

**Mississippi State Department of Health
Division of Health Planning and Resource Development
May 2008**

CON Review HP-A-0308-009

CARES Center, Inc.

Amendment/Cost Overrun to CON #R-0651

(Construction/Renovation/Relocation of 30 PRTF Beds)

Approved Capital Expenditure: \$1,804,400

Additional Capital Expenditure: \$644,090

Revised Capital Expenditure: \$2,448,490.43

Location: Jackson, Hinds County, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

CARES Center, Inc. (CARES) is a not-for-profit Mississippi corporation whose management structure consists of six corporate officers and six members that exercise management control. The corporation also has a 34-member governing board. CARES operates a 44-bed psychiatric residential treatment facility (PRTF) for children and adolescents ages 6 through 17, an accredited school providing special education and related services to 120 children and adolescents, and a group home for adolescents ages 13 through 18 who suffer from substance abuse and serious emotional distress. Mississippi Children's Home Society (MCHS), an affiliate of CARES, owns the property and leases same to CARES. As of December 31, 2006, CARES had a 90.90 percent occupancy rate with an average daily census of 39.99.

B. Project Background

Certificate of Need No. R-0651, effective August 26, 2004, authorized the CARES Center to relocate 30 PRTF beds previously purchased from Memorial Hospital of Gulfport, Harrison County, and construct/renovate areas to provide space for the beds. The project comprised two phases. Phase I consisted of two separate, yet related renovations. Renovation of the existing residential building to allow the addition of 14 of the relocated beds, and renovation in the building located adjacent to the existing CARES building, the 1801 Building, to increase the dining area and improve the entrance area. Phase II will involve constructing a new building that will house the remaining 16 beds. The applicant believes that the single-occupancy bedrooms in the new building will allow CARES to better serve more acute populations. All renovation and construction will be accomplished by MCHS. Additionally, the applicant submits that all new non-fixed equipment, as listed in the application, will be purchased by MCHS and leased to CARES pursuant to an equipment lease. The applicant submits that Phase I of the project is complete and \$785,356 of the authorized capital expenditure has been expended.

C. Project Description

CARES requests a CON amendment and cost overrun for (1) an additional capital expenditure of \$644,090.43 to complete Phase II of the project, (2) the new site at 2000 North West Street, which is in close proximity to the existing CARES campus, to house the remaining 16 PRTF beds relocated from Harrison County, and (3) the revised architectural plans for the construction of the cottages to house the remaining 16 relocated PRTF beds.

The applicant submits that during 2006 MCHS acquired 21 acres of land that is located less than one-tenth of a mile from the existing CARES campus. Because of the proximity of the land to the existing CARES campus, CARES and MCHS, after consultation with planning experts, determined that the best use of that newly acquired land is to expand the CARES campus by constructing cottage-style housing for 30 residents of CARES and an arts and education building for the school that CARES operates for 120 children and adolescents in Central Mississippi who have severe emotional and behavioral problems, including 44 residents of CARES' PRTF (CARES School).

MCHS simultaneously submitted an application for CON to construct the cottages that will house PRTF beds and the CARES School. The expanded CARES campus located at 2000 North West Street ("Expanded CARES Campus") will be developed to include initially three (3) residential cottages for the residents of the PRTF, each consisting of 4,754 square feet of space and capable of housing 10 residents, and the CARES Elementary School. Upon completion of the project submitted by MCHS and this CON Amendment, the Expanded CARES Campus, with its three (3) cottages, will be capable of housing 30 PRTF residents. The existing CARES campus will continue to be capable of housing up to 44 residents, depending on the ages and acuity levels. Residents at the existing CARES Campus will be of a higher acuity level than those housed in the cottages. The three (3) cottages on the Expanded Campus will be designated as follows: one cottage for up to 10 younger children, ages 6 through 11; one cottage for 10 adolescent girls who are at a lower acuity level; and one cottage for up to 10 adolescent boys who are at a lower acuity level. The applicant submits that at no time will the residents of CARES Center exceed 60 in number.

The Division of Health Facilities Licensure and Certification has approved the site of construction. Construction is expected to commence in early summer of 2008.

II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all projects for amendment and cost overrun in accordance with duly adopted procedures and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on June 5, 2008.

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

A. State Health Plan (SHP)

The original project was in substantial compliance with the FY 2004 *State Health Plan*, in effect at the time of submission. This amendment project continues to be in substantial compliance with the Plan.

B. General Review (GR) Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, 2000 revision*, in effect at the time of submission. This application continues to be in compliance with applicable criteria and standards.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
Construction (incl. fixed equip.)	\$1,058,000	\$1,021,047	(\$36,953)
Renovation	447,000	530,293	83,293
Non-Fixed Equipment	73,700	91,721	18,021
Land	0	0	0
Site Work	Inc. in Const.	480,345	480,345
Architectural/Engineering Fees	150,500	138,315	(12,185)
Capitalized Interest		42,826	42,826
Contingency Reserve	75,200	138,193	62,993
Other Fees (Accounting)	0	5,750	5,750
Total	\$1,804,400	\$2,448,490	\$644,090

The applicant submits that the overall construction costs have increased primarily because of industry-related supply increases related to post-Hurricane Katrina demand. Renovation also includes the contingency associated with Phase I and the architectural/engineering fees associated with Phase I. CARES indicates that the actual cost in excess of the anticipated cost was \$16,293 or approximately 3 percent.

