

July 1, 2010



Mr. Craig R. Smith, Chief
Certificate of Need Section
Division of Health Service Regulation
2704 Mail Service Center
Raleigh, North Carolina 27699-2704

Received by the
CON Section

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Dear Mr. Smith:

In accordance with N.C. GEN. STAT. § 131E-185(a1)(1), Brookdale Place of South Charlotte ("Brookdale") submits the following comments related to applications to acquire adult care home beds in Mecklenburg County. Brookdale's comments include "discussion and argument regarding whether, in light of the material contained in the application and other relevant factual material, the application complies with the relevant review criteria, plans and standards." N.C. GEN. STAT. § 131E-185(a1)(1)(c). As such, Brookdale's comments are organized by the general CON statutory review criteria and specific regulatory criteria and standards, as they relate to the following applications:

- Liberty Healthcare Properties of Mecklenburg County, LLC (Liberty), Project ID# F-8524-10
- Mount Tabor Community Development Corporation (Mount Tabor), Project ID # F-8526-10
- Preston House I, LLC, (Preston House), Project ID# F-8522-10
- Queen City Health Investors, LLC, (Queen City), Project ID # F-8523-10
- The Villages of Mecklenburg Assisted Living, LLC, (The Villages of Mecklenburg), Project ID # F-8517-10
- Waltonwood at Ballantyne, LLC, (Waltonwood), Project ID # F-8515-10
- Brookdale Place of South Charlotte, LLC, (Brookdale), Project ID # F-8518-10

Based on Brookdale's review of the applications, and as demonstrated in detail in the attached comments, each application, with the exception of Brookdale's application, is non-conforming with several review criteria and should not be approved. We appreciate your consideration of these comments.

Sincerely,

Emily Cromer

Consultant to Brookdale Place of South Charlotte

Competitive Comments on Mecklenburg County Adult Care Home Bed Applications

submitted by

Brookdale Place of South Charlotte, LLC

In accordance with N.C. GEN. STAT. § 131E-185(a1)(1), Brookdale Place of South Charlotte, LLC (Brookdale) submits the following comments related to competing applications to develop adult care home beds in Mecklenburg County to meet the need for 340 adult care home beds identified in the 2010 *State Medical Facilities Plan (SMFP)*. Brookdale's comments include "*discussion and argument regarding whether, in light of the material contained in the application and other relevant factual material, the application complies with the relevant review criteria, plans and standards.*" See N.C. GEN. STAT. § 131E-185(a1)(1)(c). As such, Brookdale's comments are organized by the general CON statutory review criteria and specific regulatory criteria and standards, as they relate to the following applications:

- **Liberty Healthcare Properties of Mecklenburg County, LLC (Liberty), Project ID# F-8524-10**
- **Mount Tabor Community Development Corporation (Mount Tabor), Project ID # F-8526-10**
- **Preston House I, LLC, (Preston House), Project ID# F-8522-10**
- **Queen City Health Investors, LLC, (Queen City), Project ID # F-8523-10**
- **The Villages of Mecklenburg Assisted Living, LLC, (The Villages of Mecklenburg), Project ID # F-8517-10**
- **Waltonwood at Ballantyne, LLC, (Waltonwood), Project ID # F-8515-10**
- **Brookdale Place of South Charlotte, LLC, (Brookdale), Project ID # F-8518-10**

In the following pages, Brookdale has commented fully on each application according to CON review criteria. Brookdale acknowledges that some deficiencies noted in these comments could be due to miscommunication in an applicant's CON application that might be adequately addressed in response to comments. However, Brookdale believes that many of the deficiencies and non-conformities noted are too significant to overcome in response to comments without amending the application, therefore rendering the applications unapprovable.

Liberty Healthcare Properties of Mecklenburg County, LLC (Liberty)

- (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, or home health offices that may be approved.*

Liberty fails to demonstrate that its project is consistent with all applicable policies and need determinations in the State Medical Facilities Plan.

As discussed under Criterion 4 and Criterion 12, Liberty fails to demonstrate that it has proposed the most effective alternative with regard to facility size and renovation as they relate to cost effectiveness. As such, Liberty has not demonstrated its consistency with the Value Basic Principle as required by Policy GEN-3 and is not conforming with Criterion 1.

- (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.*

Liberty fails to demonstrate the need of the population for the proposed project, based on the following reasons:

Liberty projects to reach 95 percent occupancy of its proposed 340 adult care home beds after only 18 months of operation of the proposed facility and to maintain that occupancy going forward. Liberty projects a total of 117,895 patient days in the second full fiscal year of the project. These projections are very aggressive and based on unreasonable and unsubstantiated assumptions. As explained on pages 61 and 62 of its application, Liberty assumes that it will open the facility with a starting census of 30 residents in the general adult care home beds and five residents in the special care unit. However, while Liberty claims that this is reasonable based on its experience in opening new facilities, it does not provide any examples of this experience nor does it specify what type of facility and in what type of market this previous experience is based upon, and therefore Liberty fails to provide any substantive evidence supporting its assumed starting census.

Additionally, Liberty applies a very aggressive fill-up rate for the proposed 340 beds. Specifically, on page 62, Liberty states, "Given the experience of

the owners/operators it is believed that Shamrock Village can attract an average of 4 new residents a week and factors in a discharge rate of 3 residents per month (0.75 residents per week) in the general adult care population. It uses the assumption of an average of 1 new special care unit resident per week and a discharge rate of 1 resident per month (0.25 residents per week)." In other words, and as outlined in Exhibit 28 of Liberty's application, until it reaches a stabilized occupancy of 95 percent, Liberty assumes that it will have a net of 3.25 general adult care home resident admissions and 0.75 special care unit resident admission per week, consistently each week for the first 18 months of operation of the facility. Assuming such an aggressive, and prolonged, fill-up rate appears to be unreasonable. Further, similar to the starting census, Liberty provides no concrete evidence that it can reasonably expect to achieve this aggressive fill-up rate, but rather refers vaguely to past experience of the owners/operators.

For these reasons, Liberty is not conforming with Criterion 3.

- (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.*

Liberty fails to demonstrate that it has proposed the least costly or most effective alternative.

On page 54 of its application, Liberty states that it considered the development of 240, rather than 340, adult care home beds. Given Liberty's unreasonably aggressive and unsubstantiated assumptions regarding fill-up of a 340 bed facility, it stands to reason that a 240-bed facility might have been a more reasonably sized facility. It is questionable whether Liberty can actually operate a 340-bed facility at even the 85 percent occupancy required in the criteria and standards. A large facility operated at low occupancy clearly does not represent an effective alternative.

Further, of the 830 total facilities in North Carolina that operate licensed adult care home beds, only 68 facilities (or eight percent) operate more than 100 beds. Of those 68, only seven have 150 or more beds, and only one, The Commons at Brightmore in New Hanover County with 201 beds, has more than 200 beds. Liberty proposes a facility with 70 percent more beds than the largest existing adult care home facility in the State. This comparison with existing, operational North Carolina providers calls into question the effectiveness of operating a facility of the magnitude that Liberty proposes.

Based on previously proposed CON projects, it appears that Liberty itself has even acknowledged that a facility of this size does not represent the most effective alternative for long-term patient care. As it states in its application, the facility that Liberty proposes for the location of its 340 adult care home beds was previously operated as a skilled nursing facility with 289 beds. In 2007, Liberty filed two CON applications, Project ID # F-7910-07 to relocate 169 of the 289 skilled nursing beds to a new facility in Matthews, and Project ID # F-7911-07 to relocate the remaining 120 skilled nursing beds to a new facility in Mint Hill. Liberty's demonstration of qualitative need in those two CON applications is entirely contradictory to its proposed project to develop a 340-bed adult care home facility in the vacated nursing facility building. Specifically, Liberty argued that the facility itself, which was built in 1963 and used as a civil defense location, created challenges in gaining energy and operational efficiencies, and that it was limited in what it could reasonably accomplish with refurbishments. As one example, Liberty cited operational efficiency challenges related to operating seven separate dining rooms given the configuration of the building. According to its adult care home application that is the subject of these comments, Liberty still proposes to operate each floor of the facility as a separate unit, suggesting that it will continue to face the same problems relative to efficiency that it encountered in operating a skilled nursing facility in the building.

Moreover, Liberty argued that the six-story structure did not lend itself to the delivery of good quality patient care, which Liberty prides itself on, and that the large size of the facility, with 289 beds, was not conducive to creating a home-like atmosphere, but rather was institutional in feel. For these reasons, Liberty proposed to relocate the 289 skilled nursing beds to two separate, smaller facilities, each requiring new construction. This calls into question how Liberty now proposes to effectively and efficiently operate a facility with 18 percent more beds than the previous skilled nursing facility housed. Additionally, providing a home-like, non-institutional atmosphere in an assisted living facility is as critically important, if not more so, as providing a home-like atmosphere in a skilled nursing facility given that assisted living residents are typically much more independent than nursing home residents and typically have a longer length of stay. If Liberty was not able to achieve that, or in its own words to provide good quality patient care, with such a large skilled nursing facility, it is questionable at best whether Liberty can do so in an even larger adult care home facility.

- (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.*

Liberty fails to demonstrate that the financial and operational projections are based on reasonable assumptions and therefore fails to demonstrate the immediate and long-term financial feasibility of the project.

As discussed under Criterion 3, Liberty's utilization projections are overstated, unreliable, and based on aggressive and unsubstantiated assumptions. Because Liberty's financials projections are based on faulty utilization projections, the financial feasibility of its proposed project is questionable.

As discussed under Criterion 7, Liberty fails to demonstrate the availability of sufficient staff for the operation of its proposed facility. For both direct care staff alone and the overall staffing of the facility, Liberty projects significantly lower staff than all other applicants in this review. As a result of its insufficient FTE projections, Liberty has grossly understated its salary expenses in its proforma financials.

