

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2005**

**CON REVIEW NH-RLS-0305-009
DANIEL HEALTH CARE, INC.
CONSTRUCTION OF A 130-BED REPLACEMENT NURSING FACILITY
CAPITAL EXPENDITURE: \$7,600,000
LOCATION: FULTON, ITAWAMBA COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Daniel Health Care, Inc., a Mississippi corporation, is a 130-bed for-profit nursing facility located in Fulton, Mississippi (Long Term Care Planning District II). The operators lease the premises from Holland Real Estate, Inc., a Mississippi corporation and an affiliate entity. The facility is governed by a three-member governing board.

B. Project Description

Daniel Health Care, Inc. requests certificate of need authority to construct a replacement facility consisting of 130 nursing facility beds. The facility will be moved from its present location at 804 South Adams to 1905 South Adams, Fulton, Mississippi. The new location is approximately 2.3 miles from the existing location. The applicant proposes to continue to provide all of the services that it currently provides in addition to adding other services. The applicant states that the primary focus will be toward more efficiency and providing more dignity to its residents in an updated modern environment.

The new facility will comprise approximately 65,000 square feet of space, allowing increases in the size of the bedrooms, day rooms, dining rooms, kitchen, and bathrooms.

The applicant projects an increase of nine (9) full-time equivalent personnel at an estimated cost of \$240,000 the first year.

The total proposed capital expenditure is \$7,600,000 which is composed of the following: new construction and- site preparation - 79 percent, fixed equipment - 4 percent, land cost - 4 percent, fees - 4 percent, capitalized interest - 2 percent, and contingency reserve - 7 percent. Holland Real Estate, Inc. will finance the project through a commercial loan from Union Planters Bank. Daniel Health Care, Inc. will in turn lease the facility from Holland Real Estate, Inc.

The site for the proposed replacement facility has been approved by the MSDH Division of Health Facilities Licensure and Certification. The applicant expects that the capital expenditure will be obligated by October 1, 2005, and that the project will be complete by January 1, 2007.

II. TYPE OF REVIEW REQUIRED

This application for the construction of a replacement facility/relocation of long term care beds is

reviewed in accordance with Section 41-7-191, subparagraphs (1)(b) and (e) of the Mississippi Code of 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi 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 June 6, 2005.

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

A. **State Health Plan (SHP)**

The *FY 2005 Mississippi State Health Plan* does not address specific criteria and standards for the construction/replacement and relocation of a long-term care facility. However, the project is in substantial compliance with the overall objectives of the *Plan*.

B. **General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual (May 13, 2000, as amended)*, addresses general criteria by which all applications for Certificate of Need are reviewed. This application is in substantial compliance with applicable criteria.

GR Criterion 3 - Availability of Alternatives

The existing facility is approximately 36 years old; therefore, the applicant believes that replacement of the facility is the only feasible alternative. The applicant did not consider other alternatives.

GR Criterion 4 - Economic Viability

The Three Year Project Operating Statement contained in the application reflects annual income of \$773,584 the first year, \$989,121 the second year, and \$1,115,495 the third year of operation. Daniel Health Care, Inc. submits that its charges are comparable to other skilled nursing facilities providing the same acuity level of care in the state; its skilled daily rates are determined by the State of Mississippi, Division of Medicaid; and its utilization of services will not change.

The application contained a feasibility study prepared by Land, Sonnier & Weathers, P.A., certified public accountants. The study, however, does not give an opinion regarding the economic viability of the project.

GR Criterion 5 - Need for Project

According to the applicant, Daniel Health Care, Inc. was constructed in 1969. The applicant states that the facility has undergone several renovations throughout the years, including the most recent addition of a sub-acute rehabilitation gymnasium and renovation of the rehabilitation unit. The decision to relocate was prompted by the advancing age of the facility and new life safety codes which are now being enforced by the state.

The applicant further submits that sections of the building were fabricated with copper piping and surrounded within the cement floors. This has necessitated many repairs requiring the floors to be broken up to access the pipe in order to find leaks, followed by re-pouring of the concrete floor.

Daniel Health Care states that during its last survey, it was cited with a deficiency due to its lack of a sprinkler system that was not required at the time of the original construction. The facility is currently operating under a 36-month waiver for this deficiency in order to allow the cost of the sprinkler system installation to be spent on a new replacement facility.

The applicant submits that Daniel Health Care, Inc. has served the general population in Itawamba and surrounding counties for 30 plus years. Their plans are to continue to provide a better quality of life for residents in Northeast Mississippi. The applicant believes that its new location will not have an effect on services for low income persons, racial and ethnic minorities, women, handicapped persons and other underserved groups, and the elderly, to obtain needed health care.