According to the applicant, the increase in non-fixed equipment is primarily the result of additional furnishings needed to create the homelike environment sought by utilizing the cottage concept, along with inflation.

The applicant submits that the new site is on newly acquired land that had existing structures, resulting in unanticipated expenses for site preparation.

In addition, the acquisition of the Expanded CARES Campus resulted in totally new and different architectural plans being developed.

Finally, the applicant submits that CARES has expended \$785,356 with respect to this project, which includes the completion of Phase I renovations, professional planning fees, and expenses incurred in the Phase II evaluation and development process, representing approximately 32 percent of the entire project.

This project was submitted simultaneously with MCHS' application for CON to construct the cottages that will house PRTF beds and the CARES School. The applicant states that in order to keep costs down, MCHS will construct all the buildings covered by both projects with an allocation of 23 percent to this project and 77 percent of cost to the CON project submitted by MCHS. The following table indicates the cost allocation between the two projects.

	CARES CON Project	MCHS CON Project
Site Development (23%/77%)	\$ 267,004.24	\$ 893,883.76
New Construction:		
PRTF Cottage #1	638,154.40	
PRTF Cottage #2 (60%/40%)	382,892.64	255,261.76
PRTF Cottage #3		638,154.40
School		2,465,596.00
Fees		
Architect/Engineer/Survey	116,314.09	389,399.33
Interior Design/Report/Other (23%/77%)		
Contingency Reserve (23%/77%)	138,193.06	462,646.32
Non-fixed Equipment		
Furnishings – PRTF Cottage #1	45,000.00	
Furnishings – PRTF Cottage #2 (60%/40%)	<u>27,000.00</u>	18,000.00
Furnishings – PRTF Cottage #3		45,000.00
Furnishings – School		125,000.00
Playground Equipment		50,000.00
School Kitchen Equipment		<u>42,500.00</u>
Total	\$1,614,558.43	\$5,385,441.57

Approximately 7,606 square feet are allocated to this project, at a cost of approximately \$203 per square foot. The *Means Construction Cost Data, 2008 edition*, list the construction cost for nursing homes to range between \$103 and \$162. See Attachment 1 for computation of the project's square foot cost. Also, see application filed by Mississippi Children's Home Society for the construction of an Arts and Education Building and Cottages for the Benefit of CARES Center.

B. Method of Financing

An affiliate of CARES, MCHS, is financing and constructing the cottages. CARES will lease all three of the cottages and the CARES Elementary School from MCHS and all of the furnishings and equipment for a total cost of \$600,000 per year.

C. Effect on Operating Cost

The applicant's revised projected operating expenses for the first year of operation are as follows:

	Original	Revised
	Year 1	Year 1
Revenue		
Net Patient Service Revenue	\$5,284,499	\$6,696,144
Contribution/Grant Revenue		<u>131,230</u>
Other Revenue		<u>2,696</u>
Net Operating Revenue	<u>\$5,284,499</u>	<u>\$6,830,070</u>
Expenses		
Salaries	\$2,541,627	\$3,357,496
Benefits	485,667	774,653
Contractual Services	0	454,109
Supplies and Other Expense	625,383	1,177,685
Repairs and Maintenance	176,916	100,186
Utilities	0	86,982
Depreciation/Rent Expense	288,939	770,668
Interest Expense	0	4,439
Bad Debt Expense	21,605	25,613
Other Expenses	<u>1,144,345</u>	<u>0</u>
Total Operating Expense	<u>\$5,284,482</u>	<u>\$6,751,831</u>
Net Income (Loss)		
	\$ 17	\$ 78,239
Assumptions		
Occupancy Rate		91%
Average Daily Census		54.6
Resident Days		19,929
Medicaid Per Diem		\$336

D. Cost to Medicare/Medicaid

According to the applicant, Medicaid reimburses psychiatric residential treatment facilities based on a pre-established fair bed value basis and not on a capital cost basis; therefore, the effect of this CON Amendment on Medicaid, if any, is minimal.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this cost overrun and amendment to CON # R-0651; however, no comments were received.

VI. CONCLUSIONS AND RECOMMENDATION

The original application was found to be in substantial compliance with criteria and standards for psychiatric residential treatment facility beds found in the *FY 2004 Mississippi State Health Plan; Certificate of Need Review Manual*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval. This request for an amendment/cost overrun is a change in scope, but does not change the overall objective of the project.

The Division of Health Planning and Resource Development recommends approval of the application submitted on behalf of CARES Center, Inc. for amendment of CON # R-0651.

Attachment 1
 CARES Center

Computation of Construction and Renovation Cost

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$1,021,047	\$1,021,047	
Renovation Cost			\$0
Total Fixed Equipment Cost			
Total Non-Fixed Equipment Cost	\$72,000	\$72,000	
Land Cost	\$0	\$0	
Site Preparation Cost	\$267,004	\$267,004	
Fees (Architectural, Consultant, etc.)	\$116,314	\$116,314	\$0
Contingency Reserve	\$138,193	\$138,193	\$0
Capitalized Interest		\$0	\$0
Other			
Total Proposed Capital Expenditure	\$1,614,558	\$1,614,558	\$0
Square Footage	7,606	7,606	
Allocation Percent		100.00%	0.00%
Costs Less Land, Non-Fixed Eqt.	\$1,542,558	\$1,542,558	\$0
Cost Per Square Foot	\$202.81	\$202.81	#DIV/0!