Additionally, Liberty's projected per patient day costs in the second full fiscal year of its proposed project are significantly lower than all other applicants in several areas, the most concerning being routine services (health services plus personal care services). In the second full fiscal year of operation, Liberty projects its total per patient day cost for routine services to be \$27.40. In contrast, the other applicants in this review project a range of \$32.41 to \$88.68 per patient day for routine services in the second year, rendering Liberty's projection 15 to 53 percent lower than the other applicants in this review. Similarly, Liberty's total costs per patient day are projected to be \$73.83 in the second full fiscal year of the project. In contrast, the other applicants in this review project a range of \$96.60 to \$147.23 total costs per patient day in the second year, rendering Liberty's projection 24 to 50 percent lower than the other applicants in this review.

Further, many of Liberty's per patient day costs are significantly below the North Carolina average experience of adult care home facilities. Specifically, Liberty projects property ownership and use, administrative and general, and operations and maintenance to be 49 percent, 28 percent, and 10 percent below the State average cost, respectively. Liberty's lower than average

property ownership and use cost is likely attributable to the age of its facility, which is discussed in depth under Criterion 3. Given the age of its facility, one would expect Liberty's maintenance and operations cost to be at least as high as, if not higher than, the State average, especially given discussions regarding difficulties with energy and operational efficiencies in its CON applications to relocate skilled nursing beds from the existing facility. Finally, while its administrative and general costs might be attributable to efficiencies gained through the operation of such a large organization, one would still expect its projected Year 2 costs (in 2014) to at least be similar to the statewide average from 2008, which is the year reported in the North Carolina statistics. Similarly, Liberty's total indirect expenses are 18 percent below the State average, and its total expenses are four percent below the State average. Based on comparisons with other applicants in this review and with North Carolina averages, it appears that Liberty has grossly understated many of its costs.

Additionally, on page 91 of its application, Liberty estimates a total of \$213,430 in start-up expenses. However, Liberty shows no expense for amortization of start-up expenses in its Form C. This represents another expense that is erroneously omitted from Liberty's financial projections and therefore another understatement of total costs.

Section VIII.5.(b)(ii) of the CON application requires an applicant to provide copies of personal financial statements for any individual who will contribute funds for the capital costs of the project. Section VIII.5.(c) requires an applicant to identify the line item on the personal financial statements from which the funds will be made available for the proposed project. As stated on page 86 of its application, Liberty proposes to fund a portion of the project capital costs (\$43,885) with owners' equity contributed by Ronald B. McNeill and John A. McNeill, Jr. However, in response to VIII.5.(b)(ii), on page 87 of its application, Liberty provides only a letter from a CPA in Exhibit 36, not copies of personal financial statements as required by the CON application.

Further, Section IX.8.(b)(ii) of the CON application requires an applicant to provide copies of personal financial statements for any individual who will contribute funds for the working capital needs of the project. Section IX.8.(c) requires an applicant to identify the line item on the personal financial statements from which the funds will be made available for the project. Liberty states on page 94 of its application that it proposes to fund the entirety of the working capital needs of the project (\$1,504,555) with owners' equity contributed by Ronald B. McNeill and John A. McNeill, Jr. However,

in response to IX.8.(b)(ii), on page 95 of its application, Liberty provides only a letter from a CPA in Exhibit 36, not copies of personal financial statements as required by the CON application.

For these reasons, Liberty is not conforming with Criterion 5.

- (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.*

Liberty fails to demonstrate the availability of resources necessary for the provision of the services proposed to be provided.

As shown in Table VII.4, page 81, of Liberty's application, Liberty projects a total of 1.24 direct care staff hours per patient day for its general adult care home beds and 2.83 direct care staff hours per patient day for its special care unit. Liberty's staffing projections overall will provide for only 1.47 direct care staff hours per patient day for the entire 340-bed adult care home. In contrast, other than Mount Tabor, the other competing applicants projected a range of 2.34 to 4.13 direct care staff hours per patient day, rendering Liberty's projection 37 to 118 percent lower than all other applicants in this review.

As further evidence that Liberty underestimated its staffing needs for the proposed project, Liberty projects only 0.37 total FTEs per adult care home bed. In contrast, the other applicants in this review project a range of 0.66 to 1.03 total FTEs per adult care home bed, rendering Liberty's projection 45 to 64 percent lower than all other applicants in this review.

Such significant variances call into question whether Liberty has demonstrated the availability of sufficient resources for the provision the adult care home services in its proposed 340-bed facility.

As such, Liberty is not conforming with Criterion 7.

- (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.*

Liberty fails to demonstrate that its construction project represents the most reasonable alternative.

As discussed under Criterion 4, Liberty fails to demonstrate that it has proposed the most effective alternative with regard to renovating its existing facility for this proposed project. Further, on page 54 of its application, Liberty states that it considered as an alternative renovating the existing building to house 240 adult care home beds rather than the 340 proposed in its application. As discussed under Criterion 3 and 4, Liberty fails to demonstrate the reasonableness of its utilization projections or that a 340-bed facility represents the most effective alternative in terms of facility size. Therefore, assuming the costs of renovating the existing facility (which originally housed 289 skilled nursing beds) to house 240 beds might be lower than the costs of renovating the facility to accommodate 340 beds, Liberty fails to demonstrate that the proposed cost of construction represents the most reasonable alternative and is not conforming with Criterion 12.

- (20) *An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.*

Liberty fails to demonstrate that it has provided quality care in the past.

The Agency should review carefully Liberty's quality track record within its long-term care facilities in the Mecklenburg area, specifically Liberty Rehabilitation and Nursing Center. In addition to the numerous violations and fines issued by the Department of Health and Human Services, public news sources cited the reported rise in serious quality issues after Liberty assumed ownership of the facility, including the inability to find a resident for four days and her subsequent death, as well as insufficient staffing and multiple "immediate jeopardy" determinations. This is significant for the proposed assisted living facility as it is proposed to be managed by the same entity as Liberty Rehabilitation and Nursing Center - Liberty Healthcare Management, Inc.

Mount Tabor Community Development Corporation (Mount Tabor)

General Comments on Mount Tabor's Application:

Mount Tabor's application is incomplete in a multitude of areas, thereby rendering a complete and thorough review of its proposal impossible. Specifically, Mount Tabor failed to provide any response to the following sections:

- I.9 (type of operation)
- I.10 (ownership identification)
- I.11 (financial interest)
- I.12 (experience and expertise in providing the proposed service)
- III.1.(e) (impact of proposal on existing providers)
- III.8 (45 minute drive percentage)
- IV.2.(b) and (d) (projected utilization tables)
- IV.2.(e) (assumptions used for utilization projections)
- IV.3.(a) (patient days by payor)
- IV.3.(b) (assumptions used for patient days by payor)
- VIII.8 (provision of audited or unaudited financial statements for applicant)
- VIII.9 (other CON projects under review or development)
- VIII.10 (proposed leases)
- IX.5 (source of working capital)
- XI.2.(h) (map of proposed site)
- XI.2.(i)(ii) (subsoil inspection)
- XI.2.(i)(iii), XI.2.(j), XI.2.(k), and XI.2.(l) (water and sewer availability)
- XI.3.(g) (flood plain)
- XI.3.(h) (map of proposed site)
- XI.3.(j) (subsoil inspection)
- XI.5 (building requirements)
- XI.6 (outdoor activity space)
- XI.7 (line drawing)
- XI.8 (beds by level of care and room type)
- XI.9 (square foot table)
- XI.10 (construction cost per square foot and bed), XI.12 (certified construction cost estimate).

(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, or home health offices that may be approved.*

Mount Tabor fails to demonstrate that its project is consistent with all applicable policies and need determinations in the State Medical Facilities Plan.

Given the extent of its non-conformity with all other statutory review, Mount Tabor clearly fails to demonstrate that its consistency with the basic

principles outlined in Policy GEN-3 and therefore is not conforming with Criterion 1.

- (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.*

Mount Tabor fails to demonstrate the need of the population for the proposed project, based on the following reasons:

Mount Tabor did not provide utilization projections as required by Section IV of the CON application. The applicant does, however, provide inconsistent assumptions regarding the fill-up of its proposed 130-bed facility in multiple places in the application. In Section III.7.(a), on page 23 of its application, Mount Tabor states that the facility will begin operation with 20 reserved SCU beds and 40 reserved ACH beds on October 11, 2011. Nowhere does Mount Tabor demonstrate the reasonableness of its assumption that it will have 60 reserved beds on the day its proposed facility opens. As discussed under Criterion 8, Mount Tabor fails completely to demonstrate any coordination with the existing health care system. Therefore, assuming a waiting list of 60 residents prior to opening is unreasonable and completely unsubstantiated.

Mount Tabor further states on page 23 that the SCU will fill up at a rate of two new residents per month until the SCU is full in the fifth month of operation. Page 23 provides no fill-up assumptions for the general ACH beds. Mount Tabor provides inconsistent fill-up assumptions in Section IV.2.(c), page 26, of its application. There Mount Tabor states that it projects to have a total of 30 reserved beds (12 SCU beds and 18 general ACH beds) when the facility opens, and that those 30 residents will reside in the facility by the end of the first month of operation. Mount Tabor further states on page 26 that the SCU will fill up at a rate of three new residents per month until the fourteenth month, at which time the SCU will be operating at 94.4 percent occupancy. This is clearly contradictory to the fill-up assumptions provided on page 23. Mount Tabor also states on page 26 that the general ACH beds will fill up at a rate of five new residents per month until month fourteen, and then at a rate of three new residents per month until month 24.

Given the absence of required utilization tables and the inconsistency of its utilization assumptions, Mount Tabor is not conforming with Criterion 3.

- (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.*

Mount Tabor fails to demonstrate that it has proposed the least costly or most effective alternative.

Given the extent of its non-conformity with all other statutory review, Mount Tabor is not conforming with Criterion 4.

- (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.*

Mount Tabor fails to demonstrate that the financial and operational projections are based on reasonable assumptions and therefore fails to demonstrate the immediate and long-term financial feasibility of the project.

