

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
MAY 2004**

**CON REVIEW NH-RLS-0304-003
BEDFORD CARE CENTER-WARREN HALL, LLC
REPLACEMENT/RELOCATION OF A 120-BED NURSING HOME FACILITY
COUNTY: FORREST, LTC PLANNING DISTRICT IV
CAPITAL EXPENDITURE: \$4,686,739
LOCATION: HATTIESBURG, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Bedford Care Center-Warren Hall, LLC (Bedford) is a Mississippi limited liability company formed October 26, 2001. Bedford is governed by a four-member Board of Managers. According to the applicant, appointment to the Board of Managers is made without regard to economic status, physical status, race, ethnic origin, sex or age. Bedford Care Center-Warren Hall, LLC presently operates a 120-bed Medicare and Medicaid certified long-term care nursing facility in Hattiesburg, Forrest County. Hattiesburg Medical Park Management Corporation presently manages the Bedford facility.

B. Project Description

Bedford Care Center-Warren Hall, LLC requests Certificate of Need (CON) authority to replace and relocate its existing 120-bed nursing home (Bedford) from Forrest County to Pearl River County. Both Forrest and Pearl River counties are located within Long-Term Care Planning District (LTCPD) IV. The applicant asserts that the proposed project will include 120 skilled nursing facility beds to be located in Picayune, Pearl River County, Mississippi. The nursing home facility will be a single-story structure with 37,500 square feet of new construction. According to the applicant, the skilled nursing facility would be constructed by Convarest-Warren Hall, Inc. Once constructed, Bedford would lease the facility from Convarest-Warren Hall, Inc. The application contains a lease agreement between Bedford and Convarest-Warren Hall, Inc. concerning the proposed project. The proposed nursing facility will be located on Highway 43 near the I-59 intersection in Picayune, Mississippi.

Bedford asserts that it will assess and determine the most effective use of space in the existing nursing home facility following the bed relocation to Pearl River County, Mississippi.

The applicant asserts that Bedford Care Center-Warren Hall will provide a comprehensive array of services to meet the needs of its patients. The services include the following:

Physical Therapy	24-Hour Nursing Care and Supervision
Occupational Therapy	Rehabilitative Treatment
Speech and Audiology	Restorative Care
Complex Medical Equipment	Recreational Activities
Individual Activities	

Applicant projects 118.8 new full-time equivalent personnel at an estimated cost of \$2,659,445 the first year for the proposed nursing facility.

The total proposed capital expenditure is \$4,686,739 which is composed of the following: new construction - 72 percent, site preparation - 4 percent, fixed equipment - 4 percent, non-fixed equipment - 4.25 percent, land cost - 6.93 percent, fees - 4.9 percent, capitalized interest - 1.30 percent, and contingency reserve - 2.49 percent. The applicant proposes to finance the proposed project through a commercial loan with Hancock Bank, Hattiesburg. The application included a letter from Mr. Benny Waddle, Senior Vice President of the bank, indicating its willingness to finance the project.

According to the applicant, the capital expenditure for the proposed project will be obligated upon CON approval and the proposed project would be completed within 18 months of CON approval.

The application includes a copy of a letter requesting site approval from the Division of Health Facilities Licensure and Certification, MSDH, for the proposed project.

II. TYPE OF REVIEW REQUIRED

This application for the construction of a replacement facility/relocation of long term care beds is reviewed in accordance with Section 41-7-191, subparagraphs (1)(b) and (e) of the Mississippi Code of 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code of 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on June 3, 2004.

III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The **Fiscal Year 2004 State Health Plan** does not address policy statements and specific criteria and standards which an applicant is required to meet before receiving CON authority for construction/replacement and relocation of a long-term care facility/beds. As previously stated, this proposal involves construction/replacement of a long-term care facility and /or long-term care beds. The project is in substantial compliance with the overall objectives of the **Plan**.

