ATTACHMENT - REQUIRED STATE AGENCY FINDINGS

FINDINGS
C = Conforming
CA = Conditional
NC = Nonconforming
NA = Not Applicable

DECISION DATE: February 19, 2013
PROJECT ANALYST: Celia C. Inman
TEAM LEADER: Lisa Pittman

PROJECT I.D. NUMBER: O-10232-13 / Cornelia Nixon Davis, Inc. d/b/a The Davis Community / Relocate 20 nursing facility beds from Porters Neck Road campus to Cambridge Village campus / New Hanover County

REVIEW CRITERIA FOR REPLACEMENT INSTITUTIONAL HEALTH SERVICES

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

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

C

Cornelia Nixon Davis, Inc. d/b/a The Davis Community (Davis) proposes to relocate 20 existing beds from the Health Care Center at The Davis Community, its existing 199-bed skilled nursing facility located on Porters Neck Road in Wilmington, and replace them in leased space on the campus of Cambridge Village, an independent living community currently under development in Wilmington. As such, the 20 relocated nursing beds will be a new, separately licensed nursing facility.

The applicant does not propose to add any new health service facility beds, services, or equipment for which there is a need determination in the 2013 State Medical Facilities Plan (SMFP).

However, there are three policies in the 2013 SMFP that are applicable to the review of this project, as described below.

Policy NH-6: Relocation of Nursing Facility Beds

Policy NH-6 Relocation of Nursing Facility Beds, on page 32 of the 2013 SMFP, is applicable to the review of this proposal. Policy NH-6 states:

> *"Relocations of existing licensed nursing facility beds are allowed only within the host county and to contiguous counties currently served by the facility, except as provided in Policies NH-4, NH-5 and NH-7. Certificate of need applicants proposing to relocate licensed nursing facility beds to contiguous counties shall:*
>
> *1. Demonstrate that the proposal shall not result in a deficit in the number of licensed nursing facility beds in the county that would be losing adult care home beds as a result of the proposed project, as reflected in the North Carolina State Medical Facilities Plan in effect at the time the certificate of need review begins, and*
>
> *2. Demonstrate that the proposal shall not result in a surplus of licensed nursing facility beds in the county that would gain adult care home beds as a result of the proposed project, as reflected in the North Carolina State Medical Facilities Plan in effect at the time the certificate of need review begins."*

The applicant proposes to relocate 20 existing nursing facility beds within New Hanover County. Therefore, the proposal will not change the current nursing facility bed inventory in New Hanover County. Consequently, the application is conforming with Policy NH-6.

Policy NH-8 Innovations in Nursing Facility Design

Policy NH-8 Innovations in Nursing Facility Design, on pages 33-34 of the 2013 SMFP is applicable to the review of this proposal. Policy NH-8 states:

> "*Certificate of need applicants proposing new nursing facilities, replacement nursing facilities, and projects associated with the expansion and/or renovation of existing nursing facilities shall pursue innovative approaches in care practices, work place practices, and environmental design that address quality of care and quality of life needs of the residents. These plans could include innovative design elements that encourage less institutional, more home-like settings, privacy, autonomy and resident choice, among others."*

In Section III.4, pages 53-55, the applicant states:

> *"The proposed 20-bed facility, Davis Health & Wellness Center at Cambridge Village, meets all of the objectives in this policy. As discussed below, Davis' proposal includes innovative approaches in care practices, workplace practices, and*

environmental design that address quality of care and quality of life needs of the residents."

Davis further discusses The Davis Community's focus on the conversion of its existing skilled nursing facility from a traditional medical model of care to a household model of care, signaling a societal shift in the care of the elderly. The applicant states that residents who occupy the proposed facility will see the following physical and cultural changes:

- A comfortable living room to gather in for activities customized for the resident's desires;
- Laundry and dining service activities completed within the household,
- A household team that performs a core set of duties and is cross-trained to provide inclusive care:
    - CNAs may assist with cooking,
    - Dietary staff (homemakers) may make beds,
    - Nurses may sort laundry,
    - Life enhancement guides may organize household game night.

The applicant says the team-based approach offers employees more autonomy and a greater sense of ownership in contributing to the overall well-being, comfort, and happiness of the residents, while also encouraging the shared accountability among team members for providing the best possible care for the facility's residents.

The applicant adequately demonstrates that the proposed project includes innovative approaches in care practices, work place practices, and environmental design that address quality of care and quality of life needs of the residents as required of Policy NH-8. Therefore, the application is consistent with Policy NH-8.

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

Policy GEN-4: Energy Efficiency and Sustainability for Health Service Facilities, on page 43 of the 2013 SMFP, is applicable to the review of this proposal. Policy GEN-4 states:

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

In approving a certificate of need proposing an expenditure greater than $5 million to develop, replace, renovate or add to a health service facility pursuant to G.S. 131E-178, the Certificate of Need Section shall impose a condition requiring the applicant to develop and implement an Energy Efficiency and Sustainability Plan for the project that conforms to or exceeds energy efficiency and water conservation standards incorporated in the latest editions of the North Carolina State Building

Codes. The plan must be consistent with the applicant's representation in the written statement as described in paragraph one of Policy GEN-4.

Any person awarded a certificate of need for a project or an exemption from review pursuant to G.S. 131E-184 are required to submit a plan of 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 III.4, beginning on page 57, the applicant addresses Policy GEN-4 and its plan for energy efficiency and water conservation. The applicant states:

"Davis will develop and implement an Energy Efficiency and Sustainability plan for the project that conforms to or exceeds the energy efficiency and water conservation standards incorporated in the latest editions of the NC State Building Codes. The plan shall not adversely affect patient or resident health, safety or infection control."

The applicant further states that the design will incorporate materials and equipment which enhance the containment of utilities and energy costs and will include, but not be limited to:

- Utilization of hot water recirculation system,
- Compliance with energy standards,
- Employment of mechanical system energy recovery system, and
- Utilization of VRF variable refrigerant energy exchange at resident rooms.

The applicant is proposing a project with a capital expenditure of less than $5 million. The applicant adequately demonstrates the proposal includes a plan to assure improved energy efficiency and water conservation. Therefore, the application is consistent with Policy GEN-4.

In summary, the applicant adequately demonstrates the application is consistent with the three policies in the 2013 SMFP that are applicable to the review, Policies NH-6, NH-8 and GEN-4; 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.

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The Health Care Center at The Davis Community is an existing skilled nursing facility that has been in operation in the Porters Neck area of Wilmington since 1966. Following the construction of the original 82-bed facility in 1966, Davis has completed several additions or renovations and added 117 beds. It is currently undergoing a major renovation project, designed in phases, to transition from a traditional medical model of care to a household model of care. The last phase of the project will be complete in 2015. The first phase, the construction of two freestanding 11,500 square foot houses, was completed in July 2013. Davis proposes to relocate 20 of its 199 nursing facility beds from The Davis Community to 12,500 square feet of leased space under development at Cambridge Village in Wilmington. The applicant describes Cambridge Village as a beautifully landscaped, 10-acre site overlooking tranquil ponds and rustic walking trails surrounded by coastal oak trees. The applicant states that its proposed facility has been designed with a dedicated patio and ability garden which will provide therapeutic outdoor space where residents can garden and work with plants and flowers. The proposed 20-bed new nursing facility will be comprised of 20 private rooms in a freestanding skilled nursing household at Cambridge Village. The proposed skilled nursing facility will be located on the second floor above the Cambridge Village wellness center. Upon completion of the project, The Health Care Center at The Davis Community will be licensed for 179 skilled nursing beds and the proposed Davis Health & Wellness Center at Cambridge Village will be separately licensed for 20 skilled nursing beds.

Population to Be Served

In Section III.8, pages 60-61, the applicant provides the current (October 1, 2012 through September 30, 2013) patient/resident origin for The Health Care Center at The Davis Community, as shown in the following table.

The Health Care Center at The Davis Community
Patient /Resident Origin
October 1, 2012 through September 30, 2013

	Nursing Facility Beds	**Adult Care Home Beds**
County	**Percent of Total ACH Admissions**	**Percent of Total ACH Admissions**
New Hanover	70.9%	NA
Pender	15.1%	NA
Onslow	4.2%	NA
Brunswick	3.3%	NA
Duplin	2.7%	NA
Other	3.9%	NA
TOTAL*	**100.0%**	**NA**

*Totals may not sum due to rounding.

