

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT (THURMAN)
AUGUST 2002**

CON Review: NH-CB-0602-035

**Strategic Healthcare, LLC d.b.a. Winston Manor Nursing & Rehabilitation Center, Charleston
Establishment/Construction of a 60-Bed Skilled Nursing Facility**

Capital Expenditure: \$1,098,950

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Strategic Healthcare, LLC d.b.a. Winston Manor Nursing & Rehabilitation Center will be a for-profit, Mississippi Corporation, long term and short term care facility located in Charleston, Mississippi. Winston Manor Nursing & Rehabilitation Center is governed by a two (2) member governing board. The applicant states that the Strategic Healthcare, LLC follows a policy of non-discrimination. The owner and/or management team select all members of boards and committees based on qualified individuals. Members, Officers and other advisory boards or groups are chosen without regard to race, sex, age or national origin. Winston Manor Nursing & Rehabilitation Center will seek accreditation of JCAHO after initial licensure and certification is received from the Mississippi State Department of Health Licensure and Certification Division, and proposes to be certified for participation in both the Medicare and Medicaid Programs.

B. Project Description

Strategic Healthcare, LLC requests Certificate of Need authority for the construction and establishment of a 60-bed skilled nursing facility in Tallahatchie County. The Nursing Facility will provide 24-hour skilled nursing services, adult day care, specialized treatment for Alzheimer's residents, in-patient and out-patient therapy services including physical therapy, occupational therapy, speech/language therapy, and respiratory therapy, intravenous therapy, therapeutic activities, social services, family/resident counseling, enteral nutrition, therapeutic diets, restorative care, hospice care, assistance with ADLs as well as a number of other ancillary services.

The proposed facility will be located on Highway 32 in Charleston, Mississippi. The construction will consist of 22,000 square feet of space on a five (5) acres. The facility will allow for 60-beds private and semi-private, as well as additional space to accommodate the needs of the residents of those beds, including a dining area, living room and other various rooms. The facility will be constructed in conformance with all applicable laws and regulations. According to the applicant, the proposed nursing center will an average length of stay for skilled residents is 52 days and long-term care residents is 18-24 months. reflect the applicant's experience, research and desire to create a comfortable and pleasing environment for both residents and staff. The applicant will have no adverse impact to ancillary or support services.

The capital expenditure will be obligated within 60-days of the final CON approval and the project will be completed in 12 months.

II. Type of Review Required (60-Bed Nursing Home Facility)

This application for the construction/establishment of 60 nursing facility beds is reviewed in accordance with Section 41-7-191, subparagraphs (1) (a) and (2)(q)(i), (q)(ii), (q)(iii), (q)(iv), and (q)(v) Mississippi Code of 1972 Annotated, as amended (Senate Bill 2679, 1999 Regular Session), and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health. Senate Bill 2679 authorized the Department to issue certificates of need during the next four fiscal years for the construction or expansion of nursing facility beds or the conversion of other beds to nursing facility beds in each county in the state having a need for 50 or more additional nursing facility beds, as shown in the Fiscal Year 1999 State Health Plan.

The Department received two (2) applications for the 60 nursing facility beds authorized for Tallahatchie County. These applications were deemed complete on July 1, 2002, and entered into the July-September Quarterly Review Cycle as competing applications. (See Attachment 1 for a listing of the competing applications). The opportunity to request a "Hearing During the Course of Review" expires on September 4, 2002.

III. Conformance With the *State Health Plan* and Other Adopted Criteria and Standards

A. *State Health Plan*

The FY 1999 State Health Plan addresses policy statements and specific criteria and standards which an applicant is required to meet prior to receiving CON authority to construct/establish nursing facility beds. This application is in substantial compliance with the policy statements and criteria and standards for these types of projects.

