community service, or access by minorities or handicapped persons. CMH previously fulfilled its Hill-Burton uncompensated care requirements. However, as previously stated, CMH does not discriminate based on race, ethnicity, creed, color, sex, religion, national origin, handicap, or ability to pay.”

The applicants also state: *“CMH has not had any civil rights complaints in the last five years.”* Therefore, the application is conforming with this criterion.

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

C

The following table from page 74 of the application illustrates the LTCH's projected payor mix in the second year of operation following completion of the project.

PAYOR CATEGORY	% OF TOTAL PATIENT DAYS
Self Pay	0.54%
Medicare	70.83%
Medicaid	26.63%
Commercial Insurance/Managed Care	1.36%
Other	0.64%
Total	100.0%

The applicants demonstrate that medically underserved populations will have adequate access to the proposed services and the application is conforming with this criterion.

- (d) That the applicants offer 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.6, page 68, the applicants state: *“[P]atients access the LTCH services via physician referral. ... CMH will continue to provide services without regard to race,*

color, religion, sex, age, national origin, handicap, or ability to pay.” Therefore, the application is conforming with this criterion.

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

C

In Section V.1, page 59, the applicants state: “*CMH currently has, and will continue to maintain, relationships with universities and community colleges to provide clinical training opportunities for their students.*” The applicants adequately demonstrate that the LTCH would accommodate the clinical needs of area health professional training programs. Therefore, the application is conforming with 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 applicants shall demonstrates 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 applicants shall demonstrates that its application is for a service on which competition will not have a favorable impact.

C

See Sections II.6, II.7, III.1, III.2, III.3, III.6, III.7, V.7, VI, VII, and XI.7. The information provided by the applicant in those sections is reasonable and credible and adequately demonstrates that relocation of 28 long-term care hospital beds from CMH to KMH would have a positive impact on cost-effectiveness, quality and access to the proposed services because:

- The relocation of 28 long-term care hospital beds from CMH to KMH is needed and the proposal is a cost-effective alternative to meet the need to provide LTCH services in Cleveland County [see Criteria (3), (4) and (5) for additional discussion];
- The applicant has and will continue to provide quality services [see Criteria (7), (8) and (20) for additional discussion];
- The applicant has and will continue to provide adequate access to medically underserved populations [see Criterion (13) for additional discussion].

Therefore, the application is conforming to this criterion.

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

C

According to files in the Acute and Home Care Licensure and Certification Section, Division of Health Service Regulation, CMH operated in compliance with the Medicare Conditions of Participation and there were no incidents resulting in a determination of immediate jeopardy during the eighteen months immediately preceding the date of this decision. Therefore, the application is conforming with 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 demonstrates 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



STATE OF NORTH CAROLINA
Department of Health and Human Services
Division of Health Service Regulation

CERTIFICATE OF NEED

for

Project Identification Number #C-8736-11

FID #923127

ISSUED TO: Cleveland County HealthCare System
and Crawley Memorial Hospital, Inc.
201 E. Grover Street
Shelby, NC 28150

Pursuant to N.C. Gen. Stat. § 131E-175, et. seq., the North Carolina Department of Health and Human Services hereby authorizes the person or persons named above (the "certificate holder") to develop the certificate of need project identified above. The certificate holder shall develop the project in a manner consistent with the representations in the project application and with the conditions contained herein and shall make good faith efforts to meet the timetable contained herein. The certificate holder shall not exceed the maximum capital expenditure amount specified herein during the development of this project, except as provided by N.C. Gen. Stat. § 131E-176(16)e. The certificate holder shall not transfer or assign this certificate to any other person except as provided in N.C. Gen. Stat. § 131E-189(c). This certificate is valid only for the scope, physical location, and person(s) described herein. The Department may withdraw this certificate pursuant to N.C. Gen. Stat. § 131E-189 for any of the reasons provided in that law.

SCOPE: Cleveland County HealthCare System and Crawley Memorial Hospital, Inc. shall relocate 28 long-term care hospital beds from Crawley Memorial Hospital to leased space in Kings Mountain Hospital/ Cleveland County

CONDITIONS: See Reverse Side

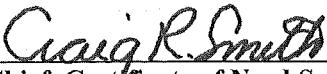
PHYSICAL LOCATION: Crawley Memorial Hospital, Inc.
706 West King Street
Kings Mountain, NC 28086

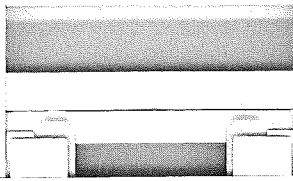
MAXIMUM CAPITAL EXPENDITURE: \$1,418,151

TIMETABLE: See Reverse Side

FIRST PROGRESS REPORT DUE: August 1, 2012

This certificate is effective as of the 18th day of January, 2012.


Chief, Certificate of Need Section
Division of Health Service Regulation



CONDITIONS:

1. Cleveland County HealthCare System and Crawley Memorial Hospital, Inc. shall materially comply with all representations made in the certificate of need application.
2. Crawley Memorial Hospital shall be licensed for no more than 28 long-term care hospital beds.
3. Upon completion of the project, Crawley Memorial Hospital, Inc. shall take the steps necessary to de-license 13 long term care hospital beds.
4. Upon project completion, Kings Mountain Hospital shall take the steps necessary to de-license 25 acute care beds and shall be licensed for no more than 47 acute care beds.
5. Cleveland County HealthCare System and Crawley Memorial Hospital, Inc. 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.
6. Cleveland County HealthCare System and Crawley Memorial Hospital, Inc. 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.

A letter acknowledging acceptance of and agreeing to comply with all conditions stated in the conditional approval letter was received by the Certificate of Need Section on December 28, 2011.

TIMETABLE:

Contract Award	August 1, 2012
25% Completion of Construction	September 1, 2012
50% Completion of Construction	October 1, 2012
75% Completion of Construction	November 1, 2012
Completion of Construction	December 15, 2012
Occupancy/ Offering of Service(s)	January 1, 2013

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

- C = Conforming
- CA = Conditional
- NC = Nonconforming
- NA = Not Applicable

DECISION DATE: December 16, 2011
PROJECT ANALYST: Les Brown
TEAM LEADER: Martha J. Frisone

PROJECT I.D. NUMBER: C-8737-11 / Cleveland County HealthCare System / Relocate and replace 10 nursing facility beds from Crawley Memorial Hospital and 10 nursing facility beds from Kings Mountain Hospital to Cleveland Pines Nursing Center / Cleveland 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

Cleveland County HealthCare System (CCHS) includes three acute care hospitals: Cleveland Regional Medical Center (CRMC) in Shelby, Kings Mountain Hospital (KMH) in Kings Mountain and Crawley Memorial Hospital (CMH) in Boiling Springs. CCHS also owns and operates Cleveland Pines Nursing Center (CPNC) in Shelby. CCHS proposes to relocate ten nursing facility (NF) beds from KMH and ten NF beds from CMH to the 120-bed CPNC, for a total of 140 NF beds upon project completion. The proposed project does not involve the addition of any new health service facility beds, services or equipment for which there is a need determination in the 2011 State Medical Facilities Plan (SMFP). However, there are three policies in the 2011 SMFP that are applicable to this review: Policy NH-6: Relocation of Nursing Facility Beds, Policy NH-8: Innovations in Nursing Facility Beds and Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities. These policies are discussed below:

"Policy NH-6: Relocation of Nursing Facility Beds

Relocations of existing licensed nursing facility beds are allowed only within the host county and to contiguous counties currently served by the facility, except as provided in Policies NH-4, NH-5 and NH-7. Certificate of need applicants proposing to relocate licensed nursing facility beds to contiguous counties shall:

- 1. Demonstrate that the proposal shall not result in a deficit in the number of licensed nursing facility beds in the county that would be losing adult care home beds as a result of the proposed project, as reflected in the North Carolina State Medical Facilities Plan in effect at the time the certificate of need review begins, and*
- 2. Demonstrate that the proposal shall not result in a surplus of licensed nursing facility beds in the county that would gain adult care home beds as a result of the proposed project, as reflected in the North Carolina State Medical Facilities Plan in effect at the time the certificate of need review begins."*

The applicant proposes to relocate the existing nursing facility beds within Cleveland County. Therefore, the relocation of the beds will not change the current nursing facility bed inventory in Cleveland County. Consequently, the application is conforming with Policy NH-6.

"Policy NH-8: Innovations in Nursing Facility Beds

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."

On pages 44-46 the applicant states:

"Innovative Approaches in Care Practices

CPNC's vision of Culture Change is a blending of ideas, philosophies and environments driven by residents and staff, creating a homelike environment unique to each community while at the same time improving the quality of care and quality of life. At CPNC, this involves:

- Neighborhoods, as opposed to medical units/halls.*
- Programs that enhance the individuality of each community.*
- Spa-inspired bathing environments.*
- Consistent assignments, when feasible.*
- Residential dining enhancements.*

- *Encouraging residents to personalize living space to their own unique taste.*
- *Recreational activities, including community involvement, church services, holiday celebrations and discussion groups.*
- *Intergenerational activities and opportunities for interaction.*
- *Plants and animals encouraging a life enhancing environment.*
- *Programs that enhance the individuality of each community.*

Innovative Approaches in Workplace Practices

CPNC offers competitive pay and attractive benefits to recruit qualified staff, and provides for a comprehensive benefits package, and includes worker's compensation insurance, payroll taxes, and paid time off. CPNC is active in the local community, and interacts consistently with area clinical training programs. As stated in Section V, CPNC works closely with these programs to serve as a clinical training site, and benefits from having interaction with potential new hires.

CPNC supports a high-participation work culture to achieve the highest level of service for its customers, through a stable and dedicated workforce. A sample of the practices that CPNC deploys to achieve this are:

- *A comprehensive benefits package, including health and life insurance, paid time off, worker's compensation and disability insurance.*
- *Flexible work schedules.*
- *Opportunities for advancement.*
- *Seminars, workshops, and other educational programs and encourage staff to stay abreast of the latest in geriatric nursing.*
- *Various incentives and rewards to encourage staff retention. These programs include but are not limited to recognition pins, employee cookouts and parties, raffles, CNA Day and Nurses Week.*
- *Involvement in direct care staff in the quality assurance process.*
- *Regular staff meetings to encourage employees to suggest improvements in all aspects of facility operations.*
- *Peer participation in new hire interviews, orientation, and mentoring.*
- *Coaching Supervision training for all supervisors (a relationship-based approach to supervising that values the participation of the employee in resolving a performance issues), and*
- *Access to Culture Change best practice sharing and education on a regular basis.*

Innovative Approaches in Environmental Design

CPNC currently features a Neighborhood design concept and the proposed facility addition will also embrace this concept. Patients "live" in neighborhoods where the clinical team providing their care specializes in their specific health condition. The Neighborhood design concept is in response to changes brought on by the demands of changing generations. The Neighborhood environment design represents a new

paradigm where seniors can regain variety and freedom of choice. As a foundation of the Neighborhood design, traditional nursing home components are decentralized to create neighborhoods. Each neighborhood, thus, becomes a community yielding an interactive and healing environment for residents. To achieve this concept, both the existing CPNC facility and addition will feature the following:

- *Neighborhoods, as opposed to medical units/halls*
- *Dining and activity spaces*
- *Residential dining enhancements*
- *Residential building design*
- *Access to outdoor spaces conducive to the residents' well-being*
- *High lighting levels*
- *Plants*
- *Televisions with cable access*
- *Spa-like bathing environments*
- *Gardens*
- *Birds”*

The applicant adequately demonstrates the proposal incorporates innovative approaches to patient care, work place practices and environmental design that address quality of care and quality of life needs of the residents. Therefore, the applicant adequately demonstrates that the proposal is consistent with Policy NH-8.

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

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 of 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.”

On pages 42-43 the applicant states:

“As new construction, the proposed facility addition will be constructed using energy efficient materials and methods. CPNC will closely monitor its utility usage and costs in order to maintain efficient and environmentally responsible energy operations. CPNC will also follow the status of deregulation in the utility industry in an effort to obtain the most cost effective utilities available.

CPNC is committed to energy efficiency and sustainability that balances the need for healthcare services and environmental sustainability. In this regard, CPNC has several guiding principles:

- 1. Implement environmental sustainability to improve and reduce the environmental impact.*
- 2. Integrate sustainable operational and facility best practices into existing and new facilities.*
- 3. Encourage partners to engage in environmentally responsible practices.*
- 4. Promote environmental sustainability at work, home and community.*
- 5. Deliver improved performance to provide a long-term return on investment that supports our mission and values.”*

The applicant demonstrates that it will assure improved energy efficiency and water conservation in the proposed replacement nursing facility beds. Therefore, the applicant adequately demonstrates the proposal is consistent with Policy GEN-4.

In summary, the application is consistent with Policy NH-6, Policy NH-8 and Policy GEN-4, and therefore is conforming with 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

Cleveland County HealthCare System (CCHS) includes three acute care hospitals: Cleveland Regional Medical Center (CRMC) in Shelby, Kings Mountain Hospital (KMH) in Kings Mountain and Crawley Memorial Hospital (CMH) in Boiling Springs. CCHS also owns and operates Cleveland Pines Nursing Center (CPNC) in Shelby. CCHS proposes to relocate ten

nursing facility (NF) beds from KMH and ten NF beds from CMH to the 120-bed CPNC, for a total of 140 NF beds upon project completion.

Population to be Served

In Section III, pages 49-50, the applicant provides the current and projected patient origin during the first full year of operation following completion of the proposed project (10/1/2013-9/30/2014), as illustrated in the table below.