The above table shows that 86% of Davis's FY2012 patients were from New Hanover and Pender counties. The applicant states that "Other" includes Ashe, Bladen, Carteret, Columbus, Craven, Cumberland, Greenville, Harnett, Johnston, Jones, Lenoir, Martin, Mecklenburg, Moore, Orange, Randolph, Rowan, Rutherford, Sampson, Vance, Wake, Wayne, and Wilkes counties.

In Section III.9, page 61, the applicant provides the projected patient/resident origin for proposed facility during the first full federal fiscal year of operation, based on FY2012 patient origin and as shown in the following table.

Davis Health & Wellness Center at Cambridge Village
Patient /Resident Origin
October 1, 2015 through September 30, 2016

	Nursing Facility Beds	**Adult Care Home Beds**
County	**Percent of Total ACH Admissions**	**Percent of Total ACH Admissions**
New Hanover	70.9%	NA
Pender	15.1%	NA
Onslow	4.2%	NA
Brunswick	3.3%	NA
Duplin	2.7%	NA
Other	3.9%	NA
TOTAL*	**100.0%**	**NA**

*Totals may not sum due to rounding.

The applicant states that "Other" includes Ashe, Bladen, Carteret, Columbus, Craven, Cumberland, Greenville, Harnett, Johnston, Jones, Lenoir, Martin, Mecklenburg, Moore, Orange, Randolph, Rowan, Rutherford, Sampson, Vance, Wake, Wayne, and Wilkes counties. On page 62, the applicant states,

> *"Projected patient origin is based on the historical patient origin for Davis' existing 199 nursing facility beds. Because the project proposes to relocate existing beds only approximately seven miles away within the same county, Davis believes its existing patient origin to be reflective of the patient origin expected for the proposed 20-bed facility."*

The applicants adequately identify the population proposed to be served.

Need to Relocate Nursing Facility Beds

In Section III.1, page 37-49, the applicant discusses the need for the proposed project to relocate 20 nursing facility beds from The Davis Community to Cambridge Village, stating that the factors driving the need include:

- National trends and forecasts,

- The growth of the general population,
- The growth in the population over the age of 65,
- The need for Davis to continue its transition to the household model of care while maintaining adequate nursing bed capacity, and
- The need for skilled nursing services on the campus of Cambridge Village.

National Trends and Forecasts

On page 37, the applicant states that the baby boomer impact on healthcare services is a common topic among healthcare groups today. According to a report released by the American Hospital Association, Exhibit 10 of the application, 80% of Americans age 65 and older have at least one chronic disease that requires ongoing care and management. The report says that as the baby boomers age, the number with multiple chronic conditions is expected to grow from almost 8.6 million in 2007 to almost 37 million in 2030. In particular, more than six of every ten baby boomers will be managing more than one chronic condition in 2030.

The applicant states that pro-actively preparing for the vast number of people needing healthcare services in the coming years will allow nursing facilities to manage the large numbers of residents seeking skilled nursing services.

Population Growth in New Hanover County

The applicant states that population growth plays an important role in the need to maintain adequate access to quality skilled nursing services. New Hanover County and its surrounding communities are among the fastest growing regions in the country. According to data from the North Carolina Office of State Budget and Management (NCOSBM), Exhibit 11, New Hanover County is the twelfth fastest growing county in North Carolina based on percentage growth. Moreover, of the four other counties in Davis' primary service area, Pender, Onslow, Brunswick and Duplin counties, three are in the top ten fastest growing counties in the state based on percentage growth.[1] Further New Hanover County is projected to be the sixth fastest growing county in the state over the next decade, growing 18.7 % and adding nearly 38,000 people.

Growth of the Population Age 65 and Older

On page 41, the applicant states that high growth in the general population impacts nursing facility utilization but high growth in the population age 65 and older is even more significant in its impact, for several reasons;

"Typically, the older the resident the greater the risk of falls that result in broken bones, the greater the risk of life-threatening diseases, and the more likely a decline

[1] Onslow (first), Brunswick (fifth), and Pender (tenth)

in overall health requiring more intensive care than is available through a home health agency. For this reason, growth in the older population requires careful monitoring of nursing beds in a given area lest the demand exceed the available capacity."

According to the NCOSBM, in 2012, the 65 and older population represented 14.8% of the total population in New Hanover County. That ratio is expected to reach 17.8% by 2020. On pages 41-42, the applicant states,

"It is important to recognize that not only will the percentage of residents age 65 and older grow as a percentage of the total population (as it likely will in most counties as baby boomers continue to age), the increase in the ratio, combined with the exceptional growth in population, results in a projected 65 and older population of more than 40,000 in 2020.

Year	***New Hanover County Population Age 65+***	***Percent of Total***
2012	*31,155*	*14.8%*
2020	*42,728*	*17.8%*

Source: NC OSBM, Exhibit 11.

By 2020, the New Hanover County population age 65 and older will exceed the total population of 40 of the counties in the state, Clearly the need for healthcare services, particularly those utilized more heavily by this aging population, will persist in New Hanover County."

According to the 2011-2015 North Carolina State Aging Services Plan, Exhibit 12, projections show that by 2025, when the youngest baby boomers are age 60 and older, and are eligible for Older Americans Act (OAA) services, baby boomers will account for nearly one quarter of the state's population. On page 42, in reference to the plan, the applicant states it is,

" vitally important that North Carolina be well prepared to meet the challenges and realize the opportunities of an aging population throughout all areas of state and local government to ensure that we continue to be a livable and senior-friendly state."

The applicant further states on page 43, *"To prepare for this projected growth, particularly as it relates to New Hanover County, maintaining adequate capacity of quality nursing facility services will be critical."*

Household Model of Care

The applicant states that Davis has focused its efforts quite heavily on transitioning from a traditional medical model of care to a household model of care. In this model of care, a dedicated team of professionals creates a home environment where personal choice, privacy, and dignity are the hallmarks of care. The Davis Community has been preparing for this change for several years with the support from Action Pact, a company which the applicant states has extensive experience in implementing physical and cultural change in skilled nursing environments. On page 44, the applicant provides Action Pact's description of the household model as a person-centered approach to care that shapes the physical environment, organizational structure and interpersonal relationships in ways that create an atmosphere of genuine home, while providing elders with clear opportunities to direct their own lives. As opposed to the large, institutional size and design of traditional nursing homes, the household model breaks down the traditional facility into households of 14 to 20 residents with their own kitchen, dining room, living room, and often the extra small cozy spaces typical in any home. Each household has decision-making autonomy and is consistently staffed. Residents get up when they want, bathe how and when they want, go to bed when they want, eat when and what they want and decide how they will spend their day. On page 44, the applicant states that Action Pact says, *"Quality of Care and Quality of Life are of the highest and benefit from a symbiotic relationship."* The applicant says that Action Pact describes a true "Household Model" as being built through the development of the three components that support a home where elders are in the driver's seat:

- Renewal of the Spirit – staff, residents and families work together to create purpose and meaning within the nursing home.
- Reframing the Organization – frontline staff, residents, family members, managers and executive share leadership responsibilities and are all empowered to make life-impacting decisions as a team.
- Renovating into Home – the physical environment is reshaped into households with homey spaces and furnishings.

Davis has already implemented this model with two new houses on the existing Porters Neck campus. The applicant states that the changes were embraced by residents and employees within the first few weeks. Davis is continuing with its existing campus renovations. The freestanding households (both on Davis' existing campus and the proposed project) will be comprised of all private rooms. The applicant states that just as patient preference is moving away from the traditional large, institutional nursing home design, so is it drastically moving away from semi-private rooms. At present, only 44% of Davis' total beds are in private rooms. Following completion of the proposed project as well as the renovation project underway at its existing facility, nearly 95% of Davis' total beds will be in private rooms. The applicant states that the renovation of Davis' existing facility will also result in a significant increase in the amount of community space available to residents. These changes will displace a number of beds from the main facility that Davis

would not have the ability to operate without either expanding the main facility or constructing another freestanding household on The Davis Community campus.

