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May 18, 2015

Ms. Ruby Potter
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Health Facilities Coordination Officer
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

VIA EMAIL and HAND DELIVERY

Re: Certificate of Need Application—Intermediate Care Facilities
Recovery Centers of America – Earleville
314 Grove Neck Road OPCO, LLC
Matter No. 15-07-2363

Dear Ms. Potter:

Enclosed are ten copies of the Modified Application with respect to the above-referenced CON application. Also enclosed are two CDs containing searchable PDF files of the responses and exhibits, a WORD version of the responses, native Excel spreadsheets of the tables and projections, and two full-size sets of project drawings.

Because Applicant has modified its application, Applicant is not submitting formal responses to the Requests for Additional Information Questions Dated April 15, 2015. However, for the convenience of those reviewing the Modified Application, Applicant is supplying the information below.

1. **Provide a brief description of each of the corporations – and their function in this project – shown on the organizational chart (Exhibit 2).**

Please see Exhibit 3 to the Modified Application.

2. **Question 11.C asks applicant to provide a copy of the option to purchase; it was not included.**

Please see Exhibit 7 to the Modified Application.

3. **Describe the source used by ESRI Geographical Information Systems to construct demographic projections.**

Please see page 27 of the Modified Application, and Exhibit 9.

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4. **List each adjustment to the prescribed need formula, the rationale and justification for each adjustment, and the direction and the general magnitude of each adjustment on projected need.**

Please see 27-35 of the Modified Application.

5. **Provide a map of the projected catchment area with enough detail to delineate the major cities and towns included.**

Please see pages 33-34 of the Modified Application.

6. **Provide a larger, more legible set of tables included in this section of the application, specifically, tables 4, 7, 8, 9,10 (unlabeled in the application).**

Please see Exhibit 10 to the Modified Application.

7. **Describe in prose, step-by-step, the calculations in Tables 7 and 9.**

Please see 27-35 of the Modified Application.

8. **Referencing Table 4, the application states: Application states that "Applicant assumes that existing providers use 20% of their licensed beds as 'true' detox beds and the remaining 80% as inpatient beds. The Applicant concluded the 20% assumption from internal discussions with RCA's clinical and operations team who have extensive experience in the field." Please confirm and document your assumptions.**

Please see pages 30-31 of the Modified Application.

9. **The *Sliding Fee Scale* submitted is much more simplistic than most the MHCC is used to seeing. Do you anticipate looking into other factors regarding an individual's ability to pay, e.g., total gross household income, equity in a primary residence, a person's net worth, etc.? If so, then please provide a copy of the sliding fee scale that you expect to present to patients and their families or the person responsible for a person's health or financial issues.**

The sliding fee scale attached to both the original and modified application is the scale that Applicant plans to utilize for the facility. Applicant believes that the scale will work well as drafted and does not wish complicate the scale with numerous factors for staff to apply and consider.

10. Please provide a detailed policy outlining the sliding fee scale.

Please see Exhibit 12 to the Modified Application.

11. Application states (p.34) that many states have expanded Medicaid to cover adults with incomes up to 133% of the Federal poverty level, and that benefits must include mental health and substance abuse services, changes that "are a major catalyst for transformation of substance abuse service coverage and delivery in Medicaid." Does this statement imply that RCA- Earleville intends to serve patients covered by Medicaid?

Please see page 42 of the Modified Application.

12. The standard requires an applicant to commit that it will provide 15 percent of more of its proposed annual adult intermediate care facility bed days to indigent or gray area patients. Applicant has stated that this standard is outdated given the changes occurring in the health insurance landscape since the standard was adopted, and has proposed a commitment of 5% on the rationale that the implementation of the Affordable care Act means that many more people are insured for these services. Please provide documentation from the literature and/or insurance sources that bolster this point of view.

Please see Exhibit 13 to the Modified Application.

13. Applicant also cites a previous MHCC decision in the review of an application from Father Martin's Ashley (FMA) that accepted a lower commitment to provision of services to indigent and gray area patients (6.3% of patient-days was the accepted commitment). However, the main driver of the Commission's decision on this aspect of FMA' s application was the fact that higher levels of charity care would lead to unsustainable losses. The projections shown by RCA tell a much different story, with profits expected to be approximately 30% of total operating budget in the second and third year. Please resubmit Tables G and H with a 15% charity care commitment. Please explain why- if indeed

these projections materialize- a 15% charity care commitment is not achievable.

