

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

**CON REVIEW: NH-CRF-0910-035
JONES COUNTY BOARD OF SUPERVISORS AND
SOUTH CENTRAL REGIONAL MEDICAL CENTER
d/b/a JONES COUNTY REST HOME
CONSTRUCTION OF A REPLACEMENT FACILITY
CAPITAL EXPENDITURE: \$9,795,678
LOCATION: LAUREL, JONES COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Jones County Rest Home ("Jones County Facility") is a for profit long-term care nursing facility located in Ellisville, Mississippi. Jones County Rest Home is owned by Jones County and operated by South Central Regional Medical Center through a lease agreement with the County. The nursing facility is licensed to operate 122 Medicaid eligible nursing home beds.

B. Project Description

Jones County Board of Supervisors and South Central Regional Medical Center d/b/a Jones County Rest Home requests Certificate of Need (CON) authority for the construction of a replacement facility.

The proposed project involves the construction of a new building to replace the out-dated, inefficient building currently housing the Jones County Facility. The replacement facility will contain approximately 44,450 square feet of space that will house 122 nursing home beds, with 58 semi-private rooms and 6 private rooms. Each room will have its own sink and toilet area. The new building will have two nursing stations with three resident wings spanning off each stations. No resident will be further than six rooms removed from the nurses' station thereby providing quick response time to each resident in the case of emergency. New equipment will be purchased for some areas such as the kitchen, activities room, offices, and other equipment associated with new construction.

The proposed site for the replacement facility will be on property immediately adjacent to the building currently housing the Jones County Facility, which is located approximately 300 feet from its current location.

On October 11, 2010, the MSDH Division of Health Facilities Licensure and Certification approved the site for the proposed project.

The applicant states that the new building will be designed to excel all licensure standards and requirements. The entire facility will have a sprinkler system and fire extinguishers will be provided throughout as required. Also, a smoke and fire alarm system will be provided with annunciators connected to emergency service providers. The facility will have ample and convenient parking and a drive through porte cochere, allowing convenient access to the facility for all residents and their families and friends.

The applicant states that ten new staff members will be required at an estimated annual cost of \$234,536 but the project will not result in an increase in the number of licensed beds, a change in the bed complement or a change in the types of services that are offered at the Jones County Facility. Sixty-four percent of the \$9,795,678 capital expenditure is for new construction and the applicant proposes to fund \$8,280,078 of the capital expenditure through Bonds and \$1,515,600 through its accumulated cash reserves.

The applicant anticipates obligation of the capital expenditure immediately upon approval of the CON and a completion date to follow within 30 days.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the construction of a replacement facility under the statutory requirements of Sections 41-7-191(1)(b) and (e) 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 November 17, 2010.

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

State Health Plan (SHP)

The *FY 2010 State Health Plan* ("Plan") does not contain criteria and standards for the 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: Mississippi's planning and health regulatory activities have the following purposes:

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

The applicant believes that the proposed project will work in accordance with the FY 2010 Plan. According to the 2020 Projected Nursing Home Bed Need contained in the FY 2010 Plan, there are 5,475 licensed beds and 329 CON approved nursing home beds in Long Term Care Planning District (LTCPD) IV, leaving a disparity of 2,968 beds in the district.

In addition, the *FY 2010 Plan* indicates that there is a projected 2020 need for 210 nursing home beds in Jones County. The applicant asserts that by replacing the existing facility, the Jones County Facility will better meet the needs of the elderly population of Jones County and LTCPD IV.

General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, Revised May 1, 2010, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The *FY 2010 State Health Plan* (“Plan”) does not contain criteria and standards for the construction/replacement and relocation of long term care facility beds as proposed by this application.

However, the *FY 2010 Plan* does identify health care for specific populations, such as mothers, babies, the elderly, the indigent, the uninsured, and minorities as one of the State’s priority health needs. The proposed project is to replace the existing aged facility with a more modern and energy efficient building. As previously mentioned, the applicant contends that by replacing the existing facility, the Jones County facility will better meet the needs of the elderly population of Jones County and community of LTCPD IV.

GR Criterion 2 – Long Range Plan

Jones County Rest Home submits that the process involved in deciding on the proposed project included a review of the current operation of the facility, the facility needs and maintenance history, and the population trends in the Jones County community. The applicant states that the financial implications of the construction project were also considered and after consideration of all factors, the conclusion were: The existing facility is functionally obsolete with parts of the facility having been in continuous operation for more than 60 years. Although there have been renovations and additions to the existing building, the newest portion of the facility has been operational for more than 25 years. Therefore, it was determined that the most appropriate and most prudent course of action would be to replace the existing facility with a modern, energy, and operationally efficient building.

