

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: April 25, 2014
PROJECT ANALYST: Bernetta Thorne-Williams
TEAM LEADER: Lisa Pittman

PROJECT I.D. NUMBER: J-10230-13 /Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. /Construct an 80 bed replacement adult care facility / Wake County

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

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

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

CA

The applicants, Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. propose to construct an 80 bed replacement adult care home at 1695 Kildaire Farm Road in Cary (Wake County) which is approximately 28.4 miles, (according to Google Map¹), from the current non-operational facility which is located at 306 South Allen Street in Wake Forest (Wake County). The applicants propose to construct a 72,027 square foot new facility to replace Spring Arbor of Wake County and to change the name to Spring Arbor of Cary. The applicants report the management company for the proposed replacement facility will be HHHunt Property Management, Inc. The proposed project does not involve the addition of any new health service facility beds, services or equipment for which there is a need determination in the 2013 State Medical Facilities Plan (SMFP). However, Policy LTC-2: Relocation of Adult Care Home Beds

¹ Google Maps <https://maps.google.com/maps> list the current street address as being on Allen Road instead of Allen Street

and Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities, of the 2013 SMFP are applicable to this review.

Policy LTC-2: Relocation of Adult Care Home Beds states:

“Relocations of existing licensed adult care home beds are allowed only within the host county and to contiguous counties currently served by the facility. Certificate of need applicants proposing to relocate licensed adult care home beds to contiguous counties shall:

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

Spring Arbor of Wake County and Spring Arbor of Cary are both located in Wake County. Therefore, the inventory of ACH beds will not be changed as a result of the proposal to construct a new ACH and relocate the existing 80 beds from Spring Arbor of Wake County to Spring Arbor of Cary within the same county. Therefore, the application is consistent with Policy LTC-2.

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

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

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

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

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

In Section XI.8 page 51, the applicants describe the measures that will be used to promote energy efficient operations which include: providing properly rated exterior and attic insulation, insulated windows, energy efficient heating and cooling systems and energy efficient appliances.

The applicants adequately demonstrate the proposal includes a plan to assure improved energy efficiency. However, the applicants did not demonstrate that the proposed project would provide water conservation.

In summary, the applicants adequately demonstrated the proposed application is consistent with Policy LTC-2. Additionally, the application is consistent with Policy GEN-4 and conforming to this criterion, subject to the following condition.

Prior to the insurance of the Certificate of Need, the applicants shall provide documentation to the Certificate of Need Section that demonstrates the proposed project will have a Sustainability Plan for the project that conforms to or exceeds water conservation standards incorporated in the latest editions of the North Carolina State Building Codes.

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

C

The applicants, Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. propose to construct an 80 bed replacement adult care home in Wake County. The applicants propose to construct a 72,027 square foot new facility to replace Spring Arbor of Wake County. Spring Arbor of Wake County does not currently have any residents and the facility is closed. Spring Arbor of Wake County was not approved for Special Care Unit (SCU) beds and thus the beds were identified as general Adult Care Home (ACH) beds. The applicants propose in this application to have 42 beds that will be housed in two twenty-one bed locked units that will serve Alzheimer and Memory Care residents, however, these rooms will not be designated as SCU beds. The remaining thirty-eight beds will be designated general ACH beds.

In Section III.2, page 8, the applicants state the proposed new ACH will incorporate a “cottage” type concept that will have a unique blend of architecture, programs and specially trained staff.

Population to be Served

In Section III.7(a), page 18, the applicants provide Spring Arbor of Cary’s projected patient origin for the first full federal fiscal year of operation following completion of the project, as illustrated in the table below.

<i>County</i>	<i>Percent of Total ACH Admissions</i>
<i>Wake</i>	<i>95%</i>
<i>Chatham</i>	<i>5%</i>
<i>Total</i>	<i>100%</i>

In Section III.7(a), page 18, the applicants state, “The facility is currently vacant and no residents are residing at the facility.”

In Section III.7(c), page 19, the applicants state:

“The vast majority of patients are anticipated to come from Wake County. This is consistent with the operator’s experience in their other facilities in Wake County. A small number of patients are anticipated to come from Chatham County.”

In Section VI.2, page 24, the applicants state information concerning access to services for the current facility (Spring Arbor of Wake County) by the prior owner was unavailable. The applicants further state that HHHunt managed facilities have a history of providing services to the medically underserved population in Wake County.

The applicants adequately identified the population it proposes to serve.

Need for the Proposed Project

In Section III, pages 12-15, the applicants state the need to replace the existing ACH is based on the following factors.

