

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
MAY 2010**

**CON REVIEW HP-CO-0310-014  
CARES CENTER, INC.  
COST OVERRUN TO CON #R-0651  
(CONSTRUCTION/RENOVATION/RELOCATION OF 30 PRTF BEDS)  
APPROVED CAPITAL EXPENDITURE: \$2,448,490  
ADDITIONAL CAPITAL EXPENDITURE: \$267,050  
REVISED CAPITAL EXPENDITURE: \$2,715,540  
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. CARES had a 99.15 percent occupancy rate with an average daily census of 43.51 for FY 2007.

**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 involves construction of 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.

Further, on June 26, 2008, the applicant was an amendment and cost overrun on CON #R-0651, which authorized (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 approved the site of construction.

Further, on December 8, 2009, CARES Center, Inc. was approved for a six-month extension on CON No.R-0651. This extension period will terminate June 26, 2010.

### **C. Project Description**

CARES Center, Inc. now requests an additional cost overrun to its CON No. R-0651. CARES asserts that the proposed cost overrun is necessary to complete Phase II of the original project. According to the applicant, the capital expenditure approved in the original CON is \$2,448,490 and the additional costs for this cost overrun proposal are \$267,050, resulting in a revised capital expenditure of approximately \$2,715,540 for the project. This cost overrun project does not change the scope of the original project.

According to the CARES, the construction contract, which included site preparation cost, was in an amount greater than had been estimated by the architect in his cost estimate contained in the CARES' 2008 Amendment application. Reasons for such increase include the fact that the site itself required more preparation than originally anticipated, and an increase in the cost of materials and changes to the project required change orders.

The increase in non-fixed equipment is primarily the result of the need for additional and higher quality furnishings than had been anticipated to create the homelike environment sought by utilizing the cottage concept. Another reason for the increase in cost is that CARES determined that some of the furniture and furnishings initially anticipated to be used needed to be upgraded to provide for longevity.

The increase in architectural fees results from the greater than estimated cost of construction and the change orders.

Capitalized interest was greater than originally anticipated primarily because the architect's cost estimate was lower than the actual cost of the project. Because of the manner in which the closing was structured, there is interest earned on deposits to offset such capitalized interest.

The contingency reserve estimated by the architect in his cost estimate contained in the CARES' 2008 Amendment application was determined by calculating 10 percent of the cost of the architect's cost estimate. However, because the project is essentially complete, such contingency reserve has been lowered. The applicant asserts that although the costs of the CARES project are no longer simply estimates, a contingency reserve in the amount of \$69,000 is included in an abundance of caution.

According to CARES Center, 99 percent of the project is completed. The applicant states that CARES had expended \$2,385,674 with respect to this project, including Phase I which has been completed, and most of Phase II.

The applicant asserts that Mississippi Children's Home Society CON No. R-0767 authorized construction of an arts and education building and cottages for CARES Center, Inc.'s PRTF. Together the projects were approved for a total capital expenditure of \$7,996,556.43. As noted in the filing of this cost overrun regarding both projects, \$7,743,259 has been expended toward completion of both the CARES and MCHS projects.

According to the CARES, in order to conserve financial resources and realize cost efficiencies, Phase II and the MCHS project are being constructed at the same time, pursuant to one contract for construction and on agreement with the architect. Therefore, the CARES project and the MCHS project are intertwined.

The applicant asserts that the architect's cost estimate contained in the CARES' 2008 Amendment application and MCHS CON application regarding the construction of both projects was \$5,540,947.20, the actual construction contract with Evan Johnson, the contractor that was selected after a competitive bidding process, was in the amount of \$6,567,000 for both projects, and the estimated contingency fee in the amount of \$600,839.38 will not be sufficient to absorb the difference. Also, the higher construction cost results in higher architects' fees. Additionally, the cost estimated for non-fixed equipment (\$72,000) for the CARES project will be insufficient to cover the actual cost of the non-fixed equipment for the cottages that will house 16 of the PRTF beds.

