

**DIVISION OF HEALTH PLANNING  
AND RESOURCE DEVELOPMENT  
AUGUST 2001**

**CON REVIEW: NH-CB-0601-028  
GARRY V. HUGHES D/B/A THE KENNINGTON  
CONSTRUCTION OF A 60-BED FACILITY IN ATTALA COUNTY  
Capital Expenditure: \$968,424  
Location: Kosciusko, Mississippi**

**Staff Analysis**

**I. Project Summary**

**A. Applicant Information**

Garry V. Hughes plans to establish a Mississippi for profit corporation when he obtains the Certificate of Need. The applicant currently owns and operates 80 nursing facility beds at Willow Creek Retirement Center in Hinds County.

**B. Project Description**

Garry V. Hughes d/b/a The Kennington requests Certificate of Need authority for the construction of a 60-bed nursing facility in Kosciusko, Mississippi. The proposed 60-bed nursing facility will contain 15,919 square feet of space and will require 77.0 full-time equivalent personnel at an estimated annual cost the first year of \$611,069. The applicant plans to finance the proposed project with a loan from Bank Plus of Jackson in the amount of \$968,424 for 30 years. Future plans include developing a comprehensive retirement campus that will additionally offer independent/congregate living, assisted living and adult day care.

The Division of Health Facilities Licensure and Certification has approved the site for the proposed project, and the applicant agrees not to sale or lease the facility for a period of, not less than, three years from initial licensure.

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

This application for the construction/establishment of 60-bed 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 expansion of 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.

Attala County is one of six counties eligible to receive a Certificate of Need for 60 nursing facility beds in Fiscal Year 2002. The department received four applications for the 60-bed nursing facility authorized for Attala County. The applications listed below were deemed complete on July 1, 2001 and entered into Review Cycle 3 as competing applications:

NH-CB-0601-027  
Attala County Board of Supervisors  
Construction of a 60-Bed Nursing Facility in Attala County  
Capital Expenditure: \$1,825,017

NH-CB-0601-028  
Garry V. Hughes d/b/a The Kennington, Kosciusko  
Construction of a 60-Bed Nursing Facility in Attala County  
Capital Expenditure: \$968,424

NH-CB-0601-029  
Attala Health Care Center, Inc.  
Construction of a 60-Bed Nursing Facility in Attala County  
Capital Expenditure: \$1,636,760

NH-CB-0601-030  
Sentry North, L.P. d/b/a Sentry Attala  
Construction of a 60-Bed Nursing Facility in Attala County  
Capital Expenditure: \$1,234,436

In accordance with Section 41-7-797(2) of the Mississippi Code of 1972 Annotated, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The hearing fee of \$4,000 must be paid at the time of the request, to be valid. The opportunity to request a hearing expires on September 4, 2001.

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

#### **A. State Health Plan (SHP)**

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

### **SHP Criterion 1 - Need**

Attala County is located in Long-Term Care Planning District I (LTCPDI). The FY 1999 State Health Plan shows an unmet need in Attala County of 58 nursing facility beds and a total unmet need of 283 nursing facility beds for LTCPDI. Approval of this request for 60 nursing facility beds will reduce the unmet need for nursing facility beds in LTCPD I by 60 beds.

### **SHP Criterion 2 - Facility Size**

Senate Bill 2679 (1999 Regular Session) authorized the approval of a Certificate of Need for 60 additional nursing facility beds in Attala County in FY 2002, and this application is in compliance with this criterion and the statute.

### **SHP Criterion 3 -Statistical Need/Competing Applications**

Attala County is located in Long Term Planning District I. The FY 1999 State Health Plan shows an unmet need in Attala County of 58 nursing facility beds and a total unmet need in LTCPDI of 283 beds. As previously mentioned, the Department received four competing applications for the 60 nursing facility beds authorized by Senate Bill 2679 for Attala County in FY 2002. Also, all nursing facility applications filed with the Department by June 1, 2001 for the FY 2002 authorization are mandated to be reviewed under the FY 1999 State Health Plan.

## **B. General Review Criteria**

Chapter 8 of the Certificate of Need Review Manual, Revised 2000, addresses general review criteria by which all Certificate of Need applications are reviewed. This application is in substantial compliance with applicable general review criteria.

### **GR Criterion 3 - Availability of Alternatives**

According to the applicant, the proposed project is the most effective and cost effective method of delivering nursing facility services and is in response to Senate Bill 2679 of the 1999 Regular Legislative Session.

### **GR Criterion 4 - Economic Viability**

According to the applicant's operating statement, gross revenues for the first three years will be \$1,395,400, \$2,644,538 and \$2,897,825, respectively. Net income for the first three years is projected to be \$68,792, \$89,696 and \$127,540, respectively. Consequently, the proposed project appears to be economically viable.

