

**Mississippi State Department of Health
Division of Health Planning and Resource Development
April 2008**

CON Review NH-A-0208-002

**Tallahatchie General Hospital and Extended Care Facility
Amendment to CON #R-0618 (Establishment/Construction
of a 60-Bed Nursing Facility)**

Approved Capital Expenditure: \$2,997,983

Additional Capital Expenditure: \$1,220,019

Revised Capital Expenditure: \$4,218,002

Location: Charleston, Tallahatchie County, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

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

Tallahatchie is licensed to operate 9 acute care beds and 68 skilled nursing facility beds and is certified to participate in the Medicare-Medicaid programs. Tallahatchie still has Hill-Burton Program obligations.

The facility's bed capacity, occupancy rate, average length of stay (ALOS), and average daily census (ADC) for FY 2006 are as follows:

Tallahatchie General Hospital and Extended Care Facility FY 2006 Utilization				
Facility	Bed Capacity	Occupancy Rate %	ALOS	ADC
Acute Care*	9	29.32	3.29	2.64
Extended Care Facility	68	94.48	1,447	64.24

*Including swing beds

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Background

Certificate of Need No. R-0618, effective July 31, 2003, authorized Tallahatchie to expand its nursing home bed capacity by 60 beds and to construct a new wing to the hospital to house the additional beds. On November 17, 2005, the Department approved a revised project capital expenditure of \$2,997,983.

Tallahatchie was authorized to locate 58 of the CON beds in the newly constructed wing (54 private and 2 semi-private rooms) and 2 of the CON beds in the renovated and refurbished existing nursing home, along with 38 of the pre-CON Beds. The original project contemplated new construction of 18,740 square feet and renovation of 2,460 square feet of space for a total of 21,200 square feet.

On May 25, 2006, Tallahatchie was further authorized to amend its CON so that 30 of the CON beds can be licensed and operated in the existing nursing home until construction of the new wing can be completed. After completion of the construction, 28 of the licensed CON beds will then be moved to the new nursing home wing where the remaining 30 CON beds will also be located. Two of the CON beds will remain in the refurbished and renovated existing nursing home. The applicant also proposes to sell 30 of its existing 68 nursing home beds, leaving a balance of 98 nursing home beds upon completion of this project.

C. Project Description

Tallahatchie now requests CON authority to further amend its CON to allow a total capital expenditure of \$4,218,002 and revised architectural plans of the new nursing home wing consisting of 21,906 square feet of space. This amendment entails an additional \$1,220,019 capital expenditure and an increase of 3,166 square feet of new construction. The applicant expects that the new construction of 21,906 square feet of space will provide rooms for 58 nursing home beds, including 54 private rooms and 2 semi-private rooms, each with its own private toilet area, a dining area at the end of the northeast wing, and a laundry area at the end of the southeast wing.

Additionally, the applicant expects to construct a new parking area in close proximity to the new nursing home wing to allow those working in the nursing home and those visiting residents of the nursing home a convenient place to park.

On July 20, 2007, the Division of Health Facilities Licensure and Certification approved the applicant's architectural plans and granted approval for commencement of construction.

The applicant submits that Tallahatchie has already purchased the land and construction is scheduled to commence during the spring of 2008.

II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all projects for amendment and cost overrun in accordance with duly adopted procedures and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on May 5, 2008.

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

A. State Health Plan (SHP)

The original project was in substantial compliance with the *1999 State Health Plan*, in effect at the time of submission. This amendment project continues to be in substantial compliance with the Plan.

B. General Review (GR) Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, 2000 revision*, in effect at the time of submission. This application continues to be in compliance with applicable criteria and standards.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
Construction (including fixed equipment)	\$1,908,725	\$3,164,662	\$1,255,937
Non-Fixed Equipment	215,600	25,000	(190,000)
Land	19,500	19,500	0
Site Work	236,976	226,000	(10,976)
Architectural/Engineering Fees	171,656	365,140	148,708
Capitalized Interest	145,000	193,000	48,000
Contingency Reserve	214,570	99,400	(115,170)
Bond Issue Fees	41,180	55,300	14,120
Parking	0	70,000	70,000
Total	\$2,997,983	\$4,218,002	\$1,220,019

The applicant submits that the overall construction costs have increased primarily because of (1) the impact of Hurricane Katrina on construction costs in Mississippi and (2) the addition of the new parking space, which addition will increase the construction cost by approximately \$70,000.

Tallahatchie proposes to utilize non-fixed equipment that it already has to furnish the new nursing home rooms in an effort to keep costs down and to keep the project within budget. This decision resulted in a decrease of \$190,000 for non-fixed equipment.

According to the applicant, the increase in fees is a result of the filing of bankruptcy by the initial architect. The applicant had to employ a new architect to revise the plans and conduct the second public bid for the construction project. In addition to those duties, the new architect agreed to conduct all required USDA inspections as part of his responsibilities to the project.

The applicant states that bond issuance fees increased due to an additional loan from USDA in the amount of \$800,000 because the lowest construction bid received was higher than the amount budgeted for the project.

Finally, the applicant submits that the hospital has expended \$19,500 for the land and approximately \$250,000 for architectural and engineering costs, representing about 6 percent of the construction project.

The project will cost approximately \$191 per square foot. The Means Construction Cost Data, 2008 edition, list the construction cost for nursing homes to range between \$103 and \$162. See Attachment 2 for computation of the project's square foot cost.