County	FFY 2010 Patient Origin % of Total NF Admissions			Projected Patient Origin FFY 2014 (Year 1) % of Total NF Admissions
	Crawley Memorial Hospital	Kings Mountain Hospital	Cleveland Pines Nursing Center	Cleveland Pines Nursing Center
Cleveland	78.4%	69.3%	98.2%	87.5%
Rutherford	16.0%	2.0%	1.1%	3.8%
Gaston	1.6%	21.3%	0.0%	5.9%
Other NC Counties	0.8%	4.0%	0.2%	1.2%
South Carolina	3.2%	3.5%	0.5%	1.7%
Total	100.0%	100.0%	100.0%	100.0%

In Section III.9(b), page 51, the applicant states:

“The projected patient origin is consistent with the applicants’ historical experience providing the nursing care services. To project patient origin for the proposed project, CPNC utilized the weighted average historical patient origin (FY2010) for the existing nursing care beds at CPNC, CMH and KMH. CPNC does not anticipate a significant change in patient origin as a result of the proposed project.”

The applicant adequately identifies the population to be served.

Need to Relocate and Replace Nursing Facility Beds

In Section III.1, pages 27-28, the applicant states:

“Relocating the hospital-based nursing care beds will result in more effective and cost efficient utilization of existing healthcare resources in Cleveland County. Specifically:

- *Many patients utilize the hospital-based skilled nursing beds for a short stay and are then discharged to another facility for a longer stay. Therefore, relocating the hospital-based beds to a freestanding skilled nursing facility that offers both short-term rehabilitative and long-term care services is more satisfactory from a patient perspective.*

- *The hospital-based skilled nursing units are very institutional and do not feature a home-like environment like a traditional nursing facility. This is very important considering the ongoing efforts to embrace Culture Change in nursing facilities both locally and nationally. CPNC has implemented several environmental enhancements supporting Culture Change including neighborhoods, gardens, residential building design and dining enhancements, staff empowerment and animal therapy. Therefore, relocating the hospital-based nursing care beds to CPNC will improve the delivery of long-term care services in Cleveland County.*
- *The CCHS nursing care beds in Boiling Springs (CMH) and Kings Mountain (KMH) are not geographically proximate to the greater healthcare infrastructure in Cleveland County. CCHS anticipates relocating the nursing care beds to Shelby will result in more effective utilization of existing healthcare resources because the beds will be more accessible to a greater population and in close proximity to referral sources.*
- *The existing hospital-based nursing care beds are located in small 10-bed nursing units, which are difficult to operate efficiently, with little opportunity for economies of scale. By contrast, the skilled nursing beds at CPNC are operating at high capacity, and the relocation of nursing beds will facilitate more efficient utilization of existing nursing care bed capacity in Cleveland County.*
- *CMH is submitting a separate CON application to relocate its LTCH beds to leased space within KMH. To accommodate the relocation of CMH's LTCH beds, KMH must relocate its nursing care beds. The proposed project is an effective alternative to improve access to nursing care services in Cleveland County by relocating beds to CPNC, while also assisting the LTCH relocation to KMH."*

On pages 28-37 the applicant provides the following additional information to support the need to relocate the NF beds to CPNC.

Population and Aging

On page 30 the applicant provides the following population projections for Cleveland County:

Cleveland County Population Projections

	2011	2016	2011 – 2016 % Growth
Total County Population	99,607	101,533	1.9%
Age 65+	14,644	16,318	11.4%
% Age 65+	14.7%	16.1%	

Source: NC Office of State Budget & Management

As shown in the table above, the Cleveland County population age 65 and over is projected to grow at a faster rate than the general population. On page 32 the applicant states that

according to the Medical Facilities Planning Section, the utilization rate of NF beds increases as the population ages and that the Cleveland County population age 65 and over is projected to use NF beds at a higher rate than the state's aging population, as shown in the table below.

**Projected 2015 NF Bed
Utilization per 1,000 Population**

	Cleveland County	North Carolina
< 65	.99	0.59
65 – 74	9.04	7.72
75 – 84	38.52	25.69
85 +	109.01	90.39

Nursing Home Trends

On pages 33-37 the applicant discusses the increasing demand for rehabilitation, post-acute services and care for patients with Alzheimer's disease and other dementia. CPNC has more effective programs to serve these patients than CMH and KMH. (CPNC does not have a separate Special Care Unit for patients with Alzheimer's disease and other dementia.)

The applicant adequately demonstrates the need to relocate the NF beds from CMH and KMH to CPNC.

Projected Utilization

In Section IV.1, pages 53-55, the applicant provides historical utilization for CPNC, KMH and CNH, as illustrated in the table below.

November 2010 – July 2011 (9 months)

	CPNC	KMH	CMH	Total
NF Patient Days	31,475	2,055	1,686	35,216
Occupancy Rate	96.1%	75.3%	61.8%	91.8%%
# of beds	120	10	10	140

In Section IV.2, pages 57-58, the applicant provides projected utilization for CPNC for the first two years of operation following completion of the proposed project, as illustrated in the tables below.

**Projected Utilization First Full Federal Fiscal Year
October 1, 2013 – September 30, 2014**

	1 st Quarter 10/1-12/31	2 nd Quarter 1/1-3/31	3 rd Quarter 4/1-6/30	4 th Quarter 7/1-9/30	Total
NF Patient Days	11,697	11,718	11,848	11,978	47,242
Occupancy Rate	90.8%	93.0%	93.0%	93.0%	92.4%
# of beds	140	140	140	140	140

**Projected Utilization Second Full Federal Fiscal Year
 October 1, 2014 – September 30, 2015**

	1st Quarter 10/1-12/31	2nd Quarter 1/1-3/31	3rd Quarter 4/1-6/30	4th Quarter 7/1-9/30	Total
NF Patient Days	11,978	11,718	11,848	11,978	47,523
Occupancy Rate	93.0%	93.0%	93.0%	93.0%	93.0%
# of beds	140	140	140	140	140

On page 56 the applicant provides the assumptions and methodology used for the utilization projections:

“CPNC projects utilization based on its existing average daily census of 115 patients (120 beds x 96.1% occupancy = 115 patients) and a net average fill-up rate of four patients per week for the relocated nursing care beds during the fill-up period. CPNC assumes occupancy of 93% in the first and second project years for the proposed expanded facility. This is conservative compared to CPNC’s current occupancy of 96.1%, and is consistent with the FY2010 weighted average occupancy for the 140 nursing care beds at CPNC, CMH and KMH.

Projected utilization is based on reasonable assumptions regarding the aging of the population and current utilization. The applicant adequately identifies the population to be served and demonstrates the need the population has for the proposal. Therefore, the application is conforming with 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.

C

The applicant proposes to relocate 10 NF beds from KMH and 10 NF beds from CMH to CPNC. On pages 47-48 the applicant states the following regarding the impact of the relocation of NF beds on the population presently being served:

- Patients served in hospital-based NF beds are usually discharged to other facilities for longer stays, so the relocation of the NF beds will not impact these hospital-based patients.
- For any remaining NF patients in the CMH and KMH NF facilities who choose not to move to CPNC, the applicant will assist these patients in relocating to other facilities by contacting the Cleveland County Department of Social Services and other facilities directly.
- The applicant expects the relocation to result in increased Medicaid utilization since CPNC provides both short-term rehabilitation and long-term nursing care. CPNC

currently has higher Medicaid utilization than the two hospital-based facilities and projects to continue to maintain a high level of Medicaid utilization.

