

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
APRIL 2010**

CON REVIEW: NH-RLS-0110-001

**HARRISON COUNTY PROPERTIES, LLC, D/B/A GULFPORT CARE CENTER
CONSTRUCTION OF 90 NURSING HOME BEDS IN HARRISON COUNTY, MISSISSIPPI**

CAPITAL EXPENDITURE: \$7,178,929

LOCATION: GULFPORT, HARRISON COUNTY, MISSISSIPPI

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Harrison County Properties, LLC d/b/a Gulfport Care Center is a Mississippi limited liability company, registered and in good standing. The sole owner of the entity is Elton G. Beebe, Sr. Irrevocable Family Mortgage Trust. The Trustees of the Elton G. Beebe, Sr. Irrevocable Mortgage Trust are as follows: H.K. Beebe Jr., Hibernia W. Williams, Bobby L. Beebe, and Elton Glynn Beebe, Jr.

B. Project Description

Harrison County Properties, LLC d/b/a Gulfport Care Center (Gulfport Care Center), is requesting Certificate of Need (CON) authority to construct a replacement facility for 90 nursing home beds in Harrison County, Mississippi. The applicant proposes the relocation and replacement of 90 nursing home beds previously operated by Miramar Lodge Nursing Home.

Miramar Lodge Nursing Home, a 180-bed nursing facility located at 216 West Beach Boulevard, Pass Christian, Harrison County, Mississippi, was destroyed by Hurricane Katrina. The applicant states that due to the complete destruction of Miramar Lodge Nursing Home, it was not feasible to repair or renovate the former building structure. Therefore, Miramar Lodge Nursing Home decided to close on August 29, 2005 due to the devastation from Hurricane Katrina. The *FY 2010 State Health Plan* states that a health care facility that has ceased to operate for a period of 60 months (five years) or more shall require a Certificate of Need prior to reopening. Miramar Lodge Nursing Home has been closed approximately 4 years and 8 months.

Subsequently, 120 of Miramar's nursing facility beds were placed in a de-licensed status with the Mississippi State Department of Health. Skyler Hattiesburg, Inc. currently owns the 120 nursing facility beds formerly used in the operation of Miramar Lodge Nursing Home. Miramar Lodge Nursing Home transferred/relocated 60 of their nursing facility beds to the Boyington in 2006.

The applicant states that Skyler Hattiesburg, Inc. will transfer its rights and interest in the beds to Harrison County Properties, LLC upon approval of the CON. The applicant provided a copy of the proposed transfer agreement between Skyler Hattiesburg, Inc. and Harrison County Properties, LLC. The applicant also filed a separate CON application requesting the relocation of 30

beds previously operated by Miramar to its existing facility (Windham House) in Hattiesburg, Lamar County, Mississippi.

The applicant suggests that the only feasible alternative for the replacement of Miramar Lodge Nursing Home would be the construction of a new building, at a new location, and a safer distance from the coastline. The applicant further suggests that the construction of a new building is needed in order to restore skilled nursing services on the Gulf Coast to the same level that existed prior to Hurricane Katrina.

The proposed replacement facility will be comprised of 40,320 square feet of new construction to be located at the intersection of Canal Street and Cypress Point Drive in Gulfport, Harrison County, Mississippi. The proposed facility is approximately 20 miles from Miramar Lodge Nursing Home's previous location. The applicant states the proposed facility's designated location is at a safer distance from the coastline and the threat of hurricane damage, yet accessible to area residents and other health care facilities. The applicant affirms that all precautionary measures to better withstand Hurricane season have been carefully accessed in correlation to the proposed project. The applicant received site approval from the Division of Licensure and Certification for the proposed location.

The applicant's stated ultimate goal of the project is to permit enhanced access to care by providing much needed long term care services in Harrison County.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the relocation of nursing home beds under the statutory requirements of Sections 41-7-173, 41-7-191 (1)(b) and (e) and 41-7-193, Mississippi Code of 1972, Annotated, as amended, 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 on May 13, 2010.

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

State Health Plan (SHP)

The *FY 2010 State Health Plan* does not contain criteria and standards for construction/replacement and relocation of beds as proposed by this application. However, the Plan gives guidelines for all health planning in Mississippi. The Plan states: Mississippi's planning and health regulatory activities have the following purposes:

- To improve the health of Mississippi residents;
- To increase the accessibility, acceptability, continuity, and quality of health services;
- To prevent unnecessary duplication of health resources; and
- To provide some cost containment.

The applicant believes that the proposed project will work in accordance with the Plan. The *FY 2010 State Health Plan*, 2020 Projected Nursing Home Bed Need states that there are 5,475 licensed/CON approved nursing home beds in Long Term Care Planning District IV.

