

ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS

C = Conforming

CA = Conditional

NC = Nonconforming

NA = Not Applicable

Decision Date: January 26, 2018

Findings Date: February 2, 2018

Project Analyst: Gregory F. Yakaboski

Team Leader: Fatimah Wilson

Project ID #: F-11388-17

Facility: Strategic Behavioral Center-Charlotte

FID #: 942936

County: Mecklenburg

Applicant: SBH-Charlotte, LLC

Project: Transfer 40 adult inpatient psychiatric beds from Broughton Hospital pursuant to Policy PSY-1 in the 2017 SMFP

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

N.C. Gen. Stat. §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.

NC

The applicant, SBH-Charlotte, LLC d/b/a Strategic Behavioral Center Charlotte (SBC-Charlotte), proposes to transfer 40 adult inpatient psychiatric (Adult IP Psych) beds from Broughton Hospital to its existing facility in Charlotte, pursuant to Policy PSY-1 in the 2017 State Medical Facilities Plan (2017 SMFP). SBC Charlotte is located in Mecklenburg County at 1715 Sharon Road West, Charlotte. Upon project completion SBC Charlotte will have 40 Adult IP Psych Beds, 24 Child and Adolescent Inpatient Psychiatric (C/A IP Psych) beds and 36 Psychiatric Residential Treatment Facility (PRTF) beds. Cardinal Innovations Healthcare Solutions is the local management entity-managed care organization (LME-MCO) for Mecklenburg County.

Need Determination

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 2017 State Medical Facilities Plan (2017 SMFP). Therefore, there are no new determinations in the 2017 SMFP that are applicable to this review.

Policies

The following three policies are applicable to this review:

- **Policy MH-1: Linkages between Treatment Settings**
- **Policy PSY-1: Transfer of Beds from State Psychiatric Hospitals to Community Facilities**
- **Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities**

Policy MH-1: Linkages between Treatment Settings states:

“An applicant for a certificate of need for psychiatric, substance use disorder 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.”

Cardinal Innovations Healthcare Solutions is the affected LME-MCO. The transfer agreement in Exhibit 4, signed by Cardinal Innovations Healthcare Solutions, demonstrates that the LME-MCO was contacted and invited to comment on the proposed services. Therefore, application is consistent with Policy MH-1.

Policy PSY-1: Transfer of Beds from State Psychiatric Hospitals to Community Facilities states:

“Beds in the state psychiatric hospitals used to serve short-term psychiatric patients may be relocated to community facilities through the certificate of need process. However, before beds are transferred out of the state psychiatric hospitals, services and programs shall be available in the community. State psychiatric hospital beds that are relocated to community facilities shall be closed within 90 days following the date the transferred beds become operational in the community.

Facilities proposing to operate transferred beds shall submit an application to Certificate of Need of the Department of Health and Human Services and commit to serve the type of short-term patients normally placed at the state psychiatric hospitals. To help ensure that relocated beds will serve those people who would have been served by the state psychiatric hospitals, a proposal to transfer beds from a state hospital shall include a written memorandum of agreement between the local management entity-managed care organization serving the county where the beds are to be located, the

secretary of the North Carolina Department of Health and Human Services, and the person submitting the proposal.”

The applicant proposes to transfer 40 Adult IP Psych beds from Broughton Hospital to the existing SBC-Charlotte facility. In Section II.2, page 10, the applicant states, “*SBC Charlotte is committed to serving the type of short-term psychiatric patients normally placed at the state psychiatric hospitals.*” Exhibit 4 of the application contains a signed Memorandum of Agreement (MOA) between Cardinal Innovations Healthcare, the LME/MCO serving Mecklenburg County and the applicant, for the transfer of the beds from Broughton Hospital.

However, the MOA is not signed by the Secretary of the North Carolina Department of Health and Human Services as required by Policy PSY-1. Therefore, the application is not consistent with Policy PSY-1.

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, Certificate of Need 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 is required to submit a plan for energy efficiency and water conservation that conforms to the rules, codes and standards implemented by the Construction Section of the Division of Health Service Regulation. The plan must be consistent with the applicant’s representation in the written statement as described in paragraph one of Policy-GEN 4. The plan shall not adversely affect patient or resident health, safety, or infection control.

In Section XI.7, page 91, the applicant provides a written statement describing the proposed project’s plan to assure improved energy efficiency and water conservation including LED lighting technology, HVAC units with high SEER ratings, T8 fluorescent bulbs, high efficiency hot water heaters, and low flow shower heads. Therefore, application is consistent with Policy GEN-4.