B. General Review (GR) Criteria

Chapter 8 of the **Mississippi Certificate of Need Review Manual**, 2000 revision, addresses general criteria by which all applications for Certificate of Need are reviewed. This application is in substantial compliance with applicable criteria.

GR Criterion 3 - Availability of Alternatives

The applicant asserts that the proposed project is a cost effective alternative and will enhance access and convenience for the citizens of Pearl River County and the surrounding area in providing additional skilled long-term care in the service area. Bedford believes that the proposal will best meet the needs of Long-Term Care Planning District IV (LTCPD IV) and Pearl River County, Mississippi.

GR Criterion 4 - Economic Viability

Based on the operation projections provided by the applicant, this appears to be an economically viable project. Financial projections in the application reflect net incomes of \$49,841 the first year, \$156,954 the second year, and \$96,120 the third year of operation of the proposed project.

The application contains a financial feasibility study prepared by Bedford Care Center - Warren Hall, LLC's, Chief Financial Officer documenting Bedford's financial ability to undertake this project.

GR Criterion 5 - Need for Project

Applicant states that the proposed facility will not discriminate against low income persons, racial and ethnic minorities, elderly, women, handicapped persons, and other under-served groups.

The applicant asserts that Bedford has reviewed the current patient utilization levels and needs of the service area and Long-Term Care Planning District IV population. The availability and location of long-term care facilities at a convenient, accessible site is significant to long-term care patients and their families. Bedford indicates that it is committed to meeting the long-term care needs of Pearl River County and LTCPD IV.

The applicant indicates that the proposed project is needed because of the need identified in Pearl River County and the **State Health Plan**. Furthermore, 210 nursing home beds are needed in Pearl River County. The applicant asserts that patients and their families continue to demand the availability of quality long-term patient care and services that are cost effective, convenient and accessible.

According to the applicant, Bedford Care Center-Warren Hall (Bedford-Warren) maintains 120 nursing facility beds in Hattiesburg, Forrest County, Mississippi. In recent years, due to the surplus of nursing home beds in Forrest County, Bedford-Warren has struggled to maintain an adequate occupancy rate to continue its services as a viable nursing facility. As a result of a consistently low census, Bedford-Warren temporarily ceased operations as a 120-bed nursing facility in November of 2002. In October of 2003, and with the Department of Health's approval, Bedford-Warren reinstated nursing facility services, but operated only eleven (11) of its 120 nursing facility beds. The remaining 109 nursing facility beds were maintained in an inventory in a voluntary and temporary delicensed status, pursuant to the

authority of Mississippi Code Annotated 41-7-191 (1) (c). This was accomplished with regulatory approval, and with the express understanding and stipulation that Bedford-Warren would have the right to request relicensure of these beds in the future, pursuant to the State statutory provisions.

The applicant asserts that by pursuing the referenced course of action, Bedford-Warren had hoped to gradually increase its resident census and to relicense additional nursing home beds over a period of time. However, due to the lack of demand for nursing home beds and services in Forrest County, Bedford-Warren determined that it was simply not feasible to expand its licensed bed capacity at the facility's current location in Hattiesburg. In view of the continued low census, the applicant again discontinued its operations as a nursing facility on a temporary basis in January of 2004.

Following the most recent temporary closure of Bedford-Warren, the facility's administrative staff commenced a strategic planning process in order to determine the most appropriate long-term use of the 120 nursing facility beds. After research and evaluation of available alternatives, the decision was made to request the relocation of Bedford-Warren's 120 nursing facility beds to an area of Long-Term Care Planning District IV, which has a greater and documented need for additional nursing home beds. Ultimately, Bedford-Warren selected Pearl River County as an appropriate location for the relocated beds.

Bedford-Warren provided documentation which referenced the bed-to-population ratio in Forrest County, which significantly exceeds the state average, while Pearl River County's bed-to-population ratio is materially below the state average.