Cambridge Village Need for Skilled Nursing Services

On page 48, the applicant describes Cambridge Village as a premiere independent living community currently under development in Wilmington. Construction is now underway on Phase I of this 250 unit apartment retirement community. Phase I will include 126 apartments as well as a clubhouse and wellness center. Construction is expected to be completed by early 2015. The applicant states that during the planning phase, Cambridge Village contacted The Davis Community about the availability of its skilled nursing beds for residents of Cambridge Village when needed. The applicant states that as the discussions evolved, Davis determined that developing a new 20-bed household in close proximity to Cambridge Village would be an ideal extension of its ongoing renovation project and continuation of its transition to the household model of care. The applicant says the project allows Davis to maintain adequate capacity of nursing beds by developing a new household to house beds displaced by its current renovation project; and it results in additional choice for its current and future patients who may prefer placement in the proposed facility due to convenience and proximity to loved ones. The applicant states it will also serve as a tremendous asset to the independent living residents of Cambridge Village.

The applicant states that the proposed 20-bed facility will be available to existing Davis patients who wish to relocate to the new facility, to the community at large, and to the independent living residents of Cambridge Village.

The 2013 SMFP provides information on the number of nursing facilities and nursing beds in New Hanover County. The table below illustrates there are nine facilities and 1,029 nursing beds in the planning inventory. The SMFP shows that New Hanover has no nursing home beds located in hospitals. The North Carolina Division of Medical Assistance (DMA) Cost Reports for the Fiscal Year 2012 provide utilization data as submitted by nursing facilities for the 2012 Fiscal Year. The 2013 Nursing Home License Renewal Applications (LRAs) provide the utilization data for each facility for the fiscal year ending September 30, 2012. The following table shows the utilization as collected by each database.

New Hanover County Nursing Facilities

Facility	2013 SMFP # NF Beds	2012 DMA Cost Report Occupancy Rate	2012 Occupancy Rate
Autumn Care of Myrtle Grove	90	91%	91%
Davis Health Care Center	199	95%	95%
Kindred Transitional Care & Rehabilitation - Cypress Pointe+	90	+	89%
Liberty Commons Rehabilitation Center	100	81%	82%
New Hanover Health & Rehab Replacement (Azalea Health & Rehab Center)*+	80	+	*
NorthChase Nursing & Rehabilitation Center	140	87%	87%
Silver Stream Health & Rehabilitation Center	110	90%	95%
Trinity Grove - Wilmington	100	84%	88%
Wilmington Health and Rehabilitation Center	120	91%	89%
New Hanover Totals	1,029	89%	90%

Sources: 2012 DMA Cost Reports, 2013 LRAs and 2013 SMFP
*Licensed, Occupancy reported as 0 in 2012, Replacement opened and began fill-up on January 3, 2013.
+2012 DMA Cost Report does not show any data

In supplemental data requested by the Project Analyst and dated January 30, 2014, the applicant states:

> *"Davis does not propose to add any incremental nursing beds, but rather to replace existing beds. As such, its proposal results in no net change to the existing inventory or beds in New Hanover County and has no impact on any surplus or deficit of beds derived by the SMFP need methodology. As stated in its application, Davis' existing beds have historically been very well utilized, and continue to be today. As reported in Davis' 2014 Nursing Home License Renewal Application, it provided a total of 66,888 patient days in its 199 total licensed beds in FY2013, which equates to 92 percent occupancy. As such, Davis needs to maintain adequate nursing bed capacity in order to continue meeting this high demand, making it impractical at this time to not construct space to house beds displaced by the renovation project. … Davis, in and of itself, needs to maintain these 20 beds for its existing and anticipated patient population, regardless of the utilization of other existing providers and as explained in its application, it believes replacing the beds on the campus of Cambridge Village is a better alternative than replacing them on its existing campus."*

The applicant adequately demonstrates the need to relocate and replace the existing beds as proposed.

Projected Utilization

In Section IV, pages 64-65, the applicant reports 91% occupancy for its existing nursing facility beds, excluding special care beds, for the last full fiscal year ended September 30, 2013. The occupancy rate for the total 199 nursing beds during that year was 92%.

In Section IV, pages 68-69, the applicant provides projected utilization data for the proposed relocated 20 nursing facility beds for the first two full fiscal years following completion of the project, as shown in the table below.

Davis Health & Wellness Center at Cambridge Village
Projected Utilization PY1 and PY2

	1st Quarter 10/1-12/31	2nd Quarter 1/1-3/31	3rd Quarter 4/1- 6/30	4th Quarter 7/1-9/30	TOTAL
PY 1 - FFY 2016					
Patient Days	1,748	1,710	1,729	1,748	6,935
Occupancy Rate	95.0%	95.0%	95.0%	95.0%	95.0%
# of Beds	20	20	20	20	20
PY 2 - FFY 2017					
Patient Days	1,748	1,710	1,729	1,748	6,935
Occupancy Rate	95.0%	95.0%	95.0%	95.0%	95.0%
# of Beds	20	20	20	20	20

The applicant did not provide the projected utilization for the third full fiscal year of operation as required in Section IV.2(b). However, the applicant provides the utilization for PY3, as shown below, in the clarifying supplemental information dated January 30, 2014, as requested by the Project Analyst in the expedited review of this application.

Projected Utilization PY3

	1st Quarter 10/1-12/31	2nd Quarter 1/1-3/31	3rd Quarter 4/1- 6/30	4th Quarter 7/1-9/30	TOTAL
PY 3 - FFY 2018					
Patient Days	1,748	1,710	1,729	1,748	6,935
Occupancy Rate	95.0%	95.0%	95.0%	95.0%	95.0%
# of Beds	20	20	20	20	20

In Section IV.2(e), page 66, the applicant states:

> *"As instructed in IV.2.(c), the 20 nursing facility beds are projected to fill up at a net average fill-up rate of four patients per week during the fill-up period before reaching a stabilized occupancy rate of 95 percent.*
>
> …

Davis believes this fill-up rate is reasonable as it is already aware of a number of its existing patients who are likely to choose to move to the proposed facility due to geographic location and proximity to family and loved ones."

Projected occupancy during the second full fiscal year (October 1, 2016 – September 30, 2017) is 95%, which exceeds the 90% required by 10A NCAC 14C .1102(b). The applicant adequately demonstrates that projected utilization is based on reasonable assumptions regarding current occupancy of existing nursing facility beds in New Hanover County.

Access

In Section III.4, page 57, the applicant discusses access to the proposed services, stating:

"…Davis has historically demonstrated a commitment to ensuring equitable access and will continue to provide such access upon completion of the proposed project.

The proposed project will allow Davis to continue providing access to the 20 existing beds that would otherwise be displaced as a result of its current renovation project. Additionally, because the 20 relocated beds will be developed under the household model of care, the proposed project will increase access in New Hanover County to high quality, home-like, person-centered nursing services. Finally, the proposed project will offer convenient access to on-site skilled nursing services for the independent living residents of Cambridge Village who require that level of care."

The applicant adequately demonstrates the proposed relocation of the 20 existing nursing facility beds will not adversely affect access for low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups to New Hanover County nursing facility services. See the discussion on access in Criteria (3a) and (13a) which is incorporated hereby as if set forth fully herein.

In summary, the applicant adequately identifies the population to be served and demonstrates the need that the population has for the proposal to relocate the 20 existing nursing facility beds and demonstrates the population will have adequate access to the proposed services. Therefore, the application is conforming with 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.

The applicant proposes to relocate 20 of its 199 existing nursing facility beds currently located at The Davis Community on Porters Neck Road in Wilmington to leased space on the campus of Cambridge Village, an independent living community currently under development, also in Wilmington and approximately 7 miles from The Davis Community. In Section III.7, pages 59-60, the applicant states:

> *"Davis intends to offer its current residents the option to relocate to the proposed facility, and expects that a number of them will do so based on geographic location and proximity to family and loved ones. However, no patients will be required to relocate.*
>
> …
>
> *Davis does not expect the relocation of 20 beds from its existing campus to have any medical or financial impact on patients currently served. Any patient who chooses to relocate to the proposed facility will remain under the medical direction of Davis' current medical director, Dr. Eileen Caquias-Gonzaelez, and any financial responsibility that the patient has will remain unchanged as a result of the relocation.*
>
> …
>
> *As previously stated, Davis only proposes to relocate 20 of its 199 beds to the proposed new facility, which is only approximately seven miles from the existing Porters Neck Road campus. The 20 relocated beds will be available to existing Davis patients who choose to relocate, to any future patients, and to independent living residents at Cambridge Village."*

On page 82 of the application, the applicant provides the current payor percentages and the projected payor percentages for the year ended September 20, 2016, indicating no expected change in payor sources.