- The age of the existing facility,
- An increasing need for services for residents that suffer from Alzheimer’s Disease,
- An increase in the population of North Carolina and Wake County,
- An aging population, and
- High occupancy rate for ACH facilities within Wake County

Age of Existing Facility

In Section III.1(a), page 12, the applicants state the following regarding the need to construct a new 80 bed replacement adult care home in Wake County.

“The current facility ... was built in 1958 and is only partially equipped with a fire sprinkler system. The building size is 23,438 square feet There are no private rooms in the facility. The electrical system is outdated and there are plumbing leaks throughout the building. The roof is over 25 years old and the HVAC system needs to be replaced.”

In contrast, on page 12, the applicants state the new replacement ACH will encompass over 72,000 square feet, have fifty-two private rooms, larger semi-private rooms, sitting areas throughout the facility, a wellness room, sunroom and a library.

On page 12, the applicants state:

“Based upon information obtained from the Division of Health Service Regulation ... there are 819 Adult Care Home beds in Wake County licensed as Special Care Unit Beds with 1,090 patients residing in Wake County adult care homes whose primary diagnosis is Alzheimer’s, yielding an effective deficit of 271 beds.

Increase in the Need for Alzheimer’s Disease Services

In Section III.2(a), page 13, the applicants provide a summary of the 2013 Alzheimer’s disease Facts and Figures [see Exhibit 10] which projected by 2010, 170,000 persons living in North Carolina would have Alzheimer’s disease with an increase to 210,00 by 2025 for a 23.5% increase in persons affected by this disease. In Exhibit 10, page 140, the 2013 Alzheimer’s disease Facts and Figures article provides the following additional information on the prevalence of Alzheimer’s disease:

“An estimated 5.2 million Americans of all ages have Alzheimer’s disease in 2013. This includes an estimated 5 million people age 65 and older and approximately 200,000 individuals under the age of 65 who have younger-onset Alzheimer’s.

- *One in nine people age 65 and older (11 percent) has Alzheimer’s disease.*
- *About one-third of people age 85 and older (32 percent) have Alzheimer’s disease.*
- *Of those with Alzheimer’s disease, an estimated 4 percent are under age 65, 13 percent are 65-74, 44 percent are 75-84, and 38 percent are 85 and older.”²*

Population Growth

² 2013 Alzheimer’s Disease Facts and Figures

In Section III.2, page 13, the applicants state that according to data obtained from the Office of State Budget and Management (OSBM) North Carolina's population is projected to be 11,170,657 by 2025 which is an increase of 16.6% from its population of 9,574,477 in 2010. Additional information obtained from OSBM 2012 Certified County Population Estimates that Wake County is the sixth fastest growing county in North Carolina with an estimated population of 945,143. The population of Wake County projected to increase to 1,090,988 by 2019.³

Growth in Aging Population

In Section III.2(b), page 13, the applicants state:

“Claritas, Inc. predicts an increase in [the] population in individuals over age 65 in Wake County from 2014-2019 to be 31.68%. The projected increase in individuals over age of 65 from 2014-2019 in North Carolina is 19.7%. It is obvious the aging population in Wake County is increasing at a much faster rate than the rest of the state.

The location of the proposed facility is in the western part of Wake County in Cary. The other towns in the western part of the county that adjoin Cary are Morrisville and Apex. ... The estimated growth in the population of individuals over age 65 in these three municipalities (Cary, Apex, and Morrisville) is 36.52% from 2014-2019. The estimated growth in the remainder of the county for this segment of the population is estimated to be 30.46% from 2014 to 2019.”

High Occupancy Rate in Wake County

On page 13, the applicants state that there are 39 operational ACH facilities in Wake County with 16 of those facilities operating with an occupancy rate over 85% and 13 of those facilities operated with an occupancy rate of over 90%. Additionally, on page 13, the applicants state the proposed replacement ACH will be located in Cary, where growth of the 65+ population is greater than the county and state average. Cary currently has eight freestanding ACH facilities with four of those facilities operating with an occupancy rate of over 85% and of those facilities three operated at over 90% occupancy.

In Section III.2(b), pages 14-15, the applicants state:

“Although the overall occupancy rate of all Adult Care Homes in Wake County was approximately 81.08% based on [the] most recent license renewal data ... some of those facilities are extremely old, outdated and not what health care planners would consider ‘providers of choice’. A review of the most recent adult care home cost reports showed that

³ http://www.osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/

the average [age] of adult care homes in Wake County was 30.31 years old and there were only 3 facilities at that time less than ten years old. In addition many adult care home providers essentially operate less beds than they are licensed for by converting semi-private rooms to private rooms. Quite often, these ‘unofficial’ or temporary conversions are not reflected in the available beds reported for cost reporting or licensure reporting purposes. This has the effect of artificially understating the effective occupancy. ...

