

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

DECISION DATE: November 20, 2014
PROJECT ANALYST: Fatimah Wilson
TEAM LEADER: Lisa Pittman

PROJECT I.D. NUMBER: F-10311-14 / Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC / Change of scope and cost overrun for Project I.D. #F-10263-14 (replace and relocate 60 adult care home beds from Kannapolis Village) and replace and relocate 48 ACH beds from the Concord House to a new combined replacement adult care home facility for a total of 108 adult care home beds / Cabarrus County

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

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

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

C

The applicants, Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC, propose to replace and relocate 48 licensed adult care beds from Concord House within Cabarrus County by developing a new 108-bed adult care home to replace both Concord House and Cabarrus Manor on a new site, as a change of scope and cost overrun to a previously approved project. Effective July 15, 2014, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC were issued a certificate of need (CON) to replace and relocate 60 adult care home (ACH) beds at Kannapolis Village to a new location within Cabarrus County and change the name of the facility from Kannapolis Village to Cabarrus Manor (Project I.D. #F-10263-14). AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC will remain as the holder of all rights and interest in and to the CON.

The location of the proposed 108-bed replacement facility will be 4821 Kannapolis Parkway, Kannapolis. Upon completion of the proposed project and Project I.D.#F-10263-14, the combined ACH facility will be known as Cabarrus Manor. Cabarrusco, LLC will own the

land, building and beds (Lessor). The facility will be leased by Cabarrus AL Holdings, LLC (Lessee) and managed by Meridian Senior Living.

On February 5, 2014, Cabarrusco, LLC received approval from the CON Section to acquire the Concord House. The applicants provided the following documents in supplemental information to demonstrate acquisition of the Concord House by Cabarrusco, LLC: a bill of sale, assignment and assumption agreement, a special warranty deed (deed in lieu of foreclosure) and a lease agreement between the previous owner, Clifford Hemingway and the new owner, Cabarrusco, LLC. A sample lease agreement was provided by the applicants in Exhibit A between Cabarrusco, LLC (lessor) and Cabarrus AL Holdings (lessee). All 108-beds are listed in the inventory of ACH beds in Chapter 11 of the 2014 State Medical Facilities Plan (“SMFP”). 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 2014 SMFP.

However, the following policies are applicable:

- Policy LTC-2: Relocation of Adult Care Home Beds
- Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities

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 care home beds in the county that would be losing adult care home beds as a result of the proposed project, as reflected in the 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 home beds in the county that would gain adult care home beds as a result of the proposed project, as reflected in the State Medical Facilities Plan in effect at the time the certificate of need review begins.”*

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

Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan for energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy-GEN 4. The plan shall not adversely affect patient or resident health, safety, or infection control."

In Section X.9, page 40, the applicants state:

"This new 108-bed facility is a combination of beds from the recently approved 60-bed CON F-10263-14 and the soon to be closed 48 bed facility on Odell School Road in Concord. The 48-bed facility on Odell School Road in Concord has operated for many years on an outdated well and septic tank. The expense of maintaining or costs of upgrading these systems is prohibitive. Attempts to connect the facility to the municipal water and sewer systems have been unsuccessful.

The current facilities are far from energy efficient due to age and condition.

The new building will take advantage of the newest construction techniques and materials to ensure optimal energy efficiency. This includes, but is not limited to, dual pane windows, the most up-to-date insulation materials, modern HVAC units, and a tankless water heater system. By replacing the old, inefficient technologies, the utility costs will be dramatically reduced, allowing more money to be spend on direct resident care."

The applicants adequately provide the project's plan to assure improved energy efficiency and water conservation. The application is consistent with Policy GEN-4.

In summary, the application is conforming to all applicable policies in the 2014 SMFP. Therefore, the application is conforming to this criterion.

- (2) Repealed effective July 1, 1987.

