

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: October 12, 2015

Findings Date: October 12, 2015

Project Analyst: Mike McKillip

Team Leader: Lisa Pittman

Project ID #: J-11049-15

Facility: Triangle Springs

FID #: 150205

County: Wake

Applicants: Triangle Springs, LLC
Propstone, LLC

Project: Develop 12 adult chemical dependency treatment beds pursuant to the need determination in the 2015 SMFP

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

G.S. 131E-183(a) The Agency 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, Triangle Springs, LLC and Propstone, LLC [**Triangle Springs**] propose to develop 12 adult chemical dependency treatment beds at a new facility to be located on T.W. Alexander Drive in Raleigh (Wake County).

Need Determination

The 2015 State Medical Facilities Plan (SMFP) contains a need methodology for determining the number of new adult chemical dependency treatment beds needed by service area. Application of the need methodology in the 2015 SMFP identified a need for 12 additional

adult chemical dependency treatment beds in the Central Region. The applicants do not propose to add more than 12 beds; therefore, the application is conforming with the need determination in the 2015 SMFP.

Policies

There are two policies in the 2015 SMFP which are applicable to this review: Policy MH-1: Linkages between Treatment Settings, and Policy GEN-3: Basic Principles.

Policy MH-1 states:

“An applicant for a certificate of need for psychiatric, substance abuse, or intermediate care facilities for individuals with intellectual disabilities (ICF/IID) beds shall document that the affected local management entity-managed care organization has been contacted and invited to comment on the proposed services.”

Exhibit 17 contains a copy of a letter dated June 12, 2015, from the applicants to Alliance Behavior Healthcare, the LME-MCO, inviting them to comment on the proposed project. The application is conforming to Policy MH-1.

Policy GEN-3: Basic Principles, states:

“A certificate of need applicant applying to develop or offer a new institutional health service for which there is a need determination in the North Carolina State Medical Facilities Plan shall demonstrate how the project will promote safety and quality in the delivery of health care services while promoting equitable access and maximizing healthcare value for resources expended. A certificate of need applicant shall document its plans for providing access to services for patients with limited financial resources and demonstrate the availability of capacity to provide these services. A certificate of need applicant shall also document how its projected volumes incorporate these concepts in meeting the need identified in the State Medical Facilities Plan as well as addressing the needs of all residents in the proposed service area.”

Promote Safety and Quality

In Section II.2, pages 39-40, and Section III.2, pages 75-76, the applicants describe how they believe the proposed project would promote safety and quality. Exhibit 12 contains a copy of the applicants’ *“Organizational Quality Improvement Plan.”* The information provided by the applicants is reasonable and adequately supports the determination that the applicants’ proposal would promote safety and quality.

Promote Equitable Access

In Section III.2, pages 74-75, and Section VI, pages 92-101, the applicants describe how they believe the project would promote equitable access to chemical dependency treatment services. The information provided by the applicants is reasonable and adequately supports the determination that the applicants' proposal will promote equitable access.

Maximizing Healthcare Value

The applicant describes how it believes the proposed project would maximize healthcare value in Section III.2. On page 76, the applicants state:

“Triangle Springs believes that its proposed facility will maximize healthcare value. Additional access to adult chemical dependency beds will reduce strain on local emergency departments and general acute care hospital beds. Substance abuse patients will be appropriately treated within a dedicated inpatient facility rather than extended stays in an emergency department or observation unit.”

The information provided by the applicants is reasonable and adequately supports the determination that the applicant's proposal would maximize healthcare value.

The applicant adequately demonstrates how its projected volumes incorporate the concepts of quality, equitable access and maximum value for resources expended in meeting the need identified in the 2015 SMFP. See Criterion (3) for discussion regarding the need for the project which is incorporated herein by reference. See Criterion (5) for discussion regarding revenues and costs which is incorporated herein by reference. Therefore, the application is consistent with Policy GEN-3.

Conclusion

In summary, the applicants adequately demonstrate that their proposal is consistent with the need determination in the 2015 SMFP for new adult chemical dependency treatment beds, Policy MH-1 and Policy GEN-3. 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

On August 28, 2015, the applicants, Triangle Springs, were approved (Project I.D. #J-11036-15) to develop 43 adult psychiatric inpatient beds at a new psychiatric facility to be located on T.W. Alexander Drive in Raleigh (Wake County) pursuant to the need determination in

the 2015 SMFP. In this application, the applicants propose to develop 12 adult chemical dependency treatment beds pursuant to the need determination in the 2015 SMFP as part of that same new facility. Therefore, upon completion of the project, the new facility will include a total of 55 beds, including 43 adult psychiatric inpatient beds and 12 adult chemical dependency treatment beds. In Section II.1, page 20, the applicants state,

“The chemical dependency beds proposed in this application will be developed in conjunction with, and in the same facility as, the 43 inpatient adult psychiatric beds proposed in Project ID #J-11036-15. The chemical dependency beds will not be developed as a stand-alone 12-bed facility, but rather will be operated alongside the 43 adult inpatient psychiatric beds as a 55-bed combination facility serving both psychiatric and chemical dependency patients and needs. Please see Exhibit 4 for a line drawing of the proposed facility. The total square footage proposed for the facility is unchanged from that proposed in Project ID #J-11036-15. However, the configuration of space within the footprint of the building differs somewhat from that proposed in Project ID #J-11036-15 in order to incorporate the 12 chemical dependency beds proposed in this application.”