The relocation of Daniel Health Care is not expected to have an effect on current or projected utilization of like facilities or services within the proposed service area, nor is it expected to overlap the service area of an existing facility or services.

The application contained five (5) letters of support from health care providers, the City of Fulton, and the Itawamba County Board of Supervisors.

GR Criterion 6 - Accessibility

The applicant submits that all medically underserved populations will have the same access to the proposed services that are currently experienced.

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 Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The project is not expected to have an adverse impact on existing providers within the Planning District II because it is a replacement of an existing facility.

GR Criterion 9 - Availability of Resources

Existing staff will be transferred to the new location. The applicant proposes to advertise in the local newspaper for the nine new positions needed at the facility.

GR Criterion 16 - Quality of Care

The applicant is a current provider of skilled long-term care services in Mississippi.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction	\$ 6,000,000
Fixed Equipment	325,000
Land Cost	275,000
Site Preparation	50,000
Fees (Architectural, Consultant, etc.)	300,000
Contingency Reserve	500,000
Capitalized Interest	150,000
Total Capital Expenditure	\$ 7,600,000

The above estimated capital expenditure is proposed for new construction of 65,000 square feet of space at a per square foot cost of \$112.69. *Means Building Construction Cost Data 2005* shows the median range cost per square foot of construction to be \$114 and the high range per square foot cost of new construction to be \$139 for nursing homes. The project's cost per bed of approximately \$56,346 falls between the median range of \$50,000 and the high range of \$63,500 for nursing homes as listed in the *Means Construction Cost Data 2005*. The project also involves purchases of fixed and non-fixed equipment.

B. Method of Financing

Daniel Health Care, Inc. proposed to finance the \$7,600,000 capital expenditure with a bank loan from Union Planters Bank. The application contains a letter from Union Planters Bank to Holland Real Estate, Inc. for the loan. The loan will be repaid over a period of 20 years at a rate of 7 percent. Daniel Health Care, Inc. will lease the facility from Holland Real Estate, Inc.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization, and results from operation for the

first three years following completion of this project:

	Year 1	Year 2	Year 3
Revenue			
Medicaid	\$4,683,315	\$4,982,250	\$5,214,755
Medicare	4,675,650	5,058,900	5,402,000
Managed Care	40,000	43,000	46,550
Other Income	20,000	21,000	22,500
Total Revenue	\$9,418,965	\$10,105,150	\$10,685,805
Expenses			
Direct Care	\$3,448,394	\$3,620,815	\$3,801,557
Therapy	947,914	995,310	1,045,075
Care Related	685,154	719,412	755,383
Administration	2,390,832	2,510,374	2,635,893
Property/Equipment	710,784	746,324	783,640
Other Expense	31,643	33,225	34,886
Total Expenses less Depr.	\$8,214,721	\$8,625,460	\$9,056,434
Depreciation	41,679	31,865	8,771
Total Expenses	\$8,256,400	\$8,657,325	\$9,065,205
Net Income before Taxes	\$1,162,565	\$1,447,825	\$1,620,600
Income Taxes (Stockholders)	388,981	458,704	505,105
Net Income After Taxes	\$773,584	\$989,121	\$1,115,495
Patient Days	45,990	46,355	46,720
Cost Per Patient Day	\$179	\$187	\$194
Charge/Patient Day	\$205	\$218	\$229

Note: Applicant states that Total Revenue represents net revenues and were calculated based on actual reimbursement by the various payers.

*Cost and Charge per patient day were calculated by staff for the proposed project. The applicant's projections appear to be realistic and comparable to other nursing homes of the same size.

D. Cost to Medicaid/Medicare

Daniel Health Care is an existing nursing facility and projects that the additional cost as a result of the project will be \$877,469. Therefore, the additional cost of the project has been allocated to the third party payers. (See Three Year Projected Operating Statement for breakdown of revenue by payer source).

Payer Mix	Utilization Percentage	Cost First Year
Medicaid	76	\$666,789
Medicare	17	\$145,923
Other Payers*	7	\$64,757
Total	100	\$877,469

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. Medicaid commented that the proposed construction is expected to increase Medicaid expenditures by approximately \$30,429 annually based on a stable occupancy rate. The Division of Medicaid does not oppose this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives as contained in the *FY 2005 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual (May 13, 2000, as amended)*; and all adopted rules, procedures and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Daniel Health Care, Inc. for the construction/relocation of its 130-bed nursing facility.