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

C

The applicants, Cabarrusco, LLC, AA – Holdings Kannapolis, LLC and Cabarrus AL Holdings, LLC, propose to replace and relocate 48 licensed adult care beds from Concord House within Cabarrus County by developing a new 108-bed adult care home to replace both Concord House and Cabarrus Manor on a new site, as a change of scope and cost overrun to a previously approved project. Effective July 15, 2014, AA – Holdings – Kannapolis LLC and Cabarrus AL Holdings, LLC were issued a certificate of need (CON) to replace and relocate 60 adult care home (ACH) beds at Kannapolis Village to a new location within Cabarrus County and change the name of the facility from Kannapolis Village to Cabarrus Manor (Project I.D. #F-10263-14). With this application, AA – Holdings – Kannapolis LLC is being changed to Cabarrusco, LLC as the owner of the real property.

The location of the proposed 108-bed replacement facility will be 4821 Kannapolis Parkway, Kannapolis. Upon completion of the proposed project and Project I.D.# F-10263-14, the combined ACH facility will be known as Cabarrus Manor.

In Section I.8, page 6, when asked to provide a brief description of the project, the applicants state that the proposed project is for a new 108-bed ACH on a new site as a replacement for two separate ACH facilities. The design footprint will be increased from 26,800 originally approved square feet to 42,828 square feet as proposed in this application. The increase in square feet is to accommodate the additional beds to be relocated to the replacement facility.

In addition, the previously approved capital cost of \$4,970,577 is now projected to be \$6,880,243, or an increase of 38.4% (\$1,909,666). The replacement facility will still be named Cabarrus Manor upon completion of the proposed project.

Population to be Served

In Section III.7, page 16, the applicants project that the patient origin for the 108-bed facility will be the same as in the original application, as shown in the table below.

County	Projected % of Total ACH Residents
Cabarrus	100.0%
Mecklenburg	0.0%
Rowan	0.0%
Stanly	0.0%
Total	100.0%

In supplemental information the applicants state that 100 percent of the patient origin for the proposed facility is projected to be from Cabarrus County, given the central location of the

proposed site, the establishment of a new replacement facility in the service area and the marketing techniques of Meridian Senior Living.

The applicants adequately identified the population to be served.

Demonstration of Need

In Section II.1, page 8, the applicants state the 108-bed replacement facility will provide the following benefits:

- Promote greater social interaction;
- Provide a more secure, supportive atmosphere;
- Allow for greater, individualized care for each resident; and to
- Enhance the overall quality of life for all residents.

In Section III.1, page 12, and Section III.3, pages 12-13 of the original application, the applicants described the need to replace and relocate the 60-beds at Kannapolis Village.

In Section III.1, page 13 of the current application, the applicants state the need to replace and relocate the 48-beds at the Concord House based on the following,

“The current facility is old and does not have modern systems that could otherwise improve quality of care and increase efficiency. The facility is not protected by a fire sprinkler system nor is the facility operating via public water and sewer. The systems and insulation in place are not energy efficient. Lighting is insufficient to conduct quality of care. In short, the current facility is inadequate to provide care for Adult Care Home residents.”

In supplemental information, the applicants state that statistical data provided in Exhibits E and F indicates Cabarrus County will have approximately 200,000 residents in excess of 55 years of age by 2019. The applicants state that this projected population will have an unmet need of healthcare services namely, assisted and memory care. Further, the applicants state that Cabarrus County is experiencing significant senior population growth in excess of 2.0% per year. The applicants state that given the central location of the proposed site, the establishment of a new replacement facility, the projected senior population growth in Cabarrus County and the marketing techniques of Meridian Senior Living, the facility will reach 85% capacity within two years of operation. The applicants do not propose a special care unit at the facility.

According to the Adult Care Home Licensure Section, Cabarrus Manor (formerly Kannapolis Village) and the Concord House are two of 11 ACHs in Cabarrus County as shown in the table below.