Population to be Served

On page 379, the 2015 SMFP defines the service area for chemical dependency treatment beds as *“the mental health planning region in which the bed is located.”* Thus, the service area consists of the counties in HSA’s II, III, IV and V, as listed in Table 16B of the 2015 SMFP. Facilities may serve residents of counties not included in their service area.

In Section III.5, page 81, the applicants provide the projected patient origin for adult chemical dependency treatment services during the first two full fiscal years following project completion, as summarized in the table below.

**Triangle Springs Adult Chemical Dependency Treatment Beds
Projected Patient Origin (CY2018-CY2019)**

County	Percent of Total Patients
Wake	53.6%
Durham	22.1%
Cumberland	1.3%
Johnston	0.6%
Other*	22.4%
TOTAL	100.0%

*The applicants provide a list of the counties included in the *“Other”* category on page 81 of the application.

In Section III.5, pages 81-82, the applicants describe their assumptions regarding projected patient origin as follows:

“As discussed in Section III.1.b, Triangle Springs determined adult inpatient chemical dependency utilization based on its projected adult inpatient psychiatric utilization, previously detailed in a prior application currently under review. In projecting patient origin, Triangle Springs believes it is reasonable to assume that its chemical dependency patient origin will be consistent with its projected psychiatric bed patient origin. ... Triangle Springs determined its immigration assumption from the average historical experience of Holly Hill Hospital and UNC Hospitals at WakeBrook. Similarly, Triangle Springs determined its projected patient origin based on the average experience of these two existing hospitals, adjusted for the proposed location’s proximity to Durham County.”

The applicants adequately identified the population proposed to be served.

Analysis of Need

In Section III.1(a) and (b) of the application, the applicants describe the factors which they state support the need for the proposed project, including:

- The 2015 SMFP need determination methodology indicates a 54-bed deficit in the Alliance Behavioral Healthcare LME-MCO, and an existing 10-bed residential treatment in the service recently closed, which means the deficit is probably understated (pages 44-45).
- Historical and projected growth in the service area population (pages 45-47).
- Community Health Need Assessments prepared by local acute care hospitals and the long emergency department wait times experienced by behavioral health patients waiting to be placed in an inpatient bed (pages 47-49).
- Recent actions by the North Carolina General Assembly to encourage a new statewide effort to improve mental health and substance abuse crisis services in North Carolina (pages 49-50).
- The expected effects of expanded insurance coverage for mental health and substance abuse treatment services mandated under the Affordable Care Act (pages 50-52).
- The need for an alternative provider of psychiatric inpatient services with a focus on outcomes, development of alternative approaches, and the medically underserved (pages 52-55).
- The need for better geographic distribution of psychiatric inpatient services within the service area (pages 56-58).
- The high historical utilization rates experienced by state alcohol and drug treatment centers (pages 59-62).

Projected Utilization

In Section IV.1, pages 85-86, the applicants provide projected utilization for the proposed 43 adult psychiatric inpatient beds through the first three years of operation following completion of the project (CY2018-CY2020), which is summarized below.

Operating Year 1 – CY2018	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Intensive Treatment Beds	12	12	12	12	12
Patient Days of Care	437	695	773	806	2,711
Average Length of Stay (ALOS)	8.0	8.0	8.0	8.0	8.0
Occupancy Rate	40.5%	63.0%	70.0%	73.0%	61.9%

Operating Year 2 – CY2019	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Intensive Treatment Beds	12	12	12	12	12
Patient Days of Care	810	847	878	911	3,446
Average Length of Stay (ALOS)	8.0	8.0	8.0	8.0	8.0
Occupancy Rate	75.0%	77.6%	79.5%	82.5%	78.7%

Operating Year 3 – CY2020	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Intensive Treatment Beds	12	12	12	12	12
Patient Days of Care	886	939	972	924	3,721
Average Length of Stay (ALOS)	8.0	8.0	8.0	8.0	8.0
Occupancy Rate	82.0%	86.0%	88.1%	83.7%	85.0%

As shown in the above table, the applicants project they will have an occupancy rate of 85% by the fourth quarter of the third operating year (CY2020), which exceeds the utilization standards required in 10A NCAC 14C .2503(b). The applicants describe the assumptions and methodology used to project utilization in Section III.1(b), pages 63-71, which are summarized below.

First, the applicants project the adult population of the Alliance Behavioral Health LME service area based on North Carolina Office of State and Budget Management for the period FFY2013 through FFY2021 (See table on page 64). Then, the applicants project the population use rates for chemical dependency inpatient services. On page 64, the applicants state,

“In order to remain conservative, as well as consistent with the 2015 SMFP, Triangle Springs projects that the inpatient chemical dependency use rate (days per 1,000 population) will remain constant from FFY 2013 to 2017 at 17.4 days per 1,000 adult population. Beginning in FFY 2018, Triangle Springs assumes that the use rate will increase 5.1 percent annually, or one half of the growth experienced from FFY 2012 to 2013.