### **GR Criterion 5 - Need**

Attala County is located in Long-Term Care Plan District I (LTCPD I). The FY 1999 State Health Plan shows an unmet need in Attala County of 58 nursing facility beds and a total unmet need in LTCPD I of 283 beds. Approval of this request for 60 nursing facility beds would reduce the unmet need in LTCPD I by 60 beds. The application contained 1,635 letters of support for this project and one letter of opposition from the Attala County Board of Supervisors.

### **GR Criterion 6 - Accessibility**

The applicant does not discriminate against the handicapped, women, the elderly and members of racial and ethnic minorities. Patients are provided health care services without regard to physical condition, age or ethnic background. The applicant projects that the payor mix will be as follows: Medicaid - 42.0 percent; Medicare - 35.0 percent; and Private Pay - 23.0 percent.

### **GR Criterion 7 - Information Requirement**

Garry V. Hughes d/b/a The Kennington affirms that it will record and maintain the information required by this criterion and will make it available to the Mississippi State Department of Health within 15 business days of such request.

### **GR Criterion 8 - Relationship to Existing Health Care System**

There are two nursing facilities located in Attala County, totaling 270 nursing facility beds: Attala County Nursing Center - 120; and Mississippi State Veteran's Home - 150. The annual occupancy rate for the two facilities in 2000 was 97.10 percent. The applicant has a proposed transfer agreement which will be executed with local hospitals. The application contained 1,635 letters of support and one letter of opposition from the Attala County Board of Supervisors.

### **GR Criterion 9 - Availability of Resources**

The applicant affirms that it has the availability of resources, including management personnel and funds for capital and operating needs, to construct and operate the proposed nursing facility. The applicant projects that the staffed facility will utilize 77 full-time equivalent personnel, costing \$611,069 the first year.

### **GR Criterion 15 - Competing Applications**

The Department received four applications for the 60 nursing facility beds authorized for Attala County in FY 2002. See Appendix I for a comparative analysis of the four competing applications.

**CR Criterion 16 - Quality of Care**

The Kennington will be licensed under the Minimum Standards of Operations for Institutions for the Aged or Infirm by the Mississippi State Department of Health.

**IV. Financial Feasibility**

**A. Capital Expenditure Summary**

New Construction Cost	\$623,388
Fixed Equipment	69,000
Non-Fixed Equipment	131,500
Land Cost	19,536
Site Preparation	20,000
Fees	65,000
Contingency Reserve	30,000
Other Costs - Landscaping	10,000
<b>TOTAL PROPOSED CAPITAL EXPENDITURE</b>	<b>\$968,424</b>

The above estimated capital expenditure is proposed for the new construction of 15,919 square feet of space at a per square foot cost of \$50.72. The cost per bed, based on the total capital expenditure, is \$16,140. Means Construction Cost Data 2001 shows the low range per square foot to be \$69.25 and the low range per bed cost to be \$30,000. This project is below the low range for both square foot and bed cost listed in Means.

**B. Method of Financing**

The applicant proposes to finance the proposed project with a loan from Bank Plus of Jackson in the amount of \$968,424 for a period of 30 years.

**C. Effect on Operating Cost**

The applicant projects the following expenses, utilization, and results from operations the first three years following completion of the project:

EXPENSES	Year 1	Year 2	Year 3
Salaries and Benefits	\$611,069.41	\$882,725.62	\$926,861.90
Supplies	91,642.98	143,872.07	151,065.67
Other Direct Expenses	61,598.33	129,265.42	135,728.69
Adm. and General	120,293.60	184,796.89	194,036.73
Other Indirect Expenses	51,616.81	81,097.76	85,152.65
Depreciation	41,698.85	43,783.79	45,972.98
Interest	64,478.05	66,766.91	66,004.50
<b>TOTAL EXPENSES</b>	<b>\$1,045,398.03</b>	<b>\$1,532,308.46</b>	<b>\$1,604,823.12</b>

REVENUES	Year 1	Year 2	Year 3
Gross Patient Revenue	\$1,395,400	\$2,644,538	\$2,897,825
Total Deductions	(274,374)	(1,011,814)	(1,150,106)
<b>Net Revenue</b>	<b>\$1,121,295</b>	<b>\$1,632,724</b>	<b>\$1,747,720</b>

	Year 1	Year 2	Year 3
Occupancy Rate (%)	67.0%	99.0%	99.0%
Patient Days	14,692	21,681	21,681
Cost/Patient Day	\$71.15	\$70.68	\$74.02
Charge/Patient Day	\$76.32	\$75.71	\$80.61
<b>NET INCOME(LOSS)</b>	<b>\$68,792</b>	<b>\$89,696</b>	<b>\$127,540</b>

The applicant projects that the per diem cost to Medicaid for the first year would be \$71.59.