Facility	# of Beds	Census as of July 31, 2013	Occupancy as of July 31, 2013
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Brookdale Concord South (Horizon Bay Assisted Living at Concord)	60	54	90.0%
Brookdale Concord West (Concord Place)	112	87	77.7%
Caremoor Retirement Center	30	25	83.3%
Carillon Assisted Living of Harrisburg	96	63	65.6%
Concord House	48	32	66.7%
First Assembly Living Center	180	156	86.7%
Kannapolis Village (Cabarrus Manor)*	60	20	33.3%
Morningside of Concord	105	91	86.7%
Mt. Pleasant House	74	69	93.2%
St. Andrews Living Center	56	44	78.6%
The Country Home**	40	N/A	N/A
Total # of Licensed Beds	861	588	73.4%

Occupancy calculated based on the total # of residents / total # of beds per the 2014 ACH LRAs

*Licensed but non-operational

**No LRA on file at the time of this analysis

As shown in the table above, Cabarrus County currently has 861 licensed (801 operational) ACH beds. The 801 operational beds were operating at 73.4% ($588 / 801 = 73.4\%$) as of July 31, 2013. The Country Home, a 40 bed ACH, has beds, however, the 2014 LRA (July 31, 2013) census data was not available during this review. As of July 31, 2013, Kannapolis Village was operating at 33.3% capacity. The facility is currently closed. The Concord House was operating at 66.7% capacity. In supplemental information, the applicants stated that the currently utilization for the facility is 77%. The applicants have demonstrated the need to replace and relocate 108-beds based on the current utilization of ACH beds in Cabarrus County.

The applicants adequately demonstrate the need to replace and relocate 108-beds to a new replacement facility.

Projected Utilization

In Section IV.2, page, 18, and referenced exhibits, the applicants provide projected utilization of the 108-beds for the first two full federal fiscal years (FFYs), as illustrated in the table below.

**Table IV.2—Projected Utilization
 First Full Federal Fiscal Year
 October 1, 2016 through September 30, 2017**

	1st Quarter 10/1 to 12/31	2nd Quarter 1/1/ to 3/31	3rd Quarter 4/1 to 6/30	4th Quarter 7/1 to 9/30	Total
Adult Care Home					
Patient Days	2,944	4,590	6,170	7,374	21,079
Occupancy Rate	29.6%	47.2%	62.8%	74.2%	53.5%
# of Beds	108	108	108	108	108
Special Care Unit					
Patient Days	N/A	N/A	N/A	N/A	N/A
Occupancy Rate	N/A	N/A	N/A	N/A	N/A
# of Beds	N/A	N/A	N/A	N/A	N/A
Total Adult Care Home					
Patient Days	2,944	4,590	6,170	7,374	21,079
Occupancy Rate	29.6%	47.2%	62.8%	74.2%	53.5%
# of Beds	108	108	108	108	108

Source: Application Section IV.2, page 18

**Table IV.2—Projected Utilization
 Second Full Federal Fiscal Year
 October 1, 2017 through September 30, 2018**

	1st Quarter 10/1 to 12/31	2nd Quarter 1/1/ to 3/31	3rd Quarter 4/1 to 6/30	4th Quarter 7/1 to 9/30	Total
Adult Care Home					
Patient Days	8,133	8,496	8,845	8,942	34,416
Occupancy Rate	81.9%	87.4%	90.0%	90.0%	87.3%
# of Beds	108	108	108	108	108
Special Care Unit					
Patient Days	N/A	N/A	N/A	N/A	N/A
Occupancy Rate	N/A	N/A	N/A	N/A	N/A
# of Beds	N/A	N/A	N/A	N/A	N/A
Total Adult Care Home					
Patient Days	8,133	8,496	8,845	8,942	34,416
Occupancy Rate	81.9%	87.4%	90.0%	90.0%	87.3%
# of Beds	108	108	108	108	108

Source: Application Section IV.2, page 18

As shown in the table above, in the second FFY of operation, Cabarrus Manor projects the 108 ACH beds will operate at 87.3% of capacity [$34,416/365/108 = 0.873$, or 87.3%].

In Exhibit L and supplemental information, the applicants provide the assumptions and methodology utilized to project utilization for the 108 ACH beds. The applicants state on page 152 that the facility will begin operations with 25 ACH beds on October 1, 2016 and fill up at a rate of six residents per month until the ACH fills. In supplemental information, the applicant states that the fill-up rate of six residents per month is based upon historical census data of Meridian Senior Living's operations. The applicant goes on to state that the average fill-up rate of like sized and similarly located facilities has been approximately six residents

per month. Thus, the fill-up rate of six resident per is reasonable. Projected utilization is based on reasonable and supported assumptions.

