

**Division of Health Planning
and Resource Development
August 2002**

CON REVIEW NH-CB-0602-032

**Bedford Care Center of Newton, LLC dba Bedford Care Center of Newton-Newton
60-bed Expansion of an Existing Nursing Facility in Newton County**

Capital Expenditure: \$993,642

Location: Newton, Newton County, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Bedford Care Center of Newton LLC. (Bedford) or (Applicant), a Mississippi limited liability company (LLC), operates in good standing with the Mississippi Secretary of State's office. According to the applicant, a four-member Board of Managers, appointed without regard to economic status, physical status, race, ethnic origin, sex, or age, provides governance to the LLC. Bedford Care Center of Newton presently operates a 120-bed Medicare and Medicaid certified long-term care nursing facility in Newton. Hattiesburg Park Management Corporation presently manages the facility .

B. Project Description

Bedford requests CON authority to obligate capital expenditure of \$993,642 for a 60-bed expansion of an existing 120-bed nursing facility, Bedford Care Center of Newton. Because all services required for nursing facilities currently exist at Applicant's 120-bed nursing facility, Applicant will increase the service level to accommodate the additional 60-bed nursing facility. Thus, certain space in the 120-bed nursing facility, such as dietary, administrative, therapy areas, etc. would be shared space for the 180-bed facility . The proposed expansion will occupy 4,162 square feet of space in the existing facility plus 12,000 square feet of new construction, for total of 16,162 square feet in the completed project. The applicant will be competing against three other applicants for the 60 beds authorized by Senate Bill 2679 (1999 legislative Session). Attachment I lists these competing applicants.

Applicant projects 52.7 full-time equivalent staff at an estimated personnel cost of \$1,124,873 during the first year of operation, for a projected FTE staff per-bed ratio of 0.88. The applicant also project a 80.6 percent occupancy rate during the first full year of operation.

The following demonstrates the allocation of the \$993,642 proposed capital expenditure: new construction \$ 82.1 percent (\$816,082); fixed equipment cost \$ 1.4 percent (\$13,450); site preparation cost \$ 2.0 percent (\$20,000); capitalized interest -- 1.2 percent (\$11,700); and fees -- 8.6 percent (\$85,000). No renovation cost was indicated in the application. Financing for this nursing home project will be provided by a combination of commercial loan (\$794,914) and accumulated cash reserve (\$198,728). Capital expenditure will be obligated immediately upon final CON approval; Applicant projects completion to be within 18 months. Division of Health Facilities Licensure and Certification has approved the proposed site for this expansion project . The facility will be Medicare/Medicaid certified.

II. Type of Review Required

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 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*. Newton County is one of the six counties authorized for additional bed during the year 2003. Other counties authorized within the state for additional beds during fiscal year 2003 are: Covington, George, Monroe, Tallahatchie, and Yalobusha.

The Department received four applications for the 60 beds authorized for Newton County. These applications were deemed complete on July 1, 2002 and entered into the July-September 2002 Quarterly Review Cycle as competing applications. (See Attachment I for a listing of the competing applications).

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 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 home beds. This application complies substantially with the policy statements and criteria and standards for these types of projects.

SHP Criterion 1 - Need

The applicant proposes to construct a 60-bed nursing facility in Newton County which is in Long-Term Care Planning District IV (LTCPD-IV). The FY 1999 *State Health Plan* shows a need for 54 additional nursing home beds in Newton County and 923 additional nursing home bed for LTCPD-IV. Although, this application, if approved, will slightly over-bed Newton County with nursing facility beds, Senate Bill 2679 (1999 Legislative Session) authorized the issuance of CON authority for 60 additional nursing home beds for Newton County and no fewer.

SHP Criterion 2 - Facility Size

Senate Bill 2679 (1999) authorizes the MSDH to issue CONs to qualified applicants to construct additional nursing home beds in each of the four LTCPDs in counties of the greatest need, limited to 60 beds per county in those counties listed above. This application conforms to both the size and purpose of the facility.

SHP Criterion 3 -Statistical Need/Competing Applications

As previously mentioned, the Department received four competing applications for the 60 nursing facility beds authorized by Senate Bill 2679 for Newton County. Also, all nursing facility application filed on June 1, 2002 for the FY 2003 authorization are mandated to be reviewed under the FY 1999 State Health Plan

B. General Review Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised 2000, addresses general review criteria by which all CON applications are reviewed. This application complies substantially with applicable general review criteria.

GR Criterion 3 - Availability of Alternatives

The application states that the applicant decided to pursue the proposed project following a review of the long term care needs of the elderly population of Mississippi and Newton County, the intent of Senate Bill 2679, and the bed need identified by the Mississippi State Health Plan.

GR Criterion 4 - Economic Viability

Based on the operation projections provided by the applicant, this appears to be an economically viable project. Financial projections contained in the application reflect a net gain of \$582,739, \$588,961, and \$594,247 during the first, second, and third year of operation, respectively.

