

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2006**

**CON REVIEW: NH-CRF-0306-005
MID-SOUTH ASSOCIATES, LLC D/B/A CRYSTAL
HEALTH & REHAB OF GREENWOOD
CONSTRUCTION OF A 110-BED REPLACEMENT/RELOCATION FACILITY
CAPITAL EXPENDITURE: \$5,227,640
LOCATION: GREENWOOD, MISSISSIPPI
COUNTY: LEFLORE, LONG-TERM CARE PLANNING DISTRICT I**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Mid-South Associates, LLC, is a Delaware limited liability company authorized to do business in the state of Mississippi, and owns a 110-bed skilled nursing facility in Greenwood. In January 2006, Crystal Health & Rehab of Greenwood, (f/k/a Greenwood Health and Rehabilitation Center) entered into a lease agreement with Mid-South Associates whereby Crystal Health & Rehab of Greenwood, LLC would manage the operations of the 110-bed facility. The facility is certified for participation in the Medicare and Medicaid programs. The application contains an operating agreement between Crystal Health & Rehab of Greenwood and Mid-South Associates, LLC.

B. Project Description

Mid-South Associates, LLC d/b/a Crystal Health & Rehab of Greenwood, LLC is requesting Certificate of Need (CON) authority to construct a replacement facility for the 110-bed nursing home. The facility will relocate from its current site at 907 Highway 82 West, Greenwood, to the south side of Sergeant John Pittman Drive, Greenwood, Leflore County, Mississippi, a distance of 1.43 miles. The proximity to the hospital in Greenwood will be approximately the same as the current facility. Leflore County is located within Long-Term Care Planning District (LTCPD) I. No additional services will be added to LTCPD I. According to the applicant, it will relocate its entire facility including all long-term care beds and all staff.

Crystal Health & Rehab of Greenwood indicates that the facility provides a comprehensive array of services to meet the medical, social, and safety needs of elderly and post-acute residents. The services include the following:

- Skilled Nursing Care
- Behavior Management
- Respiratory Therapy
- Restorative Programs
- Social Services
- Medical Director Services
- Rehabilitation Therapy
- Wound Care Therapy
- Dietary and Nutrition
- Individual and Recreation Activities

According to the applicant, the proposed replacement/relocation facility will continue to provide care for residents with these types of needs, and will continue to evaluate and provide additional services and programs as new ones are developed.

According to the applicant, the existing facility in Greenwood is over 35 years old, is three stories, with only one elevator. In addition, the applicant states the following problems with the existing facility:

- o Parking is grossly inadequate for both employees and resident families;
- o There are many cases of the plywood below the windows being rotted including the load bearing studs in the walls and sill plates behind the plywood;
- o Numerous heating and air conditioning units need to be replaced, and there are various issues with the plumbing and shower areas due to the age of the building;
- o Structural issues and changes cannot be reasonably repaired and would require that the building be empty if that were feasible; and
- o The existing site is not large enough to develop a new facility onsite.

According to the applicant, the proposed 110-bed nursing home facility will be constructed on an estimated 4.6633 acre parcel, plus or minus .3 acres within the city limits of Greenwood, Leflore County, Mississippi on the south side of a new road, Sergeant John Pittman Drive. The replacement facility will have a total of 46,289 square feet of new construction in a single story wood frame building. The project involves the following components in that the facility will have:

- o A brick veneer, an architectural shingle roof and a covered entrance canopy.
- o Spacious private and semi-private rooms. The applicant asserts that at least 50 percent of all resident rooms will be ADA handicap accessible.
- o On site laundry facilities, dining adjacent to the kitchen as well as a remote dining room.
- o Activity rooms at various locations, including a theater room with popcorn popper; a men's clubroom with pool table; a garden room for ladies; a chapel; spa bathing; outdoor green space with gazebo; and a children's toy

area.

- A private dining room and a small upscale parlor will be provided for family parties. Floors will have a hardwood appearance. A therapy suite will provide physical, occupational, and speech therapy.

The applicant asserts that the furnishings and equipment will be mostly new, due to the age of the existing facility being over 35 years. A minimum of 80 parking spaces will be provided, including 4 handicapped and 1 van accessible space. A diesel powered emergency generator will also be provided for the proposed facility.

According to the applicant, the proposed project will not absorb any costs associated with the existing facility when it is vacated and sold or demolished.