**Alliance Behavioral Healthcare LME-MCO Service Area
Inpatient Chemical Dependency Day Use Rate Projections**

	FFY12	FFY13	FFY17	FFY18	FFY19	FFY20	FFY21	CAGR
<i>Use Rate per 1,000</i>	15.8	17.4	17.4	18.3	19.2	20.2	21.2	3.3%
<i>Percent Growth</i>	174.5%	10.1%	0.0%	5.1%	5.1%	5.1%	5.1%	NA

Source: 2014 and 2015 SMFP for 2012, 2013, 2017 figures.

Triangle Springs believes these use rate projections are conservative as the overall projected CAGR from FFY 2012 to 2021 is 3.3 percent, well below the rate of growth experienced historically.”

The applicants apply the projected use rates for the years FFY 2017 through FFY 2021 to the projected adult population in the service area to project the total adult psychiatric inpatient days, as shown in the following table:

**Alliance Behavioral Healthcare LME-MCO Service Area
 Projected Adult Chemical Dependency Inpatient Days**

	FFY17	FFY18	FFY19	FFY20	FFY21	CAGR
Total Population	1,881,094	1,908,615	1,938,193	1,967,776	1,997,350	1.5%
Use Rate per 1,000	17.4	18.3	19.2	20.2	21.2	5.1%
Chemical Dependency Days of Care (All ages)	32,795	34,956	37,291	39,772	42,409	6.6%
Adult Chemical Dependency Days of Care (91%)	29,844	31,810	33,935	36,193	38,593	6.6%

Source: Table on page 65 of the application.

The applicants then convert the projections from a Federal fiscal year (FFY) basis to a calendar year (CY) basis for the first three projection years as follows:

	CY2018	CY2019	CY2020
Adult Chemical Dependency Days	32,341	34,499	36,793

Source: Table on page 66 of the application.

The applicants assume that the Triangle Springs facility will have a market share of 9.9 percent. The applicants based their projected market share on the experience of Holly Hill Hospital in FY2013. On pages 68-69, the applicants state,

“Triangle Springs relied on the experience of Holly Hill in its prior application to project its market share and immigration for adult inpatient psychiatric beds. Given these factors, and in order to remain consistent with its prior application, Triangle Springs used market share and immigration rate assumptions consistent with its prior adult inpatient psychiatric bed application in projecting potential chemical dependency days. Triangle Springs expects that dual diagnosis patients will be prevalent in its proposed patient population, thus its share of psychiatric and chemical dependency patients in the service area will be related. ... Moreover, there are fewer providers of (and less competition within) adult inpatient chemical dependency services in the ABH LME service area than adult inpatient psychiatric services. Thus Triangle Springs believes it is conservative to utilize assumptions from its prior adult inpatient psychiatric application in projecting chemical dependency days.

Based on its prior application, as excerpted in Exhibit 16, Triangle Springs assumes the following market share and immigration percentages in its three project years in determining its potential days of care.

Triangle Springs Market Share by Project Year

	<i>PY1</i>	<i>PY2</i>	<i>PY3</i>
<i>Triangle Springs Share of ABH LME Service Area</i>	8.4%	9.9%	9.9%
<i>Percent Immigration</i>	22.4%	22.4%	22.4%

Based on these market share and in-migration assumptions, the applicants project the total “potential” adult chemical dependency treatment days of care to be provided to residents of the ABH LME service at the proposed facility in the first three operating years, as shown in the following table:

Triangle Springs Potential Days

	<i>PY1-CY18</i>	<i>PY2-CY19</i>	<i>PY3-CY20</i>
<i>Projected Adult Inpatient Chemical Dependency Days</i>	32,341	34,499	36,793
<i>Triangle Springs Share</i>	8.4%	9.9%	9.9%
<i>Triangle Springs Days Originating in ABH LME Service Area</i>	2,730	3,427	3,655
<i>Immigration Assumption</i>	22.4%	22.4%	22.4%
<i>Immigration Days = (ABH LME / [1 – 22.4%]) X 22.4%</i>	786	987	1,052
<i>Total Potential Days</i>	3,517	4,414	4,707

Because the projected utilization exceeds the capacity of the proposed 12-bed chemical dependency unit, the applicants then adjust projected “potential” utilization downward to allow for capacity constraints. On pages 70-71, the applicants state,

“Given that its potential adult inpatient chemical dependency bed utilization exceeds its capacity, Triangle Springs projects that its utilization will result from assumed occupancy rates that reflect a ramp-up period as well as conservatively estimated efficient operations. Specifically, Triangle Springs assumes that the occupancy of its adult inpatient chemical dependency beds will be consistent with the projected occupancy of its adult inpatient psychiatric beds, as shown below.