As discussed under Criterion 3, Mount Tabor's utilization projections are incomplete, unreliable, and based on inconsistent and unsubstantiated assumptions. Because Mount Tabor's financials projections are based on faulty utilization projections, the financial feasibility of its proposed project is questionable.

As discussed under Criterion 7, Mount Tabor grossly underestimated its staffing needs for the proposed project and therefore has grossly understated its salary expenses in its proforma financial statements.

Mount Tabor's Form C includes salaries and wages under each cost center. All expenses, regardless of cost center, are listed together under a catch-all "Operating Expenses" category. Further, nowhere in its application or proforma financial statements does Mount Tabor provide projections of patient days for its facility. As such, a comparison of per patient costs with other applicants and with the North Carolina average is impossible. Further, Mount Tabor provides no assumptions for its financial projections. These two issues combined make it impossible to assess the reasonableness of Mount Tabor's projected expenses or the overall cost effectiveness and financial feasibility of its proposal. It is clear, however, that particular costs are missing or understated. Specifically, in response to Section X.8, Mount Tabor states that its proforma financials include a management services fee

and it references a non-existent exhibit for a copy of a management agreement. However, Mount Tabor's Form C includes no such expense. Further, in response to Section IV.2.(c), Mount Tabor attributes its ability to have the pre-opening waiting list it expects to its intention to launch an aggressive marketing campaign prior to licensure of the facility. However, in its Form C, Mount Tabor budgets only \$500 for advertising in the first full fiscal year. Additionally, as already discussed, Mount Tabor has grossly understated its salary expenses.

Mount Tabor estimates a total capital cost of \$8,170,000 in addition to working capital needs of \$2,560,000. Mount Tabor states on page 48 of its application that it proposes to fund \$4,536,000 of the total capital costs with a commercial loan, \$1,134,000 with owner's equity, and the remaining \$2,500,000 with a benefactor's pledge.

Section VIII.5.(b)(ii) of the CON application requires an applicant to provide copies of personal financial statements for any individual who will contribute funds for the capital costs of the project. Section VIII.5.(c) requires an applicant to identify the line item on the personal financial statements from which the funds will be made available for the proposed project. While Mount Tabor proposes to fund a portion of the project capital costs with owner's equity contributed by Bishop Louis Ngomo Okitenbo, it does not provide copies of personal financial statements as required by the CON application. Exhibit 12 includes a statement from Bishop Louis Ngomo Okitenbo regarding the financing of the project in which he references copies of his personal financial statements in a separate exhibit, but no such exhibit exists.

Mount Tabor did not provide a response to Section IX.5, therefore, it did not clearly state how it intends to fund its working capital needs. Based on its response to Section IX.6, though, it appears that Mount Tabor intends to fund the working capital needs with a commercial loan. However, neither the letter from the Credit Union provided in Exhibit 6 nor the letter from Bishop Louis Ngomo Okitenbo regarding the financing of the project included in Exhibit 12 make any mention of the commercial loan covering the working capital needs of the project. In fact, the Credit Union letter specifically references a total loan amount of \$4,536,000, which is the exact portion of the capital costs proposed to be funded with a loan. Therefore, Mount Tabor fails to demonstrate the availability of funds for the \$2,560,000 working capital needed for the proposed project.

For these reasons, Mount Tabor is not conforming with Criterion 5.

- (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.*

Mount Tabor fails to demonstrate the availability of resources necessary for the provision of the services proposed to be provided.

As shown in Table VII.4, page 44, of Mount Tabor's application, Mount Tabor projects a total of 1.62 direct care staff hours per patient day for its general adult care home beds and 2.19 direct care staff hours per patient day for its special care unit. Mount Tabor's staffing projections overall will provide for only 1.86 direct care staff hours per patient day for the entire 130-bed adult care home. In contrast, with the exception of Liberty, the other competing applicants projected a range of 2.34 to 4.13 direct care staff hours per patient day, rendering Mount Tabor's projection 20 to 55 percent lower than all but one other applicant in this review.

Mount Tabor also fails to project FTEs for several necessary staff positions. Specifically, while it does provide what appears to be an hourly wage rate, Mount Tabor does not project FTEs for any of the following positions: cooks, dietary aides, activity director, activity aide, driver, housekeeping supervisor, housekeeping aides, laundry aides, and janitors. In fact, Mount Tabor projects no staff at all for activities, housekeeping, or laundry, and only projects supervisory staff for dietary and maintenance. As a result of its failure to project FTEs for so many necessary positions, Mount Tabor projects only 0.16 total FTEs per adult care home bed. In contrast, the other applicants in this review project a range of 0.66 to 1.03 total FTEs per adult care home bed, rendering Mount Tabor's projection 76 to 84 percent lower than all other applicants in this review.

Mount Tabor clearly has failed to demonstrate the availability of sufficient resources for the provision of the adult care home services in its proposed 130-bed facility. As such, Mount Tabor is not conforming with Criterion 7.

- (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.*

Mount Tabor fails to demonstrate the availability of all proposed ancillary and support services, or coordination with the existing health care system.

As discussed under Criterion 7, Mount Tabor does not project FTEs for any of the following positions: cooks, dietary aides, activity director, activity aide, driver, housekeeping supervisor, housekeeping aides, laundry aides, and janitors. In fact, Mount Tabor projects no staff at all for activities, housekeeping, or laundry, and only projects supervisory staff for dietary and maintenance. Moreover, Mount Tabor did not provide any evidence of proposed contractual agreements for the provision of any of these services. Additionally, on page 14 of its application, Mount Tabor indicates that it will have contractual relationships for pharmacy services, and with a consultant RN and dietician. However, it does not provide copies of proposed contracts and provides no documentation of attempts to establish these contractual relationships. As such, Mount Tabor has not demonstrated the availability of all ancillary and support services.

Mount Tabor provides no letters or other documentation of any attempt to establish relationships with health training programs in the area. Mount Tabor openly acknowledges in response to Section V.2 that it has not made any effort to date to develop relationships with any other local health care providers or social service providers and that was not able to provide any evidence of support from any groups or individuals who could affect the project's success. As such, Mount Tabor did not demonstrate any coordination at all with the existing health care system.

For these reasons, Mount Tabor is not conforming with Criterion 8.

- (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.*

Mount Tabor fails to demonstrate that its construction project represents the most reasonable alternative.

Mount Tabor provided no response to several questions in Section XI. Specifically, Mount Tabor provides no information about the square footage of the proposed facility and does not provide any line drawings of the proposed facility. Further, the applicant does not provide a certified construction cost estimate from an architect licensed to do business in North Carolina. As such, it is impossible to ascertain whether Mount

Tabor's construction project represents the most reasonable alternative. As such, Mount Tabor is not conforming with Criterion 12.

- (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.*

Mount Tabor fails to demonstrate that its proposed project will have a favorable impact on competition.

Mount Tabor is not conforming with all other statutory review criteria and therefore has failed to demonstrate that its project will have a favorable impact on competition and is also not conforming with Criterion 18a.

Preston House I, LLC (Preston House)

- (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.*

Preston House fails to demonstrate the need of the population for the proposed project, based on the following reasons:

Preston House determined the need for the proposed project based on the projected population to be served and the patient demand for Alzheimer's services. However, the projected population figures and patient demand are incorrect and inconsistent with the assumptions and methodology provided by Preston House. These inconsistencies presented in Section IV, which are discussed below, result in unreliable utilization projections that do not demonstrate the need for the project.

Preston House provides several methodologies for determining the prevalence of Alzheimer's disease and selects methodology #4 to determine need. Inconsistencies in Methodology #4 (page 69) include:

- The total North Carolina population (labeled E) from the NC Office of State Budget and Management does not match the sum of populations by age group (labeled A, B, C, and D).
- The age range for prevalence of Alzheimer's (labeled F), matches its source data, "*Alzheimer's and Dementia Update*"; however, it does not match the corresponding age range of Alzheimer's patients (labeled I) that was determined from this source data. These differences in age group may result in significantly different projections given the wide variance of prevalence shown (labeled F, G, and H).
- Projected North Carolina Alzheimer's patients (labeled I, J, and K) do not match the calculated numbers from the methodology provided in the row below. For instance, total Alzheimer's patients ages 60-70 (labeled I) is shown as 41,016, but the number generated from the formula provided in the row below (labeled (A/2)/F) is 11,719 Alzheimer's patients ages 60-70. These miscalculations are found for every age group shown of Alzheimer's patients.

On page 71, Preston House further describes its methodology to determine need and states, "The following need methodology uses the *Alzheimer's and Dementia Update* assumptions and shows the projected demand for Alzheimer's care in Mecklenburg, Cabarrus, Iredell, and Rowan Counties." Inconsistencies between the need methodology and the projected demand (pages 71-76) include:

- On pages 72, 74 and 76, the age range for prevalence of Alzheimer's (labeled F), matches its source data, "*Alzheimer's and Dementia Update*"; however, it does not match the corresponding age range of Alzheimer's patients (labeled I) that was determined from this source data. As stated previously, these differences in age group may result in significantly different projections given the wide variance in prevalence shown (labeled F, G, and H).
- Projected Alzheimer's patients, both by county and total (labeled I, J, and K), do not match the calculated numbers from the methodology provided in the row below. For instance, on page 72, the total number of Alzheimer's patients ages 60-70 (labeled I) within the four counties is shown as 2,108, but the number generated from the formula provided in the row below (labeled (A/2)/F) is only 1,054 Alzheimer's patients ages 60-70. These miscalculations are

consistently found for every age group, every county and every project year.

- Incorrect projected numbers of Alzheimer's patients were then multiplied by 30 percent to determine the projected demand for Alzheimer's care in Mecklenburg, Cabarrus, Iredell, and Rowan Counties. It is therefore certainly reasonable to assume that the inconsistency between projections and the need methodology result in an unreliable estimated need.
- Projected market share shown on page 77 is also unreliable, as it was determined based on projected patient demand.