The total proposed capital expenditure of \$5,227,640 is composed of new construction (65.09 percent), land (2.87percent), site preparation (7.65 percent), fees (4.78 percent), fixed equipment (2.39 percent), non-fixed equipment (8.61 percent), contingency reserve (5.74 percent), and capitalized interest (2.87 percent). See capital expenditure summary, page 7. The applicant proposes to finance the project from two sources: A loan from Investco, Inc., Memphis, Tennessee and lines of credit with Bank of America and Merrill Lynch are available for the proposed project.

According to the applicant, the capital expenditure will be financed upon CON approval. The applicant estimates that the project will take approximately twelve months to complete.

The MDH Division of Health Facilities Licensure and Certification has approved the site for the proposed project.

II. TYPE OF REVIEW REQUIRED

The Mississippi Department of Health reviews applications for a CON for the construction and relocation of a long-term care facility involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Sections 41-7-173, 41-7-191, subparagraphs (1)(b) and (e), Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi Department of Health, and 41-7-193, Mississippi Code of 1972, as amended.

In accordance with Section 41-7-197(2), of the Mississippi Code 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 5, 2006.

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

A. State Health Plan

The FY 2006 State Health Plan does not address specific criteria and standards which an applicant is required to meet before receiving CON authority for construction/renovation and relocation of a long-term care facility. The project is therefore subject solely to the general review criteria as further discussed below.

B. General Review (GR) Criteria

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

GR Criterion 1 – State Health Plan

The *FY 2006 State Health Plan* does not contain criteria and standards for construction/replacement and relocation of beds as proposed by this application. However, the *Plan* gives guidelines for all health planning in Mississippi. The *Plan* states that: "Mississippi's planning and health regulatory activities have the following purposes:

- To prevent unnecessary duplication of health resources
- To provide cost containment
- To improve the health of Mississippi residents
- To increase the accessibility, acceptability, continuity, and quality of health services"

This project is consistent with the above stated goals of health planning.

The applicant asserts that the proposed project will provide high quality and cost effective care and services to meet the needs of the elderly in Leflore County. According to the applicant, the project is in full compliance with all criteria, standards and policies of the *FY 2006 State Health Plan*.

GR Criterion 2 - Long Range Plan

According to the applicant, Mid-South Associates, LLC originally built and has owned the existing facility since 1969. The applicant's long range plan is to own the replacement facility for its useful life. Crystal Health & Rehab of Greenwood, LLC's goal is to provide a comfortable and secure facility that delivers quality health care services to its residents and family members in a cost effective manner, with all care and services provided by dedicated and professional staff members.

GR Criterion 3 – Availability of Alternatives

The applicant considered leaving the facility as is or doing minor renovations. However, given that the existing three-storied facility was built over 35 years ago, the applicant states that minor renovation is not cost effective, nor would it provide a safe environment for residents. Additionally, the existing site is not large enough to develop a new facility on site. Even with renovations, the facility would not meet the minimum guidelines for the Americans with Disabilities Act. The applicant believes that only new construction would correct inefficiencies, by adding both energy and cost efficient building system features.

GR Criterion 4 - Economic Viability

Crystal Health & Rehab of Greenwood projects net incomes from operation to be \$103,563 the first year, \$228,526 the second year, and \$246,451 the third year after completion of this project.

- a. **Proposed Charges:** The applicant projects a cost of \$141.36 per day and a proposed charge of \$144.51, which are comparable to other long-term care providers in Leflore County. The applicant states that projections were calculated using a combination of actual historical patient days from prior operator/licensee and budgeted experience per patient day for this industry, also, inflating 3 percent for subsequent years for the proposed project.
- b. **Projected Levels of Utilization:** The applicant projects an occupancy rate of 82, 90, and 90 percent during the first, second, and third years of operation, respectively, which are reasonably consistent with the statewide utilization of 88 percent in 2006.
- c. **Financial Feasibility Study:** The application contains a financial feasibility study prepared by Dawn C. Taylor, project director and accountant, BBA, of Mid-South Associates, LLC, attesting that she considers the proposed project to be economically feasible.

GR Criterion 5 - Need for the Project

- a. **Underserved Populations:** According to the applicant, Crystal Health & Rehab of Greenwood states it does not discriminate against low income persons, racial and ethnic minorities, elderly, women, handicapped persons, or any other under-served groups in the provision of its services.
- b. **Relocation of Services:** 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. Since the applicant proposes to relocate the facility 1.43 miles from its present location the needs of the current population will continue to be met. The *FY2006 State Health Plan* indicates that LTCPD I has a need for 1,284 new nursing facility beds district-wide. Leflore County, wherein this project is located, is over-bedded by 57 beds. However, the relocation of the existing 110-bed nursing home requested in this project will not add new beds to the existing inventory. The applicant indicates that the existing facility maintains an average occupancy level of 76 percent, which Crystal Health & Rehab of Greenwood believes should justify the need that the population presently served has for the services. The proposed site is in close proximity to the existing site (1.43 miles), therefore, the time to hospitals in the area for emergency services will not be affected.