Conclusion

The information in the application regarding Policy PSY-1 is not reasonable and adequately supported because the MOA required by the policy is not signed by the Secretary of the North Carolina Department of Health and Human Services.

This determination is based on a review of the:

- information in the application, including any exhibits
- remarks made at the public hearing
- information which was publicly available during the review and used by the Agency

Therefore, the applicant does not adequately demonstrate that 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.

NC

SBH-Charlotte proposes to transfer 40 Adult IP Psych Beds from Broughton Hospital to its existing facility in Charlotte, SBC-Charlotte, pursuant to Policy PSY-1 in the 2017 SMFP. Upon project completion SBC-Charlotte will have 40 Adult IP Psych Beds, 24 C/A IP Psych Beds and 36 PRTF Beds.

Patient Origin

On page 382, the 2017 SMFP defines the service area for inpatient psychiatric beds as *“the catchment area for the LME-MCO for mental health, developmental disabilities, and substance use disorder services in which the bed is located.”* Thus, the service area consists of Alamance, Cabarrus, Davidson, Forsyth, Franklin, Halifax, Mecklenburg, Orange, Rowan, Stanly and Stokes counties. Facilities may serve residents of counties not included in their service area.

In Section III, page 29, the applicant states that SBC-Charlotte, *“proposes to accept patients from throughout North Carolina as the need arises, however, for the purposes of this CON application SBC-Charlotte will focus on meeting the need of the 37 North Carolina counties served by Broughton Hospital in Burke County.”* In a table on page 29 of the application, the applicant divides the proposed SBC-Charlotte service area (SA) into a Primary SA, Secondary SA and an Extended SA. The applicant does not currently provide Adult IP Psych services. Therefore, there is no history of patient origin to report. The project analyst notes that the

applicant did not provide projected patient origin by county of residence, however, SBC-Charlotte still identified the population proposed to be served.

The applicant adequately identified the population to be served.

Analysis of Need

In Section III, pages 26-45, the applicant describes the need for the proposed project, summarized as follows:

On pages 26-28, the applicant provides an overview of the need for the proposed project: *“Lack of Willing Organizations; Success in the Mecklenburg County Service Area; Cardinal Innovation Healthcare Solutions Population Statistics; Mecklenburg County ‘Line in the Sand’; Other Agency Bed Need Determinations.”*

The applicant states on page 28, that seven factors were analyzed and reviewed to determine the need for the proposed transfer of 40 Adult IP psych beds from Broughton Hospital to SBC-Charlotte:

- Growth in the service area population (pages 29-31).
- The long emergency room wait times experienced by patients waiting to be placed in an adult psychiatric inpatient bed at a State Psychiatric Hospital (pages 32-33).
- The high percentage of service area patients historically treated at psychiatric inpatient facilities located in other LME/MCOs, which require patients and families to travel long distances from home (pages 34-35).
- The North Carolina Behavioral Risk Factor Surveillance System (BRFSS), which indicates that mental health issues in the 18+ population of North Carolina continue to increase (page 36).
- Factors cited by the State of North Carolina including the Crisis Solutions Initiative (pages 37-39).
- The psychiatric inpatient bed need projections (actual v. projected psychiatric days of care) in the State Medical Facilities Plan (40-43).
- Historical trend of increases in non-state hospital days of care for psychiatric inpatients statewide from FY2004-FY2013 (page 44).

The applicant adequately demonstrates the need to relocate 40 Adult IP psych beds from Broughton Hospital to SBC-Charlotte.

Projected Utilization

In Section IV.1, pages 48-50, the applicant provides projected utilization for the proposed 40 Adult IP psych beds, the existing 24 C/A IP Psych beds and the existing 36 PRTF beds through the first three full years of operation following completion of the project (CY2019-CY2021), which is summarized below.

SBC-Charlotte: Projected Utilization -Adult IP Psych Beds

	OY1 (CY2019)	OY2 (CY2020)	OY3 (CY2021)
# of Adult IP Pysch Beds	40	40	40
Total Number of Patients Days of Care	9,144	13,176	13,140
Occupancy Rate*	62.6%	90.2%	90.0%

*Note: Occupancy Rate (# of Patient Days of Care/ (40 beds x 365 days))

SBC-Charlotte: Projected Utilization –C/A IP Psych Beds

	OY1 (CY2019)	OY2 (CY2020)	OY3 (CY2021)
# of Adult IP Pysch Beds	24	24	24
Total Number of Patients Days of Care	7,788	7,809	7,788
Occupancy Rate*	88.9%	89.1%	88.9%

