

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
JUNE 2003**

**CON REVIEW NH-CRF-0303-009
THE NICHOLS CENTER
CONSTRUCTION OF A 60-BED NURSING HOME REPLACEMENT FACILITY
CAPITAL EXPENDITURE: \$1,820,000
LOCATION: SUMRALL, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

The Nichols Center, LLC, (formerly the Willard Bond Home) Madison County, Mississippi is a facility that provides both long and short term care with emphasis on meeting the resident's and community's needs. The Nichols Center will be owned by a for-profit Mississippi Limited Liability Company.

The Nichols Center, LLC will contract with Southern Healthcare Services, Inc. for management of the facility and its governing board will provide equal opportunity for participation by racial or ethnic minorities, women, and or the elderly.

The Nichols Center will be licensed and staffed for 60 nursing home beds.

B. PROJECT DESCRIPTION

This project is requesting Certificate of Need (CON) authority to construct a 60-bed long term care replacement facility to be located in Madison County, Mississippi. The replacement facility is to be modern, well designed, and beautifully decorated to meet the needs of residents and the community. The Nichols Center will offer home like amenities that the residents expect as well as provide the necessary healthcare. There will be 24 hour skilled nursing services, rehabilitation services, short term respite care, adult day care services, and specialized care for Alzheimer's disease. The facility will also offer services to meet the resident's social activity, and religious needs. In addition, the facility will offer a well rounded nutritional program supervised by a registered dietitian.

The construction for the replacement facility will consist of 19,537 square feet of space adequate to accommodate resident's sleeping rooms, a nurses station, clean and soiled utility rooms, beauty shop, laundry, dining and activity rooms. The facility will also offer space for proper storage per regulations, and additional office space per design. There will also be day rooms, a lobby area, employee break room and any other areas that are needed to meet current rules and regulations.

The total proposed capital expenditure is \$1,820,000. The percentage breakdown of the capital expenditure is as follows: 48.6 percent for new construction, 6.3 percent for fixed equipment, 6.9 percent for non-fixed equipment, 12.9 percent for land cost, 4.1 percent for site preparation, 13.7 percent for fees, 3.2 percent for contingency reserve, 2.1 percent for capitalized interest, and 1.9 percent for other cost.. The capital expenditure of this project is

to be financed through a bank loan. A letter from State Bank and Trust was included in the project documenting the financial institution's willingness to provide the loan.

The project is expected to begin construction within 90 days of approval of this CON and the completion of the project to take approximately 18 months.

According to the applicant, approximately seven less full time employees will be required at the new facility with a \$215,000 per year reduction on salary costs.

The applicant provided a letter from the MSDH, Division of Licensure and Certification with the site being conditionally approved, contingent upon receipt of written notification from the City of Madison that the property is zoned for the intended use; fire and police protection are available to the site and water and sewer services are also available. Additionally, written evidence that the site is not in the 100 year flood plane is needed.

According to the applicant, there will be no changes in the use of ancillary or support services. Also, the cost and charges per resident are not expected to increase as a result of this project.

II. TYPE OF REVIEW REQUESTED

Projects which purpose the construction of a replacement facility is reviewed in accordance with Section 41-7-191, subparagraph (1) (b), Mississippi Code of 1972 Annotated, 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 July 2, 2003.

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

A. State Health Plan (SHP)

The *FY 2003 State Health Plan* does not address criteria and standards for construction/replacement of a long term care facility. As previously stated, this proposal involves construction/replacement of a long term care facility.

B. General Review (GR) Criteria

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

GR Criterion 3 - Availability of Alternatives

The Nichols Center does not consider there to be any alternative for this project. The objective of this project is to provide the 60 residents that are currently being served by the existing facility (formerly Willard F. Bond Home) a new, modern, well equipped and designed facility. It is the intent of the current ownerships board of directors (a non-profit organization) to discontinue providing long term care services to the current 60 residents, therefore, creating the need for this replacement facility. The applicant affirms that this project is the only alternative.

GR Criterion 4 - Economic Viability

The economic viability of this project appears to be good. The Nichols Center indicates a net income of \$103,408, the first year, \$114,763, the second year, and \$126,555, for the third year of operation.

The application contains financial statements which document the applicant's financial ability to undertake the project.

GR Criterion 5 - Need

The Nichols Center, LLC (formerly the Willard F. Bond Home) has been in operation for over 40 years in Madison County, Mississippi. The applicant affirms that the need for this nursing facility has been approved and documented for many years. The applicant further states that it has met and will continue to meet all the requirements of the *State Health Plan* and will not be an overlapping of services nor will it be additional services. The replacement facility will only replace the existing 60 bed nursing facility with a more updated facility that will better meet the needs of the residents and the community.