Triangle Springs Occupancy Rates by Bed Type

	<i>PY1-CY18</i>	<i>PY2-CY19</i>	<i>PY3-CY20</i>
<i>Projected Adult Inpatient Psychiatric Bed Occupancy</i>	61.9%	78.7%	85.0%
<i>Projected Adult Inpatient Chemical Dependency Bed Occupancy</i>	61.9%	78.7%	85.0%

Triangle Springs believes this is reasonable for several reasons. The projected chemical dependency occupancy rates will result in utilization below what the facility could potentially expect based on reasonable market share and immigration assumptions as shown in the prior step. Additionally, Triangle Springs expects to operate its facility in a cohesive fashion with patients appropriately spread between units, thus, occupancy rates by bed type will be similar. This consistency between beds types is further enabled by the prevalence of dual diagnosis patients, who will be provided with both psychiatric and substance abuse services, regardless of their specific bed unit. ... The table below provides the projected average daily census and patient days for the proposed chemical dependency beds.

Triangle Springs Projected Adult Inpatient Chemical Dependency Beds

	<i>PY1-CY18</i>	<i>PY2-CY19</i>	<i>PY3-CY20</i>
<i>Assumed Occupancy Rate</i>	<i>61.9%</i>	<i>78.7%</i>	<i>85.0%</i>
<i>Beds</i>	<i>12</i>	<i>12</i>	<i>12</i>
<i>ADC</i>	<i>7.4</i>	<i>9.4</i>	<i>10.2</i>
<i>Total Days</i>	<i>2,711</i>	<i>3,446</i>	<i>3,721</i>

As shown above, the applicants' utilization projections are based on adult population projections for the ABH LME service area, projected use rates for adult chemical dependency services, and market share and in-migration projections that are based on the recent experience of existing providers in the proposed service area. Exhibit 29 contains letters of support for the proposed project from physicians and other behavioral health providers in the proposed service area. Projected utilization is based on reasonable and adequately supported assumptions. Therefore, the applicants adequately demonstrate the need to develop 12 adult chemical dependency treatment beds at the proposed new facility in Wake County.

Access

In Section VI.2, pages 92-93, the applicants state that Triangle Springs will provide services to all patients who meet medical criteria and are age appropriate regardless of their ability to pay, racial/ethnic origin, age, gender, physical or mental conditions or other conditions that would classify them as underserved. The applicants adequately demonstrate the extent to which all residents, including underserved groups, will have access to the proposed services.

Conclusion

In summary, the applicants adequately identified the population to be served, demonstrate the need the population has for the project and adequately demonstrate the extent to which all residents, including underserved groups, will have access to the proposed services. Therefore, the application is conforming to this criterion.

- (3a) In the case of a reduction or elimination of a service, including the relocation of a facility or a service, the applicant shall demonstrate that the needs of the population presently served will be met adequately by the proposed relocation or by alternative arrangements, and the effect of

the reduction, elimination or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.

NA

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

CA

In Section III.4, pages 78-79, the applicants describe the alternatives considered prior to submitting this application for the proposed project, which include:

- Maintain the Status Quo –The applicants state that maintaining the status quo is not an effective alternative due to the need for locally available adult chemical dependency treatment beds as documented in Section III.1 of the application.
- Develop the Beds Elsewhere in the Central Region – In Section III.1(a), pages 44-45, the applicants state that developing a new facility in another location in the Central Region is not the most effective alternative because Alliance Behavioral Health LME demonstrates the greatest need for adult chemical dependency beds in the Central Region.

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

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

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

- 1. Triangle Springs, LLC and Propstone, LLC shall materially comply with all representations made in the certificate of need application.**
- 2. Triangle Springs, LLC and Propstone, LLC shall develop no more than 12 adult chemical dependency treatment beds.**
- 3. Triangle Springs, LLC and Propstone, LLC shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Healthcare Planning and 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, pages 114-115, the applicants state the total capital cost of the project is projected to be \$300,000, of which \$250,000 will be incurred by Propstone, LLC and \$50,000 will be incurred by Triangle Springs, LLC. In Section IX.1, pages 120-121, the applicants state there will be \$730,898 in start-up expenses and \$2,031,419 in initial operating expenses, for total working capital required of \$2,762,317.

Availability of Funds

In Section I.2, page 6, the applicants, Triangle Springs, LLC and Propstone, LLC, identify their parent company as Springstone, LLC. In Section VIII.2, page 115, the applicants state that the project capital costs will be funded by Welsh, Carson, Anderson & Stowe XI, LP. The applicants state, “*Welsh, Carson, Anderson, & Stowe XI, L.P. (WCAS) is a private equity company which holds a majority ownership stake in Springstone, LLC. WCAS has agreed to fund the proposed adult chemical dependency treatment facility to be developed through Springstone’s subsidiaries, Triangle Springs, LLC on property owned by Propstone, LLC.*” In Section IX.2, page 122, the applicants state that the working capital will also be funded by WCAS. In Exhibit 22, the applicants provide a letter dated June 15, 2015, from the Managing Member of WCAS XI Associates, LLC, documenting their intention to fund the capital and working capital for the proposed project. In Section VIII.8, page 117, the applicants state, “*Depending on the timing of the proposed project, the funds will be drawn from ‘Portfolio investments,’ ‘Escrow receivable,’ or ‘Cash and cash equivalents.’*” Exhibit 23 contains the WCAS Consolidated Balance Sheets which indicate that as of December 31, 2014, WCAS had \$3.0 billion in “*Portfolio investments,*” \$ \$69.5 million in “*Escrow receivable*” and \$40.3 million in cash and cash equivalents. The applicants adequately demonstrate that sufficient funds will be available for the capital and working capital needs of the project.