Payor Source	Current 10/1/11-9/30/12	Projected 10/1/15-9/30/16
Private Pay	39.9%	39.9%
Medicare	23.5%	23.5%
Medicaid	36.7%	36.7%
Total	100.0%	100.0%

However, Davis' 2013 LRA provides different amounts for the payor sources and percentages for the period from October 1, 2011 through September 30, 2012 than those shown above as "Current" and on page 82 of the application. The following table compares

the payors and percentages reported as "Current" from the application and shown above, the Fiscal Year 2012 data as reported in the 2013 LRA and the FY2012 DMA Cost Report data.

Payor Source	Current 10/1/11-9/30/12	2013 LRA 10/1/11-9/30/12	DMA Cost Report 10/1/11-9/30/12
Private Pay	39.9%	25.7%	Not Given
Medicare	23.5%	20.5%	20.5%
Medicaid	36.7%	35.0%	34.8%
Other	0	18.8%	44.7%
Total	100.0%	100.0%	100.0%

Note: Current and 2013 LRA data represent the same period from October 1, 2011 through September 30, 2012. The LRA gives no indication of what is represented by "Other". The DMA Cost Report shows Medicaid, Medicare and non-Medicare; thus "Private Pay" is not identified as a category, but would be incorporated in "Other".

The 2013 LRA and the 2012 Cost Report data from the North Carolina Division of Medical Assistance both show Davis with 35% Medicaid utilization for FY2012.

In supplemental information requested by the Project Analyst in the expedited review of this application and dated January 30, 2014, pages 6-7, the applicant states:

> *"Please find below revised projected payor mix for both PY1 and PY2, which is based on the New Hanover County average payor mix of existing providers, calculated using 2013 License Renewal Application data. The revised financial statements in Attachment 3 are based on this revised payor mix.*

Projected Days as % of Total Days

Payor Source	*Nursing Patients*
Private Pay	*27.6%*
Medicare	*24.8%*
Medicaid	*47.5%*
Total	*100.0%*

Source: 2013 License Renewal Applications

…

Davis' historical payor mix of its existing Porters Neck Road facility differs from the historical New Hanover County average payor mix, as shown in the following table.

Payor Source	Davis*	New Hanover County^
Private Pay	39.9%	27.6%
Medicare	23.5%	24.8%
Medicaid	36.7%	47.5%
Total	100.0%	100.0%

**VI.2, page 82 of Davis' application*
^Based on 2013 License Renewal Application data

The most notable difference is Davis' lower Medicaid percentage. This difference can be attributed to several factors. First, Davis' existing facility is located in the middle of the most affluent portion of New Hanover County. When choosing a skilled nursing facility, close proximity to home and loved ones is desirable. As such, and given its location, Davis has historically experienced a higher percentage of private pay and a lower percentage of Medicaid patients than is reflected in the county averages. Further, Davis' existing facility is not on the bus line, which makes Davis a less convenient choice for some as the lack of bus service makes it difficult for those dependent on public transportation to visit loved ones. Davis' lower than average Medicaid percentage also results in part from the level of rehab program that Davis provides for short term rehab patients. A significant portion of Davis' beds are utilized for short term rehab stays; these patients rarely become long-term patients and as such are less likely to spend down to Medicaid eligibility.

While Davis maintains that projecting payor mix for the proposed facility based on its own historical experience was not an unreasonable approach, it also acknowledges that the unique factors driving historical payor mix at its existing location may be different at the proposed 20-bed facility, and as such, Davis believes it reasonable to expect that its payor mix at the proposed facility will be more consistent with the county average.

It is important to note that all 199 of Davis' existing beds are dually certified for Medicare and Medicaid, and as such available to Medicaid patients. The 20 beds to be relocated will continue to be dually certified and available to Medicaid patients. Davis has never, and will not, turn away any Medicaid patient referred to its facility who is appropriate for admission."

On page 82, the applicant states that the proposed facility will incorporate the latest North Carolina Construction Code related to handicapped persons as well as federal guidelines for Americans with Disabilities; and the latest design features to accommodate physically and mentally impaired persons.

The applicant adequately demonstrates that the proposed relocation of 20 beds from The Davis Community to Cambridge Village, both in Wilmington, will adequately meet the needs of the population presently served by The Davis Community and will not adversely

affect the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain the proposed services.

(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.

C

In Section III.2, pages 50-53, the applicant discusses the alternatives considered prior to the submission of this application, which include:

1) Maintain the Status Quo – on page 50, the applicant states that maintaining the status quo was determined not to be an effective alternative because that would mean the 20 beds would go unused at the existing facility under the current facility development plan. The applicant further states that Davis' 199 beds are consistently well utilized and operated at 92% occupancy in FY2013. Davis' expectation is for demand for skilled nursing care to continue to increase making it necessary for Davis to maintain adequate capacity of nursing facility beds to meet demand. Furthermore, Davis states the status quo does not allow Davis to enhance location choice for its current and future patients or to enhance the availability of convenient skilled nursing services for the residents of Cambridge Village.

2) Expand the Existing Facility – the current renovations underway at Davis displace 20 nursing beds with the conversion of semi-private rooms to private rooms and the creation of additional community space within the facility. Davis states that expanding the existing facility to house the 20 beds would be inconsistent with its efforts to transition its model of delivering care and would not be as effective at meeting patient preferences. Davis also states that expanding the existing facility would not allow Davis to enhance availability of skilled nursing services for the residents of Cambridge Village. For these reasons, expanding the existing facility was not considered to be the most effective alternative.

3) Develop an Additional Freestanding Household on its Existing Campus – on page 52, the applicant states that it considered developing an additional freestanding 20-bed household on the existing campus along with the two that opened in July of 2013. However, Davis states that after being approached by Cambridge Village to provide skilled nursing care for their independent living residents, it determined that developing the 20-bed household on its existing campus would not enhance location choice for its current and future patients and would not enhance access to skilled nursing services for the residents of Cambridge Village. Therefore, Davis determined that this alternative was not the most effective alternative.

4) Develop a 20-bed Household at Cambridge Village – on page 52, the applicant discusses the reasons it believes this alternative is the most effective alternative to meet the need it outlined in this application.

The applicant adequately demonstrates that the proposed alternative is the most effective alternative to meet the need outlined in this application for the following reasons:

- It will allow Davis to maintain adequate capacity to meet the demands of its community's growing and aging population;
- It will allow Davis to further its transition from the traditional medical model of care to the person-centered household model of care;
- It will provide additional choice of location for Davis' current and future patients; and,
- It will provide access to quality on-site skilled nursing care in a person-centered home-like environment for the independent living residents of Cambridge Village when they need it.

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 applicant adequately demonstrates that its proposal is the least costly or most effective alternative to meet the need. Therefore, the application is conforming to this criterion and approved subject to the following conditions.

1. **Cornelia Nixon Davis, Inc. d/b/a The Davis Community shall materially comply with all representations made in its certificate of need application and the supplemental data dated January 30, 2014. In instances where the representations differ, Cornelia Nixon Davis, Inc. d/b/a The Davis Community shall materially comply with the last made representation.**

2. **Cornelia Nixon Davis, Inc. d/b/a The Davis Community shall relocate no more than 20 of its existing 199 nursing facility beds from The Health Care Center at The Davis Community to Davis Health & Wellness Center at Cambridge Village for a total licensed bed complement of no more than 20 nursing facility beds at Davis Health & Wellness Center at Cambridge Village and 179 nursing facility beds at The Health Care Center at The Davis Community upon completion of the project.**

3. **Cornelia Nixon Davis, Inc. d/b/a The Davis Community shall take the necessary steps to delicense 20 of its 199 existing nursing facility beds at The Health Care Center at The Davis Community following completion of the proposed relocation of 20 nursing facility beds to Davis Health & Wellness Center at Cambridge Village, by licensing the existing facility as a 179-bed nursing facility.**

4. **The Medicaid per diem reimbursement rates for the new nursing facility beds shall be equal to the rates of The Health Care Center at The Davis Community's existing beds as of the date on which the relocated beds are certified.**

5. **The facility's private pay charges for the first three years of operation following completion of this project shall be limited to the following percentage of the facility's then current Medicaid rate.**

Year	Nursing Private Room Rate as % of Medicaid Rate
1	**137%**
2	**137%**
3	**137%**

[NOTE: Percentage calculated by dividing the applicant's proposed private pay charges in Section X by the applicant's proposed Medicaid rates.]