Projected Preston House residents by county, on page 77, show that 48.5 patients will come from Iredell County and only six patients will come from Mecklenburg County, out of the 56.6 total residents projected in FY 2013. This is inconsistent with the projected patient origin described in Section III, which states that most Preston House residents will come from Mecklenburg County.

- (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.*

Preston House fails to demonstrate that the financial and operational projections are based on reasonable assumptions and therefore fails to demonstrate the immediate and long-term financial feasibility of the project.

As discussed under Criterion 3, Preston House's utilization projections are unreasonable and unsubstantiated, therefore calling into question the reasonableness of its financial projections, which are directly related to projected utilization.

Further, Preston House's taxes and benefits, at 12.8 percent of total routine services salaries is much lower than all other applicants in this review with the exception of Queen City, which projected 13.6 percent. Other than Queen City, all other applicants project taxes and benefits at 19.8 to 22.8 percent. Moreover, taxes and benefits for North Carolina special care units

only represent 18.7 percent of total routine services salaries and wages¹. This calls into question whether Preston House has understated its taxes and benefits expense in its proforma financial statements.

For these reasons, Preston House is not conforming with Criterion 5.

Queen City Health Investors, LLC (Queen City)

- (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.*

Queen City fails to demonstrate the need of the population for the proposed project, based on the following reasons:

Although Queen City presented an alternate methodology, based on planning regions, for calculating bed need in Mecklenburg County as well as information about the population demographics in planning regions of Mecklenburg County in Exhibit E of its application, it fails to adequately identify the population to be served by the proposed facility and its need for the services proposed.

In Section III.1.(b), on page 27 of its application, Queen City states that its "proposed 48 SCU beds represent less than 0.4 percent (13,400) of the projected number of Mecklenburg County residents with Alzheimer's disease and other forms of dementia in 2013." Queen City does not explain how the projected number of residents with Alzheimer's disease relates to the number of Alzheimer's beds it proposes in its project. Neither does Queen City quantify how its proposal will meet that need. Indicating that 13,400 persons are projected to have Alzheimer's disease and other forms of dementia in 2013 is not an adequate demonstration of the population's need for the *adult care home* services proposed.

Queen City fails to adequately relate the need in the community to the number of adult care home beds it proposes. On page 25 of its application,

¹ Source: 2008 ACH and SCU Actual Cost Compare, provided by Susan Kesler, DHHS Office of the Controller. Total personal care services salaries/wages for SCU only is \$61,432,487. Total personal care services expenses for payroll taxes and employee benefit program for SCU only is \$11,512,838.

it estimates that there are a total of 42,754 persons over the age of 65 who have disabilities but does not identify what portion of this number demand ACH or SCU beds.

In Section IV.2.(c), on page 38 of its application, Queen City assumes it will have twenty residents ready to move in prior to licensure of the facility and a fill-up rate of four residents per month for adult care home beds and eight residents per month for SCU beds. On page 39, Queen City states that these fill-up rates are based on the experience of the management team, but it fails to provide any documentation of its previous experience in achieving such aggressive fill-up rates. Given a projected county-wide utilization of 2,799 beds for 2013 and 2,650 beds for 2012, as stated on page 247 of the 2010 SMFP and on page 225 of the 2009 SMFP, respectively, it is estimated that the annual utilization growth in adult care home beds is 149 beds for Mecklenburg County. This number translates to a monthly fill-up rate of 12 beds. Queen City's proposal for a 90-bed facility (less than one-third of the total projected unmet bed need for Mecklenburg County), assumes a monthly fill-up of 12 residents. It does not seem reasonable that one facility will capture the entire fill-up rate for beds in Mecklenburg County when there are 43 other existing, and presumably other new or expanded, adult care home facilities. In addition, Queen City does not adequately describe how it plans to have 20 residents ready to move into the facility upon licensure, especially since it will only begin marketing one month before, according to page 38 of its application.

Since Queen City failed to adequately identify the population to be served and the population's need for the services proposed, it is not conforming with Criterion 3.

- (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.*

Queen City fails to demonstrate that the financial and operational projections are based on reasonable assumptions and therefore fails to demonstrate the immediate and long-term financial feasibility of the project.

As discussed under Criterion 3, Queen City's utilization projections are unreasonable and unsubstantiated, therefore calling into question the

reasonableness of its financial projections, which are directly related to projected utilization.

Queen City's salary expense for routine services (personal care and health services) is relatively low compared to other applicants that propose facilities of similar size and similar patient days. According to Table VII.3, on page 58 of Queen City's application, Queen City's aide and medication technician salaries are \$20,800 and \$19,760, respectively, which fall on the low end of the range of direct care staff salaries projected by other applicants. Other applicants propose aide salaries of \$17,857 to \$25,690 and medication technician salaries of \$21,900 to \$24,768. Queen City's salary estimates for direct care supervisor and care coordinator, at \$21,840 and \$33,280 respectively, also seem unusually low. Queen City's taxes and benefits, at 13.6 percent of total routine services salaries is much lower than all other applicants in this review with the exception of Preston House, which projected only 12.8 percent. Other than Preston House, all other applicants project taxes and benefits at 19.8 to 22.8 percent. Moreover, taxes and benefits for all North Carolina adult care home facilities (including special care units) represent 17.3 percent of total routine services salaries and wages². Given Queen City's low salary estimates for direct care staff and supervisors, this leads one to question how reasonable the salary expense estimates are in its proforma financials.

In addition, Queen City's projected per patient day costs are significantly lower than most applicants in this review. In the second full fiscal year of operation, Queen City projects its total direct operating cost per patient day to be \$51.71, which falls in the lower end of the range projected by other applicants (\$43.20 to \$85.61). Similarly, Queen City's total cost per patient day in the second full fiscal year of operation is \$96.60 and is the second lowest among all applicants, which range from \$73.83 to \$147.23. Queen City's operation and maintenance cost in the second full fiscal year is also 27 percent lower than the State average. Altogether, these relatively low estimates bring into question the reasonableness of the expenses projected in Queen City's proforma financials.

In Section IX.2 through IX.3 on pages 68 through 69, Queen City indicates that its total initial operating expense is \$121,510 and its total start up

² Source: 2008 ACH and SCU Actual Cost Compare, provided by Susan Kesler, DHHS Office of the Controller. Total personal care services salaries/wages for all adult care homes is \$156,799,094. Total personal care services expenses for payroll taxes and employee benefit program for all adult care homes is \$27,093,711.

expenses is \$155,000, which equals a total working capital need of \$276,510. Queen City further indicates that it will fund its working capital needs with a commercial loan which is equal to the amount of working capital projected (page 71 and Exhibit P). On page 68, Queen City indicates that it will experience positive cash flow in the fifth month of operation. However, the total initial operating expense of \$121,510 is equal to the projected negative cash flow for the first quarter (three months) of operations and does not include the negative cash flow from the fourth month of operation. In the absence of monthly cash flow projections, it is impossible to determine whether or not Queen City's initial operating period should actually extend through the fourth month. As such, since working capital is to be funded with a commercial loan and the proposed agreement is for only \$276,510, Queen City did not demonstrate that it has sufficient funds for the working capital needs of the proposed project.

The capital costs for Queen City's proposed project equal to \$5.6 million as shown in Section VIII. 1 and 2. On page 66 of its application, Queen City lists other capital projects currently underway by entities related to Queen City through common ownership. The total combined capital cost of these projects amounts to \$24.4 million. With the addition of Queen City's Mecklenburg project the total capital amount will equal \$30 million. Because the applicant does not provide financial statements it is impossible to verify the ability of the owner to manage such a large amount of debt for its various projects. For this reason, there is a question as to whether or not the project as proposed by Queen City can be completed by the applicant given the current commitments of its owner.

For these reasons, Queen City did not adequately demonstrate the immediate and long term feasibility of the proposed project and is therefore not conforming with Criterion 5.

- (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.*

Queen City fails to demonstrate the availability of resources necessary for the provision of the services proposed to be provided.

Queen City proposes to utilize the services of an RN Consultant but does not explain her role or how effective she will be in providing services in Mecklenburg County when she lives in Winston Salem. Furthermore, while there is no requirement that an RN be present on site for assisted living

facilities, best practice standards do include the presence of an RN or an RN that is immediately available to supervise the CNAs, Medication Techs, etc. Queen City does not include such a person or role.

Furthermore, as discussed under Criterion 5, Queen City's estimates for direct care staff salaries are relatively lower than those of other applicants in this review. This leads one to question Queen City's ability to recruit and retain the staff necessary to deliver the services it proposes.

Consequently, because Queen City has not adequately demonstrated its ability to make health manpower resources available, it is not conforming with Criterion 7.

The Villages of Mecklenburg Assisted Living, LLC (The Villages of Mecklenburg)

NOTE: Because The Villages of Mecklenburg did not use the adult care home application for most of its application sections (III, IV, V, VI, VII, VIII, X, XI, XII), it is difficult to determine if the applicant provided proper responses to the adult care home application questions.

- (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, or home health offices that may be approved.*

The Villages of Mecklenburg fails to demonstrate that its project is consistent with all applicable policies and need determinations in the State Medical Facilities Plan.

The Villages of Mecklenburg did not respond to Policy Gen-3 and did not describe elsewhere in the application how its proposed project would promote safety or maximize health care value. The Villages did state on pages 91 and 115 that it would be cost-effective but did not explain how the project would accomplish that.

For these reasons, The Villages is not conforming with Criterion 1.

- (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.

