

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
July 2004**

**CON Review: HP-RLS-0504-017
CARES Center, Inc
Construction/Renovation and Relocation of 30 Psychiatric
Residential Treatment Facility Beds
Capital Expenditure: \$1,804,400
Location: Jackson, Mississippi**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

CARES Center, Inc. (CARES) is a not-for-profit Mississippi corporation whose management structure consists of six corporate officers and six members that exercise management control. The corporation also has a 34-member governing board. CARES is licensed to operate 30 psychiatric residential treatment facility (PRTF) beds in Jackson and has purchased 30 additional PRTF beds from Memorial Hospital at Gulfport (MHG). Mississippi Children's Home Society (MCHS), an affiliate of CARES, owns the property and leases same to CARES. As of December 31, 2002, CARES had an 95 percent occupancy rate with an average daily census of 28.50.

B. PROJECT DESCRIPTION

CARES is requesting CON authority to relocate 30 beds which it purchased from MHG, Harrison County, to its existing facility located in Jackson. MCHS currently owns the property on which the facility is located and CARES leases the property from MCHS.

The project is comprised of two phases. Phase I will consist of two separate, yet related renovations. One renovation will take place within the existing residential building to allow the addition of 12 of the relocated beds. The second renovation will take place in the building located adjacent to the existing CARES building, the 1801 Building, to increase the dining area and improve the entrance area. Phase II will involve constructing a new building that will house the remaining 18 beds. The applicant believes that the single-occupancy bedrooms in the new building will allow CARES to better serve more acute populations. All renovation and construction will be accomplished by MCHS. Additionally, the applicant submits that all new non-fixed equipment, as listed in the application, will be purchased by MCHS and leased to CARES pursuant to an equipment lease.

The applicant proposes to amend the existing long-term Facility Lease to include the new construction and renovation, and MCHS and CARES will enter into the Equipment Lease with respect to the non-fixed equipment.

CARES expects that by relocating the 30 beds to the Hinds County facility, the Center will be able to realize savings within its program based on economies of scale.

Phase I

Renovation of the existing 11,000 square foot residential building will be accomplished by relocating and removing walls within the building, redesigning existing rooms to be utilized as bedrooms and generally reallocating space within that facility. The renovated residential building will result in a 42-bed residential area with one wing dedicated for the younger children aged 6 - 12. This dedicated wing is proposed to allow CARES to separate the younger children from the adolescents. In addition, the location of the three (3) residential wings allows the central location of the nurses' station to provide easy and immediate access into each wing. The residential area will also have day rooms, group rooms, an isolation room, seclusion areas, a medical exam room, a nurses' office, a break room, a laundry room and storage areas.

The 1801 Building, approximately 14,508 square feet of space, will also be renovated as a part of Phase I. The residents of the relocated 30 beds will utilize this existing cafeteria. The dining area will be expanded by moving the service line to what is now an existing corridor. Also, the applicant proposes to renovate the entrance to the 1801 Building and add a new handicapped-accessible sidewalk and parking space. The new lobby area will serve as a single point of entrance into the campus for all visitors.

Phase II

The new building, consisting of 9,050 square feet of space and designed to house more acute patients, will be located on CARES' campus directly north of the 1801 Building. This building will include 18 single-occupancy bedrooms, a centrally located nurses' station, two large day rooms, three group rooms, an isolation bedroom, seclusion rooms, time-out carrels, offices, administrative areas, a visiting room, a staff area, laundry and various other areas and rooms. The new construction will also include a new parking area consisting of 29 parking spaces.

The applicant anticipates that additional faculty and administrative/support staff at CARES School will be necessary to handle the increase of the additional students. The project is projected to require 46.2 FTE personnel at an estimated cost of

\$1,201,636 the first year.

The proposed capital expenditure of \$1,804,400 consists of new construction - 59 percent, renovation -25 percent, non-fixed equipment - 4 percent, fees - 8 percent, and contingency reserves - 4 percent. The applicant proposes to obligate the capital expenditure upon CON approval. Phase I is expected to commence upon receipt of the CON and will be completed within 8 to 10 months. Phase II will commence upon completion of Phase I and is scheduled to be completed within 12 - 14 months thereafter. The site for the project has been approved by the MSDH Division of Health Facilities Licensure and Certification.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for relocation of psychiatric services in accordance with Section 41-7-191, subparagraphs (1) (b), (c) and (e) of the Mississippi Code 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 August 3, 2004.

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

A. State Health Plan (SHP)

The *FY 2004 State Health Plan* contains policy statements and both general and service specific criteria and standards which an applicant is required to meet before receiving CON authority for the establishment of psychiatric residential treatment beds/services (PRTF). CARES is a current provider of PRTF services and is in substantial compliance with applicable criteria and standards. This project seeks to relocate 30 existing beds, which the applicant acquired through a change of ownership, from Harrison County to Hinds County.

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 2 - Long Range Plan

The applicant submits that the expansion of the Center comports with the CARES' plan to provide its services in the most convenient and accessible fashion as possible to all children and adolescents requiring those services and to their families.

GR Criterion 3- Availability of Alternatives

The applicant further submits that CARES considered relocating the 30 beds to a location within Harrison County and had anticipated doing so. However, because of recent cuts in reimbursement rates to CARES for the services it renders and to the CARES School, that alternative was not financially feasible.