In addition, the *FY 2010 Mississippi State Health Plan* indicates that there is a projected 2020 need for 639 nursing home beds in Harrison County. The applicant asserts that Harrison County has the highest bed need of any county in Long-Term Care Planning District (LTCVD) IV, which is the second highest need of any county in the State of Mississippi. Additionally, the two other Gulf Coast counties, Jackson and Hancock, show a nursing home bed need of 638 and 259 respectively. The applicant suggests that these statistics demonstrate that the Gulf Coast counties have a greater need for nursing home beds in comparison to other areas in the state.

The applicant believes that the construction of a replacement facility and relocation of 90 beds in Harrison County should not cause any adverse impact to existing facilities, as the beds were previously in operation prior to Hurricane Katrina.

General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The *FY 2010 State Health Plan* does not contain criteria and standards for the construction and relocation of a replacement facility as proposed by this application.

The *FY 2010 State Health Plan*, does state that there is a projected 2020 need for 639 nursing home beds in Harrison County. The applicant states that in order to address this need, the re-establishment of nursing home beds previously operated as Miramar Lodge is vital. The applicant believes that the construction and replacement facility will serve both the immediate and long-term needs of the residents of the Mississippi Gulf Coast with respect to skilled nursing care.

The proposed project is for the construction/replacement/relocation of 90 beds which were operational prior to Hurricane Katrina. The applicant suggests that since there is no request for additional beds to be added to LTCVD IV the impact of the proposed project on surrounding health care facilities should be negligible.

GR Criterion 2 – Long Range Plan

Gulfport Care Center affirms that they are committed to providing high quality facilities and services to patients seeking long term care. The applicant suggests that once the proposal is implemented, nursing facility beds so desperately needed for the enhanced access for Mississippi Gulf Coast residents will be replaced. The applicant states that the proposed project is a critical component of their long range goals and mission to serve the residents of Harrison County and the surrounding area.

GR Criterion 3 – Availability of Alternatives

The applicant states that due to the complete destruction of Miramar Lodge Nursing Home, it was not feasible to repair or renovate the former building structure. Consequently, the only feasible alternative for the replacement of Miramar Lodge Nursing Home is the construction of a new building at a new location, a safer distance from the coastline.

The applicant affirms that there is a significant need for nursing home beds in Harrison County. Therefore, the applicant determined to construct the replacement facility within the county, approximately 20 miles from the previous location, at a safer distance from the coastline, away from the threat of hurricane damage, nevertheless keeping the facility easily accessible to area residents and other health care facilities.

After conducting extensive research, review, and evaluation of potential sites, the applicant suggests that the selected location best meets these objectives. The applicant affirms that the modernization of existing facilities was not an option in this instance. Furthermore, the applicant believes the proposed project is the most efficient and, in fact, the only solution to the identified need in Harrison County.

GR Criterion 4 – Economic Viability

Based on the applicant's three-year projections, this project will receive a net operating income of \$280,893 the first year, \$477,596 the second year, and \$491,925 for the third year.

- a. **Proposed Charge:** The applicant projects charges of \$197 per inpatient day for the first year, \$202 for year two, and \$206 for year three. The applicant projects costs of \$190 for the first year, \$165 for the second year, and \$169 for the third year of the operation of the proposed project.

The applicant states that the project will have minimal, if any impact on the cost of health care in Mississippi, Medicaid, Medicare, or any other payor. The applicant affirms that the proposed charges for Gulfport Care Center are based on operations at similar facilities.

- b. **Projected Levels of Utilization:** Gulfport Care Center projects that its occupancy rates for the first three years of operation are 61% for the first year, 90% for the second year, and 91% for the third year.
- c. **Project's Financial Feasibility Study:** The application contained a letter signed by the President of Administrative Systems, Inc. attesting to the financial feasibility of this project.

GR Criterion 5 – Need for Project

- a. **Access by Population Served:** The applicant affirms that all residents of the service area, in particular low income persons, racial and ethnic minorities, women, handicapped persons, and the elderly, will continue to have access to the facility.

- b. Relocation of Services:** The applicant suggests that the proposed construction of a replacement facility and the relocation of 90 nursing facility beds to the new facility will respond to this community need and the needs of the elderly population. According to the applicant, the nursing facility beds to be relocated to Harrison County are Medicaid eligible beds; thus accessibility will be enhanced for those seeking home services in Harrison County and the surrounding area.

There are six existing nursing homes located in Harrison County. According to the 2008 Mississippi Report on Nursing Homes, these facilities averaged 81% occupancy in 2008.