Financial Feasibility

The applicant provided pro forma financial statements for the first three years of the project. In the pro forma financial statement for the entire facility (Form B), including 43 adult psychiatric inpatient beds and 12 adult chemical dependency treatment beds, the applicants project that revenues will exceed operating expenses in the second and third operating years of the project, as shown in the table below.

	CY2018	CY2019	CY2020
Total Operating Revenue	\$9,046,725	\$12,570,075	\$13,808,590
Total Operating Expenses	\$11,078,144	\$11,562,546	\$12,486,522
Net Income	(\$2,031,419)	\$1,007,529	\$1,322,068

The assumptions used by the applicants in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See the financial section of the application for the assumptions used regarding costs and charges. See Criterion (3) for discussion of utilization projections which are incorporated herein by reference. The applicants adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

Conclusion

In summary, the applicants adequately demonstrate that sufficient funds will be available for the capital and working capital needs of the project. Furthermore, the applicants adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and charges. Therefore, the application is conforming to this criterion.

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

C

On August 28, 2015, the applicants, Triangle Springs, were approved (Project I.D. #J-11036-15) to develop 43 adult psychiatric inpatient beds at a new psychiatric facility to be located on T.W. Alexander Drive in Raleigh (Wake County) pursuant to the need determination in the 2015 SMFP. In this application, the applicants propose to develop 12 adult chemical dependency treatment beds pursuant to the need determination in the 2015 SMFP as part of that same new facility. Therefore, upon completion of the project, the new facility will include a total of 55 beds, including 43 adult psychiatric inpatient beds and 12 adult chemical dependency treatment beds.

On page 379, the 2015 SMFP defines the service area for chemical dependency treatment beds as “*the mental health planning region in which the bed is located.*” Thus, the service area consists of the counties in HSA’s II, III, IV and V, as listed in Table 16B of the 2015 SMFP. Facilities may serve residents of counties not included in their service area.

According to the inventory of adult chemical dependency treatment beds in the Table 16A of the 2015 SMFP (page 380), there are a total of 336 adult chemical dependency treatment beds in the Central Region. However, in the applicant’s LME-MCO, Alliance Behavioral Health, there are three facilities with a total of 42 existing licensed adult chemical dependency treatment beds, as shown in the table below:

Name of Facility	County	Licensed Beds	License Pending	Total Adult Inventory
Day by Day Treatment Center	Johnston	10	0	10
Holly Hill Hospital	Wake	28	0	28
Cape Fear Valley Medical Center	Cumberland	4	0	4
Totals		42	0	42

Source: 2015 SMFP, Table 16A, page 380.

Of the 566 existing adult chemical dependency treatment beds in North Carolina, excluding beds in State Hospitals, only 42 or 7.4% ($42/566 = 0.074$) are located in the applicants' service area.

In Section III.1, pages 44-45, the applicants discuss the adult psychiatric inpatient bed need methodology published in the 2015 SMFP. In Section III.1(a), pages 52-58, the applicants state the development of the adult chemical dependency treatment beds as proposed will have a positive impact on existing services because it will reduce the wait times for patients seeking admission to an inpatient treatment facility, and decrease the burden on overwhelmed hospital emergency departments in the service area. Also, the applicants state the development of these beds as proposed will improve access to adult chemical dependency treatment services for patients who are currently unable to access services due to a lack of adequate insurance coverage.

The applicants adequately demonstrate that the proposal would not result in an unnecessary duplication of existing or approved adult chemical dependency treatment services. 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

In Section VII.2, page 107, the applicants provide the proposed staffing for the entire facility, including 43 adult psychiatric inpatient beds and 12 adult chemical dependency treatment beds, in operating year 2 (CY2019), as shown in the table below.

Position	Number of Full-Time Equivalent (FTE) Positions
Psychiatrists	Contract
Psychologists	Contract
Therapists (Psychiatric social workers, etc.)	7.5
Psychiatric Registered Nurses	29.7
Housekeeping and Laundry	4.7
Nursing Assistants/Aides/Orderlies	31.6
Medical Records	1.0
Dietary	5.2
Engineering/Maintenance	1.0
Chief Executive Officer & Chief Financial Officer	2.0
Finance/Business Office	1.4
Other (Administrative/Clerical/Support)	32.4
TOTAL	116.5

Source: Table VII.2, page 107.

In Section VII.11, page 110, the applicants describe their experience and process for recruiting and retaining staff. Exhibit 29 of the application contains copies of letters from area physicians and other healthcare providers expressing support for the proposed project. The applicants adequately demonstrate the availability of sufficient health manpower and management personnel to provide the proposed services. Therefore, the application is conforming to this criterion.