In summary, the applicants adequately identified the population to be served and adequately demonstrated the need to replace and relocate 108 ACH beds, including the extent to which medically underserved groups will have access to the proposed adult care home services. See discussion regarding access by medically underserved groups in Criterion 13(c), which is incorporated herein by reference. Therefore, the application is conforming to this criterion.

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

C

The applicants, Cabarrusco, LLC, AA – Holdings Kannapolis, LLC and Cabarrus AL Holdings, LLC, propose to replace and relocate 48 licensed adult care beds from Concord House within Cabarrus County by developing a new 108-bed adult care home to replace both Concord House and Cabarrus Manor on a new site, as a change of scope and cost overrun to a previously approved project. Effective July 15, 2014, AA – Holdings Kannapolis LLC and Cabarrus AL Holdings, LLC were issued a certificate of need (CON) to replace and relocate 60 adult care home (ACH) beds at Kannapolis Village to a new location within Cabarrus County and change the name of the facility from Kannapolis Village to Cabarrus Manor (Project I.D. #F-10263-14). With this application, AA – Holdings Kannapolis LLC is being changed to Cabarrusco, LLC as the owner of the real property.

The location of the proposed 108-bed replacement facility will be 4821 Kannapolis Parkway, Kannapolis. Upon completion of the proposed project and Project I.D.# F-10263-14, the combined ACH facility will be known as Cabarrus Manor.

According to MapQuest, the distance from the Concord House to the proposed site is approximately 6.8 miles or an 8 minute drive time. Thus, the replacement facility would be geographically accessible to the same population currently being served.

In supplemental information, the applicants state the following regarding plans for relocation of persons currently served at the Concord House,

“The current population will be given ample notice and relocation assistance to other facilities of the current lessee. Should residents or their respective responsible parties decide they would like to remain closer to the current location, we will provide them with a list of affiliate facilities that are within their desired radius.”

Furthermore, in the replacement ACH facility, the applicants project 26.7% [9,198 / 34,416 X 100 = 26.7] of all resident days for ACH beds will be provided to Medicaid recipients. In supplemental information the applicant states the following regarding the effect of the relocation on the underserved,

“The proposed replacement facility will positively impact underserved groups and services. The replacement facility will enhance quality of care services while providing greater access to healthcare services in a home-like environment.”

The application is conforming to this criterion.

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

CA

In Section III.3, pages 13-14, the applicants state:

“There were four alternatives considered in development of the proposed project: (1) to reopen and operate the current facility, (2) to renovate the current facility, (3) to build a replacement facility at the current location, or (4) to build a replacement facility at a new location. ...”

The project analyst notes that only one of the two facilities is presently closed, Kannapolis Village. The Concord House is still serving patients as of the date of this review. The applicants state the following reasons for first three alternatives not being possible:

- 1) The first alternative was not possible as the facility is not in the condition necessary to render quality care to residents;
- 2) The second alternative was not possible as the current facility does not lend itself to a cost-effective renovation; and
- 3) The third alternative, while possible, does not serve the residents of the county most effectively because the current location would require significant demolition work, significantly postponing the opening of the replacement facility and the parcel of land the facility is located on currently does not allow for the extra square footage necessary to meet current licensure standards for Adult Care Homes.

The applicants propose to construct a 108-bed replacement facility in the same county. The applicants do not propose to add new beds, but to replace 108 beds that are already in the ACH inventory according to the 2014 SMFP. Furthermore, the application is conforming to all applicable statutory and regulatory review criteria, and thus, the application is approvable. An application that cannot be approved is not an effective alternative.

The applicants adequately demonstrate that the proposal is its least costly or most effective

alternative to meet the need to replace and relocate 108 ACH beds. Consequently, the application is conforming to this criterion and is approved subject to the following conditions.

- 1. Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC shall materially comply with all representations made in the certificate of need application and in the supplemental information submitted during the review. In those instances where representations conflict, Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC shall materially comply with the last made representation.**
- 2. Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC shall construct a replacement adult care home facility (ACH) which shall be licensed for no more than 108 ACH beds upon project completion.**
- 3. For the first two years of operation following completion of the project, Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC 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 in the certificate of need application.**
- 4. Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC shall provide care to recipients of State/County Special Assistance with Medicaid for the facility, commensurate with representations made in Section VI. 2 and Exhibit L.**
- 5. Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC 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.**
- 6. Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC shall develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building Codes. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4.**
- 7. Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to issuance of the certificate of need.**

- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.