- The CPNC addition will be a modern new facility and will include all larger, private rooms.
- None of the current patients at CMH and KMH has stated that they would not relocate to the new facility.

The Project Analyst determined the distance from CPNC to CMH to be 11.4 miles and the distance from KMH to be 14.7 miles, according to Google maps. CPNC is centrally located in Cleveland County, providing easy access from all parts of the county.

The applicant adequately demonstrates that relocation of the beds will have a positive effect 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. Furthermore, the applicant adequately demonstrates that the needs of the population presently served will be met adequately following relocation of the beds. Consequently, the application is conforming with this criterion.

- (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.

C

In Section III.2(a), pages 38-41, the applicant describes the three other alternatives considered, including maintaining the status quo, replacement and relocation of the facility to a different location, and developing an Alzheimer's care unit. Consolidating the NF beds in one location was determined to be the least costly or most effective alternative.

Furthermore, the application is conforming with all other applicable statutory review criteria. See Criteria (1), (3), (3a), (5), (6), (7), (8), (12), (13), (14), (18a), and (20). The applicant adequately demonstrates that its proposal is the least costly or most effective alternative. Therefore, the application is conforming with this criterion and approved subject to the following conditions.

- 1. Cleveland County HealthCare System shall materially comply with all representations made in its certificate of need application.**
- 2. Cleveland County HealthCare System shall construct an addition to the existing Cleveland Pines Nursing Center to replace and relocate 10 nursing facility beds each from Crawley Memorial Hospital, Inc. and Kings Mountain Hospital, with a total licensed bed complement of no more than 140 beds upon completion of the project.**
- 3. Cleveland County HealthCare System shall provide documentation that the 10 nursing facility beds at Crawley Memorial Hospital and the nursing facility 10**

beds at Kings Mountain Hospital are delicensed following completion of the proposed project.

- 4. Cleveland County HealthCare System shall submit all patient charges and actual per diem reimbursement for each source of patient payment to the Certificate of Need at year end for each of the first two operating years following licensure of the beds in the new facility.**
 - 5. For the first two full federal fiscal years of operation following completion of the project, actual private pay charges shall not be increased more than 5% of the projected private pay charges provided in Section X of the application without first obtaining a determination from the Certificate of Need Section that the proposed increase is in material compliance with the representations made in the certificate of need application.**
 - 6. Cleveland County HealthCare System shall receive Medicaid per diem rates allowed by the Division of Medical Assistance, under the NC State Plan Section .0102.**
 - 7. Cleveland County HealthCare System 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, page 87, the applicant projects the total capital expenditure for the proposed project to be \$4,023,347, which includes \$317,996 site costs, \$2,852,651 in construction costs, \$577,700 in equipment and furniture costs, \$225,000 in architect and engineering fees, and \$50,000 in consulting fees. On page 88 the applicant states that the capital costs will be funded with accumulated reserves of CCHS.

Exhibit 15 contains a letter dated September 13, 2011 from the Vice President/Chief Financial Officer of CCHS, which states:

"[T]his letter serves to document and certify the availability and sufficiency of accumulated reserves to fund the proposed Nursing Care Bed Relocation and Facility Expansion project. It is anticipated that the projects costs will be approximately \$4.0 million.

...

As of December 31, 2010, the most recent fiscal year end for which an audited financial statement is available and included with the CON application, the statements reflect cash and short term investments totaling \$15,545,000 consisting principally of cash equivalents and certificates of deposit and \$96,695,000 of funded depreciation consisting principally of fixed income and equity investments."

On page 92 the applicant states that the project will not require any start-up or initial operating expenses. The applicant adequately demonstrates the availability of funds for the capital needs of the proposed project.

In Section X.4, pages 99-100, the applicant projects the following monthly rates and charges by payor source for the facility in the first two full federal fiscal years (October 1, 2013 – September 30, 2015) of operation following completion of the proposed project.

Payor Source	Private Room	Semi-Private Room
Private Pay	\$178.00	\$178.00
Commercial Insurance	\$178.00	\$178.00
Medicare *	\$433.23	\$433.23
Medicaid	\$155.50	\$155.50

* Medicare charge is the weighted average of the facility's RUG rates.

In the projected revenue and expense statement, the applicant projects that revenues will exceed operating costs in each of the first two years of operation, as shown in the table below.

Projected Revenue and Expenses		
	Year 1	Year 2
Net Revenue	\$9,974,990	\$10,033,358
Operating Expenses	\$9,818,646	\$9,837,410
Income	\$156,344	\$195,948

The assumptions used by the applicant in preparation of the pro formas, including projected utilization, are reasonable. See Criterion (3) for discussion of utilization projections.

In summary, the applicant adequately demonstrates the availability of funds for the capital needs of the proposal and adequately demonstrates that the financial feasibility of the proposal is based on reasonable projections of cost and revenues. Therefore, the application is conforming with the 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.

The applicant proposes to relocate existing NF beds. The proposal will not result in a change in the total number of NF beds in Cleveland County. The applicant does not propose to develop additional nursing facility beds. The applicant adequately demonstrates the need for the total number of NF beds proposed at CPNC. Consequently, the applicant adequately demonstrates that the proposed project would not result in the unnecessary duplication of existing or approved health service capabilities or facilities in Cleveland County. 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

The applicant projects the following staff for the second full federal fiscal year of the proposed project, as reported on pages 80-82 of the application and illustrated in the table below.

	FTEs
Director of Nursing	1.00
Assistant Director of Nursing	1.00
Staff Development Coordinator	1.00
MDS Coordinator	3.50
RNs	8.40
LPNs	21.00
Certified Nursing Assistants	65.80
Restorative Aides (CNAs)	4.40
Medical Records	1.00
Ward Secretary	3.50
Food Service Supervisor	1.00
Cooks	5.90
Dietary Aides	9.00
Admissions Coordinator	1.00
Assitant Admissions Coordinator	1.50
Activity Director	1.00
Activities Aide	1.50
Director of Environmental Services	1.00
Housekeeping Supervisor	1.50
Housekeeping Aides	10.00
Laundry Aides	2.00
Maintenance Supervisor	1.00
Maintenance Assistant	1.00
Administrator	1.00
Administrative Secretary	1.00
Business Office Manager	1.00
Human Resources Director	1.00
Receptionist	1.40
Total	154.4

In supplemental information, the applicant states that the current and projected staff also includes a Social Work Director, two part-time Assistant Social Workers (1 FTE) and one Transportation driver.

In Section VII.1, pages 74-76, the applicant states that the facility currently operates with a total of 136.7 FTEs. The applicant projects 17,472 RN hours (8.40 RNs x 2,080 annual hours = 17,472), 43,680 LPN hours (21 LPNs x 2,080 annual hours = 43,680), and 128,310 CNA hours (65.8 CNAs x 1,950 annual hours = 128,310) in Project Year 2. Therefore, the applicant projects 3.99 nursing hours per patient day in Project Year 2 $[(17,472 + 43,680 + 128,310) = 189,462 \text{ hours per year} / 47,523 \text{ total patient days} = 3.99 \text{ nursing hours per patient day}]$.