- c. **Current and Projected Utilization of Like Facilities in the Area:** According to the applicant, the current utilization of Crystal Health & Rehab of Greenwood was 87 percent in 2003; 81 percent in 2004; and 77 percent in 2005. The applicant's projected utilization is 90 percent for the proposed 110-bed replacement facility.

The occupancy rate of other nursing homes in Leflore County ranges between 81.60 percent to 90.62 percent.

- d. **Probable Effect on Existing Facilities in the area:** Crystal Health & Rehab of Greenwood asserts that the proposed project is an efficient use of the existing facility's equipment and services combined with the strength of a highly trained workforce that delivers quality and cost-effective care to the elderly population in Leflore County. The applicant asserts that the proposed project should provide no threat to other providers in LTCPD I, and Leflore County, Mississippi

According to the applicant, Crystal Health & Rehab of Greenwood's final objective is to service the health care need of the elderly population in the area and to help strengthen the health care delivery system overall. The applicant believes that the proposed project will enhance the quality of health care services in Long-Term Care Planning District I, and Leflore County, Mississippi.

- e. **Community Reaction:** The application contains fifteen (15) letters of support for the proposed project.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved:** According to the applicant, currently 75 percent of the residents at Crystal Health & Rehab of Greenwood are Medicaid beneficiaries. The applicant asserts that it is directly responding to the needs of a medically under-served population.

Crystal Health & Rehab of Greenwood asserts that it is projected that 75 percent of the 110-bed skilled nursing replacement/relocation facility will be Medicaid recipients.

- b. **Performance in Meeting Federal Obligation:** Crystal Health & Rehab of Greenwood, LLC indicates that the facility has no existing obligations under any federal regulations requiring provision of uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be served by Applicant:** According to the applicant, it is projected that 75 percent of the proposed 110 beds will serve Medicaid recipients. The proposed project will be certified for Medicare and Medicaid participation with respect to the offering of long-term care services in Leflore County.
- d. **Range of Access:** Crystal Health & Rehab of Greenwood indicates that patients are provided health care services without regard to physical condition, age, or ethnic background. The applicant asserts that it does not discriminate against the poor, handicapped persons, women, or racial and ethnic minorities.

GR Criterion 7 - Information Requirement

The applicant states that Crystal Health & Rehab of Greenwood will record and maintain the information required by this criterion and make it available to the Mississippi Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Crystal Health & Rehab of Greenwood is located in Leflore County and Long-Term Care Planning District I. Crystal Health & Rehab of Greenwood does not propose to add new long-term care beds to LTCPD I, only to relocate existing beds within the Planning District, county and city.

Crystal Health & Rehab of Greenwood, LLC (fka Greenwood Health & Rehabilitation Center) indicates that since it is proposing to relocate within the same LTC Planning District, and Leflore County, the proposed project should provide no threat to other existing health care systems in the area.

The application received no letters of opposition for the proposed project.

GR Criterion 9 - Availability of Resources

The applicant asserts that it has available resources including training staff, health care professionals, management staff, and funds to operate the proposed project. The applicant will relocate its entire staff to the proposed facility.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that there will be no change in the organizational relationship. Ancillary and support services will continue to be provided by in-house personnel.

GR Criterion 14 - Construction Projects

The proposed project involves 46,289 square feet of new construction at a cost of \$99.97 per square foot. The project's construction cost is comparable to similar project costs listed in *Means Construction Cost Data, 2006 Edition*, ranging from \$93.50 to \$146 per square foot. See Attachment I for computation of new construction cost for the proposed project.

GR Criterion 16 - Quality of Care

Crystal Health & Rehab of Greenwood, LLC (fka Greenwood Health & Rehabilitation Center) is licensed by the Mississippi Department of Health and is certified for participation in Medicare and Medicaid programs.