2006, 2007, and 2008 Utilization of Nursing Facilities
 Table 1

| | 2006 | 2006 | 2006 | 2007 | 2007 | 2007 | 2008 | 2008 | 2008 |
|--------------------------------|------------|--------------|---------------|------------|--------------|---------------|------------|--------------|---------------|
| | LBC | Occ. % | ADC | LBC | Occ. % | ADC | LBC | Occ. % | ADC |
| Harrison County | 736 | 87.13 | 553.52 | 796 | 71.66 | 584.59 | 796 | 80.78 | 617.51 |
| Biloxi Community Living Center | 240 | 62.55 | 150.11 | 240 | 64.14 | 153.94 | 240 | 63.61 | 152.66 |
| The Boyington | 180 | 96.60 | 117.81 | 180 | 75.83 | 136.50 | 180 | 74.53 | 134.16 |
| Dixie White House Nursing Home | 60 | 97.58 | 58.54 | 60 | 96.26 | 57.75 | 60 | 91.59 | 54.95 |
| Driftwood Nursing Center | 151 | 85.20 | 128.66 | 151 | 85.98 | 129.83 | 151 | 88.79 | 134.07 |
| Greenbriar Nursing Center | - | - | - | 60 | 14.54 | 8.73 | 60 | 72.92 | 43.75 |
| Lakeview Nursing Center | 105 | 93.72 | 98.40 | 105 | 93.19 | 97.85 | 105 | 93.26 | 97.92 |

*Source: 2006 through 2008 Report on Institutions for the Aged or Infirm.

- c. Probable Effect on Existing Facilities in the Area:** The applicant asserts that the proposed project should have no effect on existing facilities in the area since there are no additional beds or services added.

As previously mentioned, the proposed project involves the construction of a replacement facility as a result of Hurricane Katrina. The prior site of Miramar Lodge will not be used for nursing home services.

- d. Community Reaction:** The application contained seven letters of support for the proposed project from administrators and physicians.

No letters of opposition for the proposed project were received.

GR Criterion 6 – Access to the Facility or Service

- a. Medically Underserved Population:** Gulfport Care Center, affirms that all residents of the service area, including Medicaid/Medicare recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly will have access to the proposed services.
- b. Performance in Meeting Federal Obligations:** The applicant submits that Gulfport Care Center has no obligations under federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.

- c. **Unmet Needs to be Served by Applicant:** The applicant states that Gulfport Care Center will be certified for participation in Medicare and Medicaid. The applicant affirms that no restrictions or advantages will be placed on care based on payor source, creed, national origin or disability.

GR Criterion 7 – Information Requirement

Gulfport Care Center affirmed 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

Gulfport Care Center does not propose to add any additional beds to LTCPD IV, only to construct a replacement facility and relocate 90 beds which were operational prior to Hurricane Katrina. The applicant believes that the impact of the proposed project on surrounding health care facilities should be negligible.

As previously stated, the six existing nursing homes in Harrison County are experiencing an annual occupancy of 81%. The applicant suggests that as the population continues to grow, there will be additional demands created on existing facilities. The applicant states that the relocation of the 90 beds proposed herein will provide greatly needed long term care services to the elderly population of Harrison County and the surrounding area. The applicant further suggests that the proposed project will complement existing health facilities and resources without adverse impact.

The applicant states that as the Mississippi Gulf Coast continues to rebuild from Hurricane Katrina, it is imperative that health care facilities and resources be restored in order to serve community health needs. The applicant believes that if the proposed project is not implemented, the result will be an adverse impact to the community due to the documented need for nursing facilities.

GR Criterion 9 – Availability of Resources

The applicant projects 63.5 full-time equivalent personnel at an estimated \$1,729,659 for the first year.

The applicant states that they as well as their affiliate entities have considerable experience in the staffing of nursing facilities. The applicant affirms that their affiliates have demonstrated a satisfactory staffing history in nursing home operations. Therefore, the applicant suggests that they have access to resources and personnel necessary to staff the proposed beds.

The applicant states that the proposed facility will enter into appropriate contracts for clinically related contractual services, consistent with applicable regulations.

GR Criterion 10– Relationship to Ancillary or Support Services

According to the applicant, the proposed project will have all necessary support and ancillary services.

GR Criterion 14– Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Bixler Construction.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant affirms that space allocations at the replacement facility will conform to applicable local, state, or minimum standards.
- d. **New Construction Projects:** Miramar Lodge Nursing Home, was damaged as a result of Hurricane Katrina. After Hurricane Katrina, 120 of Miramar's nursing facility beds were placed in a de-licensed status with the Mississippi State Department of Health. The applicant proposes the relocation and replacement of 90 nursing home beds previously operated by Miramar Lodge Nursing Home.

The applicant states that the proposed construction of a replacement facility and the relocation of 90 nursing facility beds to a new facility will provide an additional resource and alternative for nursing home care in the area, as the population continues to grow in future years.