SHP Criterion 1 - Need

Tallahatchie is located in Long-Term Care Planning District I (LTCPD I). The 1999 State Health Plan shows an unmet need in Tallahatchie County of 51 nursing facility beds and a total unmet need of 283 nursing facility beds for LTCPD I. Approval of this request for 60 nursing facility beds would reduce the unmet need for nursing facility beds in Tallahatchie County to negative 9 (-9) and in LTCPD I to 223.

SHP Criterion 2 - Facility Size

Senate Bill 2679 (1999 Regular Session) authorized the approval of 60 additional nursing facility beds for Tallahatchie County, and this application is in compliance with this criterion. Winston Manor proposes to construct a 60-bed Nursing Facility. The construction will consist of 22,000 square feet of space.

SHP Criterion 3 - Statistical Need/Competing Applications

Tallahatchie County is located in Long Term Care Planning District I (LTCPD I). The 1999 State Health Plan shows an unmet need in Tallahatchie County of 51 nursing facility beds and a total unmet need of 283 nursing facility beds for LTCPD I. Approval of this request for 60 nursing facility beds would reduce the unmet need for nursing facility beds in Tallahatchie County to negative 9 (-9) and in LTCPD I to 223. The Department received two (2) competing applications for the 60 nursing facility beds authorized by Senate Bill

2679 for Tallahatchie County. Also, both nursing facility applications filed on June 1, 2002 for the FY 2002 authorization are mandated to be reviewed under the 1999 State Health Plan.

B. General Review Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised 1997, addresses general review criteria by which all CON applications are reviewed. This application is in substantial compliance with applicable general review criteria.

GR Criterion 3 - Availability of Alternatives

Based on Senate Bill 2679, it is evident that there is a need for a 51-bed nursing facility in the Tallahatchie County area. The proposed project is in response to a need identified by the 1999 SHP and Mississippi Legislature, and elderly patient population statistics in LTCPD I and Tallahatchie County. Winston Manor Nursing & Rehabilitation Center offered no alternatives in its application. The applicant states that there were no less costly method of providing medical services to the residents of Tallahatchie County.

GR Criterion 4 - Economic Viability

The applicant submitted a Three Year Projected Operating Statement to verify the immediate and long-term financial feasibility of the proposal. The statement shows that the gross revenue will be \$ 4,380,697, \$4,555,924, and \$ 4,738,162 and the net income will be respectively \$ 467,613, \$ 388,413, and \$ 404,016 under and over the projected three years following the approval of the project thus, indicating the facility will be viable.

GR Criterion 5 - Need

Tallahatchie County is located in Long-Term Care Planning District II (LTCPD II). The 1999 State Health Plan shows an unmet in Tallahatchie County of 51 nursing facility beds and a total unmet need of 283 nursing facility beds for LTCPD I. Approval of this request for 60 nursing facility beds would reduce the unmet need for nursing facility beds in Tallahatchie County to negative 9 (-9) and in LTCPD I to 223.

GR Criterion 6 - Accessibility

The applicant states that Winston Manor will not discriminate against racial or ethnic minorities, women, handicapped persons and/or the elderly in providing access to its facilities or services. The applicant will respond to needs of medically underserved by the proposed 60-beds and location of the facility in Tallahatchie County.

GR Criterion 7 - Information Requirement

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

GR Criterion 8 - Relationship to Existing Health Care System

According to the applicant, the proposed facility will enhance and strengthen the existing health care system by providing long-term care services to citizens of this region.

GR Criterion 9 - Availability of Resources

The applicant submits that it has sufficient resources available for the project. The new facility will need approximately 95.2 FTE when the facility is in operation. The annual payroll is estimated at \$ 1,845,043. Personnel for the facility will be available. Nearby communities and schools provide a pool of personnel from which to staff the facility.

GR Criterion 15 - Competing Applications

See Attachment 1 for a comparative analysis on the three applications for nursing home beds in Marshall County.

CR Criterion 16 - Quality of Care

The applicant submits that it will seek certification to participate in Medicare and Medicaid. The Center will seek to be licensed by the Mississippi State Department of Health Division of Licensure and Certification.