Exhibit 4 contains a letter from Brent Gill, MD, Medical Director of CPNC, expressing his willingness to continue to serve as medical director upon project completion. Adequate costs for the health manpower and management positions proposed by the applicant are budgeted in the Pro forma financial statements. The applicant adequately demonstrates the availability of sufficient health manpower and management personnel to provide the proposed services. Therefore, the application is conforming with 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

In Section II.4, page 24, the applicant states it will provide physical, occupational and speech therapy services through a contractual arrangement with CRMC. In Section V.2, page 61, the applicant states that CPNC has existing transfer agreements with CRMC, CMH and KMH, which are included in Exhibit 12. Therefore, the applicant adequately demonstrates that the necessary ancillary and support services will be available and that the proposed services will be coordinated with the existing health care system. Consequently, 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.

C

The applicant proposes to construct a 13,305 square foot addition to CPNC in order to relocate 10 NF beds from CMH and 10 NF beds from KMH. The expansion will result in a NF with 54,982 square feet of space. The proposed facility will consist of 24 private rooms and 58 semi-private rooms. In Section VIII.1, page 87, the applicant projects the total cost for site preparation and construction of the addition will be \$3,170,647. Exhibit 28 contains a letter dated September 7, 2011 from the architect which is consistent with this projection. On pages 42-43 the applicant describes the energy saving features incorporated into the construction plans. See Criterion (1) for discussion.

The applicant adequately demonstrates 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 the proposed health care services. See Criterion (5) for discussion of costs and charges. 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;

C

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. The following table illustrates those percentages as of June 2010 and CY 2008, respectively. The data in the table were obtained on December 12, 2011. More current data, particularly with regard to the estimated uninsured percentages, were not available.

	Total # of Medicaid Eligibles as % of Total Population	Total # of Medicaid Eligibles Age 21 and older as % of Total Population	% Uninsured CY 2008 (Estimate by Cecil G. Sheps Center)
County			
Cleveland	23%	10.6%	18.6%
Rutherford	21%	9.7%	18.5%
Gaston	20%	8.7%	19.0%
Statewide	17%	6.8%	19.7%

Data for CPNC is not available on the DMA web site.

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 services offered by CPNC.

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 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. However, as of December 12, 2011, no population data were available by age, race or gender. Even if the data were available, a direct comparison to the applicants' current payor 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.

In Section VI, pages 66-67, the applicant provides the current payor mix (October 2009 – September 2010) for CPNC, as illustrated in the table below.

Payor Source	% of Patient Days
Private Pay	11.1%
Medicare	15.3%
Medicaid	65.1%
Commercial	8.4%
Total	100.0%

As of December 12, 2011, there were 3 facilities with nursing facility beds in Cleveland County, excluding hospitals and Continuing Care Retirement Communities (CCRCs) with NF beds. The following table illustrates the payor mix for these facilities and the Cleveland County and Statewide Averages for Fiscal Year 2009, as reported to the Division of Medical Assistance.

Facility*	Medicaid NF Days as a % Total NF Days Reported to DMA in 2009 Cost Reports	Medicare NF Days as a % of Total NF Days Reported to DMA in 2009 Cost Reports
Century Care of Shelby	78%	12%
White Oak Manor Kings Mountain, Inc.	72%	10%
White Oak Manor Shelby, Inc.	78%	7%
Cleveland County Average	76%	10%
Statewide Average (excluding NF beds in hospitals and CCRCs)	68%	17%

*No data were available for CPNC.

The applicant demonstrates that CPNC provides adequate access to medically underserved populations. Therefore, the application is conforming with 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;

C

On page 66 the applicant states:

“Consistent with its current business practice, CPNC will continue to provide all services to all parties regardless of income racial/ethnic origin, gender, physical or mental conditions, age, ability to pay or any other factor that would classify a patient as underserved.”

In Section VI.6, page 70, the applicant states: “ CPNC has not had any civil rights access complaints.”

Therefore, the application is conforming with 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.3, page 67, the applicant projects the payor mix for the second full federal fiscal year (October 1, 2014 – September 1, 2015), as illustrated in the table below.

Payor Source	% of Patient Days
Private Pay	11.1%
Medicare	15.3%
Medicaid	65.1%
Commercial	8.4%
Total	100.0%

The applicant demonstrates that the proposed nursing facility will provide adequate access to the medically underserved populations. Therefore, the application is conforming with 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.7, page 72, the applicant lists facilities that refer patients to CPNC. The applicant demonstrates a range of means by which a person would have access to the proposed services. Therefore, the application is conforming with 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 Section V.1, page 61, the applicant states:

“CCHS and CPNC currently have positive working relationships with several local community colleges and universities. As part of the CCHS system, CPNC will continue to be included in these existing clinical affiliation agreements.”

Exhibit 9 contains affiliation agreements with Isothermal Community College and Cleveland Community College. The applicant adequately demonstrates that the proposed project will accommodate the clinical needs of health professional training programs. Therefore, the application is conforming with 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

See Sections II.6, II.7, III.1, III.2, III.3, III.6, III.7, V.7, VI, VII, and XI.7. The information provided by the applicant in those sections is reasonable and credible and adequately demonstrates that the relocation of NF beds from CMH and KMH to CPNC would have a positive impact on cost-effectiveness, quality and access to the proposed services because:

- o The relocation of NF beds from CMH and KMH to CPNC is needed and the proposal is a cost-effective alternative to meet the need for NF services in Cleveland County [see Criteria (1), (3), (4) (5) and (12) for additional discussion];
- o The applicant has and will continue to provide quality services [see Criteria (7), (8) and (20) for additional discussion];
- o The applicant has and will continue to provide adequate access to medically underserved populations [see Criterion (13) for additional discussion].

Therefore, the application is conforming with 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

CCHS d/b/a CPNC is a certified provider of Title XVIII (Medicare) and Title XIX (Medicaid). According to files in the Nursing Home and Licensure and Certification Section in the Division of Health Service Regulation, no incidents have occurred 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 with 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 in 10A NCAC 14C .1100 are not applicable because the applicant does not propose to establish new nursing facility beds.

STATE OF NORTH CAROLINA

*Department of Health and Human Services
Division of Health Service Regulation*

CERTIFICATE OF NEED

for

Project Identification Number #C-8737-11

FID #923107

ISSUED TO: Cleveland County HealthCare System
201 E. Grover Street
Shelby, NC 28150

Pursuant to N.C. Gen. Stat. § 131E-175, et. seq., the North Carolina Department of Health and Human Services hereby authorizes the person or persons named above (the "certificate holder") to develop the certificate of need project identified above. The certificate holder shall develop the project in a manner consistent with the representations in the project application and with the conditions contained herein and shall make good faith efforts to meet the timetable contained herein. The certificate holder shall not exceed the maximum capital expenditure amount specified herein during the development of this project, except as provided by N.C. Gen. Stat. § 131E-176(16)e. The certificate holder shall not transfer or assign this certificate to any other person except as provided in N.C. Gen. Stat. § 131E-189(c). This certificate is valid only for the scope, physical location, and person(s) described herein. The Department may withdraw this certificate pursuant to N.C. Gen. Stat. § 131E-189 for any of the reasons provided in that law.