GR Criterion 3 – Availability of Alternatives

The applicant contends that the option to do nothing was not a real option given the age of the existing facility and the need in the area for a quality nursing home. Only two options were seriously considered.

The first alternative considered was to renovate the existing facility. Considering the age of the existing building and the physical condition of some of the infrastructure, this alternative was not considered the best option. The applicant states that some of the original building dates to the 1940’s and is functionally obsolete. Renovation could not, in some cases, cure the major building inefficiencies such as the energy inefficiency, the differences in elevations between parts of the structure that create a long inclined walkway, and the small room sizes in some of the older parts. Furthermore, the kitchen, laundry and activities rooms, administrative offices and residents’ rooms would all be involved making the constructions/renovation very difficult for both the residents and the staff to endure.

The applicant's second option - to construct a new facility that will be more energy efficient, meet all life safety requirements, provide adequate rooms for 122 patients, and be constructed on one grade was considered the best long-term alternative.

The applicant states that Jones County owns both the Hospital, including ComfortCare, and Jones County Rest Home. South Central Regional Medical Center has leased and operated Jones County Rest Home since January 1, 2006. The Board of Supervisors for Jones County, in consultation with the management and board of Trustees of the Hospital as the operators of Jones County Rest Home, believes a new facility best meets the needs of the citizens of Jones County because it will increase the availability of nursing home beds to the residents by removing limitations caused by current physical constraints. The applicant further states that one of the responsibilities of the Board of Supervisors of Jones County is to provide, where possible, for the welfare of the citizens of Jones County. Therefore, the applicant believes that increasing the number of available nursing home beds will help fulfill that responsibility.

GR Criterion 4 – Economic Viability

Based on the applicant's three-year projections, this project will receive a net operating income of \$87,751 the first year, \$70,867 the second year, and \$87,351 for the third year.

- a. **Proposed Charge:** The applicant projects charges of \$207 per inpatient day for the first, second, and third years. The applicant projects costs of \$196 for the first year, \$198 for the second year, and \$197 for the third year of the operation of the proposed project.
- b. **Projected Levels of Utilization:** The applicant projects that its occupancy rates for the first three years of operation are 96% for the first year, 97% for the second year, and 98% for the third year, respectively.

According to the Report on Institutions for the Aged or Infirm, 2008, Jones County Rest Home had an occupancy rate of 80.74% in 2008. Currently, there are three other facilities operating in Jones County: Care Center-Laurel, Comfort Care Nursing Home, and Laurelwood Community Living Center. Care Center-Laurel, Comfort Care Nursing Home, and Laurelwood Community Living Center 2008 occupancy rates are recorded to be 80.28%, 97.97%, and 85.74%, respectively.

- c. **Project's Financial Feasibility Study:** Since the capital expenditure for the proposed project is \$9,795,678, exceeding the \$2,000,000 threshold, the applicant provided a letter from the Chief Financial Officer of South Central Regional Medical Center attesting to the financial feasibility of this project.

GR Criterion 5 – Need for Project

- a. **Access by Population Served:** The applicant affirms that all residents of the service area, in particular low income persons, racial and ethnic minorities, women, handicapped persons, and the elderly, will continue to have access to the facility. The applicant states that it is the nursing homes' intent for the Jones County Facility to become Medicare-certified upon completion of the project, thereby providing greater access to those in need

of skilled nursing care in the Jones County community and set up and staff 122 beds which are already licensed.

- b. Relocation of Services:** The proposed project is for the relocation/replacement of Jones County Rest Home to a site adjacent to the existing site. The applicant contends that the new site is well within one mile of the main entrance to the current building housing Jones County Rest Home.

There are four existing nursing homes located in Jones County. These facilities averaged roughly 85% occupancy in 2008.

- c. Probable Effect on Existing Facilities in the Area:** The applicant asserts that the proposed project should have no effect on existing facilities in the area since there are no additional beds or services being added.

The proposed project involves the construction of a new building to replace an old and obsolete building, which will be located approximately 300 yards from the existing building.

- d. Community Reaction:** The application contains eleven letters of support for the proposed project.

No letters of opposition for the proposed project were received.

GR Criterion 6 – Access to the Facility or Service

- a. Medically Underserved Population:** The applicant affirms that all residents of the service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly will have access to the proposed services.
- b. Performance in Meeting Federal Obligations:** The applicant submits that Jones County Rest Home has no obligations under federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. Unmet Needs to be Served by Applicant:** The applicant states that Jones County Rest Home is certified for participation in Medicaid. The applicant further states that virtually all nursing home patients, if not private pay or Medicare patients, are covered by Medicaid. Therefore, there is little or no charity care delivered to the medically indigent throughout the nursing home industry. Furthermore, there is very little bad debt associated with nursing home care.