GR Criterion 6 - Access to the Facility or Service

The applicant contends that all residents, including low income, racial and ethnic minorities, women, handicapped and elderly will have access to this 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.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant affirms that this is only a replacement of a current existing facility and will not have any adverse effect on healthcare facilities within the area.

GR Criterion 16 - Quality of Care

The Nichols Center, LLC is in compliance with the Minimum Standards of Operation for Nursing Facilities, according to the Division of Health Facilities Licensure and Certification.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Construction Cost - New	\$ 885,000
Total Fixed Equipment	115,000
Total Non-fixed Equipment	125,000
Land Cost	235,000
Site Preparation Cost	75,000
Fees	250,000
Contingency Reserve	60,000
Capitalized Interest*	40,000
Other Cost	<u>35,000</u>
Total Proposed Capital Expenditure	<u>\$1,820,000</u>

*For construction and renovation projects (interest incurred during construction/renovation period)

The total square footage for new construction is 19,537 square feet at a cost of \$93.16 per square foot. The 2003 Means Building Construction Cost Data lists the median cost of nursing home construction at \$95.05 and the high cost at \$118. It appears that this cost is in line with other similar projects.

B. Method of Financing

The applicant indicates that the proposed project will be financed through a bank loan with State Bank and Trust, Monticello, Mississippi. The applicant provided a letter from Mr. Thomas E. Jolly, Jr. stating the willingness to finance this project.

C. Effect on Operating Cost

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

	First Year	Second Year	Third Year
Expenses			
Direct Care Expenses	\$1,065,250	\$1,097,207	\$1,130,124
Care Related Exp.	\$278,896	\$287,263	\$295,881
Laundry Expenses	\$23,741	\$24,454	\$25,187
Housekeeping Exp.	\$104,353	\$107,484	\$110,708
Social Services	\$61,459	\$63,303,	\$65,202
Plant Operations & Maintenance	\$44,717	\$46,059	\$47,440
Activities Expenses	\$37,297	\$38,415	\$39,568
General & Admin.	\$483,668	\$498,178	\$513,123
Rent	\$2,100	\$2,163	\$2,228
Depreciation	\$67,333	\$67,333	\$67,333
Property Interest	\$107,878	\$104,881	\$101,699
Total Expenses	\$2,276,692	\$2,336,740	\$2,398,493
Revenues			
Medicaid Revenue	\$1,954,700	\$2,013,341	\$2,073,741
Private Revenue	\$425,400	\$438,162	\$451,307
Total Revenues	\$2,380,100	\$2,451,503	\$2,525,048
NET INCOME	\$103,408	\$114,763	\$126,555

The applicant states that the total number of patient days projected for the first full year of operation is 21,315. The cost per patient day for the first full year will be \$104.36 and the charge per patient day for the first full year will be \$120 with the average length of stay projected to be 3 years.

Staff calculated a slightly different cost per patient day of \$107, based on the total expenses stated above for the first year, and a charge per day of \$112, based on total revenues and the given number of patient days.

D. Cost to Medicaid/Medicare

The impact of the project on third party payors is as follows:

<u>Patient Mix</u>	<u>Utilization Percentage</u>	<u>First Year Cost</u>
Medicaid	83.37%	\$1,984,289*
Medicare	.04%	95,204
Other Payors	<u>12.63%</u>	<u>300,607</u>
Total	100%	<u>\$2,380,100</u>

*Applicant estimates that Medicaid reimbursement will be \$108.81 per day for a total of \$1,933,554 annually, and that the annual cost to Medicaid will decrease by \$169,703.

V. **RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for their review. The Department received a letter from the Division of Medicaid dated May 14, 2003. The letter stated that approval of this CON is expected to increase Medicaid expenditures by approximately \$22,035 annually in total funds based on a stable occupancy rate. The Division of Medicaid further stated that they did not oppose the approval of this project.

VI. **CONCLUSION AND RECOMMENDATION**

The FY2003 State Health Plan does not contain criteria and standards for construction/replacement and relocation of a nursing facility. However, the application is in substantial compliance with the overall objectives of the Plan and the general criteria and standards contained in Chapter 8 of the Certificate of Need Review Manual, 2000 revisions, 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 The Nichols Center, LLC for the replacement of a 60-Bed nursing facility, contingent upon receipt of full site approval.