- e. **Cost per square foot:** The applicant proposes to construct 40,320 square feet of new space at an estimated cost of \$147.54 per square foot. The Means Building Construction Cost Date, 2009 Edition lists new construction cost ranging from \$110.00 to \$174.00 per square foot for the average nursing home.

GR Criterion 16– Quality of Care

The applicant states that there is a documented need for long term care beds in Harrison County and the Mississippi Gulf Coast. The applicant suggests, that by re-establishing the 90 nursing facility beds in a newly constructed replacement facility, it will make high quality skilled nursing care available to the community.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

| Item | Cost | Percentage of Total |
|---|---------------------|----------------------------|
| a. Construction Cost – New | \$ 4,756,675 | 66.25% |
| b. Construction Cost – Renovation | \$ 0 | 0% |
| c. Capital Improvements | \$ 0 | 0% |
| d. Total Fixed Equipment Cost | \$ 430,681 | 6.00% |
| e. Total Non-Fixed Equipment Cost | \$ 0 | 0% |
| f. Land Cost | \$ 0 | 0% |
| g. Site Preparation Cost | \$ 411,716 | 5.74% |
| h. Fees (architectural, consulting, etc.) | \$ 126,500 | 1.76% |
| i. Contingency Reserve | \$ 0 | 0% |
| j. Capitalized Interest | \$ 223,297 | 3.11% |
| k. Other (CON Purchase) | \$ 750,060 | 10.45% |
| Total Proposed Capital Expenditure | \$ 7,178,928 | 100% |

The above estimated capital expenditure is proposed for new construction of 40,320 square feet of space at a cost of \$147.54 per square foot. The \$147.54 per square foot compares favorably to costs contained in the Means Building Construction Cost Data, 2009 Edition which ranges from \$110.00 to \$174.00 per square foot for nursing homes.

The applicant provided a letter signed by the President of Administrative Systems, Inc. attesting to the financial feasibility of this project.

B. Method of Financing

The applicant proposes to finance the proposed project through a commercial loan with Trustmark National Bank, Jackson. The application included a letter from Mr. Nelson E. Gibson, First Vice President of Trustmark Bank, indicating its interest in financing the proposed project.

C. Effect on Operating Cost

Harrison County Properties, LLC d/b/a Gulfport Care Center projects the following expenses, revenues, and utilization for the first three years of operation for the proposed project:

| | Year 1 | Year 2 | Year 3 |
|---------------------------------|------------------------|------------------------|------------------------|
| Revenue | | | |
| Inpatient Care Revenue | \$ 3,941,192 | \$ 5,969,334 | \$ 6,148,414 |
| Outpatient Revenue | | | |
| Gross Patient Revenue | \$ 3,941,192 | \$ 5,969,334 | \$ 6,148,414 |
| Charity Care | | | |
| Deductions from Revenue | \$ 412,438 | \$ 600,218 | \$ 618,225 |
| Net Patient Care Revenue | \$ 3,528,754 | \$ 5,369,116 | \$ 5,530,189 |
| Total Operating Revenue | \$ 3,528,754 | \$ 5,369,116 | \$ 5,530,189 |
| Operating Expenses | | | |
| Salaries | \$ 1,576,549 | \$ 2,089,143 | \$ 2,151,817 |
| Benefits | 153,110 | 270,177 | 278,282 |
| Supplies | 233,880 | 388,365 | 400,016 |
| Services | 343,239 | 465,181 | 479,136 |
| Lease Expenses | 532,176 | 532,176 | 548,141 |
| Depreciation | 31,010 | 31,010 | 31,940 |
| Other | 939,683 | 1,115,468 | 1,148,932 |
| Total Operating Expenses | \$ 3,809,647 | \$ 4,891,520 | \$ 5,038,264 |
| Net Operating Income | \$ (280,893) | \$ 477,596 | \$ 491,925 |
| | Proposed Year 1 | Proposed Year 2 | Proposed Year 3 |
| Inpatient days | 20,025 | 29,565 | 29,893 |
| Charge per inpatient day | \$197 | \$202 | \$206 |
| Cost per inpatient day | \$190 | \$165 | \$169 |

D. Cost to Medicaid/Medicare

The applicant's projected cost to third party payors is as follows:

| Patient Mix by Payor | Utilization Percentage | First Year Revenue |
|-----------------------------|-------------------------------|---------------------------|
| Medicaid | 62% | \$2,443,539 |
| Medicare | 32% | \$1,261,181 |
| Other | 6% | \$ 236,472 |
| Total | 100% | \$3,941,192 |

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment; however, the department received no response, as of the date of this staff analysis.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the overall objectives as contained in the FY 2010 State Health Plan; the Mississippi Certificate of Need Review Manual; 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 Harrison County Properties, LLC d/b/a Gulfport Care Center for the construction of a replacement facility and relocation of 90 nursing home beds in Harrison County.