GR Criterion 7 – Information Requirement

Jones County Rest Home 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

Jones County Rest Home does not propose to add any additional beds to LTCPD IV, only to construct a replacement facility. The applicant believes that there should be no adverse impact, as a result, of the proposed project on any health care facilities.

The applicant believes that if the proposed project is not implemented, the Jones County Facility will continue to operate with a voluntary restriction on the number of residents it will accept. Also, the applicant believes that as the building continues to age, it is anticipated that the infrastructure will continue to deteriorate and lead to increased maintenance costs, lost use of facilities as repairs are made, and potential safety issues for residents and employees. Furthermore, given the fact that the 2010 State Health Plan projects a need of 210 beds by the year 2020 and that currently a moratorium prohibits any new nursing home beds, it is extremely important that the 12 Jones County Rest Home beds currently unstaffed be setup and staffed.

GR Criterion 9 – Availability of Resources

The applicant contends that the project will require an increase in staffing of only 10 employees and the Jones County Facility will utilize South Central Regional Medical Center's resources to help hire the most appropriate persons to staff the new positions.

The applicant states that Jones County Rest Home is considered a department of South Central Regional Medical Center and uses the clinically-related services of the Hospital. In addition to the clinically-related services Jones County Rest Home receives from the Hospital, Jones County Rest Home has an agreement in place with Jefferson Medical Associates for its medical director.

The applicant affirms that they have demonstrated satisfactory recruiting and retention practices.

GR Criterion 10– Relationship to Ancillary or Support Services

Jones County Rest Home affirms that all necessary support and ancillary services for the proposed project are available; however, many of the services are through South Central Regional Medical Center. The applicant states that those services will continue to be available at the replacement facility.

GR Criterion 16– Quality of Care

Jones County Rest Home is certified for participation in the Medicaid program and has a quality improvement program in place which ensure the delivery of the highest quality care to its residents in the most efficient and effective manner with the resources available.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ 6,353,934	64.86%
Construction Cost - Renovation	-	0.00%
Capital Improvements	-	0.00%
Total Fixed Equip Cost	-	0.00%
Total Non-Fixed Equip Cost	526,000	5.37%
Land Cost		0.00%
Site Prep Cost	576,000	5.88%
Other – Sidewalks, parking, lawn & lighting	495,982	5.06%
Fees - architectural, engineering, etc.	454,162	4.64%
Fees - legal and accounting	100,000	1.02%
Contingency Reserve	100,000	1.02%
Other – Bond Issuance costs	400,000	4.08%
Capitalized Interest	750,000	7.66%
Other Cost -Signage	<u>39,600</u>	<u>0.40%</u>
Total Proposed Expenditures	\$ 9,795,678	100%

B. Method of Financing

The applicant proposes to finance \$8,280,078 of the proposed project through bonds at an interest rate of 5%, and the remaining \$1,515,600 will be funded through cash reserves.

C. Effect on Operating Cost

Jones County Rest Home projects the following expenses, revenues, and utilization for the first three years of operation for the proposed project:

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care Revenue	\$ 1,730,948	\$ 1,765,567	\$ 1,800,878
Outpatient Revenue			
Gross Patient Revenue	\$ 1,730,948	\$ 1,765,567	\$ 1,800,878
Charity Care			
Deductions from Revenue			
Net Patient Care Revenue			
Total Operating Revenue	\$ 1,730,948	\$ 1,765,567	\$ 1,800,878
Operating Expenses			
Salaries	\$ 234,536	\$ 239,227	\$ 244,012
Benefits	46,900	47,838	48,795
Supplies	87,045	89,657	92,346
Services	9,850	10,047	10,248
Lease Expenses	737,616	737,616	737,616
Depreciation	27,468	60,537	60,537
Interest			
Other	499,782	509,778	519,973
Total Operating Expenses	\$ 1,643,197	\$ 1,694,700	\$ 1,713,527
Net Operating Income	\$ 87,751	\$ 70,867	\$ 87,351
	Proposed	Proposed	Proposed
	Year 1	Year 2	Year 3
Inpatient days	8,380	8,548	8,719
Charge per inpatient day	\$207	\$207	\$207
Cost per inpatient day	\$196	\$198	\$197

D. Cost to Medicaid/Medicare

The applicant's projected cost to third party payors is as follows:

Patient Mix by Payor	Utilization Percentage	First Year Revenue
Medicaid	85%	\$1,473,317
Medicare		
Self Pay	15%	\$ 257,631
Other		
Total	100%	\$1,730,948

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment; however, the department received no response, as of the date of this staff analysis.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the overall objectives as contained in the FY 2010 State Health Plan; the Mississippi Certificate of Need Review Manual; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Jones County Board of Supervisors and South Central Regional Medical Center d/b/a Jones County Rest Home for the construction of a replacement facility.