

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

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

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Tallahatchie General Hospital and Extended Care Facility (TGH) is a County-owned, non-profit acute care and long-term care services organization. The hospital is owned by the County of Tallahatchie and located in Charleston, Mississippi. Tallahatchie General Hospital and Extended Care Facility is governed by a five (5) member Board of Trustees appointed by statute by the Tallahatchie County Board of Supervisors.

Tallahatchie General Hospital and Extended Care Facility is currently licensed to operate 9 hospital acute care/swing beds and 68 nursing home beds. The proposed facility will be licensed by the State of Mississippi and certified to participate in the Medicaid program. The obligations of the Hill-Burton program is ongoing.

B. Project Description

Tallahatchie General Hospital and Extended Care Facility requests Certificate of Need authority for the construction and establishment of a 60-bed skilled nursing facility in Tallahatchie County. This project will add an additional 60 long term care beds to the existing facility, which presently has 9 critical access hospital beds and 68 long term care beds. The proposed facility will address the continuous healthcare needs for the aging population and to fulfill an identified need for long term care beds in Tallahatchie County.

The proposed facility will be located in Charleston, Mississippi. The construction will consist of 16,200 square feet of space and 3,200 square feet of existing space will be renovated. The capital expenditure will be obligated within 90-days of the final CON approval or January 2003. The project will be completed with in one year of that date or January 2004.

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 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.

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. Tallahatchie County Nursing Center proposes to construct a 60-bed Nursing Facility. The construction will consist of 16,200 square feet of space and 3,200 square feet of existing space will be renovated for the Nursing Facility.

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 in LTCPD I of 283 beds. 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 60-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. TGH offered no alternatives in its application. The applicant states that the proposed project is the most efficient and cost effective method of delivering such skilled nursing home services.

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 \$ 3,386,017.91, \$ 3,987,606.41, and \$4,526,688.43 and the net income will be respectively \$ 217,091.74, \$ 665,964.74, and \$ 1,044,690.20 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 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 in LTCPD I of 283 beds. The Department received two (2) competing applications for the 60 nursing facility beds authorized by Senate Bill 2679 for Tallahatchie County.

GR Criterion 6 - Accessibility

The applicant states that the proposed facility would serve the population of the surrounding area. Services will be available to all citizens equally. All persons to be treated at the proposed facility will originate from a medically under-served population. The reason that they will be seeking services at the proposed facility is because they are medically under-served.

The facility is current with the Hill-Burton requirements for providing uncompensated care. This is a continuing program at the facility.

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 nursing facility transfer patient to the hospital. If necessary the attending physician will transfer the patient to an appropriate facility. The COBRA policy on transfers apply.

GR Criterion 9 - Availability of Resources

The applicant submits that the facility has an ongoing staff recruitment program, which will provide the needed personnel. The active medical staff members are available for the patients in the long-term care unit. Tallahatchie General Hospital and Extended Care Facility has never had a severe staffing problem, in recruitment and retention of staff. Therefore, Tallahatchie General Hospital and Extended Care Facility anticipates no staffing problems in the proposed facility. The resources of the Tallahatchie General Hospital and Extended Care Facility are available and support the services required by the proposed nursing facility. The applicant submits that the new facility will need approximately 56.5 FTE when the facility is in operation. The annual payroll is estimated at \$ 995,160.

GR Criterion 15 - Competing Applications

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

CR Criterion 16 - Quality of Care

The applicant is a current provider of nursing facility services in Mississippi and each facility is licensed under the Minimum Standards of Operation for Institutions for the Aged or Infirm. Also the applicant submits that it will seek certification to participate in the Medicaid Program.