Applicant's projections appear reasonable and comparable to other nursing facilities of similar size and payor mix.

**D. Cost to Medicaid/Medicare**

The impact of the project on third party payers is as follows for the first year:

Payor Mix	Utilization Percentage	First Year Cost
Medicaid	42.0	\$439,067
Medicare	35.0	\$365,889
Private Pay	23.0	\$240,442
<b>Total</b>	100.00	\$1,045,398

**V. Recommendation of Other Affected Agencies**

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, this project is expected to increase Medicaid expenditures by approximately \$ 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 facility beds as contained in the FY 1999 State Health Plan, the Certificate of Need Review Manual, revised 2000, 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 a need for 50 or more additional nursing facility beds, as shown in the FY 1999 State Health Plan.

Attala County is one of six counties eligible to receive a Certificate of Need for 60 nursing facility beds in FY 2002. The Department received four applications for the 60 nursing facility beds authorized for Attala County. All four applications were deemed complete on July 1, 2001 and entered into Review Cycle 3 as competing applications. With competing applications, the Department must determine which applicant, if any, is the most appropriate applicant for providing the proposed service. After a thorough examination and analysis of each of the four competing applications filed for a 60-bed nursing facility in Attala County, including the development and utilization for a comparative analysis and consideration of the comments from the Division of Medicaid, the Division of Health Planning and Resource Development has determined that the application submitted by Garry V. Hughes d/b/a The Kennington is the most appropriate applicant to provide the proposed nursing facility services in the 60-bed facility authorized by Senate Bill 2679 for Attala County in FY 2002 (See Appendix I). Approval of this application precludes approval of any other competing

application in Attala County.

Consequently, the Division of Health Planning and Resource Development recommends approval of the application submitted by Garry V. Hughes d/b/a The Kennington and finds that Garry V. Hughes d/b/a The Kennington obtained the lowest composite score of the four competing applications ranked according to the following ten factors: size, capital expenditure, cost per square foot, cost per bed, staffing, Medicare utilization, cost to Medicaid, per diem cost to Medicaid, continuum of care services and community support. Each applicant's score was reduced by one point pursuant to an enclosed signed agreement to maintain ownership and operations for a period of at least three years after licensure.

**APPENDIX I  
COMPARATIVE ANALYSIS  
PROPOSED 60-BED NURSING FACILITIES  
ATTALA COUNTY  
(THIRD YEAR OF OPERATION)**

		Attala HCC		Kennington		Sentry Attala		Attala CC
Size (Sq. Foot)	1	26,136	3	15,919	4	15,653	2	22,484
Capital Expenditure	3	1,636,760	1	968,424	2	1,234,436	4	1,825,017
Cost/Sq. Foot	2	\$53.90	1	\$50.72	3	\$58.25	4	\$73.71
Cost/Bed (Total Cost)	3	\$27,279	1	\$16,140	2	\$20,574	4	\$30,417
Gross Revenue		\$3,199,205		\$2,897,825		\$2,884,020		\$2,670,768
Deductions		-0-		(\$1,150,106)		(\$21,360)		(396,100)
Net Revenue		\$3,199,205		\$1,747,720		\$2,862,660		\$2,274,668
Expenses		\$3,095,508		\$1,604,823		\$2,663,907		\$1,861,691
Net Income		\$103,696		\$127,540		\$198,753		\$412,978
Occupancy Rate		95.0%		99.0%		95.0%		98.0%
Patient Days		20,805		21,681		20,808		21,462
Cost/Patient Day		\$148.79		\$74.02		\$128.02		\$86.74
Charge/Patient Day		\$153.77		\$80.61		\$137.57		\$105.99
Personnel Required	1	79	2	77	3	62.49	4	55
First Year Cost		\$914,804		\$611,069		\$1,126,043		\$744,918
Medicaid Utilization (%)		32.5		42.0		45.61		60.0
Medicare Utilization(%)	1	42.5	3	35.0	2	35.09	4	20.0
Private Pay Utilization (%)		25.0		23.0		19.30		20.0
Cost to Medicaid (1 <sup>st</sup> yr)	1	\$301,688	2	\$441,782	3	\$507,998	4	\$684,008
Per Diem Costs Medicaid (1 <sup>st</sup> yr)	1	\$70.64	2	\$71.59	4	\$87.42	3	\$73.19
Continuum of Care (yes/no)	1	yes	1	yes	1	yes	4	no
Community of Support Letters	4	174	1	1,635	3	553	2	1,389
Signed Agreement	-1	yes	-1	yes	-1	yes	-1	yes
Composite Score	17		16		26		34	