C

In Section VIII.1, page 32, the applicants project the total capital expenditure for the proposal will be \$6,880,243, which includes:

Site Costs	\$1,622,800
Construction Costs	\$4,009,093
Equipment and Furniture	\$ 525,000
Consultant Fees	\$ 234,850
Financing Costs	\$ 100,000
Interest during Construction	\$ 238,500
Contingency	<u>\$ 150,000</u>
Total:	<u>\$6,880,243</u>

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

	Original Application	Proposed Application	Variance
Site Costs	\$790,277	\$1,622,800	\$832,523
Construction Costs	\$2,505,800	\$4,009,093	\$1,503,293
Equipment and Furniture	\$400,000	\$ 525,000	\$125,000
Consultant Fees	\$240,000	\$234,850	(\$5,150)
Financing Costs	\$100,000	\$100,000	Same
Interest during Construction	\$219,500	\$238,500	\$19,000
Contingency	\$200,000	\$150,000	(\$50,000)
Total	\$4,970,577	\$6,880,243	\$1,909,666

In Project I.D. #F-10263-14, the applicant was approved for a capital expenditure of \$4,970,577, thus the net capital expenditure for the current project is \$1,909,666. In Exhibit P, the applicants project that the total working capital needs for this project will be \$453,157. In Section VIII.2, page 33, the applicants indicate that the capital cost of the project, including the working capital, will be financed with a commercial loan.

Exhibit N contains a copy of a letter dated July 15, 2014 from DCR Mortgage Partners VI, LP, which states in part:

“DCR Mortgage Partners VI, LP (“DCR”) hereby expresses its interest in providing construction and permanent financing for your proposed new facility in Cabarrus County. Through our longstanding relationships with affiliated entities of Cabarrusco, LLC and Cabarrus AL Holdings, LLC, whereby we have previously

funded all costs associated with several like projects, DCR is comfortable with and is eager for the opportunity to fund 100% of the Cabarrus Manor project. The following is a summary of the terms and conditions that would apply to this transaction:

*Borrower: Cabarrusco, LLC
Purpose: To provide 100% financing for the development, construction, and permanent financing of a 108-bed Adult Care Facility in Kannapolis, Cabarrus County, NC.*

Amount: \$6,880,243 ...”

Exhibit O contains a letter dated July 10, 2014 from DCR Mortgage Partners VI, LP, which states in part:

“DCR Mortgage Partners VI, LP (“DCR”) hereby expresses its interest in providing working capital financing for your proposed new facility in Cabarrus County. Through our longstanding relationships with affiliated entities of Cabarrusco, LLC and Cabarrus AL Holdings, LLC, whereby we have previously funded all costs associated with several like projects, DCR is comfortable with and is eager for the opportunity to fund 100% of the Cabarrus Manor project.

The following is a summary of the terms and conditions that would apply to this transaction:

Borrower: Cabarrus AL Holdings, LLC

Purpose: To provide working capital financing inclusive of initial operating costs as well as start-up expenses for 60 bed Adult Care Facility in Kannapolis, Cabarrus County, NC [sic].

Amount: \$453,157 ...”

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

In Section IX, page 36, the applicants project charges/rates for the first two operating years following completion of the project. The private pay charge for a private room is projected to be \$113.75 for an ACH bed (non special care unit) and \$93.33 for a semi-private bed in each of the first two full federal fiscal years. The state/county special assistance charge for both a private and semi-private room is projected to be \$72.51 in each of the first two full operating years.

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

Net Income	ACH (excluding special care units)
1 st Full FFY (2017)	(\$308,047)
2 nd Full FFY (2018)	\$270,522

Cabarrus Manor adequately demonstrates that projected revenues and operating costs are based on reasonable, credible and supported assumptions, including projected utilization.