Please see pages 41-42 of the Modified Application, and Exhibit 2.

14. Provide a list of services and prices.

Please see Exhibit 15 to the Modified Application.

15. The application states that this application is for 17 adult ICF treatment beds and 32 other residential beds. Staff could infer that the residential beds will also be limited to adults, but would like confirmation of that.

Please see page 43 of the Modified Application.

16. Will RCA seek state licensure for the detox and residential programs from the Department of Health and Mental Hygiene as required by subsection (2) of this standard?

Please see Applicant's response to Standard .05H, page 44 of the Modified Application.

17. Staff did not find specific reference in the policies provided that would govern length of stay, as required by the standard. Although the application states a commitment to include at least one year of aftercare (p.37), it is also not clear that any policy or procedure meets the requirement that "each patient's treatment plan includes, or will include, at least one year of aftercare following discharge from the facility."

Please see Applicant's response to Standard .05I, pages 44-45 of the Modified Application, and Exhibit 16.

18. Please provide an executed transfer and referral agreement with each of the organizations and entities listed in your response to this standard.

Please see Applicant's response to Standard .05J, pages 46-47 of the Modified Application, and Exhibit 17.

19. The application did not list potential referral sources. Please do so, and for the immediate purposes of this review, assume that 15% of the facility's annual

patient days required by Regulation .08 of this Chapter will be incurred by the indigent or gray area populations, including days paid under a contract with the Behavioral Health Administration (formerly the Alcohol and Drug Abuse Administration), or a jurisdictional alcohol or drug abuse authority, or the Medical Assistance program, as the standard specifies.

Please see Applicant's response to Standard .05K, page 47 of the Modified Application, and Exhibit 18.

20. Applicant states that it will offer outpatient services at its other, nearby facilities. Do these facilities currently exist? If so please list them. If not, document referral agreements with existing outpatient programs that meet the requirements of (1) through (4) of this standard.

Please see Applicant's response to Standard .05O, page 50 of the Modified Application, and Exhibit 17.

21.1.[1] Please describe the needs covered by the *working capital start-up costs* line item.

Please see the notes included on Table E, Exhibit to the Modified Application.

22.1. Please describe the nature of the Property Due Diligence, Transaction, Acquisition, and Due Diligence costs, which total a little over $2.3 million or approximately 13.5% of Project Costs.

Please see the notes included on Table E, Exhibit to the Modified Application.

23.1. Please identify and document the source of the equity funding.

Please see page 56 the Modified Application.

24.1. The projections in Table F show that the number of residential care discharges to be about 27% of total discharges, with detox making up the rest.

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[1] The Requests for additional information included two sets of different questions numbered 21-24. Applicant has renumbered these sets such that the first "Question 21" is 21.1, and the second "Question 21" is 21.2, etc.

a) **Is there overlap between the counts (i.e., a patient starts in detox and transitions to residential), or are they totally discrete? Another way of asking the question is, for 2016, are there 1,080 discrete individuals (and 1,452 in 2017, and' 18) or some other number of discrete individuals?**
b) **Given the discharges projected, it seems clear that many patients will be admitted for detox but will not experience residential care; what is the typical expected treatment protocol for those individuals?**
c) **Explain the TOTAL AVERAGE LENGTH OF STAY computation in relation to a) and b) above.**
d) **Please complete Table I for the detox portion of the program.**

Please see the statement of assumptions provided with Exhibit 1, Table F to the Modified Application, and Exhibit 1, Table I. Please also see footnote 5 in the Modified Application.

21.2. **Although nee projections were included in applicant's response to standard .05B, the instructions under this criterion also ask: *"If the project involves modernization of an existing facility through renovation and/or expansion, provide a detailed explanation of why such modernization is needed by the service area population. Identify and discuss relevant building or life safety code issues, age of physical plant issues, or standard of care issues that support the need for the proposed modernization.* "Please do so.**

The existing structure on the premises is not an existing health care facility within the meaning of COMAR 10.24.01.01(10). However, Applicant has added additional information to the Project Description. Please see pages 6-7 of the Modified Application.