The Villages of Mecklenburg fails to demonstrate the need of the population for the proposed project, based on the following reasons:

The Villages of Mecklenburg failed to use the correct application form for several sections, which makes it difficult to determine demonstrated need. Section III was reviewed in its entirety for the discussion of demonstrated need. On pages 85 and 86, the Villages of Mecklenburg states the number of individuals with Alzheimer's disease in Mecklenburg County in 2005 and 2006, and provides a projected number of individuals in 2030. However, the prevalence of Alzheimer's alone does not demonstrate need. The Villages of Mecklenburg does not discuss any shortage of or limited access to services, nor does it describe any overutilization of existing providers to demonstrate a net need. The only mention of existing occupancy in Section III was discussed on page 86 where The Villages of Mecklenburg states "The current occupancy rates for facilities that offer Special Care Units in Mecklenburg County can be found in Exhibit 26. The overall occupancy for these facilities is 84%, however, the Special Care Units were not considered as their exact occupancy levels could not be determined." This statement would suggest that existing providers may have the capacity given that the overall occupancy is less than the performance standard of 85 percent provided in 10A NCAC 14C .1102.

Because the Villages of Mecklenburg failed to demonstrate the need of the population for the proposed project, it is impossible to assess whether or not the methodology, assumptions, and volume projections in Section IV are reasonable. Section IV solely shows volume projections as the Villages of Mecklenburg did not provide any assumptions, methodology, or references to any exhibits. After reviewing the exhibits, Exhibit 23, which provides proforma assumptions, states a fill-up rate assumption of three residents per week, or at least 12 residents per month, but provides no basis for this assumption. This assumption is particularly aggressive given that the 2010 SMFP provides an average fill-up of 12 ACH beds per month for Mecklenburg County in its entirety between its 2012 and 2013 bed utilization projections (please see Criterion 3 review for Queen City).

Lastly, Exhibit 34 shows a fill-up schedule, but both Exhibits 34 and 23 state "see accompanying accountants' compilation report," which is not provided.

- (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.*

The Villages of Mecklenburg fails to demonstrate that the financial and operational projections are based on reasonable assumptions and therefore fails to demonstrate the immediate and long-term financial feasibility of the project.

In Section XII, The Villages indicates that it will have funding available for the project (loan agreement executed) as of October 15, 2012. However, the applicant proposes to purchase the site March 15, 2011. Further, The Villages proposes to have preliminary drawings to DHHSR by July 1, 2011 and final Drawings by October 1, 2011. However, there is no clear indication as to how The Villages will fund the purchase of the land and the costs for the architects to prepare the drawings for submission to DHHSR when the loan agreement will not be executed until October 2012, more than a year later.

On page 139, the Villages of Mecklenburg states that \$2,179,095 of the proposed project's total capital cost will be financed using owner's equity. On pages 141 and 142, it also identifies Wilkes Senior Villages, Assisted Living LLC as an additional project under development with a capital cost of \$1,650,835. The Villages of Mecklenburg states, "The proposed financing of this project will have no impact on the above identified project. Mr. Richardson has sufficient resources (net worth) to secure financing for both of these projects." Additionally, page 147 states that the entire working capital, \$636,128, will be financed using unrestricted marketable securities and refers to Exhibits 13 and 14. Exhibit 13 is a letter from Mr. Richardson stating that he will commit the necessary funds in order to fund both the equity contribution and working capital needs, with liquid assets of more than \$3M. Exhibit 14 includes what is called a balance sheet but contains assets only and no liabilities, which is not a complete balance sheet.

Section VIII.5.(b)(ii) of the CON application requires an applicant to provide copies of personal financial statements for any individual who will contribute funds for the capital costs of the project. Section VIII.5.(c) requires an applicant to identify the line item on the personal financial statements from which the funds will be made available for the proposed project. Section IX. 8 (b) (ii) of the CON application requires an applicant to

provide copies of personal financial statements for any individual who will contribute funds for the working capital costs of the project. While The Villages proposes to fund a portion of the project capital costs and start-up costs with owner's equity contributed by James Richardson, Jr. [Exhibit 1 lists Mr. Richardson as the owner/manager of the LLC], it does not provide copies of personal financial statements as required by the CON application. Exhibit 13 includes a letter from Mr. Richardson indicating that he will provide \$3M for the project, but neither exhibit includes a personal financial statement as required. Exhibit 14 includes what is called a balance sheet but contains assets only and no liabilities, which is not a complete balance sheet. Furthermore, the majority of the funds shown are for Dallas Management, LLC, Wilkes Senior Village, Inc. and not for Mr. Richardson. Because these entities are clearly separate limited liability companies, there is no indication that Mr. Richardson has access to these funds and can use them for the proposed project. Moreover, if Dallas Management, LLC and/or Wilkes Senior Village, Inc. will provide funds for the project, there is a question as to whether they should also be applicants in the project.

Neither Exhibit 13 nor 14 includes audited financials, a bank letter, or any other documentation verifying that Mr. Richardson has the funds required. Moreover, the financing letter provided in Exhibit 12 does not document or verify Mr. Richardson's liquid assets. This is especially important to note given that the equity contribution and working capital alone for this project represents over 85 percent of Mr. Richardson's stated liquid assets in Exhibit 14. This does not account for Mr. Richardson's project currently under development, and as such, the Villages of Mecklenburg fails to demonstrate the availability of funds for capital and operating needs of the proposed project.

For these reasons, The Villages of Mecklenburg is not conforming with Criterion 5.

- (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.*

The Villages of Mecklenburg fails to demonstrate the availability of resources necessary for the provision of the services proposed to be provided.

On page 133 of its application, The Villages of Mecklenburg projects a total of 66.3 FTEs for the proposed project, or 0.66 FTEs per adult care home bed.

While Liberty and Mount Tabor both grossly underestimate FTEs, the remaining four applicants all projected above 0.72 FTEs per adult care home bed. It is therefore questionable whether The Villages of Mecklenburg has projected adequate staffing for the proposed project.

This is further supported by assessing direct care staff hours per patient day. The Villages of Mecklenburg staffing projections overall will provide for only 2.34 direct care staff hours per patient day for the entire 100-bed adult care home. In contrast, again with the exception of Liberty and Mount Tabor which both grossly underestimated staffing needs, the competing applicants projected a range of 2.56 to 4.13 direct care staff hours per patient day. Furthermore, Section I ends with the response to question 10, resulting in the omission of questions 11 and 12. Therefore, The Villages did not provide information about the owner/managers of the LLC, did not describe the experience and expertise of the applicant in managing and operating adult care homes, nor did The Villages describe the proposed corporate staff "that will be directly involved in the initial and continuing operation of the adult care home."

Because the applicant failed to project adequate staff resources and failed to provide information regarding the proposed staff that will be directly involved in the operation of the adult care home, The Villages of Mecklenburg is not conforming with Criterion 7.

- (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.*

The Villages of Mecklenburg fails to demonstrate that its construction project represents the most reasonable alternative.

In Section I.9, The Villages states that the operator of the facility will not own the land yet it does not provide a lease agreement or any arrangement for access to the land by any party. It further states in I. 9. (c) that the facility will be operated by the owner of the building. Since the facility will be managed by Ridge Care, Inc., one could assume that Ridge Care, Inc. is the owner of the building. However, in the Management Agreement, it appears that The Villages of Mecklenburg Assisted Living, LLC is the owner. Therefore, the assumption is that The Villages of Mecklenburg Assisted

Living, LLC is the owner of the building. However, based on the responses to I.9, there is no clear indication that The Villages of Mecklenburg Assisted Living, LLC will be the owner of the land, since the response to I.9 indicates that the operator of the facility will not own the land. Therefore, one can only conclude that the building owned by The Villages of Mecklenburg will occupy space on land that is neither owned by The Villages nor is leased or otherwise available for use by The Villages. The Villages includes several letters from a real estate agent but does not provide any discussion of these parcels, who will purchase these pieces of land or what the plan is for providing land for the proposed adult care home facility to occupy.

Because access to the property on which the proposed facility is to be construction is at best in question, the Villages fails to demonstrate that the construction proposed represents the most reasonable alternative and is not conforming with Criterion 12.

Waltonwood at Ballantyne, LLC (Waltonwood)

- (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.*

Waltonwood fails to demonstrate the need of the population for the proposed project, based on the following reasons:

On page 111 of its application, Waltonwood justifies its fill-up rate assumption based in part on the continuum of care provided and states, "applicant experience shows that Waltonwood's independent living units help fill its adult care home units." Waltonwood, however, fails to provide the documentation to support this assumption.

On page 147, Waltonwood explains that the proposed project is part of a larger community project that will include the development of independent living units. While independent living units may not be CON reviewable, Section IV does not clarify to what extent the proposed adult care home beds are dedicated to Waltonwood's independent living residents seeking the "age in place" option (page 111) versus community-based Mecklenburg County residents in need of assisted living services. This could affect the accessibility of services for county residents, and without this distinction,

Waltonwood fails to adequately demonstrate the need of the population for the proposed project.

For these reasons, Waltonwood is not conforming with Criterion 3.

- (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.*

Waltonwood fails to demonstrate that the financial and operational projections are based on reasonable assumptions and therefore fails to demonstrate the immediate and long-term financial feasibility of the project.