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

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

C

The applicants, Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC, propose to replace and relocate 48 licensed adult care beds from Concord House within Cabarrus County by developing a new 108-bed adult care home to replace both Concord House and Cabarrus Manor on a new site, as a change of scope and cost overrun to a previously approved project. Effective July 15, 2014, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC were issued a certificate of need (CON) to replace and relocate 60 adult care home (ACH) beds at Kannapolis Village to a new location within Cabarrus County and change the name of the facility from Kannapolis Village to Cabarrus Manor (Project I.D. #F-10263-14). AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC will remain as the holder of all rights and interest in and to the CON.

The location of the proposed 108-bed replacement facility will be 4821 Kannapolis Parkway, Kannapolis.

According to the Adult Care Home Licensure Section, Kannapolis Village (Cabarrus Manor) is one of 11 adult care homes in Cabarrus County as shown in the table below.

Facility	# of Beds	Census as of July 31, 2013	Occupancy as of July 31, 2013

Brookdale Concord South (Horizon Bay Assisted Living at Concord)	60	54	90.0%
Brookdale Concord West (Concord Place)	112	87	77.7%
Caremoor Retirement Center	30	25	83.3%
Carillon Assisted Living of Harrisburg	96	63	65.6%
Concord House	48	32	66.7%
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Kannapolis Village (Cabarrus Manor)*	60	20	33.3%
Morningside of Concord	105	91	86.7%
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The Country Home**	40	N/A	N/A
Total # of Licensed Beds	861	588	73.4%

Occupancy calculated based on the total # of residents / total # of beds per the 2014 ACH LRAs
 *Licensed but non-operational **No LRA on file at the time of this analysis

As shown in the table above, Cabarrus County had 861 licensed (801 operational) ACH beds as of July 31, 2013. The 801 operational beds are operating at 73.4% ($588 / 801 = 73.4\%$). The Country Home, a 40 bed ACH, has beds, however, the 2014 LRA (July 31, 2013) census data was not available during this review. As of July 31, 2013, Kannapolis Village operated at 33.3% capacity. The facility is now closed. The Concord House operated at 66.7% capacity. The applicants state that both facilities are old and do not have modern systems in place that could otherwise improve quality of care and increase efficiency. It is reasonable to assume that the low utilization rates at both facilities are due significantly to the age and condition of the existing buildings.

The applicants adequately demonstrate the need to replace and relocate the 60-beds at Kannapolis Village and the 48-beds at Concord House. See discussion of need in Criteria (3) which is incorporated herein by reference. Consequently, the applicants adequately demonstrate that the proposed project would not result in the unnecessary duplication of existing or approved ACH beds in Cabarrus 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 applicants propose to provide personal care staff twenty-four hours per day, seven days per week. In Section VII., page 29, the applicants state that by FFY 2018 (the second full federal fiscal year), the proposed replacement adult care facility will be staffed by 49.5 full-time equivalent (FTE) positions. Adequate costs for the health manpower and management positions proposed by the applicants are budgeted in the pro forma financial statements. 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

In Section II.1, pages 8-10, the applicants describe the ancillary and support services that will be provided by the facility or made available through agreements with other providers including dietary, transportation, dentistry, physician, respite, medication administration, personal care and beauty and barber services. The ancillary and support services proposed are the same as in the original application. In Exhibit J, the applicants provide copies of letters sent to area physicians regarding their proposed project. Exhibit X contains copies of letters from the proposed providers of food supplies, pharmacy services and RN consultant services. The applicants adequately demonstrate that they will provide or make arrangements for the necessary ancillary and support services and that the proposed services will be coordinated with the existing health care community. Therefore, the application is conforming to this criterion.

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

NA

- (10) When applicable, the applicant shall show that the special needs of health maintenance organizations will be fulfilled by the project. Specifically, the applicant shall show that the project accommodates: (a) The needs of enrolled members and reasonably anticipated new members of the HMO for the health service to be provided by the organization; and (b) The availability of new health services from non-HMO providers or other HMOs in a reasonable and cost-effective manner which is consistent with the basic method of operation of the HMO. In assessing the availability of these health services from these providers, the applicant shall consider only whether the services from these providers:
- (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 42,828 square foot building at 4821 Kannapolis Parkway, Kannapolis to house the proposed 108-bed replacement adult care facility. Construction costs are projected to be \$4,009,093 as stated in Section VIII.1, page 32 of the application. Exhibit W contains a letter dated July 15, 2014 from Derek Hodge, AIA of DH&A Architecture, PA, which states that the cost for building construction only (Table VIII.1 Line B.7) would be \$93.50 per square foot ($\$4,009,093 / 42,828 \text{ sq.ft.}$) This corresponds with line 7 "*cost of construction contracts*" in Table VIII.1- Estimated Capital Costs on page 32.