22.2. **Since applicant has simultaneously submitted two other CON applications for larger facilities elsewhere in Maryland, please explain why the applicant chose a strategy of using several sites around the state rather than selecting one central location with a large number of detox and residential beds which would offer the ability to realize economies of scale?**

Please see page 54 of the Modified Application.

23.2. **Please reconcile the significant discrepancy between the sources of funding reported on your Project Budget in Table E ($6.1 million equity and $11.3 million debt) and what is stated under the Viability criteria p. 47 ($8.1 million equity and $9.3 million debt).**

These items have been reconciled in the Modified Application.

24. **As instructed in the application:** ***Audited financial statements for the past two years should be provided by all applicant entities and parent companies to demonstrate the financial condition of the entities involved and the availability of the equity contribution. If audited financial statements are not available for the entity or individuals that will provide the equity contribution, submit documentation of the financial condition of the entities and/or individuals providing the funds and the availability of such funds. Acceptable documentation is a letter signed by an independent Certified Public Accountant. Such letter shall detail the financial information considered by the CPA in reaching the conclusion that adequate funds are available.***

Please see the Modified Application, page 56 and Exhibit 25.

25. **Provide documentation of the commitment of the equity partner, and provide documentation re: the bank that has been selected, and the terms of the loan.**

Please see the Modified Application, page 56 and Exhibit 25.

26. **As this criteria requires, please provide an analysis that addresses the following areas as stated:**

    a) **On the volume of service provided by all other existing health care providers that are likely to experience some impact as a result of this project;**
    b) **On the payer mix of all other existing health care providers that are likely to experience some impact on payer mix as a result of this project.**
    c) **On access to health care services for the service area population that will be served by the project. (State and support the assumptions used in this analysis of the impact on access);**
    d) **On costs to the health care delivery system.**
    e) **If you assert this project will not have an impact on existing providers, then provide evidence to support your position.**

Please see the Modified Application, pages 59-61.

27. **Regarding Table C, please respond to the following:**

a) **Address the Class of Construction and the Type of Construction for the proposed facility.**

b) **Reconcile and clarify the discrepancy in Total Square Footage for Renovations in the Detox and Residential buildings reported in Table B (11,389 s.f. and 39,749 s.f.) with Table C (11,100 s.f. and 40,038 s.f.), respectively.**

c) **Provide a response for the sprinklers and HVAC system for the proposed project.**

Regarding Table D, please provide a breakdown of the $783,983 in site and infrastructure costs for the residential facility.

Exhibit 1, Tables C and D to the modified application have been updated to include the missing data and have been reconciled. The difference between the square footage in Tables B and C previously resulted from a typo in Table B, line 52, which has been corrected.

28. On the Revenue and Expense tables (G and H):

a) **Given that "other expenses" make up almost 50% of total expenses, please itemize the categories listed.**

Please see Exhibit 1, Tables G and H to the Modified Application.

29. Please confirm whether the Work Force Information reported in Table Lis for the entire facility, or only for either the detox or residential unit? The attachments to that table appear intended to delineate that, but are difficult to decipher. If the Work Force Information reported in Table L is for the entire facility, please an alternate Table L showing the information for just the detox unit.

The Work Force Information reported in Table L is for the detox unit only.

30. Please make sure that the total cost of hiring regular employees and contractual employees reported in Table L agrees with the Salaries & Wages and Contractual Service costs reported in Exhibit G and J for the first full year of operation (CY 2017).

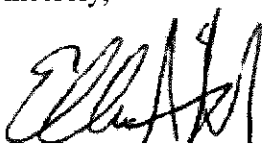
The total cost of hiring regular employees and contractual employees reported in Table L ($2,139,673) agrees with the Salaries & Wages and Contractual Service costs reported in Exhibit J, #2a

for 2018 which represents the detox unit only. Table L agrees correlates to the costs for 2018, the final year presented in the financial projections.

I hereby certify that a copy of this submission has also been forwarded to the appropriate local health planning agency as noted below.

Please sign and return to our waiting messenger the enclosed acknowledgment of receipt.

Sincerely,



Ella R. Aiken

ERA:blr
Enclosures
cc: Kevin McDonald, Chief, Certificate of Need (w/ CD)
Paul Parker, Director, Center for Health Care Facilities Planning & Development, MHCC
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