IV. Financial Feasibility

A. Expenditure Summary

Capital Expenditure Summary		
Construction Cost - New	\$ 831,450.00	\$ 831,450.00
Total Fixed Equipment Cost	\$ 65,000.00	\$ 65,000.00
Total Non-Fixed Equipment Cost	\$ 13,000.00	
Land Cost	\$ 75,000.00	
Site Preparation	\$ 22,000.00	\$ 22,000.00
Fees (Architectural, Consultant, etc.)	\$ 45,000.00	\$ 45,000.00
Contingency Reserve	\$ 5,000.00	\$ 5,000.00
Capital Interest	\$ 40,000.00	\$ 40,000.00
Other Cost	\$ 2,500.00	\$ 1,008,450.00
Total Proposed Capital Expenditure	\$ 1,098,950.00	\$ 45.84 sq.ft

The above estimated capital expenditure is proposed for new construction of 22,000 square feet of space at a per square foot cost of \$ 45.16. *(\$1,008,450/22000=\$45.84) The cost per bed is approximately \$18,316. The cost per bed is in the median range for nursing homes of this size as listed in the Means Construction Cost Data 2000.

*Staff calculations.

B. Method of Financing

The Winston Manor Nursing & Rehabilitation Center will use a bank loans and capital contributions to finance the project.

C. Effect on Operating Cost

The applicant projects total gross revenue will be \$ 4,380,697, \$4,555,924, and \$ 4,738,162 the first, second, and third year of operation, respectively; and expenses of \$3,913,084, \$4,167,511 and \$4,334,146 for the first three years of operation. See attachment 3 for the applicant's Three-Year Projected Operating Statement and Utilization, Cost, and Charges. The Applicant submitted the following whereas the staff calculated the subsequent information.

Utilization, Cost, and Charges			
	Year 1	Year 2	Year 3
Occupancy Rate (%)	65%	85%	85%
Patient Days	14,165	20,717	21,537
Cost/Patient Day	\$ 121.29	\$ 101.24	\$ 105.29
Charge/Patient Day	\$ 105.47	\$ 83.45	\$ 86.80

Applicant Calculations.

Utilization, Cost, and Charges			
	Year 1	Year 2	Year 3
Occupancy Rate (%)	65%	85%	85%
Patient Days	14,165	20,717	21,537
Cost/Patient Day	\$ 276.25	\$ 201.16	\$ 201.24
Charge/Patient Day	\$ 299.17	\$ 212.74	\$ 212.82

Staff Calculations.

D. Cost to Medicaid/Medicare

Based on the gross patient revenue projected in this project, the impact of the project on third party payers is as follows for the first year:

Cost to Medicaid/Medicare & Other Payers			
Payor Mix	Utilization Percentage	Patient Days	First Year Cost
Medicaid	10.0%	1,417	\$ 393,491.90
Medicare	62.0%	8,782	\$ 2,439,649.78
Other Payers	28.0%	3,966	\$ 1,101,777.32
Total	100.0%	14,165	\$ 3,934,919.00

Staff calculations.

Cost to Medicaid/Medicare & Other Payers			
Payor Mix	Utilization Percentage	Patient Days	First Year Cost
Medicaid	2.2%	306	\$ 84,652.00
Medicare	90.6%	12,837	\$ 3,546,257.00
Other Payers	7.2%	1,021	\$ 282,173.00
Total	100.0%	14,165	\$ 3,913,082.00

Applicant calculations.

V. Recommendation of Other Affected Agencies

The Division of Medicaid was provided a copy of this application for comments. The Division of Medicaid is not opposed to the approval of this certificate of need. However, the approval of this certificate of need is expected to increase Medicaid expenditure by approximately \$ 205,919 annually in total funds based on a stable occupancy rate.