6. **Cornelia Nixon Davis, Inc. d/b/a The Davis Community shall acknowledge acceptance of and agree to comply with all conditions stated herein to the Certificate of Need Section in writing prior to issuance of the 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 95-96, the applicant projects that the total capital cost of the project will be $2,222,602 as shown in the table below.

Project Capital Costs

Land Purchase	$0
Upfit Construction Contract	$,1850,477
Equipment/Furniture	$145,500
Architect & Engineering Fees	$140,000
Consultant Fees	$69,625
Contingency	$17,000
Total Capital Cost	**$2,222,602**

Exhibit 24 contains a letter from the architect which states that total estimated upfit construction costs are $1,850,477, which is consistent with the information in Section VIII. The letter states that the site and shell construction costs are factored into the lease agreement. The lease agreement is provided in Exhibit 1.

In Section IX.1-4, pages 102-103, the applicant states start-up and initial operating expenses required for the project will total $543,483 and that the source of the working capital will be $543,483 from Cornelia Nixon Davis, Inc. unrestricted cash. Supplemental data dated January 30, 2014, as requested by the Project Analyst in the expedited review of this application, provides revised financial statements based on revised payor percentages and revised operating costs per corrected bed tax assessment ($13.68 per non-Medicare patient day). On page 6 of the supplemental data, the applicant states:

> *"The revisions made to the financial statements resulted in a slightly higher working capital amount of $557,929. As such, a revised funding letter documenting Davis' ability to fund the project, including the increased working capital requirement, is provided in Attachment 4."*

Attachment 4 of the supplemental data contains a letter from the Finance Administrator of Cornelia Nixon Davis which states:

> *"As the Finance Administrator for Cornelia Nixon Davis, Inc., I am familiar with the financial operations and financial position of the corporation. The total capital cost of the project is estimated to be $2,222,602. Total working capital needs for the project are not expected to exceed $560,000*
>
> *Cornelia Nixon Davis, Inc. will finance the total cost of the project, including the working capital needs, through reserve funds. Cornelia Nixon Davis, Inc. is well able to fund any capital projects underway or planned at this time, including the proposed nursing facility project. For verification of reserve funds available for this project, please see the audited financial statements for Cornelia Nixon Davis, Inc. included with the application. Specifically, see page 2, line item "Assets Limited as to Use by Board for Capital Improvements" totaling $10.8 million."*

Exhibit 19 contains the financial statements for Cornelia Nixon Davis, Inc. for the years ending September 30, 2012 and 2011. As of September 30, 2012, Cornelia Nixon Davis, Inc. had cash and cash equivalents of $4,953,924, total current assets of $7,050,742, assets limited as to use by board for capital improvements of $10,822,135, and total net assets of $27,278,487 (total assets – total liabilities).

The applicant provides pro forma financial statements in the application for the first two years of the project. In the supplemental data dated January 30, 2014, the applicant provides revised pro forma financial statements. Per the supplemental data, the applicant projects

revenues will exceed operating expenses in each of the first two full operating years of the project, as illustrated in the table below.

The Davis Community at Cambridge Village	Project Year 1	Project Year 2
Projected # of days	6,935	6,935
Projected Average Charge (Gross Patient Revenue / Projected # of days)	$ 247	$ 247
Gross Patient Revenue	$ 1,713,404	$ 1,713,404
Other Revenue (ancillary, beauty and barber and other)	$ 236,183	$ 236,183
Total Revenue	$ 1,949,587	$ 1,949,587
Total Operating Expenses	$ 1,912,097	$ 1,912,097
Net Profit	$ 37,489	$ 37,489

The assumptions used by the applicant in preparation of the pro forma financial statements are reasonable, including projected utilization, costs and charges. See Section X of the application and the supplemental data dated January 30, 2014 for the assumptions regarding costs and charges. See Criterion (3) for discussion regarding projected utilization which is incorporated hereby as if fully set forth herein. The applicant adequately demonstrates that the financial feasibility of the proposal is based upon reasonable projections of costs and charges, and therefore, the application is conforming to this criterion.

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

C

The applicant adequately demonstrates the need to relocate the 20 existing nursing facility beds from the Health Care Center at The Davis Community, its existing 199-bed skilled nursing facility located on Porters Neck Road in Wilmington, to leased space on the campus of Cambridge Village, an independent living community currently under development in Wilmington. See Criterion (3) for discussion on need which is hereby incorporated as if set forth fully herein. The applicant does not propose to develop any additional nursing facility beds. The total inventory of nursing facility beds in New Hanover County will not change. The applicant adequately demonstrates the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities, and the application is conforming with 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.3, pages 88-91, the applicant projects the following staff for the second year of operation.

Projected Staff FTEs Operating Year 2

Positions	FTEs
Routine Services	
Unit Director	1.0
MDS Nurse	1.0
RNs	2.1
LPNs	2.1
CNAs	8.4
Medical Director	
Pharmacy Consultant	
Dietary	
Licensed Dietician	0.1
Homemaker	2.8
Social Services	
Social Service Mentor	0.1
Case Manager	0.2
Household Coordinator	0.2
Admissions Coordination	0.1
Activity Services	
Life Enhancement Guide	1.4
Admin & General	
Receptionist	1.0
Plant Operation & Maintenance	
Maintenance Supervisor	0.1
Maintenance Techs	0.7
Total	**21.3**

The applicant proposes a staff of 21.3 full-time equivalent (FTE) positions. The applicant projects 4,368 RN hours (2.1 RNs X 2,080 annual hours = 4,368 RN hours), 4,368 LPN hours (2.1 LPNs X 2,080 annual hours = 4,368 LPN hours), and 16,380 CNA (Aide) hours (8.4 CNAs X 1,950 annual hours = 16,380) in Project Year 2. Therefore, the applicant projects 3.62 nursing hours per patient day in Project Year 2 [((4,368 + 4,368 + 16,380) / 6,935 total patient days = 3.62 nursing hours per patient day].

In supplemental data dated January 30, 2014, as requested by the Project Analyst in the expedited review, the applicant provided clarifying information relative to the administrator and director of nursing (DON) positions. The unit director and the MDS nurse as listed in the table above are the full-time administrator and full-time DON, respectively.

Adequate costs for all health manpower and management positions proposed in Table VII.3, pages 88-91, are budgeted in Form C of the supplemental pro forma financial statements. Exhibit 7 contains a letter from the Medical Director of The Davis Community documenting

her willingness to also be the Medical Director at the proposed Davis Health & Wellness Center at Cambridge Village. All other necessary staff is included in Table VII.3 either as employees or through contractual arrangements. The applicant adequately demonstrates the availability of sufficient resources, including health manpower and management personnel, for the provision of the proposed services. Therefore, the application is conforming with this criterion.

(8) The applicant shall demonstrate that the provider of the proposed services will make available, o r 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.4, pages 32-33, the applicant identifies the proposed provider of each necessary ancillary and support service. Services to be provided on a contractual basis include audiology, pharmacy, diagnostic, podiatry, ophthalmology/optometry, mental health and dental services. Exhibit 8 contains letters of support from rehabilitation, mental health, pharmacy, optometry and diagnostic services providers expressing their support for the project and documenting willingness to provide services. Exhibit 16 contains a copy of the transfer agreement between Cornelia Nixon Davis Health Care Center and New Hanover Regional Medical Center. Exhibit 14 contains letters of support from area health care professionals, service and business providers, members of the community and current residents of the Health Care Center at The Davis Community. The applicant adequately demonstrates that the necessary ancillary and support services will be available and that the proposed services will be coordinated with the existing health care system. Therefore, the application is conforming with 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 replacement members of the HMO for the health service to be provided by the organization; and

NA

(b) The availability of replacement 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 applicant proposes to relocate 20 licensed nursing facility beds from its existing campus, Health Care Center at The Davis Community, to 12,500 leased square feet on the campus of Cambridge Village, an independent living community currently under development by an unrelated entity. On pages 121-123 of the application, the applicant proposes that the space will consist of 20 private nursing facility beds and associated ancillary space with the square footage distributed as shown below.