As a result of the proposed project, the applicant believes that in order to achieve a more logical and appropriate distribution of nursing home beds and resources, the bed-to-population distribution in Forrest and Pearl River Counties would be much more consistent with the state average, and would result in a more appropriate allocation of nursing home beds in these geographic areas.

Finally, the applicant asserts that in developing health facility projects, it is important to address and plan for the long-term needs of the population to be served by the proposed project. The applicant believes that over the long-term, it makes good sense to place these resources in an area of documented need, rather than attempting to serve a community which already has an excessive number of nursing home beds. Moreover, it is desirable to construct and operate a new, modern nursing home facility in a location where the need for nursing home services is demonstrated. Bedford is committed to meeting these demands in the long-term care environment and will continue to strive to enhance the delivery of these services to those patients seeking long-term care at its facility.

In case of the relocation of a facility or service, the Department must consider factors which include, but are not limited to, the need that the population presently served has for the service and the extent to which that need will be met adequately by the proposed relocation or by alternative arrangements. The **FY 2004 State Health Plan** indicates that LTCPD IV has a need for 1,988 new nursing facility beds district-wide. However, Forrest County is shown to be over-bedded by 90 beds, while Pearl River County has a need for 210 additional

nursing facility beds. The relocation of the existing 120-bed nursing home requested in this project will decrease the need for nursing home beds in Pearl River County to 90 beds while causing Forrest County to have a bed need of 30 beds. Further, for the period ending December 31, 2002, the most recent period for which data are available, Pearl River County had 186 nursing facility beds with an average occupancy rate of 91.34 percent, while Forrest County had 656 beds with a 96.35 percent occupancy rate. Based on the reference documentation it appears that there is a need for nursing home beds in Pearl River County/LTC PD IV.

According to the applicant, the project's final objectives are to promote quality and continuity of care offered the residents of Pearl River County, Mississippi, and Long-Term Care Planning District IV. Bedford believes that the completion of this project will permit enhanced access to care by offering much needed long-term care services in Pearl River County, Mississippi.

The applicant received five (5) letters of support from health care providers of the area for the proposed project.

GR Criterion 6 - Accessibility

The applicant submits that all residents of the service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and elderly, will have access to the services of Bedford Care Center-Warren Hall.

GR Criterion 7 - Information Requirement

The applicant affirms that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

There are two existing nursing homes located in Pear River County. The proposed long-term care facility will be located in District IV, Pearl River County. According to the **Plan**, currently there are 5,467 existing/CON approved nursing home beds in District IV. The location of the site is Pearl River County, where there is a need for 210 nursing home beds.

The applicant asserts that the proposed project is crucial to the delivery of health care to the residents of Pearl River County and the surrounding service area. The relationship of the long-term care provider with the existing health care delivery system is a significant factor to the overall delivery of health care to the long-term care patient. Bedford Care Center-Warren Hall asserts that it will work with area health care providers, including hospitals, for the coordination and delivery of patient care.

GR Criterion 9 - Availability of Resources

The applicant affirms that it has available resources (including staff, health personnel, management personnel, and funds for capital and operating needs) to replace and relocate

a 120-bed nursing facility from Forrest County to Pearl River County and to effectively operate the proposed nursing facility services. Bedford will recruit any needed personnel through its existing recruiting efforts and affiliation relationships. Additionally, Bedford Care Center-Warren Hall will accommodate the clinical needs of health professional training programs in the area.

GR Criterion 16 - Quality of Care

The applicant is a current provider of skilled long-term care bed/services in Mississippi.

The applicant asserts that the proposed facility will participate in the Medicaid program and will be certified for participation in the Medicare program.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction	\$ 3,375,000
Fixed Equipment	\$ 187,500
Non-Fixed Equipment	\$ 199,547
Site Preparation	\$ 187,500
Fees (Architectural, Consultant, etc.)	\$ 234,000
Contingency Reserve	\$ 117,000
Capitalized Interest	\$ 61,192
Land Cost	\$ 325,000
Total Capital Expenditure	\$ 4,686,739

The above estimated capital expenditure is proposed for new construction of 37,500 square feet of space at a per square foot cost of \$109.99. **Means Building Construction Cost Data 2004** (MCCD) shows the high range per square foot cost of new construction to be \$122. The cost per bed is approximately \$39,056. The cost per bed is below the median range of cost of \$45,000 for nursing homes as listed in **MCCD 2004**. It also involves purchases of fixed and non-fixed equipment.