*Note: Occupancy Rate (# of Patient Days of Care/ (24 beds x 365 days))

SBC-Charlotte: Projected Utilization –PRTF Beds

	OY1 (CY2019)	OY2 (CY2020)	OY3 (CY2021)
# of PRTF Beds	36	36	36
Total Number of Patients Days of Care	12,430	12,464	12,430
Occupancy Rate*	94.6%	94.9%	94.6%

*Note: Occupancy Rate (# of Patient Days of Care/ (36 beds x 365 days))

Currently, SBC-Charlotte provides C/A IP psych bed services and PRTF bed services but does not currently provide Adult IP psych bed services. Therefore, there is no historical utilization to report.

In Section IV, page 46, the applicant provides historical utilization of its 24 C/A IP psych beds and 36 PRTF beds for the six months immediately preceding the submission of this application as illustrated in the table below.

SBC-Charlotte: Projected Utilization –C/A IP Psych Beds

	2017 1 st Quarter (1/17 – 3/17)	2017 2 nd Quarter 4/17 – 6/17	Totals
# of Adult IP Pysch Beds	24	24	24
Total Number of Patients Days of Care	1,991	1,869	3,860
Occupancy Rate*			88.9%

*Note: Occupancy Rate (# of Patient Days of Care/ (24 beds x 181 days))

SBC-Charlotte: Projected Utilization –PRTF Beds

	2017 1st Quarter (1/17 – 3/17)	2017 2nd Quarter 4/17 – 6/17	Totals
# of Adult IP Psych Beds	36	36	36
Total Number of Patients Days of Care	3,108	3,059	6,167
Occupancy Rate*			

*Note: Occupancy Rate (# of Patient Days of Care/ (36 beds x 181 days))

As indicated in the above tables, the applicant projects it will have an occupancy rate of 89.83% for the total number of licensed psychiatric beds proposed to be operated at SBC-Charlotte at the end of the second full operating year (CY2020) (Total Number of Patient Days of Care for the Adult IP Psych beds and the C/A IP Psych Beds/ (64 beds x 365 days) or 20,985/ 3,360 = 0.8983 or 89.83%) which exceeds the utilization standard of 75% occupancy rate for the total number of licensed psychiatric beds proposed to be operated in the facility no later than the fourth quarter of the second operating year as required in 10A NCAC 14C .2603(b).

The applicant describes the assumptions and methodology used to project utilization in Section IV.1, pages 47-50, as follows:

Adult IP psych bed utilization

OY1: Ramp-up based on staffing; based on SBH historical experience 9.0 days of care average length of stay (ALOS) and a 1.4% readmission rate.

OY2-OY3: 40 IP beds at 90.0% quarterly utilization based on being fully staffed; based on prior year 9.0 days of care ALOS and 1.4% readmission rate.

C/A IP psych bed utilization

OY1- OY3: based on first two quarter of 2017- 24 IP beds at 88.9% quarterly utilization; 10.7 days of care ALOS based on first two quarters of 2017 and 1.4% readmission based on first two quarters of 2017.

PRTF utilization

OY1- OY3: based on first two quarter of 2017- 36 PRTF beds at 94.6% quarterly utilization; 97.9 days of care ALOS based on first two quarters of 2017.

Exhibit 24 contains letters of support for the proposed project.

However, the applicant provides no documentation in support of the methodology and assumptions used to project utilization of the Adult IP Psych beds.

Projected utilization is not based on reasonable and adequately supported assumptions.

Access

In Section VI.2, page 56, the applicant states that SBC-Charlotte will provide essential services “regardless of the patient’s income, ability to pay, gender, racial or ethnic background, or disability.... *Admission to SBC Charlotte programs are based off of clinical and medical necessity and does not take into consideration financial status, race, ethnicity, or gender. Voluntary and involuntary admissions will be accepted.... SBC Charlotte will treat any patient who is in need of inpatient behavioral health services regardless of income, type of insurance or lack of insurance.*” In Section VI.8, page 64, the applicant states patients will have access to the services offered at SBH-Charlotte through referrals from: physicians, MCO’s, family, school, court, self, community based providers, community hospital’s and walk-in’s with admissions being accepted 24 hours per day, 7 days per week and 365 days per year.

In Section VI.11 page 66, the applicant provides the payer mix during CY2016 for the existing SBC-Charlotte facility which demonstrates that 89.0 % of all inpatient psychiatric days of care for C/A IP Psych Beds and 85.1% of all PRTF days of care, were paid for by Medicaid as illustrated in the table below.