VI. Conclusion and Recommendation

This project is in substantial compliance with the criteria and standards for nursing home beds as contained in the *1999 State Health Plan*, the *Certificate of Need Review Manual*, revised 1997, and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The project also complies with Senate Bill 2679 of the 1999 Legislative Session, which authorized the Department of Health to issue a CON for the construction or expansion of nursing facility beds or the conversion of other beds to nursing facility beds in each county in the state having a need for 50 beds or more additional nursing facility beds, as shown in the *Fiscal Year 1999 State Health Plan*.

The Department received 2 applications requesting a Certificate of Need for all of the nursing home beds for Tallahatchie County. The two (2) applications were deemed complete on July 1, 2002, and entered into the July-September quarterly review cycle as competing applications.

All projects were found to be in substantial compliance with the projection of need. However, with competing applications, the Department must determine which applicant, if any, is the most appropriate applicant for providing the proposed service. Based on a comparative analysis prepared by the Department, staff has determined that ***Strategic Healthcare, LLC d.b.a. Winston Manor Nursing & Rehabilitation Center*** is the most appropriate applicant to provide the proposed nursing facility services authorized by Senate Bill 2679 (See Attachment 2). Approval of this application precludes the approval of applications submitted by any other applicant.

Consequently, the Division of Health Planning and Resource Development recommends approval of the application submitted by **Strategic Healthcare, LLC d.b.a. Winston Manor Nursing & Rehabilitation Center**.

Attachment 1

CON Review: NH-CB-0502-026
Tallahatchie General Hospital and Extended Care Facility
Construction/Establishment of a 60-Bed Nursing Home Facility
Capital Expenditure: \$1,671,559

CON Review: NH-CB-0602-035
Strategic Health Care, LLC d.b.a. Winston Manor Nursing and Rehabilitation Center
Construction/Establishment of a 60-Bed Nursing Home Facility
Capital Expenditure: \$1,098,950

Attachment 2

COMPARATIVE ANALYSIS PROPOSED 60-BED NURSING FACILITIES

(THIRD YEAR OF OPERATION)

	Tallahatchie General Hospital and Extended Care Facility		Strategic Health Care, LLC d.b.a. Winston Manor Nursing and Rehabilitation Center	
SIZE (Sq. Ft.)	18,740	2	22,000	1
CAPITAL EXPENDITURE	\$1,671,559	2	\$1,098,950	1
COST/SQ. FT.	\$ 67.49	2	\$45.84	1
COST/BED (TOT. COST)	\$27,859.32	2	\$18,316	1
GROSS REVENUE	\$2,155,689.27	X	\$4,738,162	X
DEDUCTIONS	0	X	0	X
NET REVENUES	\$2,155,689.27	X	\$4,738,162	X
EXPENSES	\$1,287,538.89	X	\$4,334,146	X
NET INCOME	\$868,150.38	X	\$404,016	X
OCCUPANCY RATE	95%	X	85%	X
PATIENT DAYS	20,805	X	21,537	X
COST/PATIENT DAY	\$61.89	X	\$201.24	X
CHARGE/PATIENT PAY	\$103.61	X	\$212.82	X
PERSONNEL REQUIRED	56.5	2	95.2	1
ANNUAL COST 1 ST YEAR	\$ 995,160		\$1,845,043	
MEDICAID UTILIZATION(%)	92%	X	10%	X
MEDICARE UTILIZATION(%)	0	2	62%	1
PRIVATE PAY UTILIZATION (%)	8%	X	28%	X
COST TO MEDICAID (1 ST YEAR)	\$1,024,907.54	2	\$393,491.90	1
Per Diem Cost to Medicaid (1st Year)	\$103.82	1	\$109.17	2
CONTINUUM OF CARE (Yes/No)	y	1	y	1
Signed Agreement	y	-1	y	-1
Composite Score		15		9

