

**Division of Health Planning and Resource Development
September 2005**

**CON REVIEW NH-CO-0605-027
TALLAHATCHIE GENERAL HOSPITAL
AND EXTENDED CARE FACILITY
COST OVERRUN AND AMENDMENT TO CON #R-0618
(ESTABLISHMENT/CONSTRUCTION
OF A 60-BED NURSING FACILITY)
APPROVED CAPITAL EXPENDITURE: \$1,671,559
ADDITIONAL CAPITAL EXPENDITURE: \$1,326,424
REVISED CAPITAL EXPENDITURE: \$2,997,983
LOCATION: CHARLESTON, TALLAHATCHIE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Application Information

Tallahatchie County, Mississippi, owns Tallahatchie General Hospital and Extended Care Facility, a non-profit acute-care and long-term care services organization located in Charleston, Mississippi. Tallahatchie General Hospital and Extended Care Facility receives governance through a five-member Board of Trustees appointed, by statute, by the Tallahatchie Board of Supervisors.

Tallahatchie General Hospital and Extended Care Facility received licensure to operate nine hospital acute care/swing beds and 68 skilled nursing facility beds and certification to participate in the Medicare-Medicaid programs. Tallahatchie General Hospital and Extended Care Facility 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 2004 are as follows:

Tallahatchie General Hospital and Extended Care Facility FY 2004 Utilization				
Facility	Bed Capacity	Occupancy Rate %	ALOS	ADC
Acute Care	9*	46.60*	4.70*	4.20*
Extended Care Facility	68	92.85	1,447	63.14

* Including swing beds

Source: Tallahatchie General Hospital and Extended Care Facility Hospital Renovation Certificate of Need (CON) Application

B. Project Background

The applicant filed the original application on June 1, 2002 seeking certificate of need authority to obligate \$1,671,559 to expand its nursing home bed capacity by 60 beds and to construct a new wing to the hospital to house the additional beds. Following a lengthy

hearing during the process of review, the State Health Officer approved CON # R-0618 on July 31, 2003. The construction project as originally contemplated included the purchase of three acres of land contiguous to the hospital, the construction of a new extended care facility wing consisting of 18,740 square feet of space, and renovation of the existing kitchen/dining area, consisting of 2,460 feet of space for a total construction/renovation square footage of 21,200 feet. The proposed architectural plans provided in the original certificate of need application anticipated extending the nursing home by adding a new wing to the hospital's existing physical plant that ran parallel to the existing hospital. The Division of Health Facility Licensure and Certification later determined that a new wing running parallel to an existing hospital must not be within 50 feet of the existing building. The newly developed architectural plans provide for the appropriate distance between the existing wing of the hospital and the new extended care wing.

The applicant has substantially begun the project authorized by CON # R-0618 and had received a determination from the Department of Health that a good faith effort to obligate funds had been shown. The applicant has purchased the land for a price of \$19,500; the 60 new nursing home beds that are the subject of CON No. R-0168 have been licensed and are currently set up and staffed in the extended care wing of the hospital. Sixty of the hospital's nursing home beds have been banked and 30 will be brought back on-line at the completion of the construction of the new extended care facility wing.

C. Project Description

The delay in construction has caused an increase in construction cost due to inflation. The change in architectural plans to relocate the proposed hospital wing and the additional requirements imposed by the United States Department of Agriculture and other governmental authorities resulted in a renovation cost in excess of the project's d in 2002 proposal, according to the applicant. Tallahatchie General Hospital and Extended Care Facility now seeks CON Cost Overrun/Amendment authority for a capital expenditure of \$2,997,983 and for the revised architectural plans of the new extended care facility wing consisting of 20,975 square feet of space.

The new construction will provide rooms for 58 nursing home beds (54 private and 2 semi-private rooms). The existing space of the extended care facility, which is used currently for 68 beds, will be renovated to provide housing for 40 residents.