Historical Payor Mix in CY 2016: Patient Days as a % of Total Days

Payor Source	Adult IP Psych Bed	C/A IP Psych Beds	PRTF Beds
Medicaid	na	89.0%	85.1%
Commercial Insurance/Managed Care	na	11.0%	14.9%
Total	na	100.0%	100.0%

In Section VI.12 page 66, the applicant projects that in OY2 (CY2020) 46.0% of all Adult IP Psych Beds days of care will be paid for by Medicaid/Medicare and 89.0% of C/A IP Psych Beds days of care and 85.1% of all PRTF days of care, respectively, will be paid for by Medicaid. The applicant adequately demonstrates the extent to which all residents of the service area, including underserved groups, are likely to have access to its services.

Conclusion

In summary, the applicant adequately identifies the population to be served, demonstrates the need the population projected to be served has for the proposed project and demonstrates the extent to which all residents, including underserved groups, will have access to the proposed services.

However, the information in the application regarding projected utilization of the Adult IP Psych beds is not reasonable and adequately supported because the applicant provided no documentation in support of the methodology and assumptions used to project utilization of the Adult IP Psych beds.

This determination is based on a review of the:

- information in the application, including any exhibits
- remarks made at the public hearing
- information which was publicly available during the review and used by the Agency

Therefore, the applicant does not adequately demonstrate that 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

The applicant does not propose to reduce or eliminate a service nor does it propose the relocation or a facility or a service. Therefore, Criterion (3a) is not applicable to this review.

- (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.

NC

The applicant does not identify and describe any alternative methods of meeting the needs for the proposed project.

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

The information in the application regarding the least costly or most effective alternative is not reasonable and adequately supported for the following reasons:

- the applicant does not identify and describe any alternative methods of meeting the needs for the proposed project.
- The application is not conforming to all other applicable statutory and regulatory review criteria, and thus, not approvable. An application that cannot be approved cannot be an effective alternative.

This determination is based on a review of the:

- information in the application, including any exhibits
- remarks made at the public hearing
- information which was publicly available during the review and used by the Agency

Therefore, the applicant does not adequately demonstrate that the application is conforming to this criterion.

- (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.

NC

SBH-Charlotte proposes to transfer 40 Adult IP Psych Beds from Broughton Hospital to its existing facility in Charlotte, SBC-Charlotte, pursuant to Policy PSY-1 in the 2017 SMFP. Upon project completion SBC-Charlotte will have 40 Adult IP Psych Beds, 24 C/A IP Psych Beds and 36 PRTF Beds.

Capital and Working Capital Costs

In Section VIII, page 79, of this application, the applicant projects the total capital cost of the proposed project will be:

Site costs-	\$ 1,793,409
Construction costs-	\$ 9,141,791
Equipment & Furniture	\$ 265,640
Landscaping	\$ 112,000
Consultant Fees-	<u>\$ 593,500</u>
Total:	\$11,906,340

In Section IX, page 83, the applicant projects total working capital (start-up and initial operating expenses) costs will be \$211,195 (start-up expenses: \$211,195 and initial operating expenses: \$0 as SBC-Charlotte is an existing facility.)

Availability of Funds

In Section VIII., page 80, the applicant states that the capital costs and the working capital will be financed by cash (owners equity) being transferred from the parent company, Strategic Behavioral Health, LLC to the applicant SBH-Charlotte, LLC d/b/a Strategic Behavioral Center Charlotte.

Exhibit 21 contains a letter dated August 15, 2017, from Jim Shaheen, President of Strategic Behavioral Health, LLC stating that Strategic Behavioral Health, LLC will transfer \$11,906,340 to fund capital costs and will make available \$211,195 to fund the working capital costs of the proposed project.

Exhibit 22, contains the Strategic Behavioral Health, LLC Consolidated Balance Sheets which states that as of December 31, 2016 Strategic Behavioral Health, LLC had total members equity of \$109,180,241 including \$36,532,771 in retained earnings.

The applicant adequately demonstrated that sufficient funds will be available for the capital and working capital needs of the proposed project.

Financial Feasibility

The applicant provided pro forma financial statements for the first two full fiscal years of operation following completion of the project. In the pro forma financial statement (Form B), the applicant projects that revenues will exceed operating expenses in the first three operating years of the project, as shown in the table below.