B. Method of Financing

The applicant states that it will secure two loans from USDA in the amounts of \$4,948,200 and \$800,000 and a Community Facilities grant in the amount of \$100,000. The loan in the amount of \$4,948,200 will have a term of 35 years with an interest rate no higher than 4.25% ("USDA Loan #1"); the loan in the amount of \$800,000 will have a term of 35 years and is expected to have an interest rate of 3.75% ("USDA Loan #2"). The funds for the USDA loans will be generated by two Mississippi Development Bank bond issuances secured by hospital revenues. These loans and the grant will be allocated to this construction project and the renovation project for the hospital. Approximately 70% of the loan is being allocated to the approved nursing home expansion (\$4,023,740 – loan; \$70,000 – grant) and approximately 30% is being allocated to the renovation of the hospital.

C. Effect on Operating Cost

The applicant's revised projected operating expenses for the first year of operation are presented in Attachment 1.

The applicant submits that the project is the construction of an addition to the hospital; therefore, the operating statement cannot be broken down to reflect this project only and reflects projections for the hospital's total operation. The applicant further submits that since 2002 when the CON application was filed, the hospital's costs per patient day have increased and the hospital's Medicaid reimbursement for its extended care division has increased. Because the hospital cannot charge private pay residents an amount lower than its Medicaid rate, the charge to its private pay residents has increased.

D. **Cost to Medicare/Medicaid**

According to the applicant, the effect of this CON amendment on Medicaid patients will be minimal. The applicant expects an increase of approximately \$7,000 annually taking into consideration all of the 98 nursing home beds that will be set up and staffed following completion of the project, or less than \$5,000 annually taking into consideration only the 60 new nursing home beds. The applicant states that amount (\$7,000) is less than .15% of the Medicaid net revenue if current upper payment limits are in effect at the time and approximately .16% of the Medicaid net revenue if there are no upper payment limits in effect. The applicant does not expect any effect of this CON amendment on Medicare patients or other payors.

V. **RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of the original application for comment. At that time, Medicaid stated that the cost overrun and amendment to CON # R-0618 was not expected to increase Medicaid expenditures above the projection for the original CON proposal for this facility. Therefore, the Division of Medicaid did not oppose the approval of the original Certificate of Need request.

VI. **CONCLUSIONS AND RECOMMENDATION**

The original application was found to be in substantial compliance with criteria and standards for nursing home care beds found in the (1999) *Mississippi State Health Plan; Certificate of Need Review Manual*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval. This request for an amendment/cost overrun is a change in scope, but does not change the overall objective of the project.

The Division of Health Planning and Resource Development recommends approval of the application submitted on behalf of Tallahatchie General Hospital & Extended Care facility for amendment of CON # R-0618.

Attachment 1

**Tallahatchie General Hospital and Extended Care Center
Projected Operating Statement
Comparison for First Year of Operation**

	Original	Revised
	Year 1	Year 1
Revenue		
Gross Patient Services Revenue	\$10,788,574	\$17,967,060
Less Contractual Adjustments	<u>-1,161,376</u>	<u>-5,414,938</u>
Net Patient Service Revenue	9,627,198	12,552,122
Other Revenue	<u>17,503</u>	<u>95,252</u>
Net Operating Revenue	<u>\$ 9,644,701</u>	<u>\$12,647,374</u>
Expenses		
Salary and Benefits	\$ 5,230,918	\$ 6,980,167
Supplies and Other Expense	4,043,358	4,171,682
Depreciation	384,487	371,703
Interest Expense	<u>247,284</u>	<u>249,855</u>
Total Operating Expense	<u>\$ 9,906,047</u>	<u>\$11,773,407</u>
Income (Loss) From Operations	(261,346)	873,967
Non-Operating Revenue (Losses)		
Interest Income	2,042	4,675
Non-Capital Grants and Contributions	<u>285,300</u>	<u>103,686</u>
Total Non-Operating Revenues	<u>\$ 287,342</u>	<u>\$ 108,361</u>
Net Income (Loss)	\$ 25,996	\$ 982,328
Assumptions		
<u>Acute (Including Swing Beds)</u>		
Average Daily Census	4.72	4.00
Average Length of Stay	4.74	5.70
Number of Patient Days	1,723	1,470
<u>Extended Care</u>		
Average Daily Census	78	83.0
Average Length of Stay	1,423	1,424
Number of Patient Days	28,470	30,149

Attachment 2
Tallahatchie General Hospital and Extended Care Center

Computation of Construction Cost

Cost Component	Total	New Construction
New Construction Cost	\$3,164,662	\$3,164,662
Renovation Cost		
Parking	\$70,000	\$70,000
Total Non-Fixed Equipment Cost	\$25,000	
Land Cost	\$19,500	
Site Preparation Cost	\$226,000	\$226,000
Fees (Architectural, Consultant, etc.)	\$365,140	\$365,140
Contingency Reserve	\$99,400	\$99,400
Bond Issuance Fees	\$55,300	\$55,300
Capitalized Interest	\$193,000	\$193,000
Total Proposed Capital Expenditure	\$4,218,002	\$4,173,502

Square Footage	21,906	21,906
Allocation Percent		100.00%

Costs Less Land, Non-Fixed Eqt.	\$4,173,502	\$4,173,502
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Cost Per Square Foot	\$190.52	\$190.52
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