...

The overall occupancy in the county was 81.08% based on the most [recent] license renewal applications and there is one facility in the county with a 100% occupancy rate and one facility with a 56% occupancy rate. ... Although there is a 245 bed surplus of adult care home beds in Wake County, ... there is a need for additional, newly constructed “provider of choice” beds in Wake County.” ...

With the dramatic increase in the percentage of residents with Alzheimer’s relative to the increase in the overall population of those over 65 (23.52% increase in residents over 65 with Alzheimer’s in North Carolina compared to a 16.67% increase of the overall population of those over 65 in North Carolina for the same time period), it is evident there is also a need for memory care type beds.”

On page 18, the applicant states:

“The population of individuals over age 65 in Cary is projected to be 14,703 in 2014 compared to the overall county population in towns in Wake County for individuals over 65 of 126,362. ... Based on recent licensure information there are 31 free standing adult care homes currently operating in the county. There are 3 free standing adult care homes operating in Cary that accept Special Assistance/Medicaid residents. Although Cary is projected to be home to 11.63% (14,703/126,362) of individuals over 65 in Wake County towns in 2014, only 9.67% (3/31) of free standing adult care homes in Wake County that accept Special Assistance/Medicaid residents are located in Cary.”

According to the Adult Care Licensure Section of the Division of Health Service Regulation, there are 33 licensed adult care homes in Wake County. Thirteen of the facilities are located in Raleigh, eight are located in Cary, two each are located in Apex, Garner, Wake Forest and Zebulon, and one is located in Knightdale, Fuquay Varina, New Hill, and Wendell. Of those 33 facilities 23 reported having Special Care Units. It should be noted that as of December 31, 2013, Medicaid discontinued its reimbursement for enhanced personal care services. As of January 31, 2014 a single rate for services was incorporated. Those 33 facilities and their utilization rates are summarized in the table below.

Spring Arbor of Cary ACH Replacement Review

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FACILITY	Township	Total Number of Beds	Occupancy Rate FFY 2012	ACH Beds in Special Care Units
Brighton Garden of Raleigh	Raleigh	115	99.1%	25
Brookridge Assisted Living	Apex	55	92.7%	0
Carillon Assisted Living	Fuquay Varina	96	74.0%	36
Carillon Assisted Living	Knightdale	96	67.7%	0
Carillon Assisted Living*	Raleigh	96	0.0%	0
Carolina House of Cary	Cary	80	72.5%	20
Carolina House of Wake Forest	Wake Forest	70	55.7%	22
Chatham Commons	Cary	80	77.5%	30
Clare Bridge of Cary	Cary	50	88.0%	50
Coventry House of Zebulon	Zebulon	60	70.0%	0
Elemcrot of Northridge	Raleigh	161	73.3%	58
Falls River Court Memory Care Community	Raleigh	38	88.8%	36
Falls River Village Assisted Living Community	Raleigh	60	65.0%	0
HeartFields at Cary	Cary	97	74.2%	16
James Rest Home	New Hill	40	92.5%	0
Lawndale Manor	Garner	62	82.3%	0
Lee's Long Term Care Facility	Raleigh	65	93.8%	0
Magnolia Glen	Raleigh	66	72.7%	30
Morningside of Raleigh	Raleigh	110	75.4%	53
Oliver House	Wendell	100	92.0%	31
Phoenix Assisted Care	Cary	120	90.8%	36
Spring Arbor of Apex	Apex	76	86.4%	20
Spring Arbor of Raleigh	Raleigh	80	73.8%	16
Sunrise Assisted Living at North Hills*	Raleigh	160	0.0%	48
Sunrise of Cary	Cary	85	94.1%	35
Sunrise of Raleigh	Raleigh	100	87.0%	46
Tanglewood Assisted Living**	Garner	126	0.0%	0
The Covington	Raleigh	120	96.6%	60
Wake Assisted Living	Raleigh	60	100.0%	60
Wake Forest Care Center***	Wake Forest	80	0.0%	
Waltonwood Cary Parkway	Cary	85	58.8%	33
Woodland Terrance	Cary	84	98.8%	44
Zebulon House	Zebulon	60	95.0%	31
Total		2,737	81.1%	878

Source: 2013 SMFP, 2013 Adult Care Home License Renewal Applications and Adult Care Licensure and Certification Section data as posted on their webpage.

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Note: The total represents adult care beds located in an Adult Care Home facility and not those ACH beds located in licensed nursing home facilities. The 2013 SMFP indicates that ACH beds are located in 10 nursing facilities in Wake County.