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

C

In Section II.1, pages 19-32, the applicants describe the manner in which they will provide the necessary ancillary and support services. Exhibit 29 contains letters of support from physicians and other health care providers. Also, Exhibit 29 contains a letter of support from WakeMed which expresses their intention to refer patients to the proposed facility. The applicant adequately demonstrates that necessary ancillary and support services are available and that the proposed services will be coordinated with the existing healthcare 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 (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 develop the 12 adult chemical dependency treatment beds in a new 53,095 square foot facility to be located at 7800 T.W. Alexander Drive in Raleigh, previously approved in Project I.D. # J-11036-15, which will also accommodate 43 adult psychiatric inpatient beds. Exhibit 28 contains a letter from an architect that estimates site preparation costs and construction costs that are consistent with the project capital cost projections provided by the applicants in Exhibit 21 of the application. The additional capital cost associated with this project is \$300,000, as discussed in Criterion (5). In Section X.7, pages 127-128, the applicants describe the methods that will be used by the facility to maintain efficient energy operations and contain the costs of utilities. The discussion regarding costs and charges found in Criterion (5) is incorporated herein by reference. The applicants adequately demonstrate that the cost, design and means of construction represent the most reasonable alternative, and that the construction cost will not unduly increase costs and charges for health services. 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.9, page 97, the applicants provide the projected payer mix for the adult chemical dependency treatment beds for the second full operating year following completion of the proposed project, as shown in the following table.

Payers	Percent of Total Patient Days
Self Pay/Indigent/Charity	13.0%
Medicare/Medicare Managed Care	31.0%
Medicaid	1.0%
Managed Care/Commercial	51.5%
Other Government/TriCare	3.5%
TOTAL	100.0%

Source: Application page 97.

On pages 97-98, the applicants provide the assumptions and methodology used to project payer mix. The applicants state,

“The payor mix for the proposed project is based on the experience of Springstone, applied to the proposed service area. As a new provider, Triangle Springs does not yet have a contract with an LME-MCO, the organizations that provide coverage for the proposed service for North Carolina Medicaid recipients under a Medicaid

waiver. As discussed elsewhere in the application, Medicaid patients between the ages of 22 and 64 are prohibited under federal rules from receiving the proposed services, unless under an approved Medicaid waiver, such as those operated by the LME-MCOs. ... As such, Triangle Springs conservatively assumes that it will provide coverage for these patients through charity care and write-offs for self-pay patients, not Medicaid.”

In Section VI.9, page 99, the applicants provide the projected payer mix for the second full operating year following completion of the proposed project, assuming they are able to enter into a contract with the LME-MCO, Alliance Behavioral Health, as summarized in the table below.

Payers	Percent of Total Patient Days
Self Pay/Indigent/Charity	1.0%
Medicare/Medicare Managed Care	30.3%
Medicaid	12.7%
Managed Care/Commercial	52.5%
Other Government/TriCare	3.4%
TOTAL	100.0%

Source: Application page 99.

On pages 104-105, the applicants state,

“If Triangle Springs is able to enter into a contract for patients of the LME-MCO, or if the IMD exclusion for adult Medicaid patients in a freestanding psychiatric hospital is repealed, as a Medicaid-certified facility, Triangle Springs will be able to accept Medicaid patients. ... As shown, the difference in the table above compared to the payor mix table without an LME contract is the shift of patients from self-pay/charity to Medicaid. ... Triangle Springs believes the payor mix projected in the table above is reasonable, and reaffirms its commitment to working with the local LME-MCOs to establish a contract to care for Medicaid-eligible patients under the Medicaid managed care program.”

As shown in the table above, the applicants project that 43% of all adult chemical dependency treatment days of care will be provided to recipients of Medicare and Medicaid, assuming they able to enter into a contract with Alliance Behavioral Health. The applicants demonstrated that medically underserved population will have adequate access to the services offered at Triangle Springs. Therefore, the application is conforming to this criterion.

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

C

In Section VI.6, pages 94-95, the applicants describe the range of means by which a person will have access to Triangle Springs' services, including self-admission, physician referral, patient's family, hospitals, residential care facilities and outpatient providers. The applicants adequately demonstrate that the facility will offer a range of means by which patients will have access to adult chemical dependency treatment services. 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 87, the applicants state that all existing Springstone hospitals in other states have established relationships with local community training programs, and the applicants expect to offer the same opportunities to local health professional training programs. Exhibit 18 contains copies of correspondence to area health professional training programs expressing an interest on the part of the applicants to enter into clinical training agreements. The information provided is reasonable and adequately supports a determination that 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

On August 28, 2015, the applicants, Triangle Springs, were approved (Project I.D. #J-11036-15) to develop 43 adult psychiatric inpatient beds at a new psychiatric facility to be located on T.W. Alexander Drive in Raleigh (Wake County) pursuant to the need determination in the 2015 SMFP. In this application, the applicants propose to develop 12 adult chemical dependency treatment beds pursuant to the need determination in the 2015 SMFP as part of that same new facility. Therefore, upon completion of the project, the new facility will include a total of 55 beds, including 43 adult psychiatric inpatient beds and 12 adult chemical dependency treatment beds.