Attachment 3

WINSTON MANOR 3 YEAR PROJECTIONS			
DESCRIPTION	FIRST YEAR	SECOND YEAR	THIRD YEAR
Patient Revenues	\$ 4,237,743	\$ 4,407,253	\$ 4,583,543
Less-Allow & Discounts- Patient Accounts	\$ 0	\$ 0	\$ 0
Guest & Employee Meals Revenue	\$ 12,350	\$ 12,844	\$ 13,358
Nurse Aide Training and Testing	\$ 0	\$ 0	\$ 0
Therapy Part B Revenue	\$ 112,000	\$ 116,480	\$ 121,139
Television, Telephone Income	\$ 12,960	\$ 13,478	\$ 14,018
Vending Machine Revenue	\$ 5,644	\$ 5,869	\$ 6,104
Total Revenue	\$ 4,380,697	\$ 4,555,924	\$ 4,738,162
Salaries-Aides	\$ 243,880	\$ 253,635	\$ 263,781
Salaries-LPNs	\$ 120,120	\$ 124,925	\$ 129,922
Salaries-RNs (Exclude DON)	\$ 92,664	\$ 96,371	\$ 100,225
FICA Direct Care	\$ 34,935	\$ 72,664	\$ 75,571
Group Health-Direct Care	\$ 49,224	\$ 76,789	\$ 79,860
Pensions-Direct care	\$ 0	\$ 0	\$ 0
Uniforms Allowance-Direct Care	\$ 7,177	\$ 7,484	\$ 7,763
Workman's Comp. Care Related	\$ 7,782	\$ 8,093	\$ 8,417
Drugs-Over the Counter & Legend	\$ 27,000	\$ 28,080	\$ 29,203
Medical Supplies-Direct Care	\$ 128,947	\$ 134,105	\$ 139,469
Medical Waste Disposal	\$ 12,292	\$ 12,784	\$ 13,295
Therapy Expense (Including Part B of 89,600)	\$ 2,194,969	\$ 2,282,788	\$ 2,374,078
Salaries-Activities	\$ 40,820	\$ 42,453	\$ 44,151
Salaries-MDS Coordinator	\$ 43,680	\$ 45,427	\$ 47,244
Salaries-Director of Nursing	\$ 41,600	\$ 43,264	\$ 44,995
Salaries Social Services	\$ 22,870	\$ 23,785	\$ 24,736
FICA Care Related	\$ 11,396	\$ 12,452	\$ 12,950
Group Health Care Related	\$ 7,286	\$ 11,367	\$ 11,821
Pensions Care Related	\$ 0	\$ 0	\$ 0
Uniform Allowance Care Related	\$ 750	\$ 780	\$ 811
Workers Comp Care Related	\$ 833	\$ 867	\$ 901
Barber and Beauty Exp.	\$ 1,283	\$ 1,334	\$ 1,387
Consultant Fees Medical Director	\$ 6,500	\$ 6,780	\$ 7,030
Consultant Fees Nursing	\$ 13,200	\$ 13,728	\$ 14,277
Consultant Fees Pharmacy	\$ 6,480	\$ 6,739	\$ 7,009
Consultant Fees Social Worker	\$ 1,200	\$ 1,248	\$ 1,298
Food Raw	\$ 55,489	\$ 57,709	\$ 60,017
Food Supplements	\$ 20,000	\$ 20,800	\$ 21,632
Supplies Care Related	\$ 12,495	\$ 12,995	\$ 13,515
Salaries-Administrator	\$ 45,000	\$ 46,800	\$ 48,672
Salaries-Dietary	\$ 70,460	\$ 73,278	\$ 76,210
Salaries-Housekeeping	\$ 46,592	\$ 48,456	\$ 50,394
Salaries-Laundry	\$ 18,720	\$ 19,469	\$ 20,248
Salaries-Maintenance	\$ 31,200	\$ 32,448	\$ 33,746
Salaries-Medical Records	\$ 20,800	\$ 21,632	\$ 22,497
Salaries-Other Administrative	\$ 71,240	\$ 74,090	\$ 77,053
FICA-Admin.& Operating	\$ 23,257	\$ 41,402	\$ 43,058
Group Health-Admin. & Operating	\$ 27,526	\$ 42,941	\$ 44,659
Pensions-Admin. & Operating	\$ 0	\$ 0	\$ 0
Uniform Allowance-Admin. & Operating	\$ 5,104	\$ 5,309	\$ 5,521
Workman's Operating-Admin. & Operating	\$ 4,434	\$ 4,611	\$ 4,795
Contract-Laundry	\$ 0	\$ 0	\$ 0
Consultant Fees-Dietitian	\$ 6,500	\$ 6,760	\$ 7,030
Consultant Fees- Medical Records	\$ 1,200	\$ 1,248	\$ 1,298
Accounting Fees	\$ 8,000	\$ 8,320	\$ 8,653
Bank Service Charges	\$ 27	\$ 28	\$ 29
Board of Directors Fee	\$ 0	\$ 0	\$ 0
Dietary Supplies	\$ 9,455	\$ 9,833	\$ 10,226