Note: *Facility reported no clients on its 2013 LRA

**Facility was nonoperational in FY2013. Facility had a name change or change of ownership effective June 1, 2013 (new name of facility is North Pointe Assisted Living of Garner.)

***Facility closed due to violations by the State in January 2012.

The 33 adult care homes in Wake County have a total of 2,737 beds. However, three of those facilities listed above, reported having no patients in FFY 2012, Carillon Assisted Living of Raleigh (96 beds), Sunrise Assisted Living at North Hills (160 beds), and Tanglewood Assisted Living (126 beds). Wake Forest Care Center (80 beds), was closed by the Adult Care Home Licensure and Certification Section of the Division of Health Service Regulation in 2012 due to numerous violations. The applicants filed an exemption from review request to acquire Wake Forest Care Center on August 7, 2012. The request for an exemption and acquisition of the existing healthcare facility was approved by the Certificate of Need Section, Division of Health Service Regulation on August 24, 2012. In this application, the applicants propose to relocate the facility and to change the name of the facility to Spring Arbor of Cary.

Excluding those beds from the total number of ACH beds in Wake County would total 2,275 $[96+160+126+80= 462 (2,737-462=2,275)]$ active total beds. This represents an overall occupancy rate of 81.1% for operated beds in FFY2013, as reported by the Adult Care Licensure and Certification Section. This inventory does not include the 247 ACH beds that were operated in Nursing Homes in Wake County. Additionally, the 55 general ACH beds and the 20 special care unit beds located at Windsor Point Continuing Care Retirement Communities (CCRC) in Fuquay Varina are not included in the table above.

According to Google Maps there are seven adult care homes within a five mile radius of the proposed Spring Arbor of Cary. All of these facilities have SCU beds. Four of those facilities, Waltonwood Cary Parkway, Woodland Terrance, Chatham Commons and Carolina House of Cary are located to the north of the proposed adult care facility. One facility is located to the south of Spring Arbor of Cary and two are located west of the proposed location, as illustrated in the table below.

Facility	Miles From Spring Arbor of Cary	Total Number of Beds	Number of SCU Beds
Waltonwood Cary Parkway	0.6 NE	85	33
Woodland Terrance	1.7 N	84	44
Heartfields of Cary	2.1 S	97	16
Chatham Commons	4.0 N	80	30
Sunrise of Cary	4.0 W	85	35
Phoenix Assisted Care	4.5 W	120	36
Carolina House of Cary	4.8 NW	80	20
Total		631	214

Projected Utilization

In Section IV.2, page 21, the applicants provide the projected utilization for the proposed 80 bed replacement adult care home for the first three years following completion of the project, as illustrated in the table below.

Spring Arbor of Cary Projected Utilization FY 2016 – FY 2018					
Year	Total of Facility Days of Care All Beds	Facility Occupancy Rate	Alzheimer & Memory Care Beds*	Alzheimer & Memory Care Beds Days of Care*	Alzheimer & Memory Care Beds Occupancy Rate*
FY 2016	11,006	37.7%	42	5,778	37.7%
FY 2017	26,255	89.9%	42	13,784	89.9%
FY 2018	27,375	93.8%	42	14,372	93.8%

Source: Applicant’s application page 21.

*Beds will be designated for Alzheimer and memory care patients, but will not be designated as a SCU, however, these beds will be separated from the general ACH bed population.

The applicants project 93.8% utilization in the third year of operations for the proposed replacement facility. This projection is reasonable when considering Wake County’s 55+ population is projected to make up 23.25% of the total population by 2018, and the applicants operational management experience.

The applicants assumptions regarding utilization can be found in Exhibit 32. The applicants’ assumptions as follows:

“Assumptions

Occupancy

-93.75% Occupancy Rate after 18 month fill up

- Fill up at the rate of approximately 4.17 patients per month until 93.75% occupancy is achieved
- Stabilized payor types based upon a combination of payor types at existing HHHunt Assisted Living managed facilities
- 24% Special Assistance 76% Private Pay Adult Care Home Beds (Non Memory Care)
- 24% Special Assistance, 76% Private Pay Memory Care Unit Beds
- The average special assistance occupancy rate of Cary adult care homes is consistent with that of [the] Primary Market Area.
- 38 Adult Care home Beds (Non Memory Care)
 - 38 private
- 42 Memory Care Beds
 - 14 private
 - 28 semi private”

The applicants adequately demonstrate the need to replace the 80 bed ACH formerly known as Spring Arbor of Wake Forest, with a new facility designed and equipped to serve the aging population of Wake County.

