

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

CON REVIEW: HP-C-0308-010

Mississippi Children's Home Society

Construction of an Arts and Education Building and Cottages for the

Benefit of CARES Center, Inc.'s Psychiatric Residential Treatment Facility

Capital Expenditure: \$5,548,066

Location: Jackson, Hinds County, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Mississippi Children's Home Society is a Mississippi non-profit corporation dedicated to providing compassionate solutions for children and families. The entity consists of a 34-member governing board. Mississippi Children's Home Society (MCHS), an affiliate of CARES, Inc., owns the property and leases same to CARES. 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.

B. Project Description

Mississippi Children's Home Society seeks certificate of need (CON) authority to construct an Arts and Education Building and cottages for the benefit of CARES Center, Inc.'s PRTF, as the capital expenditure could be considered a capital expenditure by or on behalf of a healthcare facility.

Simultaneously with the filing of this CON application, CARES Center filed a CON Amendment and Cost Overrun requesting authority to amend CON #R-0651 to allow CARES to locate 16 of the PRTF beds that it is relocating from Harrison County to the expanded CARES campus. MCHS will construct the cottages that will house the 16 PRTF beds and CARES will lease the cottages from MCHS.

The applicant recently acquired 21 acres of land located at 2000 North West Street in Jackson, and after much consideration and evaluation, determined that the best use of the property is to expand the CARES Center campus by building cottage-style housing for 30 residents attending grades 1 through 6 in CARES School (the "CARES Elementary School"). CARES School provides education not only to the residents of CARES' PRTF but also to other children in elementary school within a 50-mile radius of Jackson who have severe emotional and behavioral problems. MCHS indicates that CARES Elementary School will continue to serve the same population of children.

Upon completion of the project proposed by this CON application and the amendment of CON #R-0651, the Expanded CARES campus, with its three (3) cottages, will be capable of housing 30 PRTF residents. Depending on the ages and acuity levels of the residents of the Center, the applicant states that the residents at the existing CARES campus will

be capable of housing up to 44 residents. However, the applicant stated that at no time will the residents of CARES Center exceed 60 in number.

This project was submitted simultaneously with a CON Amendment project for CON #R-0651. The applicant states that in order to keep costs down, MCHS will construct all the buildings covered by both projects with an allocation of 77 percent to this project and 23 percent of cost to the CON Amendment project.

The applicant states that the CARES Elementary School, consisting of 13,055 square feet of space, will have up-to-date classrooms and space for enrichment and support, including art and music therapy, to accommodate 60 elementary students. The school will be constructed as a two-story structure, with four classrooms on the first floor, a conference room, a reception/waiting area, a break room, a work/copy room, an office, a quiet room, a kitchen and large multi-purpose room that will serve, among other purposes, as a dining area. The second floor will contain additional classroom space, an art room, a multi-sensory classroom, a music room, an independent learning lab, a resource/work/copy room, and seven offices for the principal, teachers and other staff members.

The construction of the CARES Elementary School will allow CARES Center to reach out to additional children and adolescents residing in Central Mississippi. MCHS states that as of the filing of this CON application, CARES School's student body consists of up to 44 residents of CARES PRTF and approximately 76 children and adolescents living within a 50-mile radius of Jackson who have severe emotional and behavioral problems. Upon completion of CARES Elementary School, CARES School will be able to admit up to 60 residents of CARES PRTF and 120 children and adolescents from surrounding communities.

The applicant projects 47 additional FTE personnel at an estimated cost of \$1,234,740 the first year.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for the project. The applicant expects to commence construction during the summer of 2008.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health ("Department") reviews applications for any capital expenditure or deferred capital expenditure by or on behalf of a health care facility in accordance with Section 41-7-191(1)(j).

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 5, 2008.

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

A. State Health Plan (SHP)

The *FY 2007 Mississippi State Health Plan (SHP)* does not contain criteria and standards for the construction of an arts and education building as proposed by this application. Since the project is for the construction of a school and cottages for the benefit of CARES Center, Inc.'s psychiatric residential treatment facility, it is considered a project "by or on behalf of a healthcare facility", and requires review. Compliance with criteria and standards for PRTF is discussed in the application submitted by CARES Center, Inc.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, 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 State Health Plan does not contain criteria and standards for the construction of an Arts and Education Building and Cottages as proposed in this project. However, the project is considered by or on behalf of CARES Center, Inc. a 44-bed PRTF facility. The project is in compliance with overall goals of the Plan.

GR Criterion 2 - Long Range Plan

The applicant submits that it has been a long-time dream of MCHS and CARES Center to expand the Center's campus to allow the children of CARES to reside in cottages that simulate a secure, homelike environment and to allow the separation of the residents by age and acuity.