Section X.9, page 40 details the energy and water saving features to be included in the proposed project which include: dual pane windows, up-to-date insulation materials, modern HVAC units and a tankless water heater system.

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

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

C

In supplemental information, the applicants provide the following table identifying the annual payor mix for the Concord House during the last full operating year of the facility.

Table VI.3—Patient Days by Payor Category—Last Operating Year

Payor Category	ACH	SCU	Total ACH
Private Pay			
Private Room	663	N/A	663
Semi-Private Room	1,851	N/A	1,851
Special Assistance-Basic Medicaid			
Private Room			
Semi-Private Room	10,713	N/A	10,713
Total	13,227	N/A	13,227

As shown in the table above, approximately 81% (10,713 / 13,227 = 0.809, or 81%) of patient days at the facility during the last operating year were for patients receiving Special Assistance-Basic Medicaid. Kannapolis Village has not been operational since January 2014, therefore this Criterion is not applicable.

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

C

In supplemental information, the applicants state that no civil rights access complaints have been filed against the Concord House. In the original application, the applicants stated that Kannapolis Village has not been operational since January 2014, therefore, this Criterion is not applicable.

- (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 23, the applicants project the following payor mix for the second full federal fiscal year of operation (FFY 2018).

Payor Category	ACH (excluding special care unit patient days)	Total ACH

Private Pay	25,218	73.3%
Special Assistance-Basic Medicaid	9,198	26.7%
Total	34,416	100.0%

The Division of Medical Assistance (DMA) maintains a website which offers information regarding the number of persons eligible for Medicaid assistance and estimates of the percentage of uninsured for each county in North Carolina. The following table illustrates those percentages for Cabarrus County and statewide.

	2010 Total # of Medicaid Eligibles as % of Total Population *	2010 Total # of Medicaid Eligibles Age 21 and older as % of Total Population *	2008-2009 % Uninsured (Estimate by Cecil G. Sheps Center) *
Cabarrus	14%	4.9%	18.5%
Statewide	17%	6.7%	19.7%

* More current data, particularly with regard to the estimated uninsured percentages, was not available.

The majority of Medicaid eligibles are children under the age of 21. This age group does not utilize the same health services at the same rate as older segments of the population, particularly with respect to adult care home services.

Moreover, the number of persons eligible for Medicaid assistance may be greater than the number of Medicaid eligibles who actually utilize health services. The DMA website includes information regarding dental services which illustrates this point. For dental services only, DMA provides a comparison of the number of persons eligible for dental services with the number actually receiving services. The statewide percentage of persons eligible to receive dental services who actually received dental services was 48.6% for those age 20 and younger and 31.6% for those age 21 and older. Similar information is not provided on the website for other types of services covered by Medicaid. However, it is reasonable to assume that the percentage of those actually receiving other types of health services covered by Medicaid is less than the percentage that is eligible for those services.

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

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

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

C

In Section I.10, page 7, the applicants state that the proposed adult care home will be managed by Meridian Senior Living. In Section V.4, page 21, the applicants state,

“The majority of referrals will come from local hospitals, the Cabarrus County department of Social Services, local churches, and community organizations. The facility will be open to both private pay residents and those requiring special assistance.”

The applicants adequately demonstrate they will offer a range of means by which patients will have access to the proposed adult care home beds. 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

In Section V.1, page 20, the applicants state,

“...Steps have been taken to create agreements with the following health professional training programs...”

Exhibit K contains copies of letters sent to Rowan-Cabarrus Community College, Central Piedmont Community College and Stanly Community College offering to provide clinical training to nursing assistants.

The applicants adequately demonstrate that the proposed facility would accommodate the clinical needs of area health professional training programs. Therefore, the application is conforming to this criterion.