	1st Full Fiscal Year (CY 2019)	2nd Full Fiscal Year (CY 2020)
Total Patient Days*	29,362	33,449
Total Gross Revenues (Charges)	\$37,035,200	\$43,547,200
Total Net Revenue	\$15,575,333	\$18,335,157
Average Net Revenue per patient day	\$530.46	\$548.15
Total Operating Expenses (Costs)	\$13,407,223	\$14,063,258
Average Operating Expense per patient day	\$456.62	\$420.44
Net Income	\$2,168,110	\$4,271,899

*Note: Total Patient Days includes Adult IP psych beds, C/A IP psych beds and PRTF beds.

See Section XIII, pages 93-120, of the application for the assumptions used regarding costs and charges.

However, assumptions regarding projected utilization of the 40 Adult IP Psych beds used by the applicant in preparation of the pro forma financial statements were not adequately supported. Projected costs and charges for the proposed project were based, in part, on the projected utilization of the 40 Adult IP Psych beds. The discussion regarding projected utilization found in Criterion (3) is incorporated herein by reference. The applicant adequately demonstrates sufficient funds for the operating needs of the proposal. However, the applicant did not adequately demonstrate that the financial feasibility of the proposal is based upon reasonable projections of costs and charges.

Conclusion

The information in the application regarding financial feasibility is not reasonable and adequately supported for the following reasons:

- Projected costs and charges were based upon projected utilization of the 40 Adult IP Psych beds which projected utilization was not adequately supported.

This determination is based on a review of the:

- information in the application, including any exhibits
- remarks made at the public hearing
- information which was publicly available during the review and used by the Agency

Therefore, the applicant does not adequately demonstrate that 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.

NC

SBH-Charlotte proposes to transfer 40 Adult IP Psych Beds from Broughton Hospital to its existing facility in Charlotte, SBC-Charlotte, pursuant to Policy PSY-1 in the 2017 SMFP. Upon project completion SBC-Charlotte (Mecklenburg County) will have 40 Adult IP Psych Beds, 24 C/A IP Psych Beds and 36 PRTF Beds.

On page 382, the 2017 SMFP defines the service area for inpatient psychiatric beds as “*the catchment area for the LME-MCO for mental health, developmental disabilities, and substance abuse services in which the bed is located.*” Thus, the service area consists of Alamance, Cabarrus, Davidson, Forsyth, Franklin, Halifax, Mecklenburg, Orange, Rowan, Stanly and Stokes counties. Facilities may serve residents of counties not included in their service area.

SBH-Charlotte proposes to transfer 40 Adult IP Psych beds from Broughton Hospital to be located at its existing facility in Charlotte. However, the applicant does not adequately demonstrate that projected utilization is based on reasonable and adequately supported assumptions. Therefore, the applicant does not adequately demonstrate that the proposal would not result in unnecessary duplication of existing or approved inpatient adult psychiatric beds in Mecklenburg County. Therefore, the application is not 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 applicant proposes to provide personal care staff twenty-four hours per day, seven days per week. In Section VII, page 69, the applicant provides the proposed staffing for the second operating year (CY2020), as shown in the table below.

SBC-Charlotte: Clinical

Position	Number of Clinical Full-Time Equivalent (FTE) Positions for Adult IP Psychiatric Beds	
	Current	Operating Year 2
Licensed Clinician	0.0	2.0
Recreational Therapist	0.0	1.0
RN	0.0	12.6
RA-MHT	0.0	20.0
Total	0.0	35.6

SBC-Charlotte: Administrative

Position	Number of Administrative Full-Time Equivalent (FTE) Positions for Adult IP Psychiatric Beds	
	Current	Operating Year 2
Adm Assessment Professional	2.0	4.8
Community Liaison	2.0	5.5
Med Records Support	1.0	2.0
UR Support	1.0	2.0
Financial Counselor	0.0	1.0
Total	6.0	15.3

Source: Section VII, pages 68-71.

In Section VII, pages 68-70, the applicant provides the current total staff (130.0 FTEs) and the proposed total staff (174.9 FTEs) for the entire facility. As shown in the tables above, the applicant is proposing an increase of 49.9 FTEs by OY2 [35.6 new clinical FTEs plus 9.3 new administrative FTEs (OY2 15.3 administrative FTEs – 6 current administrative FTEs = 9.3 new administrative FTEs) = 49.9 total new FTEs.]