GR Criterion 3- Availability of Alternatives

MCHS submits that this project was developed as a result of the acquisition of 21 acres in close proximity to the existing CARES campus. The applicant states that it has long been a dream of MCHS and CARES Center that they be in a position to provide the children and youth of Mississippi who suffer from emotional and behavioral problems an opportunity to reside in a community setting that is safe, secure, and homelike. The acquisition of the 21 acres has allowed MCHS and CARES to realize that dream. MCHS states that the existing campus cannot be expanded to allow residential housing in the form of cottages that simulate such a secure, homelike environment or to allow the separation of the residents by age and acuity. Furthermore, applicant states that the Department of Education has recommended that the CARES School provide separate educational facilities for elementary aged children and the older children and adolescents.

The applicant considered and rejected five alternatives that it deemed not to be as beneficial to the children of Mississippi as the proposed MCHS CON project.

GR Criterion 4 - Economic Viability

The applicant submits that the project will have a positive financial impact for all three years presented. The project will (1) provide the appropriate setting and space needed to bring 16 PRTF beds into operation and transfer up to 14 patients from the existing CARES campus and (2) be financially viable from the beginning.

The applicant states that the project will have minimal, if any, impact on the cost of health care in Mississippi or on Medicaid. Approximately 99 percent of the treatment and care given the residents of CARES Center is reimbursed by Medicaid and such reimbursement will not be impacted by this project.

GR Criterion 5 - Need

MCHS submits that the Expanded CARES campus will be developed to include three residential cottages for the residents of the PRTF, capable of housing 30 PRTF residents, and the CARES Elementary School. Compliance with the need for PRTF beds has been demonstrated under a separate application. The applicant's long range plan for the property is to develop fully all 21 acres by constructing additional facilities and recreational areas for the children of CARES Center and those who attend the CARES School.

The applicant states that construction of the CARES Elementary School will allow CARES Center to reach out to additional children and adolescents residing in Central Mississippi. According to the applicant, the existing CARES School student body is composed of 44 residents of CARES PRTF and approximately 76 children and adolescents living within a 50-mile radius of Jackson who have severe emotional and behavioral problems. These children are enrolled at the request of the various school systems because CARES is better equipped to handle their education, according to the applicant.

The application contained letters of support from the Department of Education, K.I.D.S. Clinic, Psychological Consultants, P.A., The Baptist Children's Village, Rankin County School District, and licensed psychologists.

GR Criterion 6- Accessibility

The applicant affirms that all residents of Mississippi, ages 6 through 17, who are in need of psychiatric residential treatment, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, girls and boys, and handicapped children, have and will continue to have access to the services of the Center.

GR Criterion 7- Information Requirement

The applicant affirmed that it will record and maintain the information required by this criterion and shall make the data available to the Department within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

This project is a construction project for the benefit of CARES Center and will have no adverse impact on the existing health care system of the area or on the existing psychiatric residential treatment facilities in the state. The applicant states that to the contrary, this project will serve to enhance the care needed by and delivered to Mississippi's children who are in great need of psychiatric residential treatment. Furthermore, the applicant expects the expansion of the CARES School will enhance CARES School's ability and increase its capacity to provide the education needed by children with emotional and behavioral problems living in central Mississippi.

GR Criterion 9 - Availability of Resources

MCHS is not a health care facility. However, the project is for the construction of facilities and services for CARES Center. The availability of staffing has been addressed in the Application submitted by CARES.

GR Criterion 14 – Construction Projects

As stated earlier in the Staff Analysis, this project was submitted simultaneously with a CON Amendment project for CON #R-0651. The applicant will construct all the buildings covered by both projects with an allocation of 77 percent to this project and 23 percent of cost to the CON Amendment project.

The following is a breakdown of the architect's cost estimate of \$7,000,000 for both 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		42,500.00
Total	\$1,614,558.43	\$5,385,441.57

GR Criterion 16 - Quality of Care

MCHS is not a health care facility. However, CARES has a history of providing high quality care to its residents and has in place performance improvement programs, the purpose of which is to ensure the delivery of the highest quality care to the Center's residents in the most efficient and effective manner with the resources available.

IV. FINANCIAL FEASIBILITY

A. Expenditure Summary

The total estimated capital expenditure is allocated as follows:

Cost Item	Projected Cost	Percent
Construction Cost -- New	\$ 3,359,012	60.54%
Renovation Costs		0.00%
Capital Improvements		0.00%
Fixed Equipment		0.00%
Non-Fixed Equipment	280,500	5.06%
Land Cost		0.00%
Site Preparation	893,884	16.11%
Fees (Architectural, Consultant, etc.)	389,399	7.02%
Contingency Reserve	462,646	8.34%
Capitalized Interest	143,375	2.58%
Legal and Accounting Fees	19,250	0.35%
Total Proposed Capital Expenditure	\$ 5,548,066	100.00%

The proposed capital expenditure is for 19,711 square feet of new construction, which includes 13,055 square feet for the elementary school and 6,656 square feet for the PRTF cottages, at an estimated cost of \$266.26 per square foot (See Attachment 2 for calculation of construction cost). Also, see application submitted by CARES Center, Inc. for Amendment/Cost Overrun of CON No. R-0651.