Since the proposed cost per square foot is within the \$93.50 - \$146 range, the project meets the objective of providing cost containment.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	Percent
New Construction	\$ 3,402,640	65.09%
Land	\$ 150,000	2.87%
Fees (Architectural, Consultant, etc.)	\$ 250,000	4.78%
Contingency Reserve	\$ 300,000	5.74%
Site Preparation	\$ 400,000	7.65%
Fixed Equipment Cost	\$ 125,000	2.39%
Non-Fixed Equipment Cost	\$ 450,000	8.61%
Capitalized Interest	\$ 150,000	2.87%
Total Capital Expenditure	\$ 5,227,640	100%

The above estimated capital expenditure is proposed for 46,289 square feet of new construction at a cost of \$99.97 per square foot. *Means Building Construction Cost Data 2006 (MCCD)* shows the range per square foot cost for new construction to be between \$93.50 and \$146. The applicant's cost per bed (\$47,524) is also below the median cost of \$51,500 for nursing homes as listed in *MCCD 2006*.

B. Method of Financing

Crystal Health & Rehab of Greenwood, LLC proposes a capital expenditure of \$5,227,640 to be financed from two sources: a loan from Investco, Inc., Memphis, Tennessee, and lines of credit with Bank of America and Merrill Lynch.

C. Effect on Operating Cost

Crystal Health & Rehab of Greenwood, LLC projects the following expenses, revenues, and utilization for the first three years of operation:

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Crystal Health & Rehab of Greenwood

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	Year 1	Year 2	Year 3
Revenues			
Gross Patient Rev.	\$ 4,747,851	\$ 5,417,213	\$ 5,613,868
Deductions 1.05%	\$ 49,610	\$ 56,085	\$ 58,062
Net Pt. Revenue	\$ 4,698,241	\$ 5,361,128	\$ 5,555,806
Expenses			
Nursing/Nursing Admin.	\$ 1,786,272	\$ 2,013,312	\$ 2,084,267
Rehabilitation	\$ 201,066	\$ 226,498	\$ 234,480
Pharmacy	\$ 60,123	\$ 67,590	\$ 69,972
Other Ancillary	\$ 37,454	\$ 42,064	\$ 43,546
Dietary	\$ 330,511	\$ 372,463	\$ 385,589
Activities	\$ 34,825	\$ 39,188	\$ 40,569
Social Services	\$ 34,497	\$ 38,828	\$ 40,197
Housekeeping	\$ 149,814	\$ 168,974	\$ 174,930
Laundry & Linen	\$ 57,823	\$ 65,073	\$ 67,366
Plant Operations	\$ 226,364	\$ 255,259	\$ 264,255
Admin/Realty	\$ 408,375	\$ 460,186	\$ 476,404
Provider Tax	\$ 301,271	\$ 339,746	\$ 351,720
Insurance PL/GL	\$ 88,706	\$ 99,947	\$ 103,469
Benefits	\$ 183,982	\$ 207,443	\$ 214,754
Rent: Active Facility	\$ 110,172	\$ 157,259	\$ 184,151
Depreciation/Amort.	\$ 185,520	\$ 185,520	\$ 185,520
Interest, Net	\$ 397,903	\$ 393,252	\$ 388,166
Total Expenses	\$ 4,594,678	\$ 5,132,602	\$ 5,309,355
Net Income	\$ 103,563	\$ 228,526	\$ 246,451
Utilization			
Occupancy Rate (%)	81.8%	89.5%	90%
Patient Days	32,854	35,952	36,135
Cost/Patient Day	\$ 139.85	\$ 142.76	\$ 146.93
Charge/Patient Day	\$ 144.51	\$ 150.68	\$ 155.36

D. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	75	\$3,446,009
Medicare	10	\$459,468
Other	<u>15</u>	<u>\$689,201</u>
TOTAL	<u>100</u>	<u>\$4,594,678</u>

Crystal Health & Rehab of Greenwood, LLC projects one percent of gross revenue for bad debt residents.

According to the Division of Medicaid, the Medicaid per diem rate for Crystal Health & Rehab of Greenwood, LLC (f/k/as Greenwood Health & Health Center) is \$137.84 for the period of January through March 2006.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. However, no comments were received from the Division.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives as contained in the *FY 2006 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised 2000*; and duly adopted rules, procedures and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Mid-South Associates, LLC d/b/a Crystal Health & Rehab of Greenwood, LLC for construction, replacement and relocation facility.

**Crystal Health & Rehab of Greenwood, LLC
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Attachment 1

Computation of New Construction Cost

Proposed New Construction: 46,289 Square feet

New Construction Cost Formula*

A.	New Construction	\$3,402,640	
C.	Fixed Equipment	125,000	
D.	Site Preparation	400,000	
E.	Fees	250,000	
F.	Contingency Reserve	300,000	
G.	Capitalized Interest	<u>150,000</u>	
	Total	\$4,627,640	÷ 46,289 = \$99.97sq. ft.

***Source:** *FY 2006 State Health Plan*