Space as Defined by Applicant	Sq Ft
Nursing Units	
Patient Rooms	3,360
Patient Baths	1,080
Nurses Station	340
Utility, Linen & Equip Storage	210
Other (Med Prep, Spa)	400
Ancillary Areas	
Public Lobby	450
Mech Equip	400
Housekeeping	50
General Storage	110
Laundry	100
Beauty Shop	120
Kitchen	650
Patient Dining/Living	1,900
Recreation, Activities/Other Common Use	255
Circulation/Corridors	3,075
Not Applicable per Application	
Administration	0
Physical Therapy	0
Exam/Treatment	0
Staff Dining	0
Total Square Feet in Proposed Facility	12,500

As the table above shows, the proposed plan does not include space for administrative offices or physical therapy. Subchapter 13D – Rules for the Licensing of Nursing Homes requires space to be provided at the facility for administrative offices and physical therapy. 10A NCAC 13D .3201(r) states:

> "Office space shall be provided for persons holding the following position: administrator, director of nursing, social services director, activities director and physical therapist. There shall also be a business office."

10A NCAC 13D .3201(b) states:

> *"The total space set aside for dining, recreation and other common use shall not be less than 25 square feet per bed for a nursing facility and 30 square feet per bed for the adult care home portion of a combination facility. Physical therapy, occupational therapy and rehabilitation space shall not be included in this total."*

In supplemental data requested by the Project Analyst in the expedited review of this application and dated January 30, 2014, the applicant provides revised information regarding the proposed line drawings and square footage related to space for therapy services and office space for key personnel. On pages 2-3, the applicant states that Attachment 2 of the

supplemental data shows designated space for therapy services and administrator, DON, activities director, physical therapist and business office space. The applicant further states:

"The revisions made to the line drawings result in changes to the proposed square footage break down for the proposed facility. As such, Davis is also providing an updated response to Section XI.5(f) and XI.8 below. Please note that the total square footage for the proposed facility remains unchanged; as such, the changes to the line drawings do not affect start-up, working capital or capital costs."

	Revised Estimated Square Feet
Ancillary Areas	
Administration	75
Public Lobby	400
Mech. Equipment	350
Housekeeping	46
General Storage	100
Laundry	106
Physical Therapy	162
Beauty Shop	100
Kitchen	550
Patient Dining / Living	483
Recreation, Activities & Other Common Use Areas	343
Circulation / Corridors	2,760
Sub-total Ancillary	**5,475**
Nursing Units	
Nurses Station	325
Utility, Linen & Equip Storage	190
Patient Rooms	3,420
Patient Baths	1,200
Other (Med Prep, Spa)	370
Sub-total Nursing Units	**5,505**
Other (Med Prep, Spa)	
Interior Wall and Other Spaces not Itemized	**1,520**
Total Square Feet in Proposed Facility	**12,500**

Per pages 2-3 of the supplemental data, the revised total square footage in the nursing facility for dining, recreation, activities & other common use areas (XI.5(f)) is 826 square feet and the average number of square feet per private room (XI.5(g)) is 230.

In Table VIII.1, pages 95-96, the applicant states that the proposed construction upfit cost for the building is $1,850,477. In Section XI.10, page 123, the applicant states that the construction cost per square foot for the upfit is estimated to be $148.04 and the construction cost per bed is estimated to be $92,524. The construction costs are verified in Exhibit 24 by Bruce Bowman, AIA, and are consistent with the projected costs in Section VIII. The costs

for the site and shell construction to be covered by the lessor are not provided in the application. The architect's letter notes that site and shell costs are factored into the lease agreement. The lease agreement between Cambridge Village of Wilmington, LLC ("Landlord") and Cornelia Nixon Davis, Inc. d/b/a The Davis Community ("Tenant"), is provided in Exhibit 1.

In Section XI.14, page 124, the applicant describes the measures that will be used to contain costs and maintain efficient energy operations which include utilization of hot water recirculation system, compliance with energy standards, employment of mechanical system energy recovery system, and utilization of VRF variable refrigerant energy exchange at resident rooms.

The applicant adequately demonstrates that the cost, design and means of construction are reasonable and that the construction costs will not unduly increase the costs and charges of providing services. See Criterion (5) for a discussion of costs and charges. Therefore, the application is conforming with this criterion.

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

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

C

The Division of Medical Assistance (DMA) maintains a website which offers information regarding the number of persons eligible for Medicaid assistance and estimates of the percentage of uninsured for each county in North Carolina. The following table illustrates those percentages for New Hanover, Pender, Onslow, Brunswick and Duplin counties and statewide.

County	2010 Total # of Medicaid Eligibles as % of Total Population *	2010 Total # of Medicaid Eligibles Age 21 and older as % of Total Population *	2008-2009 % Uninsured (Estimate by Cecil G. Sheps Center) *
New Hanover	13%	5.71%	20.4%
Pender	17%	7.39%	21.0%
Onslow	11%	4.24%	23.4%
Brunswick	7%	2.80%	19.8%
Duplin	20%	7.59%	24.6%
Statewide	17%	6.71%	19.7%

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

The majority of Medicaid eligibles are children under the age of 21. This age group would not typically utilize the health services proposed in this application.

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

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

In Section VI.2, page 82, the applicant provides Davis' FY2012 payor mix as follows.

Payor Source	Nursing Patient FY2012 Days as % of Total Days
Private Pay	39.9%
Medicare	23.5%
Medicaid	36.7%
Total	100.0%

Totals may not sum due to rounding.

The 2013 SMFP shows there are nine facilities, including Davis, with licensed nursing facility beds in New Hanover County. The following table illustrates the payor mix for these facilities and the New Hanover County and Statewide Averages for Fiscal Year 2012, as reported to the Division of Medical Assistance on 2012 Cost Reports.

	Medicaid NF Days as a Percent Of Total NF Days	Medicare NF Days as a Percent of Total NF Days
Facility	**Reported to DMA in 2012 Cost Reports**	**Reported to DMA in 2012 Cost Reports**
Autumn Care of Myrtle Grove	51.9%	29.6%
Health Care Center at The Davis Community (Davis)	34.8%	20.5%
Kindred Transitional Care & Rehabilitation - Cypress Pointe+	NA	NA
Liberty Commons Rehabilitation Center	42.7%	27.9%
New Hanover Health & Rehab Replacement (Azalea Health & Rehab Center)*+	NA	NA
NorthChase Nursing & Rehabilitation Center	61.5%	17.4%
Silver Stream Health & Rehabilitation Center	45.7%	44.2%
Trinity Grove - Wilmington	30.0%	27.7%
Wilmington Health and Rehabilitation Center	60.6%	28.9%
New Hanover Totals	46.3%	26.8%
Statewide Average*	**66.9%**	**17.8%**

+DMA Cost Report Data not available
*Excluding NF beds in CCRSs.

The table below compares the differences between percentages of Medicaid nursing days at Davis and the averages provided within the county and statewide. As shown in the table above, according to 2012 DMA cost reports, the nursing patient days of care provided by Davis to Medicaid recipients (34.8%) is 11.5 percentage points (46.3% – 34.8% = 11.5%) below the New Hanover County average (46.3%) and 32.1% percentage points (66.9% – 34.8% = 32.1%) below the statewide average.

	Comparison to County Average Medicaid NF days	Comparison to Statewide Average Medicaid NF days
Davis	34.8%	34.8%
New Hanover County/NC	46.3%	66.9%
Difference	11.5 percentage points	32.1 percentage points

As illustrated in the tables above, the reported percentage of nursing patient days of care provided to Medicaid recipients (39.9%) in FY2012, as reported on page 82 of the application is not the same number reported on the Davis DMA Cost Report for 2012 (34.8%). In any event, Davis' FY2012 Medicaid percent of days of care is significantly lower than the county or statewide average. Per DMA data, Davis provides the second lowest percentage of Medicaid days as a percent of total days of care of the facilities reporting. DMA did not have cost report data on two of the eight other facilities in New Hanover County. However, in supplemental data requested by the Project Analyst and dated January 30, 2014, pages 6-7, the applicant states:

"Davis' historical payor mix of its existing Porters Neck Road facility differs from the historical New Hanover County average payor mix, as shown in the following table.