GR Criterion 5 - Need

Senate Bill 2679 (1999 Legislature) authorized the issuance of a CON to a qualified applicant for the addition of 60 additional skilled nursing care beds in Newton County. The *State Health Plan* shows a need for 54 additional nursing home beds in Newton County and 923 additional beds for the total LTCPD-IV. The need for additional nursing home beds for the area has definitely been established by the *State Health Plan*.

GR Criterion 6 - Accessibility

The applicant indicates that the proposed facility will be certified for reimbursement from both Medicaid and Medicare, centrally located in Newton County, and will be an expansion of an existing facility.

GR Criterion 7 - Information Requirement

The applicant 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

Newton County has one 120-bed skilled nursing home but needs 174 beds to serve its present elderly population, leaving a need of 54 additional beds, according to the *FY 1999 Mississippi State Health Plan*. Considering this need, this facility should have no adverse economic effect on the existing nursing home, but will be an expansion of the facility and thereby provide efficiency of scale.

GR Criterion 9 - Availability of Resources

According to the applicant, resources needed to construct and operate the proposed nursing facility in Newton County are available.

GR Criterion 15 - Competing Applications

See Attachment III for a comparative analysis on the four applications for nursing home beds in Newton County.

CR Criterion 16 - Quality of Care

Management, administrative, nursing, social services, patient activities, and dietary personnel currently employed by Bedford Care Center of Newton will be available to assist with staffing needs during the initial opening of the 60-bed expansion of an existing nursing facility. Applicant expects no problems recruiting other needed personnel.

V. Financial Feasibility

A. Expenditure Summary

New Construction	\$ 816,082
Total Fixed Equipment	13,450
Total Non-Fixed Equipment	47,410
Land	0
Site Preparation	20,000
Fees(Architectural, Consultant,	85,000
Capitalized Interest	11,700
Contingency Reserve	<u>0</u>
Total Capital Expenditure	<u>\$ 993,642</u>

The above estimated capital expenditure is proposed for new construction of 12,000 square feet of space (4,162 square feet of the existing facility will be allocated to this project, culminating in a total square footage of 16,162 square feet for this expansion) at a per square foot cost of \$58.55. The cost per bed is approximately \$16,560. The cost per bed is well below the first quartile range for nursing homes of this size as listed in the *Means Construction Cost Data 2002*. According to the *Means Construction Cost Data*, the first quartile cost for nursing homes this size is \$31,000 per bed, and \$71.50 per square foot.

B. Method of Financing

This project will be financed through a combination of a commercial loan in the amount of \$794,914 and accumulated cash reserves in the amount of \$198,728. The application contained a letter from Hancock Bank of Hattiesburg stating the bank's willingness to provide financing.

C. Effect on Operating Cost

The applicant projects gross revenues of \$4,413,904, \$4,546,321 and \$4,682,711 for the first, second, and third year of operation, respectively; and expenses of \$2,600,052, \$2,689,314, and \$2,782,307 for the first, second, and third year of operation, respectively. (See Attachment II for the applicant's Three-Year Projected Operating Statement). Utilization, cost, and charges are projected as follows:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Occupancy Rate (%)	80.60	95.00	95.00
Patient Days	17,651	20,805	20,805
Cost/Patient Day	\$ 147.24	\$ 129.26	\$ 133.73
Charge/Patient Day	\$249.97	\$ 218.52	\$ 225.08

Applicant's projections appear to be realistic and comparable to other nursing homes of the same size, except the first year projected occupancy rate appears exceedingly low.

D. Cost to Medicaid/Medicare

Based on the gross patient revenue projected in this project and comments received from the Division of Medicaid, the impact of the project on third party payers is as follows for the first year:

<u>Payor Mix</u>	<u>Utilization Percentage</u>	<u>Patient Days</u>	<u>Cost First Year</u>
Medicaid	23.00	4,060	\$ 406,609
Medicare	47.00	8,296	2,029,378
Other Payers	<u>30.00</u>	<u>5,295</u>	<u>746,804</u>
Total	<u>100.00</u>	<u>17,651</u>	<u>\$ 3,182,791</u>

V. Recommendation of Other Affected Agencies

The Division of Medicaid stated that ..."[T]he approval of this certificate of need is expected to increase Medicaid expenditure by approximately \$645,434 annually in total funds based on a stable occupancy rate."

VI. Conclusion and Recommendation

This project complies substantially with the criteria and standards for nursing home beds as contained in the *1999 State Health Plan*, the Certificate of Need Review Manual (2000 revision) , 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 four applications requesting a Certificate of Need for all of the nursing home beds for Newton County. All four 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 Alliance Health Systems LLC dba Alliance-Laird Nursing Home is the most appropriate applicant to provide the proposed nursing facility services authorized by Senate Bill 2679 (See Attachment III). Approval of this application precludes the approval of applications submitted by any other applicant.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of the application submitted on behalf of Bedford Care Center, LLC.