In Section VII, pages 72-74, the applicant describes its experience and process for recruiting and retaining staff. In Section VII.8, page 78, the applicant identifies Dr. William Van Horn, as the Medical Director for SBC-Charlotte. Exhibit 19 contains a copy of a letter from Dr. Van Horn expressing his support for the project and willingness to serve as Medical Director. In Section VII.5, page 75, the applicant provides a table illustrating a staffing pattern for a typical seven day week.

Conclusion

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant documents of the availability of adequate health manpower and management personnel for the provision of the proposed services.
- The applicant documents support from the current and continuing Medical Director.

- The applicant documents the availability of other resources, including methods of recruitment and documentation of staff training, necessary for the provision of the proposed dialysis services.

This determination is based on a review of the:

- information in the application, including any exhibits
- remarks made at the public hearing
- information which was publicly available during the review and used by the Agency

Therefore, the applicant adequately demonstrates that 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.9, pages 21-22, the applicant describes the ancillary and support services that will be provided by the facility or made available through agreements with other providers. Exhibit 7 contains service contracts with providers of laboratory, pharmacy, laundry and linen, diagnostic and physician services. Exhibit 24 contains letters of support from physicians and other health care providers. Exhibit 13 contains a signed transfer agreement with Carolinas Medical Center.

Conclusion

The information in the application, including any exhibits, is reasonable and adequately supported for the following reasons:

- The applicant documents the availability of necessary ancillary and support services for the provision of the proposed Adult IP Psych bed services.
- The applicant documents ongoing coordination with the existing health care system.

This determination is based on a review of the:

- information in the application, including any exhibits
- remarks made at the public hearing
- information which was publicly available during the review and used by the Agency

Therefore, the applicant adequately demonstrates that 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

The applicant does not project to provide the proposed services to a substantial number of persons residing in Health Service Areas (HSAs) that are not adjacent to the HSA in which the services will be offered. Furthermore, the applicant does not project to provide the proposed services to a substantial number of persons residing in other states that are not adjacent to the North Carolina county in which the services will be offered. Therefore, this criterion is not applicable to this review.

- (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

The applicant is not a HMO. Therefore, this criterion is not applicable to this review.

- (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

SBC-Charlotte is an existing 32,545 square foot facility located at 1715 Sharon Road West, Charlotte. SBH-Charlotte owns the site. At the existing location the applicant proposes to add 25,825 square feet of new construction for a total of 58,370 square feet upon project completion.

In Section VIII, page 79, of this application, the applicant projects the total capital cost of the proposed project will be:

Site costs-	\$ 1,793,409
Construction costs-	\$ 9,141,791
Equipment & Furniture	\$ 265,640
Landscaping	\$ 112,000
Consultant Fees-	<u>\$ 593,500</u>
Total:	\$11,906,340

In Section XI.7, page 91, the applicant provides a written statement describing the proposed project's plan to assure improved energy efficiency and water conservation including LED lighting technology, HVAC units with high SEER ratings, T8 fluorescent bulbs, high efficiency hot water heaters, and low flow shower heads. Exhibit 20 contains a letter from Christopher N. Reid, President of Thomas Construction Group, which provides cost estimates relating to site development, labor, material and landscaping for the proposed new construction which are consistent with the costs estimates found on page 79 of the application.

Conclusion

The applicant adequately demonstrates that the cost, design and means of construction represent the most reasonable alternative for the proposed construction project. Furthermore, the applicant adequately demonstrates that the proposed construction project would not unduly increase the costs and charges of Adult IP Psych bed services. Furthermore, the applicant adequately demonstrates that applicable energy saving features have been incorporated into the construction plans.

This determination is based on a review of the:

- information in the application, including any exhibits
- remarks made at the public hearing
- information which was publicly available during the review and used by the Agency

Therefore, the applicant adequately demonstrates that 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;

C

In Section VI.11 page 66, the applicant provides the payor mix during CY2016 for the existing SBC-Charlotte facility, as, as illustrated in the table below.

Historical Payor Mix in CY 2016: Patient Days as a % of Total Days

Payor Source	Adult IP Psych Bed	C/A IP Psych Beds	PRTF Beds
Medicaid	na	89.0%	85.1%
Commercial Insurance/Managed Care	na	11.0%	14.9%
Total	na	100.0%	100.0%

As shown in the table above, 89.0 % of all inpatient psychiatric days of care for C/A IP Psych Beds and 85.1% of all PRTF days of care, was paid for by Medicaid.

The United States Census Bureau provides demographic data for North Carolina and all counties in North Carolina. The following table contains relevant demographic statistics for the applicant's service area.