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

applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.

C

The applicants, Cabarrusco, LLC, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC, propose to replace and relocate 48 licensed adult care beds from Concord House within Cabarrus County by developing a new 108-bed adult care home to replace both Concord House and Cabarrus Manor on a new site, as a change of scope and cost overrun to a previously approved project. Effective July 15, 2014, AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC were issued a certificate of need (CON) to replace and relocate 60 adult care home (ACH) beds at Kannapolis Village to a new location within Cabarrus County and change the name of the facility from Kannapolis Village to Cabarrus Manor (Project I.D. #F-10263-14). AA Holdings – Kannapolis, LLC and Cabarrus AL Holdings, LLC will remain as the holder of all rights and interest in and to the CON.

The location of the proposed 108-bed replacement facility will be 4821 Kannapolis Parkway, Kannapolis. Upon completion of the proposed project and Project I.D.# F-10263-14, the combined ACH facility will be known as Cabarrus Manor.

According to the Adult Care Home Licensure Section, Kannapolis Village (Cabarrus Manor) is one of 11 adult care homes in Cabarrus County as shown in the table below.

Facility	# of Beds	Census as of July 31, 2013	Occupancy as of July 31, 2013
Brookdale Concord South (Horizon Bay Assisted Living at Concord)	60	54	90.0%
Brookdale Concord West (Concord Place)	112	87	77.7%
Caremoor Retirement Center	30	25	83.3%
Carillon Assisted Living of Harrisburg	96	63	65.6%
Concord House	48	32	66.7%
First Assembly Living Center	180	156	86.7%
Kannapolis Village (Cabarrus Manor)*	60	20	33.3%
Morningside of Concord	105	91	86.7%
Mt. Pleasant House	74	69	93.2%
St. Andrews Living Center	56	44	78.6%
The Country Home**	40	N/A	N/A
Total # of Licensed Beds	861	588	73.4%

Occupancy calculated based on the total # of residents / total # of beds per the 2014 ACH LRAs

*Licensed but non-operational **No LRA on file at the time of this analysis

As shown in the table above, Cabarrus County had 861 licensed (801 operational) ACH beds as of July 31, 2013. The 801 operational beds were operating at 73.4% (588 / 801 = 73.4%). The Country Home, a 40 bed ACH, has beds, however, the 2014 LRA (July 31, 2013) census data was not available during this review. As of July 31, 2013, Kannapolis Village operated at 33.3% capacity. The facility is now closed. The Concord House operated at 66.7% capacity. The applicants state that both facilities are old and do not have modern systems in

place that could otherwise improve quality of care and increase efficiency. It is reasonable to assume that the low utilization rates at both facilities is due significantly to the age and condition of the existing buildings.

In Section VI.5, page 24 and supplemental information, the applicants discuss how any enhanced competition in the service area will have a positive impact upon the cost-effectiveness, quality and access to the proposed services. The applicants state,

“The facility housing them is not in a condition suitable for the care of adult care home residents. The proposed project will move these beds to a location where there is more need and into a new facility in which adult care home residents can be properly cared for. As discussed in X.9, the new facility would be much more energy efficient as well, allowing more funds to be allocated to direct care for residents rather than utility costs.”

The applicants also state,

“Because this is a replacement of an existing facility, the applicant does not feel that the proposed services should negatively impact existing competition within Cabarrus County. The applicant further feels that due to the population growth discussed above, the proposed services would further enhance cost effective and quality healthcare through Cabarrus County.”

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

- Cabarrus Manor adequately demonstrates the need to replace and relocate 108 ACH beds within Cabarrus County and adequately demonstrates it is a cost-effective alternative;
- Cabarrus Manor adequately demonstrates it will provide quality services; and
- Cabarrus Manor adequately demonstrates it 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.

C

The applicants propose to replace and relocate 108 adult care home beds within Cabarrus County. According to the records in the Adult Care Licensure and Certification Section of the

Division of Health Service Regulation, no incidents have occurred at the Concord House or Kannapolis Village within the eighteen months immediately preceding the date of this decision for which any sanctions or penalties related to quality of care were imposed by the State. Therefore, the application is conforming to this criterion.

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

NA

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