In summary, the applicants adequately identified the population to be served, and adequately demonstrated the need to relocate and replace the existing 80 bed adult care home. Therefore, this application is conforming to this criterion.

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

NA

The facility is vacant and has been closed since approximately January 2012, therefore no residents will be impacted by its relocation.

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

CA

In Section III.2, pages 15-16, the applicants describe the alternatives it considered, which include the following:

1. Maintain Status Quo – the applicants considered maintaining the status quo, however, the applicants concluded to allow the facility to remain vacant and the beds to eventually become de-licensed would deprive the county of needed ACH beds.
2. Renovate the Existing Location – the applicants concluded with the building being 55 years old and all the rooms being semi-private rooms with most of those rooms having half baths, in a total of 23,438 square foot building, this was deemed an ineffective alternative.
3. Build a Replacement Facility on the Same Location – the applicants considered razing the existing building and constructing a new facility on the same site. However, the applicants concluded that the 2.75 acres would not allow a “*provider of choice*” adult care home to be constructed as the size of the proposed replacement facility is over 72,000 square feet.
4. Locked Memory Care Unit – the applicants concluded that although the facility can not have a SCU due to the moratorium on SCUs, the applicants propose to have a Alzheimer/memory care unit to provide care for those residents who require that additional level of service. That applicants concluded that not having a separate unit for that segment of the population would not be in the best interest of the residents of Wake County.
5. Develop the Project as Proposed – the applicants concluded that the relocation and construction of a replacement 80 bed ACH, including the development of an Alzheimer/memory care unit, was the most effective alternative for the 80 bed ACH. Thereby making it the least costly and most effective alternative to meet the need for ACH beds in Wake County.

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

The applicants adequately demonstrate that the proposed alternative is the most effective or least costly alternative to meet the need to provide ACH beds/services in Wake County. The application is conditionally conforming to this criterion and approved subject to the following conditions.

- 1. Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. shall materially comply with all representations made in the certificate of need application.**
 - 2. Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. shall construct a replacement facility with no more than 80 adult care beds upon the completion of the proposed project.**
 - 3. For the first two years of operation following completion of the project, Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. shall not increase actual private pay charges more than 5% of the projected private pay charges provided in Section X of the application without first obtaining a determination from the Certificate of Need Section that the proposed increase is in material compliance with the representations made in the certificate of need application.**
 - 4. Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. shall submit all patient charges and patient admissions for each source of patient payment to the CON Section at year end for each of the first three operating years following licensure of the beds in the facility.**
 - 5. Prior to the insurance of the Certificate of Need, Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. shall provide documentation to the Certificate of Need Section that demonstrates the proposed project will have a Sustainability Plan for the project that conforms to or exceeds water conservation standards incorporated in the latest editions of the North Carolina State Building Codes.**
 - 6. Spring Arbor of Cary, LLC and HHHunt of North Carolina, shall submit a plan of energy efficiency and water conservation to the Construction Section, DHSR, that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation.**
 - 7. Prior to the insurance of the Certificate of Need, Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. shall provide documentation to the Certificate of Need Section that demonstrates the availability of funds for the working capital (start-up and initial operating costs) for the proposed project.**
 - 8. Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section, in writing prior to issuance of the certificate of need.**
- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the

proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

CA

In Section VIII.1, page 34, the applicants project the total capital cost of the project will be \$23,499,400 which includes \$5,895,000 in site costs, \$13,189,492 in construction costs, \$710,000 in equipment and furniture costs, \$525,000 in architect and engineering costs, \$35,000 in Certificate of Need preparation costs, \$257,000 in legal fees, \$25,000 in market analysis costs, \$1,762,459 in financing costs, \$450,499 in interest during construction costs, and \$650,000 in other costs (contingency). In Section VIII.2, page 35, the applicants state that the capital costs of the project will be financed by means of a commercial loan in the amount of \$18,779,520 and accumulated reserves in the amount of \$4,719,880. Exhibit 28 contains a letter dated October 30, 2013 from a Managing Director with Capital Funding, which states:

“We understand that Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. intend to file a Certificate of Need application to relocate 80 adult care home beds and construct a new facility in Wake County.

We have had significant discussions with Spring Arbor of Cary, LLC about the feasibility of this project. We would be happy to consider lending up to 90% of estimated eligible construction costs to fund the project. The amount loaned would be secured by a first deed of trust. ...”