CARES determined that the most economical way to bring the beds on-line was to relocate them to its campus in Jackson in order to (a) place them in the most highly populated and most centrally located area of the state and (b) realize economies of scale.

GR Criterion 4 - Economic Viability

The three year operating projections reflect net income of \$17 the first year, \$324,941 the second year, and \$330,917 the third year. Therefore, the project appears to be economically viable. The applicant submits that 99 percent of the care delivered by CARES is reimbursed by Medicaid at a reimbursement rate established by Medicaid.

GR Criterion 5 - Need for the Project

CARES submits that its current occupancy rate is 97.68 percent. This project will allow CARES to continue providing greatly needed services to the children of Mississippi in the most cost efficient manner possible. The applicant believes that by placing all 60 beds on one campus, CARES will realize substantial savings in operating expenses. Not only can CARES utilize the resources that it currently has in place in Jackson for therapeutic treatment of its residents, but it will also be able to utilize the CARES School which is already in existence and staffed with a caring and experienced administration and faculty.

CARES is currently the only psychiatric residential treatment facility in Hinds County and the Jackson metropolitan area. The three-county area of Hinds, Madison, and

Rankin has a combined 2005 projected population of 473,113. Therefore, the applicant believes that the need for these beds in the heart of the state is obvious.

In FY 2003, there were 208 licensed PRTF beds located in five (5) facilities statewide. These facilities had an average occupancy rate of 89 percent. The applicant believes that this high utilization rate is further evidence of the need for more PRTF beds.

GR Criterion 6- Accessibility

The applicant submits that CARES offers its services to all children and adolescents who are in need of psychiatric residential treatment care, including the poor, racial and ethnic minorities, boys and girls, and those who are handicapped.

GR Criterion 7- Information Requirement

CARES affirmed that it 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

As previously stated, CARES is currently the only provider of psychiatric residential treatment services in the Jackson metropolitan area. In FY 2003, facilities throughout the state offering PRTF services experienced high utilization rates which averaged 89.34 percent statewide.

This project is not expected to have an adverse impact on any other provider of PRTF services.

GR Criterion 9 - Availability of Resources

The applicant affirmed the availability of resources for this project.

GR Criterion 16 - Quality of Care

CARES is in compliance with the *Minimum Standards of Operation for Institutions for the Aged or Infirm*, according to the Division of Health Facilities Licensure and Certification.

IV. FINANCIAL FEASIBILITY

A. Expenditure Summary

Construction Cost - New	\$ 1,058,000
Construction - Renovation	447,000
Non-Fixed Equipment Cost	73,700
Fees	150,500
Contingency Reserve	75,200
Total Proposed Capital Expenditure	\$1,804,400

The proposed capital expenditure is for the new construction of approximately 9,050 square feet of space to house 18 PRTF beds and to renovate approximately 25,000 square feet of space to accommodate the addition of 12 more residents.

B. Method of Financing

CARES proposes to finance the project with a commercial loan of \$1,704,400 and restricted contributions of \$100,000. The application contains a letter from Trustmark National Bank of Jackson expressing an interest in financing the project.

C. Effects on Operating Costs

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

Expenses	First Year	Second Year	Third Year
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Salaries	\$2,541,627	\$3,242,980	\$3,340,269
Benefits	485,667	631,749	701,457
Professional Fees	419,278	491,260	505,998
Maintenance & Utilities	176,916	264,517	272,452
Supplies & Other	625,383	1,034,902	1,065,949
Home Office Expenses	605,752	754,837	701,457
Property Insurance	16,013	21,347	21,987
Liability/General Insurance	34,384	76,244	78,531
Rental Expense	215,065	389,250	389,250
Depreciation	73,874	73,874	76,066
Amortization	30,000	30,000	30,000
Working Capital Int.	38,918	39,480	14,000
Provision for Bad Debts	<u>21,605</u>	<u>37,144</u>	<u>37,144</u>
Total Expenses	<u>\$5,284,482</u>	<u>\$7,087,581</u>	<u>\$7,234,560</u>
Net Patient Revenue	\$5,284,499	\$7,412,522	\$7,565,475
Net Income (Loss)	\$ 17	\$ 324,941	\$ 330,915
Patient Days	13,140	19,710	19,710
Cost per Day	\$ 402.17	\$ 359.59	\$ 376.05
Charge per Day	\$ 402.17	\$ 376.08	\$ 383.84

D. Cost to Medicaid/Medicare

The cost of the project to third party payors is as follows:

Payor	Utilization Percentage	First Year Cost
Medicaid	99.0	\$ 5,261,637.18
Medicare	-0-	\$-0-
Sub-total		\$ 5,261,637.18
Other	1.0	\$ 52,844.82
Total	100.0	\$ 5,284,482.00

Applicant submits that the Medicaid per diem is \$259. During the first year of operation (Phase I), applicant estimates that the patient revenue will be \$3,402,623. Of that amount, \$21,605 will not be reimbursed.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application; however, no written comments were received from the Division.

The Department of Mental Health was also provided an opportunity to comment. The Department of Mental Health agrees that the relocation of the beds to Hinds County, in the central part of the state, will make these services more accessible to youth from all areas of Mississippi.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for psychiatric residential treatment facility beds as outlined in the *FY 2004 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000*; and all adopted rules, procedures and plans of the Mississippi State Department of Health.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by CARES Center, Inc. for the construction/renovation and relocation of 30 PRTF beds/services.