As stated previously, page 147 of Waltonwood's application states that the proposed adult care home project is part of a larger community project to include independent living units. As such, capital costs are allocated based on the proportion of square footage for the adult care home component, but capital costs and other expenses for independent living are not shown on Waltonwood's financials. While independent living itself is not CON reviewable, the experience of previous CON applications supports that it is necessary to show the independent living component as part of the financial projections when developed in conjunction with the development of adult care home beds. Providing both adult care home and independent living financials is especially important given that independent living costs will also affect many of the same adult care home service components, including dietary, patient activities, and housekeeping/laundry. Below are previous CON projects since 2000 that included independent living as part of their financials.

| <i>Project ID</i> | <i>Year</i> | <i>Applicant</i> | <i>County</i> |
|-------------------|-------------|-----------------------------|---------------|
| G-6303-00 | 2000 | The Village at Brookwood | Alamance |
| J-6263-00 | 2000 | The Cedars of Chapel Hill | Orange |
| G-6531-01 | 2001 | Arbor Acres | Forsyth |
| J-6610-01 | 2002 | Galloway Ridge | Chatham |
| G-7170-04 | 2004 | Twin Lakes Community | Alamance |
| G-7137-04 | 2004 | Pennybyrn at Maryfield | Guilford |
| J-8184-08 | 2008 | Galloway Ridge | Chatham |
| J-8150-08 | 2008 | The Cardinal at North Hills | Wake |

Also as it relates to the independent living component, Waltonwood provides in Exhibit 56 a funding letter from Berkadia Commercial Mortgage stating that it will fund up to 90 percent of the cost of the independent living portion. Per Section VIII, this leaves a remaining capital cost of \$2,668,547 to be funded by Waltonwood. While Exhibit 56 also includes a letter from Comerica bank stating the availability of \$15,000,000 in credit, this letter applies to Singh Development Company and its related entities. The letter does not mention the name of either applicant, both of which are listed as state limited liability companies with no parent company, as stated in Section I. Additionally there is no documentation of transfer of funding from any related entity to the applicants. As both the independent living and adult care home components are being developed simultaneously, it is important to note that the balance sheets for both applicants (Exhibit 58) fail to demonstrate adequate funds to support both components, as working capital and startup expenses alone represent over 80 percent of their total reserves. Thus the applicants fail to adequately demonstrate the availability of funds for total capital and operating needs.

Finally, Waltonwood's routine service expenses are dramatically low, and as demonstrated in the chart below, are the lowest compared to all other competing applications.

| <i>Facility</i> | <i>Total Beds</i> | <i>Total Routine Services</i> | <i>Routine Services Salaries</i> |
|-----------------------------|-------------------|-------------------------------|----------------------------------|
| Brookdale Place | 88 | \$1,617,121 | \$1,268,963 |
| Liberty Healthcare | 340 | \$3,230,244 | \$2,459,134 |
| Preston House | 80 | \$1,574,563 | \$1,360,620 |
| Queen City Manor | 90 | \$1,086,853 | \$925,600 |
| The Villages of Mecklenburg | 100 | \$1,434,735 | \$1,105,000 |
| Waltonwood | 80 | \$887,217 | \$719,805 |

Note: Mount Tabor is excluded from the chart because its salary expenses for routine services cannot be discerned.

One reason for this is that among all applicants, Waltonwood offers the lowest salary for nurse aides/personal care aides, which typically represent a large portion of the staffing costs for routine services. Another concern is that every other applicant proposes to staff medication techs, in addition to nurse aides/personal aides. Waltonwood does not and instead states on page 36, "Waltonwood Ballantyne will use qualified CNA Medication Aides to administer medication." The need for personnel dedicated to administering medication is evident in the total associated salary expense proposed by applicants, which is as high as \$800,000 in the case of Liberty Healthcare (and separate from the \$930,000 in salary expenses for personal

care aides). Among the applicants that propose a similar bed size to Waltonwood, between 80 and 90 total adult care home beds, are Brookdale, Queen City and Preston House. In addition to their personal aide expenses, which range from \$400,000 to \$800,000, these applicants also propose staffing expenses for medication techs which range from \$200,000 to \$300,000. It is reasonable to assume that Waltonwood has understated its routine services salaries, \$719,805, when compared to the combined range of personal aide and medication tech expenses alone. Given that Waltonwood provides a net income of less than \$100,000 by year 3, the impact of adjusting for the deficiencies in routine services staffing would result in a negative net income. Waltonwood therefore fails to provide reasonable projections of costs.

Finally, as documented by Waltonwood on page 173 of its application, the site proposed for the new facility must be rezoned to accommodate an assisted living (adult care home) facility. According to documents included by Waltonwood, the filing fee for rezoning will be between \$3,725 and \$4,100. However, funds for this fee are not included in the capital costs of the project. Neither do the capital costs include a contingency or any other line item from which the additional rezoning filing fee could be covered.

For these reasons, Waltonwood is not conforming with Criterion 5 and is not the most effective alternative.

GENERAL COMPARATIVE COMMENTS

The Brookdale Place, Liberty, Mount Tabor, Preston House, Queen City, The Villages of Mecklenburg, and Waltonwood applications each propose to develop varying numbers of adult care home beds in response to the 2010 SMFP need determination for 340 adult care home beds in Mecklenburg County. Pursuant to N.C. GEN. STAT. § 131E-183(a)(1) and the 2010 SMFP, no more than 340 adult care home beds may be approved for Mecklenburg County in this review. Because the seven applicants combined propose to develop an aggregate total of 778 new adult care home beds in Mecklenburg County, all of the applications cannot be approved. Brookdale provides the comparative comments in this section to demonstrate the ways in which its application is comparatively superior to the other competing applications in this review. However, aside from the Liberty application, none of the applicants propose 340 beds, thus multiple applicants could be approved if found conforming with all statutory review criteria.

Brookdale acknowledges that each review is different and therefore, that the comparative review factors employed by the Project Analyst in any given review may be different depending upon the relevant factors at issue. Given the nature of the

review, the Analyst must decide which comparative factors are most appropriate in assessing the applications. In order to determine the most effective alternative to meet the identified need for 340 new adult care home beds in Mecklenburg County, Brookdale reviewed and compared the following factors in each application³:

- Site factors
- Capital costs
- Total project cost per square foot and bed
- Charges
- Costs per patient day
- Ratio of private pay charges to costs
- Access by county residents
- State/County Assistance payor mix
- FTEs per bed
- Direct care staff hours per patient day
- Direct care staff salaries

Brookdale believes these factors are appropriate and/or have been used in previous competitive adult care home bed findings.⁴

Site Factors

(Source: Section I. 7 and Section XI)

Brookdale Place is an existing adult care home facility with independent living beds that proposes to reconvert its independent living beds to adult care beds with no proposed construction.

Preston House is an existing adult care home facility that specializes in Alzheimer's care. Preston House proposes to expand its facility to accommodate the addition of 40 beds for a total of 80 adult care home beds dedicated to the care of residents with Alzheimer's.

³ Given the incomplete nature of the Mount Tabor application and resulting non-conformity with all statutory review criteria, Brookdale believes its application is not approvable, and therefore did not include Mount Tabor in this comparative analysis.

⁴ Please note that in developing comparative review factors, Brookdale looked to the most recent adult care home bed review for guidance, namely the 2008 Carteret County Adult Care Home Review. Where appropriate, Brookdale has included relevant comparative factors used in that review. See, e.g., the 2008 Carteret County Adult Care Home Review (using the following comparative factors: geographic location, site factors, total direct care nursing staff, number of total FTE staff per facility bed, private pay charges, operating costs for 2nd operating year, ratio of private pay/total costs, cost per patient day (including dietary and housekeeping cost per patient day), access by county residents, and access by recipients of state/county special assistance.

Liberty proposes to convert its existing nursing facility (the facility has CON approval to relocate the nursing facility) to a 340-bed adult care home facility. The facility is located northeast of downtown Charlotte.

Mt. Tabor proposes to develop a new facility on property to be purchased in southeast Charlotte (Pineville/Matthews). Mt. Tabor does not provide information about the water and sewer availability at the primary site but indicates there is water and sewer at the secondary site. As discussed in Criterion 12, Mt. Tabor failed to respond to numerous questions in Section XI and, therefore, does not provide sufficient information to determine if its proposed sites are viable.

Queen City proposes to develop a new 90-bed adult care home facility with 42 regular beds and 48 beds to care for residents with Alzheimer's and other forms of dementia. The proposed site is located northwest of Charlotte, as shown on the map in Attachment 1. Queen City states that its primary site has sewer and water connections available at the property.

The Villages proposes to develop a new 100-bed adult care home facility in Huntersville, NC. The Villages proposes to create a 24-bed Alzheimer's unit as part of its adult care home facility. The Villages indicates that the property has the appropriate zoning for an adult care facility and that water and sewer are at the property site.

Waltonwood proposes to develop a new 80-bed adult care home facility that will include a 26-bed Alzheimer's unit. The new facility will be located in South Charlotte on Providence Road. The proposed site is not currently zoned appropriately for an adult care home facility and will require rezoning. Waltonwood indicates that the site has water and sewer hookups on Providence Road available to the site.

Based solely on site factors, Brookdale Place, Preston House, Liberty, Queen City and The Villages are the most effective alternatives in terms of site availability, proper zoning and utilities. Of those five, Brookdale Place, Preston House and Liberty are more effective as existing facilities with all required zoning already in place and operational.

Capital Costs

The total capital cost proposed by each applicant is provided in the table below.

| <i>Applicant</i> | <i>Capital Cost</i> |
|------------------|---------------------|
| Brookdale Place | NA |
| Liberty | \$1,397,285 |
| Preston House | \$3,015,518 |

| | |
|--------------|-------------|
| Queen City | \$5,676,200 |
| The Villages | \$8,179,095 |
| Waltonwood | \$7,881,200 |

Source: Table VIII.1.

Brookdale recognizes that the Agency does not always review capital costs as a comparative factor in competitive reviews. However, should the Project Analyst choose to consider capital costs, Brookdale is the only applicant that can develop its proposed project with no capital expenditure, and therefore represents the most effective alternative with regard to capital costs.

Total Project Cost per Square Foot and Bed

The total project cost per square foot and per bed for each applicant is provided in the table below.

| <i>Applicant</i> | <i>Total Project Cost per SF</i> | <i>Total Project Cost per Bed</i> |
|------------------|----------------------------------|-----------------------------------|
| Brookdale Place | NA | NA |
| Liberty | \$63.13 | \$4,110 |
| Preston House | \$142.13 | \$75,388 |
| Queen City | \$169.52 | \$63,069 |
| The Villages | \$161.01 | \$81,791 |
| Waltonwood | \$125.97 | \$98,515 |

Source: Section XI.10.

Brookdale recognizes that the Agency does not always review project costs as a comparative factor in competitive reviews. However, should the Project Analyst choose to consider project costs, Brookdale is the only applicant that can develop its proposed project with no capital expenditure, and therefore represents the most effective alternative with regard to total project cost per square foot and per bed.