On page 379, the 2015 SMFP defines the service area for chemical dependency treatment beds as “*the mental health planning region in which the bed is located.*” Thus, the service area consists of the counties in HSA’s II, III, IV and V, as listed in Table 16B of the 2015 SMFP. Facilities may serve residents of counties not included in their service area.

According to the inventory of adult chemical dependency treatment beds in the Table 16A of the 2015 SMFP (page 380), there are a total of 336 adult chemical dependency treatment beds in the Central Region. However, in the applicant’s LME-MCO, Alliance Behavioral Health, there are three facilities with a total of 42 existing licensed adult chemical dependency treatment beds, as shown in the table below:

Name of Facility	County	Licensed Beds	License Pending	Total Adult Inventory
Day by Day Treatment Center	Johnston	10	0	10
Holly Hill Hospital	Wake	28	0	28
Cape Fear Valley Medical Center	Cumberland	4	0	4
Totals		42	0	42

Source: 2015 SMFP, Table 16A, page 380.

Of the 566 existing adult chemical dependency treatment beds in North Carolina, excluding beds in State Hospitals, only 42 or 7.4% ($42/566 = 0.074$) are located in the applicants’ service area.

In Section III.2, pages 74-77, the applicants discuss how the proposed project would have a positive impact on the cost-effectiveness, quality and access to the proposed services. The applicants state

“As discussed above in Section III.1.a, the challenge for many patients is overcoming a lack of funding. While the medically underserved typically include Medicare, Medicaid, and the indigent uninsured, among others, Medicaid-eligible adults face a more difficult challenge for mental health services (including both psychiatric and substance abuse) than for physical health issues, as Medicaid does not cover treatment in an Institution for Mental Disease (IMD) for individuals between 22 and 64. ... Thus, Medicaid-eligible patients between 22 and 64 generally have no coverage for psychiatric care. ... While providers in the area typically provide two to three percent of their patient days for self-pay and charity care patients, under the assumptions that it will not receive payment from the LME-MCO, Triangle Springs is projecting an average of 12 percent of its days for self-pay and charity care, which includes otherwise Medicaid-eligible patients. ... Additionally, Triangle Springs believes its proposed location will increase geographic accessibility of these services in the region.

From the inception of Springstone, the parent of Triangle Springs, management has focused on the need to ‘move the needle’ regarding the treatment of patients with mental health disorders. For many years, providers of behavioral health services,

particularly those with a large national presence, have focused on treatment, without a high regard for outcomes. ... In contrast, Springstone facilities are committed to evidence-based approaches that improve outcomes for its patients. ... As such, the proposed facility will deliver high quality care to its patients.

Triangle Springs believes that its proposed facility will maximize healthcare value. Additional access to adult chemical dependency beds will reduce strain on local emergency departments and general acute care hospital beds. Substance abuse patients will be appropriately treated within a dedicated inpatient facility rather than extended stays in an emergency department or observation unit.”

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

The information in the application is reasonable 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:

- The applicants adequately demonstrate the need for the project and that it is a cost-effective alternative. The discussions regarding the analysis of need and alternatives found in Criteria (3) and (4), respectively, are incorporated herein by reference.
- The applicants adequately demonstrate they will provide quality services. The discussion regarding quality found in Criterion (1) is incorporated herein by reference.
- The applicants demonstrate that they will provide adequate access to medically underserved populations. The discussion regarding access found in Criteria (1) and (13) is incorporated herein by reference.

Therefore, the application is conforming to this criterion.

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

NA

In Section I.12, page 10, the applicants state that they do not currently own, lease, or manage any psychiatric facilities in North Carolina.

- (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.

C

The application is conforming to all applicable *Criteria and Standards for Substance Abuse/Chemical Dependency Treatment Beds* in 10A NCAC 14C .2500. The specific criteria are discussed below.

10A NCAC 14C .2502 INFORMATION REQUIRED OF APPLICANT

(a) *An applicant proposing to establish new intensive treatment beds shall project resident origin by percentage by county of residence. All assumptions and the methodology for projecting occupancy shall be stated.*

-C- In Section III.6, pages 81-82, the applicants provide projected patient origin for the chemical dependency treatment beds by percentage by county of residence, and the assumptions and methodology for the projections.

(b) *An applicant proposing to establish new intensive treatment beds shall project an occupancy level for the entire facility for the first eight calendar quarters following the completion of the proposed project, including the average length of stay. All assumptions and the methodology for projecting occupancy shall be clearly stated.*

-C- In Section II.1, page 34, the applicants provide projected occupancy for the chemical dependency treatment beds for the first eight calendar quarters following project completion. In Section III.1, pages 63-71, the applicants provide their assumptions and methodology for projecting occupancy.

(c) *If the applicant is an existing chemical dependency treatment facility, the applicant shall document the percentage of patients discharged from the facility that are readmitted to the facility at a later date.*

-NA- The applicant is not an existing chemical dependency treatment facility.