SCOPE: Cleveland County HealthCare System shall relocate and replace 10 nursing facility beds from Crawley Memorial Hospital and 10 nursing facility beds from Kings Mountain Hospital to Cleveland Pines Nursing Center/ Cleveland County

CONDITIONS: See Reverse Side

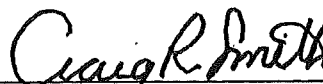
PHYSICAL LOCATION: Cleveland Pines Nursing Center
1404 North Lafayette Street
Shelby, NC 28150

MAXIMUM CAPITAL EXPENDITURE: \$4,023,347

TIMETABLE: See Reverse Side

FIRST PROGRESS REPORT DUE: August 1, 2012

This certificate is effective as of the 18th day of January, 2012.



Chief, Certificate of Need Section
Division of Health Service Regulation

CONDITIONS:

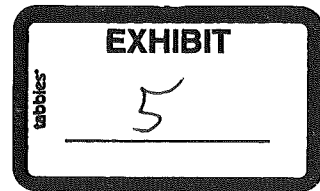
1. Cleveland County HealthCare System shall materially comply with all representations made in its certificate of need application.
2. Cleveland County HealthCare System shall construct an addition to the existing Cleveland Pines Nursing Center to replace and relocate 10 nursing facility beds each from Crawley Memorial Hospital, Inc. and Kings Mountain Hospital, with a total licensed bed complement of no more than 140 beds upon completion of the project.
3. Cleveland County HealthCare System shall provide documentation that the 10 nursing facility beds at Crawley Memorial Hospital and the nursing facility 10 beds at Kings Mountain Hospital are delicensed following completion of the proposed project.
4. Cleveland County HealthCare System shall submit all patient charges and actual per diem reimbursement for each source of patient payment to the Certificate of Need at year end for each of the first two operating years following licensure of the beds in the new facility.
5. For the first two full federal fiscal years of operation following completion of the project, actual private pay charges shall not be increased more than 5% of the projected private pay charges provided in Section X of the application without first obtaining a determination from the Certificate of Need Section that the proposed increase is in material compliance with the representations made in the certificate of need application.
6. Cleveland County HealthCare System shall receive Medicaid per diem rates allowed by the Division of Medical Assistance, under the NC State Plan Section .0102.
7. Cleveland County HealthCare System 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.

A letter acknowledging acceptance of and agreeing to comply with all conditions stated in the conditional approval letter was received by the Certificate of Need Section on December 28, 2011.

TIMETABLE:

Contract Award	_____	October 1, 2012
25% Completion of Construction	_____	January 15, 2013
50% Completion of Construction	_____	April 1, 2013
75% Completion of Construction	_____	June 1, 2013
Completion of Construction	_____	September 15, 2013
Opening of Addition	_____	October 1, 2013





ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

- C = Conforming
- CA = Conditional
- NC = Nonconforming
- NA = Not Applicable

DECISION DATE: May 31, 2013

PROJECT ANALYST: Julie Halatek
 ASSISTANT CHIEF: Martha J. Frisone

PROJECT I.D. NUMBER: C-10095-13 / Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. / Cost overrun for Project I.D. #C-8736-11 (Relocate 28 long-term care hospital beds from Crawley Memorial Hospital to leased space in Kings Mountain Hospital) / Cleveland 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.

NA

The applicants are Cleveland County HealthCare System d/b/a Kings Mountain Hospital (KMH) and Crawley Memorial Hospital, Inc. (CMH). CMS operates a long term acute care hospital currently located in Boiling Springs. Effective January 18, 2012, the applicants were issued a certificate of need (CON) for Project I.D. #C-8736-11 to relocate the existing long term acute care hospital to leased space within KMH, located in Kings Mountain, at a total capital cost of \$1,418,151. The applicants submit this current application, Project I.D. #C-10095-13, to request approval for a cost overrun.

The applicants do not propose to change the scope of their project, add any new health services or acquire equipment for which there is a need determination in the 2013 State Medical Facilities Plan (SMFP). Therefore, there are no need determinations in the 2013 SMFP that are applicable to this review. Furthermore, there are no policies in the 2013

Cleveland County HealthCare System and Crawley Memorial Hospital
C-10095-13
Page 2

SMFP that are applicable to this review. Consequently, this criterion is not applicable to this review.

- (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

Effective January 18, 2012, KMH and CMH were issued a certificate of need for the original application, Project I.D. #C-8736-11, to relocate the existing long term acute care hospital to leased space within KMH, in Kings Mountain. The approved capital expenditure for the original application is \$1,418,151. This current application, Project I.D. #C-10095-13, seeks approval for a cost overrun of \$1,490,000, which results in a total capital expenditure of \$2,908,151 for the entire project [$\$1,418,151 + \$1,490,000 = \$2,908,151$].

In Section II, page 10, the applicants state that there are no changes in services, beds, or medical equipment from the original application. However, the capital cost for the project will exceed 115 percent of the approved capital cost. In Section VI.1, page 49, the applicants compare the previously approved capital cost with the proposed capital cost. The proposed increase in total capital costs is shown in the table below.

Project Capital Cost			
	Previously Approved	Projected Total Cost	Cost Overrun Amount
Cost of materials/labor	\$743,379	\$1,769,611	\$1,026,232
Asbestos Abatement	\$75,000	\$405,722	\$330,722
Sub-total Construction	\$818,379	\$2,175,333	\$1,356,954
Moveable equipment Purchase/Lease	\$65,000	\$3,000	(\$62,000)
Equipment and furniture (IT)	\$200,000	\$192,400	(\$7,600)
Interiors (signage, artwork)	\$38,000	\$70,912	\$32,912
Architect and Engineering Fees	\$91,672	\$221,471	\$129,799
Consultant/Administrative	\$45,000	\$192,025	\$147,025
Moving fee/contingency	\$160,100	\$53,010	(\$107,090)
Sub-total miscellaneous	\$599,772	\$732,818	\$133,046
Total Capital Cost	\$1,418,181	\$2,908,151	\$1,490,000

The proposed increase in total capital costs of the project is 105 percent more than the approved capital cost [$\$2,908,151 / \$1,418,181 = 2.05$; $2.05 - 1 = 1.05$].

Population to be Served

In Section II.4, page 14 of this application, the applicants state, “*The primary service area...is Cleveland County.*” In Section III of the original application, the applicants provide the current and projected patient origin, as shown in the table below.

County	% of Total Patients	
	Current CY 2010	Projected CY 2013 – CY 2015
Cleveland	66.99%	66.99%
Rutherford	14.56%	14.56%
Gaston	6.80%	6.80%
South Carolina	4.85%	4.85%
Burke	3.88%	3.88%
Lincoln	0.97%	0.97%
McDowell	0.97%	0.97%
Other States	0.97%	0.97%
Total	100.0%	100.0%

The applicants project no change in the population to be served as a result of the cost overrun. The applicants adequately identified the population to be served.