Private Pay Charges

The following table provides each applicant's projected private pay charge in the second full fiscal year.

| <i>Applicant</i> | <i>Year 2 Private Pay Charges - ACH (excluding special care units)</i> | | <i>Year 2 Private Pay Charges - Special Care Units</i> | |
|------------------|--|---------------------|--|---------------------|
| | <i>Private</i> | <i>Semi-Private</i> | <i>Private</i> | <i>Semi-Private</i> |
| Brookdale Place | \$142.55 | \$126.05 | \$189.88 | \$162.58 |
| Liberty | \$99.00 | \$89.00 | \$105.00 | \$95.00 |
| Preston House | NA | NA | \$165.00 | \$165.00 |
| Queen City | \$124.93 | \$85.48 | \$138.08 | \$124.93 |
| The Villages | \$128.22 | \$118.36 | NA | \$138.08 |
| Waltonwood | \$127.59 | \$99.15 | NA | NA |

Source: Section X.4.

Brookdale Place projects the highest private pay charges. However, as discussed under Criterion 5, with the exception of The Villages, who failed to demonstrate availability of funds for the project, Brookdale believes that each of the other applicants understated expenses and every applicant other than Preston House proposes significantly lower direct care staff hours per patient day than Brookdale, which undercuts their expenses. Therefore, for each of these applicants, it is questionable whether they could offer the stated private charge and still have a financially feasible project if they projected reasonable, and not understated, costs. Further, The Villages does not propose to offer private rooms in its special care unit for private pay residents and Waltonwood does not propose to offer special care unit beds to private pay residents at all. Therefore, Brookdale is the most effective applicant with regard to private pay charges, when considered in conjunction with reasonable costs, nursing hours per patient day, and staff salaries.

Costs per Patient Day

The following table summarizes each applicant's projected costs per patient day in the second full fiscal year.

| <i>Applicant</i> | <i>Year 2 Direct Operating Costs per Patient Day</i> | <i>Year 2 Total (Direct + Indirect) Operating Costs per Patient Day</i> |
|------------------|--|---|
| Brookdale Place | \$94.39 | \$147.23 |
| Liberty | \$43.20 | \$73.83 |
| Preston House | \$80.07 | \$131.39 |
| Queen City | \$51.71 | \$96.60 |
| The Villages | \$56.02 | \$99.04 |
| Waltonwood | \$47.46 | \$101.64 |

Source: Form C - 2nd Full FFY

Brookdale Place projects the most reasonable and conservative per patient costs of all applicants. Further, as discussed under Criterion 5, with the exception of The Villages, who failed to demonstrate availability of funds for its project, Brookdale believes that each of the other applicants understated some expenses, thereby understating costs per patient day in the table above. Therefore, Brookdale Place represents the most effective alternative in this regard, when considered in conjunction with reasonable costs, nursing hours per patient day, and staff salaries.

The following table provides a comparison between the applicants' projected per patient costs in the second full fiscal year and the corresponding North Carolina averages for each category in which any single applicant projected per patient day costs lower than the State average⁵. The figures in the table indicate the percentage that the applicant's per patient day cost is under or over the State average. Note that for all other categories (housekeeping, dietary, recreational activities, health services, and personal care, each applicant's projected per patient day cost is higher than the State average.

| <i>Applicant</i> | <i>NC/DHHS Statewide Data 2008 Cost Per Diem</i> | <i>Brookdale Place</i> | <i>Liberty</i> | <i>Preston House</i> | <i>Queen City</i> | <i>The Villages</i> | <i>Waltonwood</i> |
|-------------------------------|--|----------------------------|----------------|--------------------------|-----------------------|-------------------------|-------------------|
| Direct Cost Centers: | | | | | | | |
| Housekeeping/Laundry | \$3.23 | +5% | +102% | +83% | +5% | +16% | +6% |
| Dietary | \$9.64 | +90% | +35% | +106% | +22% | +15% | +30% |
| Recreational Activities | \$1.44 | +222% | +44% | +35% | +148% | +90% | +68% |
| Medical Transport | \$0.69 | -54%* | +2% | -100% | +39% | +73% | -91% |
| Routine Services | \$24.07 | +143% | +14% | +142% | +47% | +70% | +35% |
| Total Direct Expense | \$39.07 | +142% | +11% | +105% | +32% | +43% | +21% |
| Indirect Cost Centers: | | | | | | | |
| Property/Ownership | \$18.79 | +2% | -49% | +14% | +23% | +3% | +67% |
| Admin. & General | \$11.76 | +86%* | -28% | +27% | +16% | +10% | +17% |
| Operations & Maintenance | \$6.56 | +22% | -10% | +24% | -27% | +7% | -14% |
| Total Indirect Expense | \$37.53 | +40% | -18% | +34% | +20% | +15% | +44% |
| Total Operating Costs | \$76.60 | +93% | -4% | +72% | +26% | +29% | +33% |

⁵ Source: ACH Combined Actual Cost Comparison 2008, provided by Susan Kesler, DHHS Office of the Controller

*Total Medical Transport expenses on Forms B and C, \$8,853, are reflected in Admin & General expenses. Medical Transport expenses include: \$1,726 for auto & truck maintenance/equipment repairs & maintenance, allocated to "transportation-operating expense" line item; \$4,708 for automobile insurance, allocated to "insurance" line item; and \$2,418 miscellaneous, allocated to "miscellaneous" line item. Brookdale's Admin & General percentage increase from the statewide average excludes expenses associated with Medical Transport.
 Source: Footnote 5 on previous page and Form C – 2nd Full FFY

As shown in the table above, Brookdale Place projects lower per patient day costs than the State average only for medical transport, the difference of which has little impact on financial projections given that Brookdale Place's projection is only \$0.37 lower per patient day than the State average. With the exception of The Villages, who as discussed under Criterion 5 failed to demonstrate availability of funds for its project, all other applicants projected per patient day costs that are significantly lower than the State average in at least one category. It should be noted that while Brookdale Place's projections are higher than the State averages in most instances, its projections are based on actual experience, including the actual existing staffing patterns of the facility. As discussed under Criterion 5 for the respective applicants, Brookdale believes that other applicants have omitted some costs. Therefore, as it has not underestimated costs, Brookdale Place is the realistic alternative, especially when considered in conjunction with reasonable costs, nursing hours per patient day and staff salaries.

Ratio of Private Pay Charges to Costs

The following table shows the ratio of private pay charges to costs for general ACH beds for each applicant in the second full fiscal year.

| <i>Applicant</i> | <i>Year 2 Total Costs (Direct + Indirect) per Patient Day for ACH</i> | <i>Year 2 Private Pay Charge for ACH</i> | <i>Ratio (Mark-up of Charges over Costs)</i> |
|------------------|---|--|--|
| Brookdale Place | \$138.16 | \$142.55 | 3% |
| Liberty | \$68.58 | \$99.00 | 44% |
| Preston House* | NA | NA | NA |
| Queen City | \$83.75 | \$124.93 | 49% |
| The Villages | \$93.43 | \$128.22 | 37% |
| Waltonwood | \$94.96 | \$127.59 | 34% |

*Preston House proposes no general ACH beds
 Source: Form C – 2nd Full FFY; Section X.4.

Brookdale Place shows the lowest mark-up of private pay charges over costs, and therefore is the most effective alternative.

Access by County Residents

The table below indicates the percentage of residents of Mecklenburg County that are proposed to be served by each applicant in the first full year of the project.

| <i>Applicant</i> | <i>% of Mecklenburg County Residents Served in Year 1</i> |
|------------------|---|
| Brookdale Place | 100.0% |
| Liberty | 95.0% |
| Preston House | 85.0% |
| Queen City | 100.0% |
| The Villages | 97.0% |
| Waltonwood | 97.8% |

Source: Section III.7. (a)

Therefore, the most effective alternatives with regard to access by county residents are Brookdale Place and Queen City.

State/County Assistance Payor Mix

The following table provides the percentage State/County Assistance residents that each applicant proposes in the second full fiscal year.

| <i>Applicant</i> | <i>Year 2 % State/County Assistance Residents</i> | |
|------------------|---|-------------------------------|
| | <i>ACH Beds</i> | <i>Special Care Unit Beds</i> |
| Brookdale Place | 10.0% | 10.0% |
| Liberty | 82.1% | 75.0% |
| Preston House | NA | 56.8% |
| Queen City | 67.7% | 93.5% |
| The Villages | 51.6% | 51.5% |
| Waltonwood | 8.0% | 100.0% |

Source: Section VI.2.

While the other applicants project higher percentages of State/County Assistance residents than Brookdale Place, Brookdale’s projection is most consistent with the actual experience of existing adult care home providers in Mecklenburg County. Based on 2010 license renewal application data, the median percentage of State/County Assistance residents in 2009 among existing providers, excluding outliers, was 11 percent (See Attachment 2). Therefore, Brookdale represents the most realistic and therefore most effective alternative with regard to State/County Assistance payor mix.

Total FTEs per Bed

The table below shows each applicant's total projected FTEs per ACH bed in the second full fiscal year.

| <i>Applicant</i> | <i>Year 2 Total FTEs</i> | <i>Total ACH Beds</i> | <i>Year 2 FTEs per Bed</i> |
|------------------|--------------------------|-----------------------|----------------------------|
| Brookdale Place | 64.8 | 88 | 0.74 |
| Liberty | 124.2 | 340 | 0.37 |
| Preston House | 82.3 | 80 | 1.03 |
| Queen City | 65.4 | 90 | 0.73 |
| The Villages | 66.3 | 100 | 0.66 |
| Waltonwood | 59.4 | 80 | 0.74 |

Source: Table VII.3; Table IV.2

Brookdale Place's FTEs per bed are in line with most of the other applicants, and therefore represents an effective alternative. Liberty clearly represents the least effective alternative.