(d) *An applicant shall document that the following items are currently available or will be made available following completion of the project:*

(1) *admission criteria for clinical admissions to the facility or unit, including procedure for accepting emergency admissions;*

-C- Exhibit 9 contains a copy of the applicants' admission policies.

(2) *client evaluation procedures, including preliminary evaluation and establishment of an individual treatment plan;*

-C- Exhibit 10 contains a copy of the applicants' policies and procedures, including preliminary evaluation and establishment of an individualized treatment plan.

(3) *Procedures for referral and follow-up of clients to necessary outside services;*

-C- Exhibit 11 contains a copy of the applicants' referral policy.

(4) *Procedures for involvement of family in counseling process;*

-C- Exhibit 6 contains a copy of the applicants' procedures for involvement of family members in the patient's counseling and treatment process.

(5) *Provision of an aftercare plan; and*

-C- Exhibit 10 contains a copy of the applicants' policies and procedures, including discharge instructions and continuing care/aftercare plans.

(6) *Quality assurance / utilization review plan.*

-C- Exhibit 12 contains a copy of the applicants' organizational quality improvement plan.

(e) *An applicant shall document the attempts made to establish working relationships with the health care providers and others that are anticipated to refer clients to the proposed intensive treatment beds.*

-C- Exhibit 29 contains copies of letters from the local health care providers indicating support for the proposal and expressing their intention to refer clients.

(f) *An applicant shall provide copies of any current or proposed contracts or agreements or letters of intent to develop contracts or agreements for the provision of any services to the clients served in the chemical dependency treatment facility.*

-C- Exhibit 7 contains copies of contracts for pharmacy, laboratory and laundry/linen services.

(g) *An applicant shall document the provisions that will be made to obtain services for patients with a dual diagnosis of chemical dependency and psychiatric problems.*

-C- In Section II.1, page 36, the applicants states Triangle Springs will treat patients with a dual diagnosis of chemical dependency and psychiatric problems.

- (h) *An applicant proposing to establish new intensive treatment beds shall specify the primary site on which the facility will be located, if such site is neither owned by nor under option by the applicant, the applicant shall provide a written commitment to pursue acquiring the site if and when a certificate of need application is approved, shall specify at least one alternate site on which the facility could be located should acquisition efforts relative to the primary site ultimately fail, and shall demonstrate that the primary site and alternate sites are available for acquisition.*
- C- Exhibit 8 contains a written commitment by the applicants to pursue acquisition of the primary site. In Section XI.2, the applicants identify a secondary site. Exhibit 24 contains documentation that the sites are available for acquisition.
- (i) *An applicant proposing to establish new intensive treatment beds shall document that the services will be provided in a physical environment that conforms with the requirements in 10A NCAC 27G .0300 which are incorporated by reference including all subsequent amendments.*
- C- In Section II.1, page 37, and Exhibit 8, the applicants provide documentation that the facility will conform to the requirements.

10A NCAC 14C .2503 PERFORMANCE STANDARDS

- (a) *An applicant proposing additional intensive treatment beds shall not be approved unless overall occupancy, over the nine months immediately preceding the submittal of the application, of the total number of intensive treatment beds within the facility in which the beds are to be located has been:*
- (1) 75 percent for facilities with a total of 1 through 15 intensive treatment beds; or
(2) 85 percent for facilities with a total of 16 or more intensive treatment beds.
- NA- Triangle Springs is not an existing facility.
- (b) *An applicant shall not be approved unless the overall occupancy of the total number of intensive treatment beds to be operated in the facility is projected by the fourth quarter of the third year of operation following completion of the project, to be:*
- (1) 75 percent for facilities with a total of 1 through 15 intensive treatment beds; or
(2) 85 percent for facilities with a total of 16 or more intensive treatment beds.
- C- In Section IV.2, page 85, the applicants project occupancy of the chemical dependency treatment beds will be 85 percent by the fourth quarter of the third year following completion of the project. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference.

(c) *The applicant shall document the specific methodology and assumptions by which occupancies are projected, including the average length of stay and anticipated recidivism rate.*

-C- In Section III.1, pages 63-72, the applicants provide the assumptions and methodology for the projections.

10A NCAC 14C .2505 STAFFING AND STAFF TRAINING

(a) *An applicant proposing to establish new intensive treatment beds shall document that clinical staff members will be:*

- (1) *currently licensed or certified by the appropriate state licensure or certification boards; or*
- (2) *supervised by staff who are licensed or certified by the appropriate state licensure or certification boards.*

-C- In Section II.1, page 38, and Exhibit 8, the applicants provide documentation that all clinical staff members will be appropriately licensed, certified, and supervised.

(b) *An applicant proposing to establish new intensive treatment beds shall document that the staffing pattern in the facility is consistent with the staffing requirements contained in 10A NCAC 27G which are incorporated by reference including all subsequent amendments.*

-C- In Section II.1, page 39, and Exhibit 8, the applicants provide documentation that the proposed staffing pattern complies with all the criteria and standards regarding staff as promulgated in 10A NCAC 27G.