B. Method of Financing

Applicant states that the proposed project's capital expenditure of \$4,686,739 will be financed through a commercial loan with Hancock Bank of Hattiesburg. The application included a letter from Mr. Benny Waddle, Senior Vice President of the bank, indicating its willingness to finance the project.

According to the applicant, the initial operating capital will be provided by Bedford Care Center-Warren Hall.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization, and results from operation for the first three years following completion of this project:

Item	First Year	Second Year	Third Year
Salaries and Benefits	\$ 2,659,445	\$ 3,318,190	\$3,417,736
Supplies and Expenses	\$ 2,178,198	\$ 2,586,890	\$2,664,496
Interest	\$ 10,573	\$ -0-	\$ -0-
Total Expenses	\$4,848,216	\$ 5,905,080	\$6,082,232

Revenues

Gross Patient Rev.	\$4,947,066	\$6,116,699	\$6,239,226
Total Deductions	\$(49,009)	\$(54,665)	\$ (60,874)
Net Patient Rev.	\$4,898,057	\$6,062,034	\$6,178,352
Net Income	\$49,841	\$156,954	\$ 96,120

Utilization, Cost and Charges

Occupancy Rate (%)	77.70%	95%	95%
Patient Days	34,031	41,610	41,610
Cost/Patient* Day	\$142.46	\$141.91	\$146.17
Charge/Patient Day*	\$145.36	\$147.00	\$149.95

Note: *Cost and Charge per patient day were calculated by staff for the proposed project.

The applicant's projections appear to be realistic and comparable to other nursing homes of the same size.

According to Bedford Care Center-Warren Hall, the nursing facility would be constructed by Convarest - Warren Hall, Inc. and as a result, the depreciation of the building and related assets, in addition to the amortization, would be operating expenses of Convarest - Warren Hall, Inc. Once constructed, Convarest - Warren Hall, Inc. will lease the facility to Bedford Care Center-Warren Hall, LLC under the terms of a lease agreement for the proposed project.

D. Cost to Medicaid/Medicare

Based on Bedford's gross patient revenue projected in this project, the applicant projects the impact of the project on third party payers as follows for the first year:

Payer Mix	Utilization Percentage	Patient Days	Cost First Year
Medicaid	82	27,905	\$4,016,407
Medicare	10	3,403	\$ 489,806
Other Payers*	8	2,723	\$ 391,844
Total	100	34,031	\$4,898,057

*Includes 1 percent (**each**) for bad debt, medically indigent, and charity care patients for the proposed project.

According to the Division of Medicaid, the Medicaid per diem rate for Bedford Care Center of Hattiesburg is \$131.77 for the period April 1, 2004 through June 30, 2004.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. Since the beds in question are not now in service, Medicaid states that the approval of this project is expected to increase Medicaid's expenditure an estimated \$3,897,000 annually in total funds based on a stable occupancy rate. Medicaid further comments that it did not request nor have it received funding for these additional expenditures.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives, as contained in the **FY 2004 State Health Plan**; the **Mississippi Certificate of Need Review Manual**, revised 2000; and all adopted rules, procedures and plans of the Mississippi State Department of Health.

The applicant adequately documented the need for relocation of the beds from Forrest to Pearl River County. According to the **FY 2004 State Health Plan**, Pearl River County has a documented need for 210 nursing facility beds, while Forrest County has an excess of 90 nursing facility beds. Approval

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of this project would relieve the over-bedded state of Forrester County by relocating the beds to an area with greater need.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Bedford Care Center-Warren Hall, LLC., pending site approval.