Demonstration of Need

After the CON was issued for Project I.D. #C-8736-11, demolition began of the existing space at KMH. On pages 10-11, the applicants state that more asbestos was found than the applicants had initially thought would be present. This happened because when the existing ceiling in the hospital wing was removed, it was discovered that the original existing drywall and joint compound was in place throughout the entire hospital wing—not just the areas where heavy renovation was to occur. Testing that occurred revealed the presence of asbestos containing materials (ACM) in 100% of the samples tested. The applicants state that because of the additional ACM that is present, it is necessary to remove and replace the ACM to conform to applicable building standards and eliminate safety hazards, which will cause a significant increase in the total capital cost of the project. The applicants adequately demonstrated the need to relocate CMH in the original application. Nothing has changed to alter that determination. In this application, the applicants adequately demonstrate that additional capital is necessary to complete the previously approved project.

Access

In Section IV.2, page 38, the applicants state that the services at KMH will continue to be available to all patients regardless of any factor that would classify the patient as underserved. This is consistent with the applicants’ original application.

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 31-32, the applicants describe the alternatives considered, which included:

1. Maintaining the Status Quo—the applicants state this alternative means not completing the project.
2. Relocating the Beds to Another Facility—the applicants state this alternative is not as effective because CMS imposes a limit on the number of referrals from the host facility. Since the largest referral source for the projected beds is the only other facility at which the beds could be located, this alternative was discarded as not feasible.
3. Constructing New Space and Renovating Existing Space—the applicants state this alternative would cost more than the proposed cost overrun.

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

In summary, the applicants adequately demonstrate that their 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. Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. shall materially comply with all**

representations made in Project I.D. #C-8736-11 and Project I.D. #C-10095-13. In those instances in which representations conflict, Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. shall materially comply with the last made representation.

- 2. Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. shall not acquire, as part of this project, any equipment that is not included in the proposed capital expenditure in Section VI of the application and that would otherwise require a certificate of need.**
 - 3. Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. 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 the original application, Project I.D. #C-8736-11, the applicants were approved for a total capital expenditure of \$1,418,151. As a result of unanticipated increases in the cost of construction, due to the presence of more ACM than previously suspected, the applicants propose an increase in capital costs of \$1,490,000, which results in a total project capital expenditure of \$2,908,151 [$\$1,418,151 + \$1,490,000 = \$2,908,151$]. See Criterion (3) for additional discussion which is hereby incorporated by reference as if fully set forth herein. In the original project, the applicants stated there would be no start up or initial operating expenses associated with the project and proposed to finance the project with cash reserves from Cleveland County HealthCare System (Cleveland), the parent company of CMH and KMH. In Section VII, page 55, of the current application, the applicants do not indicate any start up or initial operating expenses and in Section VI.5, page 51, the applicants propose to finance the additional costs of the project with accumulated reserves from Cleveland. Exhibit 7 contains a letter dated March 4, 2013, signed by the Vice President/Chief Financial Officer for Cleveland, which states in part:

"It is anticipated that the projects [sic] costs will be approximately \$3.0 million, which includes cost overruns of \$1.5M associated with unforeseen asbestos remediation.

As Vice President and Chief Financial Officer of the Cleveland County HealthCare System, I hereby certify that cash of the organization in excess of this amount are available to fund the project."

Exhibit 8 contains audited statements for Cleveland. As of December 31, 2011, Cleveland had \$12,818,000 in cash and cash equivalents, \$270,512,000 in total assets and \$158,717,000 in net assets.

The applicants provided pro forma financial statements for the first three years of the project. The applicants project revenues will exceed operating expenses in each of the first three operating years of the project, as illustrated in the table below.

	Year 1 (CY 2014)	Year 2 (CY 2015)	Year 3 (CY 2016)
Projected # of Days	5,058	5,813	6,359
Projected Average Charge (Gross Patient Revenue / Projected # of Days)	\$4,100	\$4,182	\$4,265
Gross Patient Revenue	\$20,734,562	\$24,307,243	\$27,124,838
Deductions from Gross Patient Revenue	\$13,848,490	\$16,234,662	\$18,116,516
Net Patient Revenue	\$6,886,072	\$8,072,581	\$9,008,322
Total Expenses	\$7,137,744	\$7,728,996	\$8,201,721
Net Income	(\$251,672)	\$343,585	\$806,601

*Source: Forms C, D, & E, Section XI

The assumptions used by the applicants in preparation of the pro forma financial statements are reasonable, including project utilization, costs and charges. See Section XI for the assumptions regarding costs and charges. See Criterion (3) for discussion regarding projected utilization which is incorporated hereby as if fully set forth herein. The applicants adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

In summary, the applicants adequately demonstrated the availability of funds for the capital needs of the project. Furthermore, the applicants adequately demonstrated that the financial feasibility of the proposal is based upon reasonable projections of costs and charges. 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 original application, Project I.D. #C-8736-11, was conforming to this criterion and the applicants propose no changes in this current application to affect that determination. Therefore, 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 original application, Project I.D. #C-8736-11, was conforming to this criterion and the applicants propose no changes in this current application to affect that determination. 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.

C

The original application, Project I.D. #C-8736-11, was conforming to this criterion and the applicants propose no changes in this current application to affect that determination. Therefore, 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:
 - 1. Would be available under a contract of at least 5 years duration;
 - 2. Would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
 - 3. Would cost no more than if the services were provided by the HMO; and

4. 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

- (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;

C

The original application, Project I.D. #C-8736-11, was conforming to this criterion and the applicants propose no changes in this current application to affect that determination. Therefore, the application is 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;

C

The original application, Project I.D. #C-8736-11, was conforming to this criterion and the applicants propose no changes in this current application to affect that determination. Therefore, 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 IV.6, page 41, the applicants provide the projected payor mix for the second full fiscal year (CY2014) which has been updated from the original application based on the most recent payor mix (CY2012). The first table below illustrates the projected payor mix for CY2014 from the original application. The second table below illustrates the revised payor mix for CY2014 from the cost overrun application.

PAYOR CATEGORY (CY 2014 ORIGINAL)	PERCENTAGE OF TOTAL UTILIZATION
Self-Pay	0.54%
Medicare	70.83%
Medicaid	26.63%
Managed Care/Commercial	1.36%
Other (includes TriCare and other government)	0.64%
Total	100%

*Source: Section VI.15(b), Project I.D. #C-8736-11

PAYOR CATEGORY (CY 2014 UPDATED)	PERCENTAGE OF TOTAL UTILIZATION
Self-Pay	0%
Medicare	85%
Medicaid	3%
Managed Care/Commercial	12%
Other	0%
Total	100%

*Source: Section IV.6, page 41.