Percent of Population						
County	% 65+	% Female	% Racial & Ethnic Minority*	% Persons in Poverty**	% < Age 65 with a Disability	% < Age 65 without Health Insurance**
	2016 Estimate	2016 Estimate	2016 Estimate	2015 Estimate	2011-2015	2015 Estimate
Mecklenburg	11%	52%	52%	14%	6%	13%
Cabarrus	13%	51%	33%	11%	7%	11%
Davidson	18%	51%	20%	14%	12%	13%
Rowan	17%	51%	27%	17%	12%	14%
Stanly	18%	50%	19%	17%	13%	13%
Union	12%	51%	27%	10%	6%	11%
Statewide	16%	51%	37%	16%	10%	13%

Source: <http://www.census.gov/quickfacts/table> Latest Data 7/1/16 as of 8/22/17

*Excludes "White alone" who are "not Hispanic or Latino"

***"This geographic level of poverty and health estimates are not comparable to other geographic levels of these estimates. Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable...The vintage year (e.g., V2016) refers to the final year of the series (2010 thru 2016). Different vintage years of estimates are not comparable."

However, a direct comparison to the applicant's 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, women or handicapped persons utilizing health services.

The application is conforming to this criterion based on a review of the:

- information in the application, including any exhibits
 - remarks made a the public hearing
 - information which was publicly available during the review and used by the Agency
- (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 Section VI.10, page 65, the applicant states SBC-Charlotte does not have any public obligations under applicable Federal Regulations or agreements to provide access to care by medically underserved, minorities or handicapped persons, uncompensated care or community services. In Section VI.9, page 65, the applicants states that *“No civil rights equal access complaints have been filed against the applicant or any facilities or services owned, managed or operated by the parent company of the applicant in North Carolina in the last five years.”*

The application is conforming to this criterion based on a review of the:

- information in the application, including any exhibits
 - remarks made a the public hearing
 - information which was publicly available during the review and used by the Agency
- (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.12 page 66, the applicant provides the payor mix for the second full operating year (CY2020) following completion of the proposed project, as illustrated in the table below.

Projected Payor Mix in OY2 (CY 2020): Patient Days as a % of Total Days

Payor Source	Adult IP Psych Bed	C/A IP Psych Beds	PRTF Beds
Medicaid	11.0%	89.0%	85.1%
Medicare/Medicare Managed Care	35.0%	na	na
Self Pay/Indigent/Charity	5.0%	na	na
Commercial Insurance/Managed Care	49.0%	11.0%	14.9%
Total	100.0%	100.0%	100.0%

As shown in the table above, the applicant projects 46.0% of all Adult IP Psych Beds will be paid for by Medicaid/Medicare and 89.0% of C/A IP Psych Beds and 85.1% of all PRTF days of care, will be paid for by Medicaid.

The application is conforming to this criterion based on a review of the:

- information in the application, including any exhibits
 - remarks made at the public hearing
 - information which was publicly available during the review and used by the Agency
- (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.8, page 64, the applicant states patients will have access to the services offered at SBC-Charlotte through referrals from: physicians, MCO's, family, school, court, self, community based providers, community hospital's and walk-in's with admissions being accepted 24 hours per day, 7 days per week and 365 days per year. The applicants adequately demonstrate they offer a range of means by which residents will have access to the facility.

The application is conforming to this criterion based on a review of the:

- information in the application, including any exhibits
 - remarks made at the public hearing
 - information which was publicly available during the review and used by the Agency
- (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

Exhibit 10 contains copies of agreements between SBC-Charlotte and both University of North Carolina at Charlotte and University of North Carolina-Wilmington for students in the health professional training programs at each University.

The information in the application, including any exhibits, is reasonable and adequately supported because the applicant adequately documents that the proposed health services will accommodate the clinical needs of health professional training programs in the area.

- (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.

NC

SBH-Charlotte proposes to transfer 40 Adult IP Psych Beds from Broughton Hospital to its existing facility in Charlotte, SBC-Charlotte, pursuant to Policy PSY-1 in the 2017 SMFP. Upon project completion SBC-Charlotte (Mecklenburg County) will have 40 Adult IP Psych Beds, 24 C/A IP Psych Beds and 36 PRTF Beds.

On page 382, the 2017 SMFP defines the service area for inpatient psychiatric beds as *“the catchment area for the LME-MCO for mental health, developmental disabilities, and substance abuse services in which the bed is located.”* Thus, the service area consists of Alamance, Cabarrus, Davidson, Forsyth, Franklin, Halifax, Mecklenburg, Orange, Rowan, Stanly and Stokes counties. Facilities may serve residents of counties not included in their service area.