WINSTON MANOR 3 YEAR PROJECTIONS

DESCRIPTION	FIRST YEAR	SECOND YEAR	THIRD YEAR
Dues	\$ 3,502	\$ 3,642	\$ 3,787
Educational Seminars & Training	\$ 2,141	\$ 2,226	\$ 2,315
Housekeeping Supplies	\$ 19,609	\$ 20,393	\$ 21,209
Insurance-Professional Liability	\$ 53,000	\$ 55,120	\$ 57,325
Interest Exp.-Non-Capital & Vehicles	\$ 0	\$ 0	\$ 0
Laundry Supplies	\$ 5,622	\$ 5,846	\$ 6,080
Legal Fees	\$ 2,500	\$ 2,600	\$ 2,704
Linen & Laundry Alternatives	\$ 4,254	\$ 4,424	\$ 4,601
Misc. (Oper. Consult)	\$ 0	\$ 0	\$ 0
Mgt. Fees & Home Office Costs	\$ 0	\$ 0	\$ 0
Office Supplies and Subscriptions	\$ 6,468	\$ 6,726	\$ 6,995
Postage	\$ 1,569	\$ 1,631	\$ 1,697
Repairs & Main.	\$ 13,800	\$ 14,352	\$ 14,926
Taxes-Other	\$ 45,000	\$ 46,800	\$ 48,672
Telephone	\$ 8,687	\$ 9,034	\$ 9,396
Travel	\$ 7,500	\$ 7,800	\$ 8,112
Utilities	\$ 62,513	\$ 65,013	\$ 67,614
Depreciation	\$ 28,199	\$ 29,327	\$ 30,500
Property Insurance	\$ 2,496	\$ 2,596	\$ 2,700
Property Taxes	\$ 0	\$ 0	\$ 0
Interest Expense	\$ 47,823	\$ 49,736	\$ 51,725
Nurse Aid Training	\$ 0	\$ 0	\$ 0
Penalties & Sanctions	\$ 0	\$ 0	\$ 0
Vending Machines	\$ 4,014	\$ 4,174	\$ 4,341
Total Operating Expenses	\$ 3,913,084	\$ 4,167,511	\$ 4,334,146
Net Income/Loss (-)	\$ 467,613	\$ 388,413	\$ 404,016
Occupancy Rate (%)	65%	85%	85%
Patient Days	14,165	20,717	21,537
**Cost/Patient Day	\$ 276.25	\$ 201.16	\$ 201.24
**Charge/Patient Day	\$ 299.17	\$ 212.74	\$ 212.82

* Applicant projects approximately 1.5 percent of gross revenue for bad debt patients, medically indigent patients and charity.

** Staff calculations.

The applicant submitted the following:

Utilization, Cost, and Charges			
	Year 1	Year 2	Year 3
Occupancy Rate (%)	65%	85%	85%
Patient Days	14,165	20,717	21,537
Cost/Patient Day	\$ 121.29	\$ 101.24	\$ 105.29
Charge/Patient Day	\$ 105.47	\$ 83.45	\$ 86.80