Exhibit 30 contains a letter dated November 5, 2013 from the Vice President of HHHunt, which states:

“Please accept this letter to reflect my authority to allocate the cash reserves of Spring Arbor of Cary, LLC. I am currently the Vice President of Finance for HHHunt Assisted Living, Inc., Managing Member of Spring Arbor of Cary, LLC. This letter shall serve as confirmation of my authority to use up to 5,000,000 of the cash reserves of Spring Arbor of Cary, LLC to projects approved by the officers. These funds will be used to assist with the fixed and working capital requirements for the proposed certificate of need application project to replace and relocate 80 licensed adult care home beds to Spring Arbor of Cary. ...”

In Section IX, page 38, the applicants project total start-up expenses of \$87,046 for one month of the start-up period, and initial operating expenses over a 12 month period of \$1,102,497 for a total working capital cost of \$1,189,543 which will be funded through the applicants' unrestricted cash. The letter in Exhibit 30 from the Vice President of HHHunt, states in part:

“I am currently the Vice President of Finance for HHHunt Assisted Living, Inc., Managing Member of Spring Arbor of Cary, LLC. This letter shall serve as confirmation of my

authority to use up to 5,000,000 of the cash reserves ... to assist with the fixed and working capital requirements for the proposed certificate of need application ...”

Exhibit 31 contains the unaudited financial statements for HHHunt Assisted Living, Inc. for the federal fiscal years ending September 30, 2013 and September 30, 2012. As of September 30, 2013, HHHunt Assisted Living had \$3,288,287 in cash, which is more than sufficient to cover the working capital cost for the proposed project.

In Section IX.3, page 46, Table IX.2B, the applicants project the following monthly rates and charges by payor source for the facility in the second full year of operation following completion of the proposed project.

<i>Payor Source</i>	Private Room	Semi-Private Room
ACH Services		
Private Pay	\$168.35	0
State/County Special Assistance	\$60.43	0
Alzheimer/Memory Care Unit*		
Private Pay	\$213.70	\$157.80
State/County Special Assistance	\$60.43	\$60.43

*This is not classified as a SCU

In the projected revenue and expense statement (Form B), the applicants project operating expenses will exceed revenues in operating year two (FFY 2017). However, the applicants project that by operating year three (FFY 2018) revenues will exceed operating expenses. The assumptions used by the applicants in preparation of the pro formas are reasonable including projected utilization, costs and charges. See Exhibit 32 for the applicants’ assumptions. See Criterion (3) for discussion of utilization projections which is incorporated hereby as if set forth fully herein. The applicants adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and charges. Therefore, the application is conditionally conforming to this criterion, subject to the following condition.

Prior to the insurance of the Certificate of Need, Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. shall provide documentation to the Certificate of Need Section that demonstrates the availability of funds for the working capital (start-up and initial operating costs) for the proposed project.

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

The applicants, Spring Arbor of Cary, LLC and HHHunt of North Carolina, Inc. adequately demonstrate the need to construct a replacement 80 bed adult care home in Wake County. There are currently 33 freestanding adult care homes in Wake County, of those facilities three reported not having patients on their 2013 LRA. Additionally, 12 of those facilities reported operating above 90% occupancy. The 2013 SMFP reports a surplus of 245 ACH beds in Wake County. However, the applicants do not propose to develop new adult care beds, but rather to replace an old ACH and relocate its existing 80 beds. There will be no increase in the number of ACH beds in Wake County. See Criterion (3) for discussion. Consequently, the applicants adequately demonstrate that the proposed project would not result in the unnecessary duplication of adult care home services or facilities in Wake County. Therefore, the application is conforming to this criterion.

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

C

The facility is currently closed, therefore there are no staff currently employed at Spring Arbor of Cary. In Section VII.4, page 32, Table VII.2, the applicants provide a table which illustrates the number of full time equivalent (FTE) staff the applicants propose to employ, upon re-opening the 80 bed ACH, as summarized in the table below.

Spring Arbor of Cary Proposed Staff for Replacement ACH

	Adult Care Home Beds FTEs	Memory Unit FTEs	Total Facility FTEs
Routine Services			
Resident Care Coordinator	0.47	0.53	1.00
SIC/Med Tech	5.60	6.00	11.60
Night Shift Aide	1.40	2.80	4.20
Personal Care Aide	5.60	11.20	16.80
Memory Care Coordinator		1.00	1.00
Total	13.07	21.53	34.60
Dietary			
Supervisor	0.47	0.53	1.00
Cooks	1.66	1.84	3.50
Dietary Aides	2.66	2.94	5.60
Total	4.79	5.31	10.10
Activity Services			
Director	1.00	2.00	3.00
Total	1.00	2.00	3.00
Housekeeping/Laundry			
Housekeeping Aides	0.83	0.92	1.75
Laundry Aides	0.83	0.92	1.75
Total	1.66	1.84	3.50
Operations & Maintenance			
Maintenance Supervisor	0.47	0.53	1.00
Total	0.47	0.53	1.00
Admin & General			
Administrator	0.47	0.53	1.00
Admissions Coordinator	0.47	0.53	1.00
Bookkeeper	0.47	0.53	1.00
Receptionist	0.80	0.88	1.68
Transportation	0.47	0.53	1.00
Total	2.68	3.00	5.68
Total All Positions	23.67	34.21	57.88