IV. Financial Feasibility

A. Expenditure Summary

Capital Expenditure Summary			
Construction Cost - New	\$	1,160,017.00	\$ 1,160,017.00
Construction Cost - Renovation	\$	43,733.00	
Total Fixed Equipment Cost	\$	206,666.00	\$ 206,666.00
Total Non-Fixed Equipment Cost	\$	121,310.00	
Land Cost	\$	15,000.00	
Site Preparation	\$	11,111.00	\$ 11,111.00
Fees (Architectural, Consultant, etc.)	\$	113,722.00	\$ 113,722.00
Contingency Reserve	\$	0.00	
Capital Interest	\$	0.00	
Other Cost	\$	0.00	\$ 1,491,516.00
Total Proposed Capital Expenditure	\$	1,671,559.00	sq.ft \$ 79.59

The above estimated capital expenditure is proposed for new construction of 18,740 square feet of space at a per square foot cost of \$ 67.49, and renovation of 2,460 square feet of existing space at \$17.78 per square foot. The cost per bed is approximately \$27,859.32. The cost per bed is in the median range for nursing homes of this size as listed in the Means Construction Cost Data 2002.

B. Method of Financing

The Tallahatchie County Nursing Center will use a government loan to finance the project.

C. Effect on Operating Cost

The applicant projects total revenues \$3,386,017.91, \$3,987,606.41, and \$4,526,688.43 of the first, second, and third year of operation, respectively; and expenses of \$3,168,926.17, \$3,321,641.67, and \$3,481,998.23 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 general assumptions are based on the occupancy rate of 60 percent, 80 percent, and 95 percent for the first three years, respectively.

Utilization, Cost, and Charges			
	Year 1	Year 2	Year 3
Occupancy Rate (%)	60%	80%	95%
Patient Days	36,023	40,403	43,688
Cost/Patient Day	\$ 84.78	\$ 89.02	\$ 93.48
Charge/Patient Day	\$ 100.00	\$ 105.00	\$ 110.00

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	92.0%	15,715	\$ 1,024,907.54
Medicare	0.0%	0	\$ 0.00
Other Payers	8.0%	1,367	\$ 89,122.40
Total	100.0%	17,082	\$ 1,114,029.94

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 \$1,944,887 annually in total funds based on a stable occupancy rate, and a per diem rate of \$103.82.

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 disapproval of the application submitted by **Tallahatchie General Hospital and Extended Care Facility**.

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

Attachment 3

Three Year Projections

	YEAR 1	YEAR 2	YEAR 3
EXPENSES			
Nursing	\$ 543,702.31	\$ 557,294.87	\$ 571,227.24
Dietary	\$ 189,349.49	\$ 194,083.23	\$ 198,935.31
Laundry	\$ 46,279.90	\$ 47,436.90	\$ 48,622.82
Housekeeping	\$ 42,995.81	\$ 44,070.71	\$ 45,172.47
Pharmacy	\$ 30,439.43	\$ 31,200.42	\$ 31,980.43
Plant Operation & Maintenance	\$ 112,762.80	\$ 115,581.87	\$ 118,471.42
General & Administrative	\$ 114,154.19	\$ 117,008.04	\$ 119,933.24
Depreciation Cost	\$ 60,679.59	\$ 62,196.58	\$ 63,754.49
Interest Cost	\$ 88,562.65	\$ 87,259.97	\$ 89,441.47
TOTAL EXPENSES	<u>\$ 1,228,926.17</u>	<u>\$ 1,256,132.59</u>	<u>\$ 1,287,538.89</u>
Gross Patient Rev.	\$ 1,235,107.44	\$ 1,729,150.42	\$ 2,155,689.27
Less Bad Debt	\$ 0.00	\$ 0.00	\$ 0.00
Less Contractual Allowances	\$ 0.00	\$ 0.00	\$ 0.00
Total Deductions	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Other Revenue	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Total Net Revenue	<u>\$ 1,235,107.44</u>	<u>\$ 1,729,150.42</u>	<u>\$ 2,155,689.27</u>
NET INCOME	<u>\$ 6,181.27</u>	<u>\$ 473,017.83</u>	<u>\$ 868,150.38</u>
Occupancy Rate	60%	80%	95%
Patient Days	13,140	17,520	20,805
Cost/patient day	\$ 93.53	\$ 71.70	\$ 61.89
Charge/patient day	\$ 94.00	\$ 98.70	\$ 103.61

* Applicant projects approximately 3 percent of gross revenue for bad debt patients, and 4 percent for medically indigent and charity care patients.