## **II. TYPE OF REVIEW REQUIRED**

The original project was reviewed under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (j), Mississippi Code of 1972, as amended.

The State Health Officer reviews all projects for cost overruns in accordance with duly adopted rules, procedures, plans, criteria and standard 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 7, 2010.

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

**A. State Health Plan**

The original project was in substantial compliance with the *FY 2004 State Health Plan*, in effect at the time the original application was submitted. This cost overrun project continues to be in substantial compliance with the *State Health Plan*.

**B. General Review 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 general review criteria and standards contained in the *Manual*.

The Department received one letter of opposition from Millcreek, Magee, Mississippi concerning this project.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
New Construction	\$1,021,047.04	\$1,512,745	\$491,697.96
Renovation	\$530,293	\$530,293	0
Capital Improvements	0	0	0
Land	0	0	0
Site Work	480,345.24	213,341	(267,004)
Fixed Equipment ( <b>included in new construction cost</b> )			
Non-Fixed Equipment	91,721	137,190	45,469
Architectural/Engineering Fees	138,315.09	153,112	14,796.91
Contingency Reserve	138,193.06	69,000	(69,193.06)
Capitalized Interest	42,826	78,612	35,786
Other Cost (specify)	5,750	21,247	15,497
<b>Total</b>	<b>\$2,448,490.43</b>	<b>\$2,715,540</b>	<b>\$267,050</b>

As previously mentioned, the capital expenditure approved in the original CON is \$2,448,490 and the additional costs for this cost overrun proposal are \$267,050 resulting in a revised capital expenditure of approximately \$2,715,540 for the project. This cost overrun project does not change the scope of the original project.

**B. Method of Financing**

An affiliate of CARES, Mississippi Children’s Home Society (MCHS), is financing and constructing the cottages and the arts and education building. CARES will lease all three of the cottages and the art and education building from Mississippi Children’s Home Society and all of the furnishings and equipment for the cost of Mississippi Children’s Home Society financing, approximately \$400,000 per year. The applicant asserts that the lease cost is lower than originally anticipated because MCHS has been successful in paying down the debt thus lowering CARES’ lease payments.

**C. Effect on Operating Cost**

Revised Projected Operating Statement  
 For the First Full year of Operation  
 After Completion of the Project

<b>Revenue</b>	
Net Patient Service Revenue	\$6,823,523
Contribution/Grant Revenue	133,710
Other Revenue	1,971
<b>Total Revenue</b>	<b>\$6,959,204</b>
<b>Expenses</b>	
Salaries	\$3,442,536
Benefits	692,285
Contractual Services	587,491
Supplies and other Expenses	1,206,071
Repairs and Maintenance	47,413
Utilities	88,489
Depreciation/Rent Expenses	786,257
Interest Expense	861
Bad Debt Expense	100,000
<b>Total Operating Expense</b>	<b>\$6,951,403</b>
<b>Net Income (Loss)</b>	<b>\$ 7,801</b>
<b>Assumptions</b>	
Occupancy Rate	92%
Average Daily Census	55.2
Resident Days	20,148
Medicaid Per Diem	\$339

According to the applicant, the above projected operating statement includes all of the projected revenue and operating expenses of CARES PRTF during the first year of full operation after the relocated 16 beds are licensed, set up and staffed. It includes revenue resulting from 60 licensed PRTF beds and the lease expenses for all three of the cottages to be constructed on the expanded CARES campus, each of which can house up to 10 children and other expenses associated with those three cottages and 60 PRTF beds.

**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, the effect of this CON cost overrun on Medicaid, if any, is minimal.

**V. RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this cost overrun to CON #R-0651 to review and comment on.

**VI. CONCLUSIONS AND RECOMMENDATION**

This project continues to be in substantial compliance with the overall objectives of the *FY 2004 State Health Plan; Certificate of Need Review Manual; Revised 2000*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

The Division of Health Planning and Resource Development recommends approval of the application submitted by CARES, Center Inc. for a cost overrun to CON #R-0651(Construction/Renovation/Relocation of 30 PRTF Beds).