II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all projects for amendments and cost overruns in accordance with duly adopted procedures and standards of the Mississippi 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 October 20, 2005.

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, 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

Tallahatchie General Hospital & Expanded Care Facility Charleston, Mississippi Cost Overrun			
Item	Originally Approved	Current Request	Increase/ (Decrease)
Construction (including fixed equipment)	\$1,410,416	\$1,908,725	\$ 498,309
Non-Fixed Equipment	121,310	215,600	94,290
Land	15,000	19,500	4,500
Site Work	11,111	236,976	225,865
Architectural/Engineering Fees	113,722	171,656	57,934
Capitalized Interest		145,000	145,000
Contingency Reserve		214,570	214,570
Bond Issue Fees		85,956	85,956
Total	\$1,671,559	\$2,997,983	\$1,326,424

The revised capital expenditure is for the build-out of 20,975 square feet of space according to the revised architectural plans of the new extended care facility wing. Based on MDH's formula, this equates to \$131.72 per square foot, which falls within the lower one-fourth percentile for hospital construction as listed in the *Means Construction Costs Data, 2005 edition*.

B. Method of Financing

The applicant plans to finance the proposed project through a USDA Rural Development loan and a revenue bond issued through the Mississippi Development Bank.

C. Effect on Operating Cost

The applicant projects the following results from operations the first three years after initiation of the project:

Tallahatchie General Hospital & Extended Care Facility Charleston, Mississippi Cost Overrun			
	Year 1	Year 2	Year 3
Revenue			
Gross Patient Services Revenue	\$10,788,574	\$11,821,966	\$12,480,324
Less Contractual Adjustments	<u>-1,161,376</u>	<u>-1,281,703</u>	<u>-1,367,533</u>
Net Patient Service Revenue	9,627,198	10,540,263	11,112,791
Other Revenue	<u>17,503</u>	<u>18,028</u>	<u>18,570</u>
Net Operating Revenue	<u>\$ 9,644,701</u>	<u>\$10,558,291</u>	<u>\$11,131,361</u>
Expenses			
Salary and Benefits	\$ 5,230,918	\$ 5,778,197	\$ 6,200,451
Supplies and Other Expense	4,043,358	4,184,875	4,331,347
Depreciation	<u>384,487</u>	<u>386,630</u>	<u>388,773</u>
Total Operating Expense	<u>\$ 9,658,763</u>	<u>\$10,349,702</u>	<u>\$10,920,571</u>
Income (Loss) From Operations	(14,062)	208,589	210,790
Non-Operating Revenue (Losses)			
Interest Income	2,042	1,104	2,167
Interest Expense	(247,284)	(245,108)	(242,839)
Non-Capital Grants and Contributions	<u>285,300</u>	<u>293,859</u>	<u>302,675</u>
Total Non-Operating Revenues (Expenses)	\$ 40,058	\$ 49,855	\$ 62,003
Net Income (Loss)	\$ 25,996	\$ 258,444	\$ 272,793
Assumptions			
<u>Acute (Including Swing Beds)</u>			
Average Daily Census	4.72	4.82	4.95
Average Length of Stay	4.74	4.76	4.76
Number of Patient Days	1,723	1,765	1,805
<u>Extended Care</u>			
Average Daily Census	78	87.5	93
Average Length of Stay	1,423	1,460	1,476
Number of Patient Days	28,470	32,120	33,945

D. Cost to Medicare/Medicaid

The applicant expects there will be no effect of this CON cost overrun on Medicaid patients or other payors.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid states that the cost overrun and amendment to CON # R-0618 is not expected to increase Medicaid expenditures above the projection for the original CON proposal for this facility. The Division of Medicaid is not opposed to the approval of this 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 *Mississippi State Health Plan; Certificate of Need Review Manual*; and all adopted rules, procedures, and plans of the Mississippi Department of Health in effect at the time of approval. This request for an amendment/additional capital expenditure is considered 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 renovation project and cost overrun of CON # R-0618.