Payor Source	**Davis***	**New Hanover County^**
Private Pay	39.9%	27.6%
Medicare	23.5%	24.8%
Medicaid	36.7%	47.5%
Total	100.0%	100.0%

**VI.2, page 82 of Davis' application*
^Based on 2013 License Renewal Application data

The most notable difference is Davis' lower Medicaid percentage. This difference can be attributed to several factors. First, Davis' existing facility is located in the middle of the most affluent portion of New Hanover County. When choosing a skilled nursing facility, close proximity to home and loved ones is desirable. As such, and given its location, Davis has historically experienced a higher percentage of private pay and a lower percentage of Medicaid patients than is reflected in the county averages. Further, Davis' existing facility is not on the bus line, which makes Davis a less convenient choice for some as the lack of bus service makes it difficult for those dependent on public transportation to visit loved ones. Davis' lower than average Medicaid percentage also results in part from the level of rehab program that Davis provides for short term rehab patients. A significant portion of Davis' beds are utilized for short term rehab stays; these patients

rarely become long-term patients and as such are less likely to spend down to Medicaid eligibility.

…

It is important to note that all 199 of Davis' existing beds are dually certified for Medicare and Medicaid, and as such available to Medicaid patients. … Davis has never, and will not, turn away any Medicaid patient referred to its facility who is appropriate for admission."

The applicant demonstrates that medically underserved populations have adequate access to Davis' existing services; therefore, the application is conforming to this criterion.

(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.4, page 82, the applicant states that the proposed facility will incorporate the latest design features to accommodate physically and mentally impaired persons and patients that are in need of supervision. On page 83, the applicant states that admission criteria are not based on a resident's color, creed, sex, religion, national origin, handicap, age, or source of payment. On page 84, the applicant further states, *"Therefore, no discharge or transfer of private pay patients will occur as a result of their "spend-down" of funds to become Medicaid eligible."*

In Section VI.6, page 85, the applicant states that it is not aware of any documented civil rights equal access complaints or violations filed against The Davis Community. The application is conforming to this criterion.

(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 III.7, pages 59-60, the applicant states:

"Davis intends to offer its current residents the option to relocate to the proposed facility, and expects that a number of them will do so based on

geographic location and proximity to family and loved ones. However, no patients will be required to relocate.

…

Davis does not expect the relocation of 20 beds from its existing campus to have any medical or financial impact on patients currently served. Any patient who chooses to relocate to the proposed facility will remain under the medical direction of Davis' current medical director, Dr. Eileen Caquias-Gonzaelez, and any financial responsibility that the patient has will remain unchanged as a result of the relocation.

…

As previously stated, Davis only proposes to relocate 20 of its 199 beds to the proposed new facility, which is only approximately seven miles from the existing Porters Neck Road campus. The 20 relocated beds will be available to existing Davis patients who choose to relocate, to any future patients, and to independent living residents at Cambridge Village."

In supplemental information requested by the Project Analyst in the expedited review of this application and dated January 30, 2014, pages 6-7, the applicant states:

"Please find below revised projected payor mix for both PY1 and PY2, which is based on the New Hanover County average payor mix of existing providers, calculated using 2013 License Renewal Application data. The revised financial statements in Attachment 3 are based on this revised payor mix.

Projected Days as % of Total Days

Payor Source	***Nursing Patients***
Private Pay	*27.6%*
Medicare	*24.8%*
Medicaid	*47.5%*
Total	*100.0%*

Source: 2013 License Renewal Applications

…

While Davis maintains that projecting payor mix for the proposed facility based on its own historical experience was not an unreasonable approach, it also acknowledges that the unique factors driving historical payor mix at

its existing location may be different at the proposed 20-bed facility, and as such, Davis believes it reasonable to expect that its payor mix at the proposed facility will be more consistent with the county average.

It is important to note that all 199 of Davis' existing beds are dually certified for Medicare and Medicaid, and as such available to Medicaid patients. The 20 beds to be relocated will continue to be dually certified and available to Medicaid patients. Davis has never, and will not, turn away any Medicaid patient referred to its facility who is appropriate for admission."

The applicant states in the supplement data in response to the Project Analyst's questions that though the proposed Cambridge Village nursing facility is in an affluent area of New Hanover County, unlike the existing facility, it has an abundance of convenient public transportation access, making it a convenient and viable alternative site. The applicant states,

"The proposed site is adjacent to a new intentional multi-use development that includes an array of residential and retail space. For this reason, the immediate area is surrounded by multiple bus stops on a city bus line, … providing connectivity to other public services in the area. Finally, Davis expects that the majority of its short-term rehab will continue to be referred predominantly to the existing Porter Neck Road facility; as such, Davis expects that the majority of its patients at Cambridge Village will be long-stay patients."

In Section V, pages 82-85, the applicant discusses access, stating:

"The proposed facility will incorporate into its design the standards and provisions of the latest North Carolina Construction Code related to handicapped persons as well as federal guidelines for Americans with Disabilities. The proposed facility will also incorporate the latest design features to accommodate physically and mentally impaired persons and patients that are in need of supervision.

…

Residents will be admitted upon the order of a licensed physician. Admission criteria are not based on a resident's color, creed, sex, religion, national origin, handicap, age, or source of payment."

On page 84, the applicant states that as the creation of the Trust for the existing nursing facility was philanthropic in nature, Mr. Davis clearly stated his intent to:

"provide funds for the men and women over sixty years of age, who may have become wholly or partially unable to support, or provide a home for themselves…"

The applicant adequately demonstrates that medically underserved groups will have adequate access to the proposed services, and the application is conforming with 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.7, page 85, the applicant lists healthcare providers and agencies that serve as service area referral sources. The applicant adequately demonstrates it offers a range of means by which patients will have access to the proposed services. Therefore, the application is conforming with 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, page 74, the applicant states that Davis has clinical training agreements with the University of North Carolina Wilmington, Cape Fear Community College, and Coastal Carolina Community College. The applicant also states that Davis provides a clinical education training program for The South East Area Health Education Center (SEAHEC). Exhibit 15 contains copies of Davis' existing training agreements. The applicant states, *"As such, the 20-bed facility proposed in this application will be available as an additional clinical training site for these programs."* The application is conforming with this criterion.

(15) Repealed effective July 1, 1987.
(16) Repealed effective July 1, 1987.
(17) Repealed effective July 1, 1987.
(18) Repealed effective July 1, 1987.

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

C

Cornelia Nixon Davis, Inc. d/b/a The Davis Community proposes to relocate 20 existing licensed nursing facility beds from its Porters Neck location in Wilmington to Cambridge Village, an independent living community under development in Wilmington. Upon completion of the project, The Health Care Center at The Davis Community will be licensed for 179 nursing beds and the proposed Davis Health & Wellness Center at Cambridge Village will be separately licensed for 20 skilled nursing beds.

As discussed in Criterion (3), the 2013 SMFP shows that New Hanover County has a total planning inventory of 1,029 licensed nursing facility beds in nursing facilities and 0 licensed nursing facility beds in hospitals, as shown in the following table.

Facility	Licensed Planning Inventory Beds	2013 LRA FY2012 Occupancy
Autumn Care of Myrtle Grove	90	91%
Health Care Center at The Davis Community (Davis)	199	95%
Kindred Transitional Care & Rehabilitation - Cypress Pointe	90	89%
Liberty Commons Rehabilitation Center	100	82%
New Hanover Health & Rehab Replacement (Azalea Health & Rehab Center)+	80	NA
NorthChase Nursing & Rehabilitation Center	140	87%
Silver Stream Health & Rehabilitation Center	110	95%
Trinity Grove - Wilmington	100	88%
Wilmington Health and Rehabilitation Center	120	89%
New Hanover Totals	1029	90%

+Facility not operational until January 2013

As the table above illustrates, other than Azalea Health & Rehab Center, which opened for operation in January 2013, all New Hanover County nursing facilities were operating above 82% occupancy in FY2012, with the county average at 90% occupancy.