The applicants project 11,648 annual direct care staff hours (5.60 personal care aides x 2,080 annual hours = 11,648) for the ACH beds and 23,296 annual direct care staff hours (11.20 personal care aides x 2,080 annual hours = 23,296) for the Alzheimer/memory care beds. The applicant further states on page 32, that a nurse will provide annual consultant hours of 113.76. Adequate cost for the health manpower and management positions proposed by the applicants are budgeted in the Pro forma financial statements. The applicants adequately demonstrate the availability of sufficient health manpower and management personnel to provide the proposed services. Therefore, the application is conforming to this criterion.

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

C

Exhibit 22 contains letters from Cary Health and Rehabilitation, Rex Rehabilitation and Nursing Care Center of Apex, and WakeMed, offering to enter into a transfer agreement with Spring Arbor of Cary. Exhibit 23 contains letters from physicians (including physicians from Cary Medical Group and WakeMed) and other healthcare professionals expressing their support for the facility and their willingness to refer patients to the facility. Exhibit 27 contains a letter from a pharmacist with Mast Long Term Care Pharmacy expressing an interest in providing pharmacy services. Exhibit 27 also contains a letter from Christine Stempel, RN expressing an interest in providing nurse consultation services.

The applicants adequately demonstrated the availability of the necessary ancillary and support services and that the proposed services would be coordinated with the existing health care system. Therefore, the application is conforming to this criterion.

- (9) An applicant proposing to provide a substantial portion of the project's services to individuals not residing in the health service area in which the project is located, or in adjacent health service areas, shall document the special needs and circumstances that warrant service to these individuals.

NA

- (10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates:

- (a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and

NA

- (b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers:

- (i) would be available under a contract of at least 5 years duration;
- (ii) would be available and conveniently accessible through physicians and other health professionals associated with the HMO;
- (iii) would cost no more than if the services were provided by the HMO; and
- (iv) would be available in a manner which is administratively feasible to the HMO.

NA

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

C

The applicants propose to construct a replacement adult care home which will have an estimated 72,027 square feet in Wake County. In Section VIII.1, page 34, and Section XI, page 51, the applicants project the total cost for construction will be \$13,189,492. Exhibit 40 contains a quote from J Davis Architects which concurs with the construction cost listed on pages 34 and 51. Thus, the construction cost per square foot is \$183.12 [$13,189,492/72,027=183.12$] which concurs with the construction cost provided by the applicants. Exhibit 38 contains the Site Plan and Exhibit 39 contains the line drawing.

The applicants adequately demonstrate that the cost, design, and means of construction represent the most reasonable alternative for the proposal to construct a replacement 80 bed ACH. Furthermore, the applicants adequately demonstrate the project will not unduly increase costs or charges. See Criterion (5) for discussion of costs and charges which is incorporated hereby as if fully set forth herein. Therefore, the application is conforming to this criterion.

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

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

NA

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

NA

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

C

In Section VI.(2), page 24, the applicants project 93.75% occupancy rate for the proposed replacement facility. On pages 24-25, the applicants state:

“An occupancy rate of 93.75% is projected based on operational experience and this provider becoming an immediate provider of choice upon completion of the new building, the [sic] fact 6 of the existing HHHunt affiliated facilities in North Carolina have occupancy rates in excess of 90%.

HHHunt managed facilities have a history of providing services to the medically underserved in Wake County. Their Spring Arbor of Apex Special Assistance utilization was 36% based on most recent license renewal application data, and the Spring Arbor of Raleigh utilization percentage was 51%. See Exhibit 24.

The special assistance rate of 24% is based upon operational experience and the applicant's desire to provide services to the medically underserved. Although the projected rate is lower than the county average rate of approximately 34% it is the same as the special assistance occupancy rate in the area of the county (Cary) that will be served by the applicant ... and of the 8 free standing adult care homes in Cary, this will be one of 3 offering services to Special Assistance residents.