According to the inventory of adult psychiatric beds in Table 15A of the 2017 SMFP (pages 384-385), there are a total of 1,969 Adult IP Psych beds (licensed or license pending) in the state, excluding beds in State Hospitals. However, in the applicant’s LME-MCO, Cardinal Innovations Healthcare Solutions, there are a total of 613 existing licensed or license pending Adult IP Psych beds. See 2017 SMFP, Table 15A, page 384.

Of the 1,969 Adult IP Psych beds in North Carolina, excluding beds in State Hospitals, only 613 or 31.1% ($613/1,969 = 0.3113$ or 31.1%) are located in the applicant’s service area. The applicant does not propose to develop new Adult IP Psych beds, but rather relocate 40 Adult IP Psych beds from Broughton Hospital, a State Hospital. In Section III, page 29, the applicant states that SBC-Charlotte, *“proposes to accept patients from throughout North Carolina as the need arises, however, for the purposes of this CON application SBC-Charlotte will focus on meeting the need of the 37 North Carolina counties served by Broughton Hospital in Burke County.”* There will be no increase in the overall number of Adult IP Psych beds in the State.

In Section V.6, pages 54-55, the applicants discuss how any enhanced competition in the service area will promote the cost-effectiveness, quality and access to the proposed services.

However, the information provided by the applicants is not reasonable and does not adequately demonstrate that any enhanced competition in the service area includes a positive impact on quality of the proposed services or that the proposed project is a cost-effective alternative. This determination is based on the information in the application and the following analysis:

- The applicant does not adequately demonstrate the need for the proposed project and that it is a cost-effective alternative.
- The applicant does not adequately demonstrate that it will provide quality services.

Therefore, the application is not 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.

NC

In Section I.12, page 6, the applicant states that it currently owns, leases, or manages three psychiatric facilities in North Carolina: SBC-Charlotte (Charlotte), SBC Wilmington (Leland) and SBC Raleigh (Garner). In Section II.11, page 24 of the application the applicant disclosed that SBC Raleigh received a Notice of Termination of Medicare or Medicaid Provider Agreements for incidents occurring in March 2014 and December 2016. According to the files in the Acute and Home Care Licensure and Certification Section, DHSR, from December 1, 2016 through January 9, 2018 surveys have found all three facilities (SBC-Charlotte, SBC Wilmington and SBC Raleigh) to have federal deficiencies and for SBC-Charlotte and SBC Raleigh to have state and federal deficiencies.

The information in the application regarding quality care is not consistent with agency records. The applicant did not provide evidence that quality care has been provided in the past. Therefore, the application is not 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.

NC

The application is not conforming with all applicable Criteria and Standards for Psychiatric Beds promulgated in 10A NCAC 14C .2600. The specific criteria are discussed below.

SECTION .2600 – CRITERIA AND STANDARDS FOR PSYCHIATRIC BEDS

10A NCAC 14C .2603 PERFORMANCE STANDARDS

- (a) An applicant proposing to add psychiatric beds in an existing facility shall not be approved unless the average occupancy over the six months immediately preceding the submittal of the application of the total number of licensed psychiatric beds within the facility in which the beds are to be operated was at least 75 percent.

-C- In Section II.12, page 25, the applicant states that the average occupancy rate over the six months immediately preceding the submittal of the application of the 24 C/A IP psych beds was 88.9%. See also Section IV, page 46.

(b) An applicant proposing to establish new psychiatric beds shall not be approved unless occupancy is projected to be 75% for the total number of licensed psychiatric beds proposed to be operated in the facility no later than the fourth quarter of the second operating year following completion of the project.

-NC- In Section IV.1, page 49, the applicant provides projects occupancy over 89.0% for the total number of licensed psychiatric beds proposed to be operated at SBC-Charlotte at the end of the second operating year following completion of the proposed project. However, projected utilization of the 40 Adult IP Pysch beds is not based on reasonable and supported assumptions. The discussion regarding projected utilization of the 40 Adult IP Psych Beds found in Criterion (3) is incorporated herein by reference.

The information in the application regarding projected occupancy of the total licensed psychiatric beds proposed to be operated in SBC-Charlotte is not reasonable and adequately supported for the following reasons:

- The projected utilization of the 40 Adult I/P Psych beds is not based on reasonable and supported assumptions.

This determination is based on a review of the:

- information in the application, including any exhibits
- remarks made at the public hearing
- information which was publicly available during the review and used by the Agency