In Section V, pages 77-80, the applicant discusses the impact of the proposed project on competition in the service area as it relates to promoting cost-effectiveness, quality and access. The applicant lists the following *"aspects that support cost effectiveness and prudent use of resources"*:

- The proposed facility will operate under a lease agreement for the land and building; there will be no immediate outlay of capital dollars to purchase land for the nursing facility.
- Because the proposed 20-bed facility will be owned and operated by The Davis Community, which already has all necessary infrastructure in place to efficiently operate a 199-bed skilled nursing facility, it will benefit from economies of scales that might not typically be expected with a nursing facility of this size. The applicant

states this will be realized in several ways, including the sharing of overhead and various staff positions.

- The team-based approach employed under the household model of care results in much more efficient staffing patterns than under the traditional medical model of care.
- The proposed facility will be energy efficient and will incorporate design features that promote high staff productivity.

On page 78, the applicant discusses how its proposed project will enhance quality, stating its belief that the transition from the medical model of care to the household model of care demonstrates its commitment to providing the best quality of care possible to patients. Davis further states it has made a long term commitment to providing quality care to its patients as demonstrated by its quality policies included in Exhibit 8 and its establishment of a Quality Improvement Committee to address issues related to safety, quality improvement, medication errors, infection control, weight variance and skin integrity. The applicant states that it also monitors other aspects of patient care that impact quality, such as recruiting and retention of quality staff, policies and procedures, and customer service.

In reference to access, the applicant states, *"…Davis has historically demonstrated a commitment to ensuring equitable access and will continue to provide such access upon completion of the proposed project."* Davis further states:

> *"The proposed project will allow Davis to continue providing access to the 20 existing beds that would otherwise be displaced as a result of its current renovation project. Additionally, because the 20 relocated beds will be developed under the household model of care, the proposed project will increase access in New Hanover County to high quality, home-like, person-centered nursing services. Finally, the proposed project will offer convenient access to on-site skilled nursing services for the independent living residents of Cambridge Village who require that level of care.*
>
> …
>
> *Clearly, the proposed project will have a positive impact on the cost effectiveness, quality of care and access of underserved groups to nursing care in New Hanover County."*

See also Sections II, III, V, VI, VII and the supplemental data dated January 30, 2014, where the applicant discusses the impact of the project on cost-effectiveness, quality and access.

The information provided by the applicant in those sections is reasonable and credible and adequately demonstrates that the expected effects of the proposal on competition in the service area include a positive impact on cost-effectiveness, quality and access to the proposed services. This determination is based on the information in the application, supplemental data and the following analysis:

- The applicant adequately demonstrates the need to relocate 20 existing nursing facility beds from Davis' existing campus to the Cambridge Village campus and that it is a cost-effective alternative;
- The applicant adequately demonstrates that it will continue to provide quality services; and
- The applicant demonstrates that it will continue to provide adequate access to medically underserved populations.

The application is conforming to this criterion.

(19) Repealed effective July 1, 1987.

(20) An applicant already involved in the provision of health services shall provide evidence that quality care has been provided in the past.

C

An examination of the files in the Nursing Home Licensure and Certification Section in the Division of Health Service Regulation for Cornelia Nixon Davis, Inc. d/b/a The Davis Community indicates that, within the 18 months immediately preceding the date of this decision, there were no incidents for which certification deficiencies that constitute substandard quality of care were imposed on The Davis Community. Therefore, the application is conforming with 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.

C

The proposal is conforming with all applicable Criteria and Standards for Nursing Facility or Adult Care Home Services in 10A NCAC 14C Section .1100, as indicated below.

SECTION .1100 - CRITERIA AND STANDARDS FOR NURSING FACILITY SERVICES

.1101 INFORMATION REQUIRED OF APPLICANT

(a) *An applicant proposing to establish new nursing facility or adult care home beds shall project an occupancy level for the entire facility for each of the first eight calendar quarters following the completion of the proposed project. All assumptions, including the specific methodologies by which occupancies are projected, shall be stated.*

-NA- The applicant does not propose to establish new nursing facility beds or new adult care home beds.

(b) *An applicant proposing to establish new nursing facility or adult care home beds shall project patient origin by percentage by county of residence. All assumptions, including the specific methodology by which patient origin is projected, shall be stated.*

-NA- The applicant does not propose to establish new nursing facility beds or new adult care home beds.

(c) *An applicant proposing to establish new nursing facility or adult care home beds shall show that at least 85 percent of the anticipated patient population in the entire facility lives within a 45 mile radius of the facility, with the exception that this standard shall be waived for applicants proposing to transfer existing certified nursing facility beds from a State Psychiatric Hospital to a community facility, facilities that are fraternal or religious facilities, or facilities that are part of licensed continuing care facilities which make services available to large or geographically diverse populations.*

-NA- The applicant does not propose to establish new nursing facility beds or new adult care home beds.

(d) *An applicant proposing to establish a new nursing facility or adult care home shall specify the site on which the facility will be located. If the proposed site is not owned by or under the control of the applicant, the applicant shall specify at least one alternate site on which the services could be operated should acquisition efforts relative to the proposed site ultimately fail, and shall demonstrate that the proposed and alternate sites are available for acquisition.*

-C- The applicant proposes to establish a new nursing facility by relocating 20 existing nursing facility beds. The applicant proposes to lease space on the

campus of Cambridge Village, an independent living community currently under development in Wilmington. The applicant provides the proposed lease agreement in Exhibit 1. The applicant also states on page 18:

> "Should the proposed lease arrangement fall through for any reason, Davis has the option of operating the 20 existing beds on its existing Porters Neck Road campus."

(e) *An applicant proposing to establish a new nursing facility or adult care home shall document that the proposed site and alternate sites are suitable for development of the facility with regard to water, sewage disposal, site development and zoning including the required procedures for obtaining zoning changes and a special use permit after a certificate of need is obtained.*

-C- The applicant proposes to establish a new nursing facility by relocating 20 existing nursing facility beds. The applicant proposes to lease space on the campus of Cambridge Village, an independent living community currently under development in Wilmington. Documentation of the suitability of the site for development of the facility with regard to water, sewage disposal, site development and zoning is included in Exhibits 21 and 22.

(f) *An applicant proposing to establish new nursing facility or adult care home beds shall provide documentation to demonstrate that the physical plant will conform with all requirements as stated in 10A NCAC 13D or 10A NCAC 13F, whichever is applicable.*

-NA- The applicant does not propose to establish new nursing facility beds or new adult care home beds.

.1102 PERFORMANCE STANDARDS

(a) *An applicant proposing to add nursing facility beds to an existing facility, except an applicant proposing to transfer existing certified nursing facility beds from a State Psychiatric Hospital to a community facility, shall not be approved unless the average occupancy, over the nine months immediately preceding the submittal of the application, of the total number of licensed nursing facility beds within the facility in which the new beds are to be operated was at least 90 percent.*

-NA- The applicant does not propose to add nursing facility beds to an existing facility.

(b) *An applicant proposing to establish a new nursing facility or add nursing facility beds to an existing facility, except an applicant proposing to transfer existing certified nursing facility beds from a State Psychiatric Hospital to a community facility, shall not be approved unless occupancy is projected to be at least 90 percent for the total number of nursing facility beds proposed to be operated, no later than two years following the completion of the proposed project. All assumptions, including the specific methodologies by which occupancies are projected, shall be clearly stated.*

-C- In Table IV.2, page 69, the applicant projects an average occupancy rate of 95% for the relocated 20 nursing facility beds by the second year of operation of the project. The applicants assume a average fill-up rate of four patients per week and anticipate the 20 beds will reach capacity in the third quarter of operation. See Criterion (3) for additional discussion on utilization which is incorporated hereby as if set forth fully herein.

(c) *An applicant proposing to add adult care home beds to an existing facility shall not be approved unless the average occupancy, over the nine months immediately preceding the submittal of the application, of the total number of licensed adult care home beds within the facility in which the new beds are to be operated was at least 85 percent.*

-NA- The applicant does not propose to add new adult care home beds to an existing facility.

(d) *An applicant proposing to establish a new adult care home facility or add adult care home beds to an existing facility shall not be approved unless occupancy is projected to be at least 85 percent for the total number of adult care home beds proposed to be operated, no later than two years following the completion of the proposed project. All assumptions, including the specific methodologies by which occupancies are projected, shall be stated.*

-NA- The applicant does not propose to establish new adult care home beds.