The applicants demonstrated 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

The original application, Project I.D. #C-8736-11, was conforming to this criterion and the applicants propose no changes in this current application to affect that determination. Therefore, 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

The original application, Project I.D. #C-8736-11, was conforming to this criterion and the applicants propose no changes in this current application to affect that determination. Therefore, 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 original application, Project I.D. #C-8736-11, was conforming to this criterion and the applicants propose no changes in this current application to affect that determination. Therefore, 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

CMH and KMH are accredited by the Joint Commission and certified by CMS for Medicare and Medicaid participation. According to the records in the Acute and Home Care Licensure and Certification Section, DHSR, no incidents have occurred at CMH or KMH 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



STATE OF NORTH CAROLINA
Department of Health and Human Services
Division of Health Service Regulation

CERTIFICATE OF NEED

for

Project Identification Number #C-10095-13

FID #120232

ISSUED TO: **Crawley Memorial Long Term Care Hospital**
201 East Grover Street
Shelby, NC 28150

Pursuant to N.C. Gen. Stat. § 131E-175, et. seq., the North Carolina Department of Health and Human Services hereby authorizes the person or persons named above (the "certificate holder") to develop the certificate of need project identified above. The certificate holder shall develop the project in a manner consistent with the representations in the project application and with the conditions contained herein and shall make good faith efforts to meet the timetable contained herein. The certificate holder shall not exceed the maximum capital expenditure amount specified herein during the development of this project, except as provided by N.C. Gen. Stat. § 131E-176(16)e. The certificate holder shall not transfer or assign this certificate to any other person except as provided in N.C. Gen. Stat. § 131E-189(c). This certificate is valid only for the scope, physical location, and person(s) described herein. The Department may withdraw this certificate pursuant to N.C. Gen. Stat. § 131E-189 for any of the reasons provided in that law.

SCOPE: **Cost overrun for Project I.D. #C-8736-11 (Relocate 28 long-term care hospital beds from Crawley Memorial Hospital to leased space in Kings Mountain Hospital)/ Cleveland County**

CONDITIONS: **See Reverse Side**


PHYSICAL LOCATION: **Crawley Memorial Long Term Care Hospital**
706 W King Street
Kings Mountain, NC 28086

MAXIMUM CAPITAL EXPENDITURE: **\$1,490,000**

TIMETABLE: **See Reverse Side**

FIRST PROGRESS REPORT DUE: **August 31, 2013**

This certificate is effective as of the 2nd day of July, 2013



Chief, Certificate of Need Section
Division of Health Service Regulation

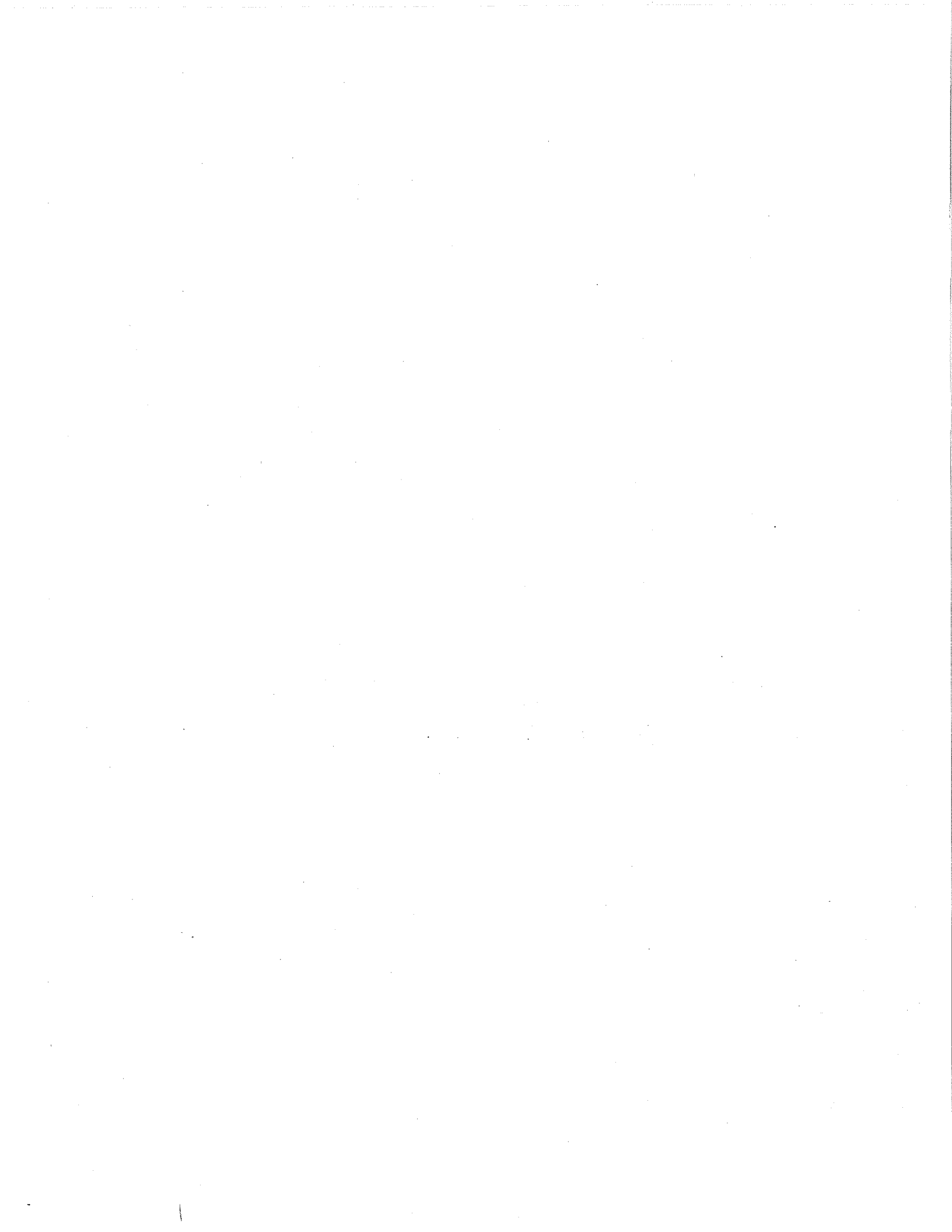
CONDITIONS:

1. Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. shall materially comply with all representations made in Project I.D. #C-8736-11 and Project I.D. #C-10095-13. In those instances in which representations conflict, Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. shall materially comply with the last made representation.
2. Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. shall not acquire, as part of this project, any equipment that is not included in the proposed capital expenditure in Section VI of the application and that would otherwise require a certificate of need.
3. Cleveland County HealthCare System d/b/a Kings Mountain Hospital and Crawley Memorial Hospital, Inc. 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.

A letter acknowledging acceptance of and agreeing to comply with all conditions stated in the conditional approval letter was received by the Certificate of Need Section on June 17, 2013.

TIMETABLE:

Obtaining Financing	July 31, 2013
Completion of Final Drawings and Specifications by the Construction Section, DHSR	August 15, 2013
Approval of Final Drawings and Specifications	August 31, 2013
25% Completion of Construction	October 1, 2013
50% Completion of Construction	November 1, 2013
75% Completion of Construction	December 1, 2013
Completion of Construction	December 15, 2013
Occupancy/Offering of Services	January 1, 2014



Carolinas Community Care, LLC

Manager of
Carolinas
ContinueCare
Hospital, Inc

Owens all stock
of Carolinas
ContinueCare
Hospital, Inc



Carolinas
ContinueCare
Hospital, Inc

Will own and operate Crawley Hospital LTACH beds
once relocated to Kings Mountain Hospital with
Carolinas Community Care, LLC
as manager