Direct Care Staff Hours per Patient Day

The table below shows each applicant's direct care staff hours per patient day in the second full fiscal year.

| <i>Applicant</i> | <i>ACH</i> | <i>Special Care Unit</i> | <i>Total Facility</i> |
|------------------|------------|--------------------------|-----------------------|
| Brookdale Place | 2.80 | 4.80 | 3.20 |
| Liberty | 1.24 | 2.83 | 1.47 |
| Preston House | NA | 4.13 | 4.13 |
| Queen City | 1.99 | 3.04 | 2.56 |
| The Villages | 1.95 | 3.57 | 2.34 |
| Waltonwood | 2.24 | 4.12 | 2.87 |

Source: Table VII.4.

Brookdale Place projects the second highest direct care staff hours per patient day, lower only than Preston House. Preston House proposes only special care unit beds and no general adult care home beds. Given the greater direct care staffing needs associated with special care unit residents, it is logical that Preston House would have higher direct care staff hours per patient day for its total facility than would Brookdale Place. When comparing just special care unit beds, Brookdale Place actually projects higher direct care staff hours per patient day than Preston House. Clearly, Brookdale

Place represents the most effective alternative in this regard while Liberty again clearly represents the least effective alternative.

Direct Care Staff Salaries

The table below shows each applicant’s direct care staff salaries in the second full fiscal year. Because not all applicants projected direct care (non-supervisory) nursing staff, the comparison below includes only aides.

| <i>Applicant</i> | <i>Year 2 Aide Salary</i> | <i>% Lower than Brookdale</i> | <i>Year 2 Med Tech Salary</i> | <i>% Lower than Brookdale</i> |
|------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| Brookdale Place | \$25,690 | -- | \$24,768 | -- |
| Liberty | \$18,771 | 27% | \$21,900 | 12% |
| Preston House | \$22,360 | 13% | \$22,360 | 10% |
| Queen City | \$19,760 | 23% | \$20,800 | 16% |
| The Villages | \$23,000 | 10% | NA | NA |
| Waltonwood | \$17,857 | 30% | NA | NA |

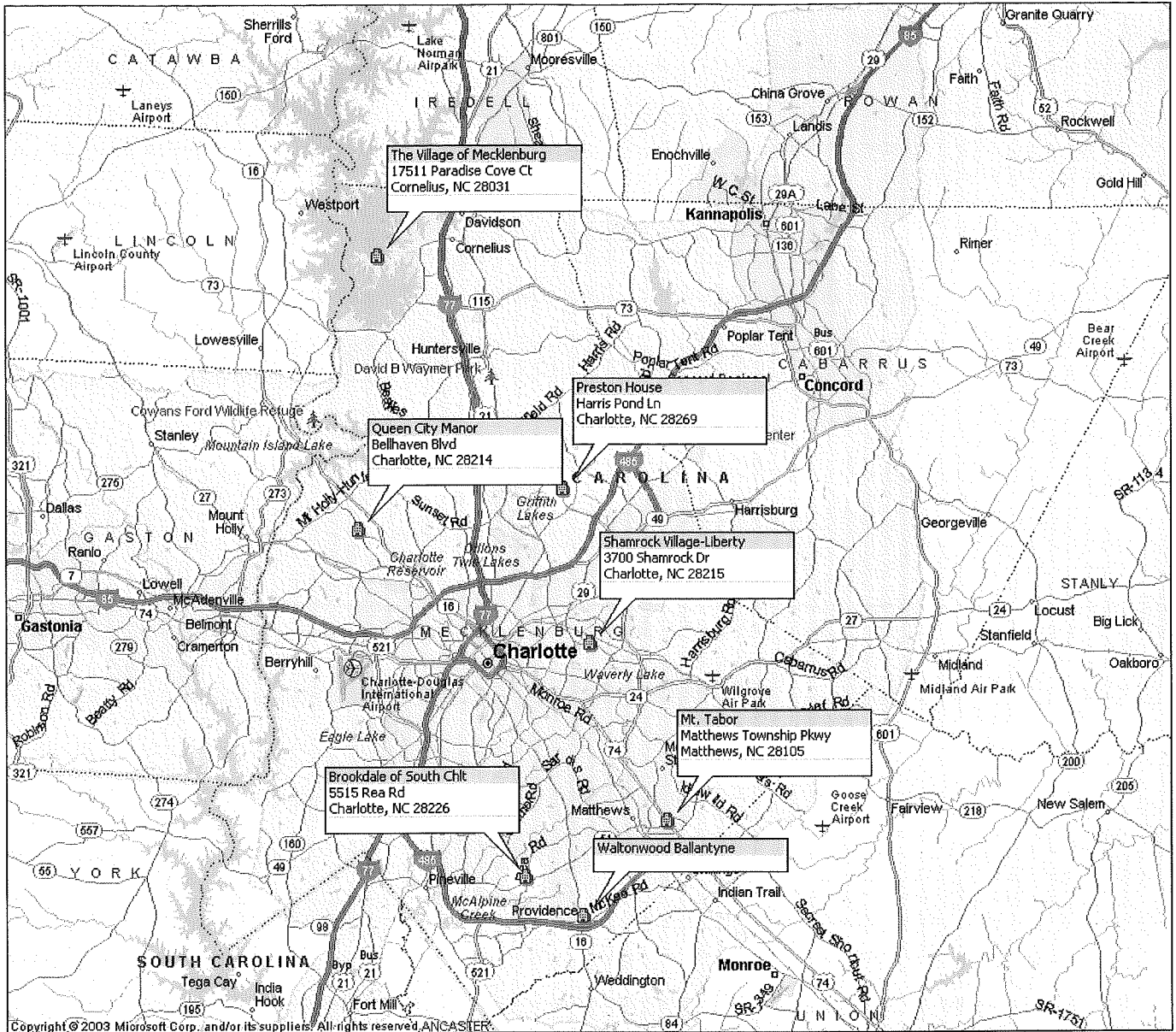
Source: Table VII.3.

Brookdale Place projects the highest direct care staff salaries in the second full fiscal year, and therefore is the most effective alternative in this regard.

SUMMARY

In summary, based on both its comparative analysis and the comments on the competing applications, as well as the analysis presented in its application, Brookdale believes that its application represents the most effective alternative for meeting the need identified in the 2010 *SMFP* for additional adult care home beds in Mecklenburg County.

ATTACHMENT 1



Existing facilities shown with highlights (Preston House and Brookdale Place)

ATTACHMENT 2

PERCENTAGE OF MEDICAID RESIDENTS BY FACILITY- MECKLENBURG COUNTY

| Adult Care Home Facility | City/County | Beds | Percentage of Medicaid Residents |
|--|-----------------------|------|----------------------------------|
| 1. Atria Merrywood | Charlotte/Mecklenburg | 20 | 0% |
| 2. Carmel Hills | Charlotte/Mecklenburg | 38 | 0% |
| 3. Carriage Club of Charlotte (Coach House) | Charlotte/Mecklenburg | 108 | 0% |
| 4. Charlotte Square | Charlotte/Mecklenburg | 125 | 57% |
| 5. Cuthbertson Village at Aldersgate | Charlotte/Mecklenburg | 45 | 0% |
| 6. East Towne | Charlotte/Mecklenburg | 120 | 90% |
| 7. Elmcroft of Little Avenue | Charlotte/Mecklenburg | 62 | 0% |
| 8. Helton Manor West | Charlotte/Mecklenburg | 120 | 94% |
| 9. Lawyers Glen Retirement Living Center | Charlotte/Mecklenburg | 82 | 11% |
| 10. Legacy Heights | Charlotte/Mecklenburg | 122 | 18% |
| 11. Parker Terrace | Charlotte/Mecklenburg | 53 | 0% |
| 12. Preston House | Charlotte/Mecklenburg | 40 | 29% |
| 13. Prime Care One (Brighton Gardens of Charlotte) | Charlotte/Mecklenburg | 125 | 13% |
| 14. Regency Retirement Village | Charlotte/Mecklenburg | 119 | 0% |
| 15. Summit Place of Southpark | Charlotte/Mecklenburg | 120 | 32% |
| 16. Sunrise Eastover | Charlotte/Mecklenburg | 104 | 0% |
| 17. Sunrise on Providence | Charlotte/Mecklenburg | 95 | 0% |
| 18. The Arbors at Carriage Club of Charlotte | Charlotte/Mecklenburg | 34 | 0% |
| 19. The Court at South Park | Charlotte/Mecklenburg | 56 | 33% |
| 20. The Cove at Wilora Lake Lodge | Charlotte/Mecklenburg | 50 | 15% |
| 21. Weddington Park | Matthews/Mecklenburg | 83 | 21% |

Median Percentage of Medicaid Residents:

11%

Excluded: Medicaid-only facilities (Greater than or equal to 95% Medicaid residents)

| Adult Care Home Facility | City/County | Beds | Percentage of Medicaid Residents |
|--------------------------|--------------------------|------|----------------------------------|
| Willow Ridge | Charlotte/Mecklenburg | 52 | 95% |
| Hunter Village | Huntersville/Mecklenburg | 68 | 96% |
| Lee's Living Center | Charlotte/Mecklenburg | 48 | 98% |
| Slay's Rest Home | Charlotte/Mecklenburg | 12 | 100% |

Excluded: Facilities with no Medicaid data provided on license renewal applications

| Adult Care Home Facility | City/County | Beds | Percentage of Medicaid Residents |
|--|-----------------------|------|----------------------------------|
| The Haven in Highland Creek | Charlotte/Mecklenburg | 60 | N/A |
| The Haven in the Village | Pineville/Mecklenburg | 60 | N/A |
| The Laurels in Highland Creek | Charlotte/Mecklenburg | 105 | N/A |
| The Laurels in the Village at Carolina Place | Pineville/Mecklenburg | 104 | N/A |
| The Little Flower Assisted Living | Charlotte/Mecklenburg | 49 | N/A |
| The Parc at Shared Amity | Charlotte/Mecklenburg | 64 | N/A |
| Charlotte Manor | Charlotte/Mecklenburg | 40 | N/A |