Although measurement of this important criterion is normally accomplished by comparing the percentage of medically underserved projected to be served in the application to the county or state averages, in a county as large as Wake, a more appropriate measure is the percentage of services provided to the medically

underserved in the actual ‘subdivision’ of the county in which the facility will be located. The applicant’s proposed Special Assistance percentage of 24% is essentially the same as the approximate of 24% provided to residents in Cary adult care homes based on the information obtained from the most recent license renewal information.

...

A key part of this application relative to the applicants’ provision of services to the medically underserved is their projection of services to this segment of the population in their ‘cottage’ or memory care/locked unit. ... [T]he applicant is willing to provide services to this extremely fragile segment of the population based on demand. ...

On page 26, the applicants provide the patient days by payor category for operating year 2, as illustrated in the table below.

Spring Arbor of Cary

Payor Source	ACH Residents		Memory Care Residents		Total ACH
	Patient Days	% of ACH Days	Patient Days	% of Memory Care Days	
Private Pay					
Private Room	9,479		4,595		14,074
Semi-Private Room	0		5,880		5,880
Total Private Pay	9,479	76%	10,475	76%	19,954
Special Assistance (Basic Medicaid)					
Private Room	2,992		0		2,992
Semi-Private Room	0		3,309		3,309
Total Special Assistance	2,992	24%	3,309	24%	6,301
Total	12,471	100%	13,784	100%	26,255

As illustrated in the table above, the applicants project 76% of its payor source to be from private pay patients and 24% of its patients to receive special assistance.

The applicants demonstrated that medically underserved populations will have adequate access to the proposed services. Therefore, the application is conforming to this criterion.

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

C

In Section V.4, page 23, the applicants state patients will have access to the services offered at Spring Arbor of Cary through the following referral sources:

- Nursing Facilities,
- Physicians, and
- Hospitals

The applicants adequately identified the range of means by which residents will have access to the proposed replacement ACH. Therefore, the application is conforming to this criterion.

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

C

See Exhibit 21 for a letter from the Executive Director of Spring Arbor of Raleigh to the President of Shaw University offering the use of Spring Arbor of Cary as a clinical training site. The applicants adequately demonstrate that the proposed facility would accommodate the clinical needs of health professional training programs in the area. The information provided is reasonable and credible and supports a finding of conformity with this criterion.

- (15) Repealed effective July 1, 1987.
(16) Repealed effective July 1, 1987.
(17) Repealed effective July 1, 1987.
(18) Repealed effective July 1, 1987.
- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

C

As of the date of this decision, the Adult Care Licensure Section, of the Division of Health Service Regulation reports on its website that there are 33 licensed adult care homes in Wake County. Seven of those facilities are located within a five mile radius of the proposed Spring Arbor of Cary facility and had the following occupancy rates, as reported on their 2013 LRA, as illustrated in the table below.

Facility	Total Number of Beds	Occupancy Rate
Waltonwood Cary Parkway	85	58.8%
Woodland Terrance	84	98.8%
Heartfields of Cary	97	74.2%
Chatham Commons	80	77.5%
Sunrise of Cary	85	94.1%
Phoenix Assisted Care	120	90.8%
Carolina House of Cary	80	72.5%

Of those seven facilities, six reported having an occupancy rate of 70% or higher. Three of the facilities reported having an occupancy rate of over 90%.

Spring Arbor of Cary is an existing, licensed non-operational 80 bed ACH in Wake County. In Section VI.5, page 28, the applicant discusses how any enhanced competition will have a positive impact on the cost effectiveness, quality, and access to the proposed services, the applicants state:

“This project will provide a new, state of the art facility to the community in a cost effective manner. The facility’s private pay rate in the adult care home is \$168.35 per day for a private room. This is in line with other provider of choice facilities in Wake County and the rate is lower than that of five other Wake County facilities. The applicants plan to charge \$213.70 per day for a private room in their memory care unit, and \$157.80 per day for a semi private room. ...The applicants propose to provide services to a significant percentage of special assistance [sic] depending upon demand in the area and will provide services to all residents for whom they are capable of providing care regardless of income, ethnicity, or gender.”

See also Sections II, III, VI and VII of the application where the applicants discuss cost-effectiveness, quality and access. The information provided by the applicants in those sections is reasonable and credible and adequately demonstrates how any enhanced competition in the service area would have a positive impact on cost effectiveness, quality and access to the proposed services. This determination is based on the information in the application and the following analysis:

- The applicants adequately demonstrate the need to relocate the existing 80 bed ACH and to construct a replacement facility and that it is a cost-effective alternative;
- The applicants adequately demonstrate they will provide quality services; and
- The applicants demonstrate that they will provide adequate access to medically underserved populations.

The application is conforming to this criterion.

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

NA

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

NA

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