Attachment I

Competing Applicants for 60 Nursing Facility Beds for Newton County

CON REVIEW NH-CB-0602-030

Newton Hospital, Inc, dba Newton Regional Nursing Home-Newton

Construction of a 60-bed Nursing Facility in Newton County

Capital Expenditure: \$1,719,271

Location: Newton, Newton County, Mississippi

CON REVIEW NH-CB-0602-032

Bedford Care Center of Newton, LLC-Newton

60-Bed Expansion of a 120-Bed Nursing Facility in Newton County

Capital Expenditure: \$993,642

Location: Newton, Newton County Mississippi

CON REVIEW NH-CB-O600-047

Alliance Health Systems, LLC dba Alliance-Laird Nursing Home-Union

Construction of a 60 Bed Nursing Facility in Newton County

Capital Expenditure: \$Unknown

Location: Hollandale, Newton County, Mississippi

CON REVIEW NH-CB-O699-048

Covenant Care of Decatur, Inc.-Decatur

Construct a 60-bed Nursing Facility in Newton County

Capital Expenditure: \$Unknown

Location: Decatur, Newton County Mississippi

Attachment II

**Three Year Proposed Budget
 Bedford Care Center of Newton**

<u>Revenues</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Gross Patient Revenue	\$4,413,904	\$4,546,321	\$4,682,711
Deductions from Revenue	<u>(2,231,113)</u>	<u>(1,268,046)</u>	<u>(1,306,087)</u>
Net Patient Revenue	<u>\$3,182,791</u>	<u>\$3,278,275</u>	<u>\$3,376,624</u>
<u>Expenses</u>			
Salaries and Benefits	1,124,873	1,181,117	1,240,172
Supplies and Misc. Expenses	226,277	231,934	237,732
Purchased Services	988,822	1,031,645	1,038,987
Bad Debts	43,980	46,619	49,416
Leases	<u>216,000</u>	<u>216,000</u>	<u>216,000</u>
Total Expenses	<u>\$ 2,600,052</u>	<u>\$ 2,689,314</u>	<u>\$ 2,782,307</u>
Net Income (Loss)	\$ 582,739	\$ 588,961	\$ 594,317
General Assumptions			
Occupancy Rate	80.60	95.00	95.00
Patient Days	17,658	20,805	20,805
Cost/Patient Day	\$ 147.24	\$ 129.26	\$ 133.73
Charges/Patient Day (gross)	\$ 249.97	\$ 218.52	\$ 225.08

Attachment III

**COMPARATIVE ANALYSIS
 PROPOSED 60-BED NURSING FACILITIES
 IN Newton COUNTY (THIRD YEAR OF OPERATION)**

Competing Nursing Homes	Newton Regional		Bedford		Alliance-Laird		Covenant Care	
SIZE (Sq. Ft.)	2	21,670	4	16,162	3	20,164	1	26,002
CAPITAL EXPENDITURE	4	\$ 1,719,271	2	\$ 993,642	1	\$ 729,050	3	\$1,354,700
COST/SQ. FT.	4	\$ 75.95	3	\$ 58.55	1	\$ 34.74	2	\$ 50.17
COST/BED (TOT. COST)	4	\$ 28,654	2	\$ 16,560	1	\$ 2,150	3	\$ 22,578.33
GROSS REVENUE		\$ 3,488,670		\$ 4,682,711		\$ 3,966,660		\$ 3,328,600
DEDUCTIONS		\$(1,121,646)		\$ (46,658)		0		0
NET REVENUES		\$ 2,367,024		\$ 3,376,624		\$ 3,966,660		\$ 3,328,600
EXPENSES		\$ 2,161,883		\$ 2,782,307		\$ 3,889,489		\$ 3,173,157
NET INCOME		\$ 210,141		\$ 197,512		\$ 77,171		\$ 155,443
OCCUPANCY RATE		90.00%		95.00%		85%		95%
PATIENT DAYS		19,710		20,805		18,615		20,805
COST/PATIENT DAY		\$ 109.68		\$ 133.73		\$ 152.91		\$ 154.84
CHARGE/PATIENT PAY		\$ 300.00		\$ 225.52		\$ 214.70		\$ 161.20
PERSONNEL REQUIRED	3	58.8	4	52.70	1	83.2	2	80.5
ANNUAL COST 1 ST YEAR		\$ 1,152,873		\$ 1,124,873		\$ 1,264,692		\$ 815,497
MEDICAID UTILIZATION(%)		65		23		25		32.5
MEDICARE UTILIZATION(%)	4	25	1	47	2	45	3	42.5
PRIVATE PAY UTILIZATION		10		30		30		25.0
COST TO MEDICAID (1 ST YEAR)	4	\$ 859,680	3	\$ 406,906	1	\$ 70,312	2	\$ 319,802
CONTINUUM OF CARE (Yes/No)	1	Yes	4	No	1	yes	1	yes
Medicaid Cost Per Diem	2	\$ 75.49	4	\$ 100.15	3	\$ 78.33	1	\$ 74.88
Signed Agreement	-1	yes	-1	yes	-1	yes	-1	yes
Composite Score	27		26		13		17	