B. Method of Financing

The applicant proposes to finance the project with a tax exempt bond in the amount of \$7,000,000 to cover the cost of this project as well as the amendment project submitted by CARES Center, Inc. for amendment to CON No. R-0651. The bonds carry an interest rate of 5 percent for the period from April 1, 2008 to April 1, 2018.

C. Effect on Operating Cost

The applicant is an affiliate of CARES, Inc. a PRTF which operates 44 psychiatric residential treatment beds. The applicant's three year projected operating statement for the entire operation, which includes the PRTF is included as Attachment 1.

D. Cost to Medicaid/Medicare

Mississippi Children's Home Society is not a health care facility and therefore, will have little impact on the cost to Medicaid/Medicare. However, MCHS is an affiliate of CARES, Inc., a PRTF facility, and this project is being constructed on its behalf. According to the applicant, Medicaid reimburses PRTFs based on a pre-established fair bed value basis and not on a capital cost basis; therefore, the effect of this project on Medicaid, if any, is minimal.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application. No comments had been received from the Division of Medicaid.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives of the *FY 2007 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Mississippi Children's Home Society for the construction of an Arts and Education Building and Cottages for CARES Center, Inc. PRTF.

Attachment 1

Mississippi Children's Home Society Three-Year Operating Statement (Total Facility to include) Construction of an Arts and Education Building and Cottages for CARES PRTF			
Revenue	Year 1	Year 2	Year 3
Gross Inpatient Revenue:	\$ 11,230,418	\$ 11,433,755	\$ 11,889,510
Outpatient Care Revenue	<u>\$ 153,738</u>	<u>\$ 156,813</u>	<u>\$ 159,950</u>
Gross Patient Care Revenue	\$ 11,384,156	\$ 11,590,568	\$ 12,049,460
Net Patient Care Revenue	\$ 11,384,156	\$ 11,590,568	\$ 12,049,459
Other Operating Revenue	<u>401,260</u>	<u>411,159</u>	<u>422,063</u>
Total Operating Revenue	\$ 11,785,416	\$ 12,001,727	\$ 12,471,522
Operating Expense			
Salaries	\$ 5,743,805	\$ 5,732,093	\$ 5,980,441
Benefits	1,403,840	1,402,845	1,463,983
Supplies	530,425	546,338	562,728
Services	597,549	615,475	639,234
Lease	1,191,327	1,189,727	1,188,080
Depreciation	150,773	192,636	235,754
Interest	7,227	7,444	7,667
Other	<u>2,010,255</u>	<u>2,070,563</u>	<u>2,146,409</u>
Total Operating Expense	\$ 11,635,201	\$ 11,757,121	\$ 12,224,296
Net Operating Income (Loss)	\$ 150,215	\$ 244,606	\$ 247,226
Assumptions			
Inpatient Days	19,929	19,929	19,929
Outpatient Days	NA	NA	NA
Procedures	NA	NA	NA
Charge per outpatient day	NA	NA	NA
Charge per inpatient day	\$ 564	\$ 574	\$...597
Charge per procedure	NA	NA	NA
Cost per inpatient day	\$ 584	\$ 590	\$ 613
Cost per outpatient day	NA	NA	NA
Cost per procedure	NA	NA	NA

Attachment 2

**Mississippi Children's Home Society
 Construction of an Arts & Education Building and Cottages for CARES**

Computation of Construction and Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$3,359,012	\$3,359,012	
Renovation Cost			\$0
Total Fixed Equipment Cost			
Total Non-Fixed Equipment Cost	\$280,500	\$0	
Capital Improvement	\$0		
Land Cost	\$0	\$0	
Site Preparation Cost	\$893,884	\$893,884	
Fees (Architectural, Consultant, etc.)	\$389,399	\$389,399	\$0
Contingency Reserve	\$462,646	\$462,646	\$0
Capitalized Interest	\$143,375	\$143,375	\$0
Other (Legal & Accounting Fees)	\$19,250		
Total Proposed Capital Expenditure	\$5,548,066	\$5,248,316	\$0

Square Footage	19,711	19,711
Allocation Percent		100.00%

Costs Less Land, Non-Fixed Eqt., Cap. Improvement & Other	\$5,248,316	\$5,248,316	\$0
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Cost Per Square Foot

\$266.26	#DIV/0!
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