

**Division of Health Planning and
Resource Development
August 2006**

**CON REVIEW NH-A-0506-012
MARTHA COKER CONVALESCENT HOME, INC.
AMENDMENT TO CON #R-0565
(CONSTRUCTION OF A 41-BED REPLACEMENT
NURSING HOME FACILITY) ADDITION OF 19
NURSING HOME BEDS
APPROVED CAPITAL EXPENDITURE: \$5,410,717
ADDITIONAL CAPITAL EXPENDITURE: \$1,376,445
REVISED CAPITAL EXPENDITURE: \$6,787,152
LOCATION: YAZOO CITY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Martha Coker Convalescent Home, Inc. is a Mississippi non-profit corporation located in Yazoo City, Mississippi. The facility's licensed bed capacity consists of 41 long-term care beds. The facility had a 2004 occupancy rate of 90.66. A nine-member Governing Board governs Martha Coker.

B. Project Background

Martha Coker Convalescent Home, Inc. ("Martha Coker") requested Certificate of Need authority to construct a replacement facility consisting of 41 skilled nursing facility beds and 19 assisted living units on May 30, 2002. The new facility is proposed to be located on a wooded site just west of Highway 49 near Ridgewood Road and will utilize the south third of a 45 acre tract. A new access road is required to reach the site.

The original project consisted of approximately 43,000 square feet of space. The existing facility's size was 18,854 square feet at the time the application was submitted. The proposed facility was to offer skilled nursing services with assisted living as an added feature. Each assisted living unit would include a kitchenette and walk-in closet, and would be designed to accommodate residents' personal furniture and decorative

items. Activity areas would provide opportunities for social interaction as well as meals to be taken in a separate dining room.

The applicant submitted that all portions of the project were to reflect a residential character and utilize as much of the state's natural beauty as possible.

The applicant did not anticipate expanding ancillary or support services as a result of the new construction. The project, however, would require an additional 10 FTE personnel. New construction accounted for approximately 69 percent of the total project's costs, or \$3,744,794. Land cost of \$204,742 and site preparation of \$510,000 accounted for approximately 13 percent; non-fixed equipment costs, estimated at \$290,900; fixed equipment costs, estimated at \$123,600 for the new kitchen and a walk-in cooler-freezer, accounted for approximately 8 percent of costs; and fees, contingency reserve, capitalized interest, and other costs accounted for the remaining 10 percent of the project's cost. The MDH Division of Health Facilities Licensure and Certification approved the original proposed site for new construction. At the time of the original application the applicant expected to obligate the capital expenditure within 90 days of the application approval date. The proposed project was granted a Certificate of Need with an effective date of September 26, 2002, and an expiration date of September 26, 2003.

After reviewing written documents submitted by the applicant, on March 12, 2004, Martha Coker was certified as having made a good faith effort to obligate the approved capital expenditure authorized by CON No. R-0565. Additional progress reports were received on October 4, 2004, and July 6, 2005. Therefore, the department determined the project to be in good standing on September 28, 2005.

In March 2006, the applicant submitted correspondences stating the following:

- Martha Coker Convalescent Home is partnering with The Methodist Senior Services to build "Green Houses".
- Martha Coker is now in phase 1 of the campaign drive for donations and financial obligations.
- Location is to remain at the original site, Highway 49 South.

C. Project Description

Martha Coker is requesting a change in the approved CON from 41 skilled nursing beds to 60 skilled nursing beds to be provided in a newly constructed facility utilizing the innovative and nationally acclaimed "Green House" design. The "Green House" model will consist of six houses with ten beds per house. Authorization for the additional 19 skilled nursing beds were included in House Bill 1221, 2006 regular session, and signed by the Governor on March 29, 2006.

Martha Coker states that the new project will be approximately 42,000 square feet, which is 1,000 square feet down from the original approved square footage of 43,000 square feet.

According to Martha Coker they plan to use a design/build firm, The McCarty Company, to complete this project. The applicant stated that The McCarty Company of Tupelo, Mississippi, has designed and built the only other skilled nursing facility in the state utilizing the "Green House" model, Cedars Health Care in Tupelo, Mississippi. The applicant further states that The McCarty Company is also the nationally recognized expert in design of this innovative model of care.

Martha Coker stated that contracting with The McCarty Company under a design/build arrangement will save them approximately \$100,000 or more in architectural fees and will reduce typical design/construction time by 10%, producing additional savings. According to Martha Coker, The McCarty Company's bid was based on a projected cost of \$140 per square foot, including site work. The cost per square foot is comparable to projects in between the median and high cost range listed in the *Means Construction Cost Data, 2006 Edition*. Martha Coker further cited that upon approval of the cost overrun, the McCarty Company will solicit bids from subcontractors and expects to further reduce cost.

The applicant anticipates staffing will increase from 35 FTE's to approximately 60 FTE's, primarily increasing the number of certified nursing assistants. The applicant states that recruiting will take place locally and they do not anticipate any problems with filling the available positions.

The applicant's estimated date of completion for this project is December 2007.

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 Department of Health. In addition, the project is reviewed in accordance with Section 41-7-191, subparagraphs 1(c) and 2(s), Mississippi Code of 1972 Annotated, as amended, and House Bill 1221, 2006 Legislative Session.

House Bill 1221 authorizes the MDH to issue a CON to a nonprofit skilled nursing facility using the "Green House model" of skilled nursing care and located in Yazoo City, Yazoo County, Mississippi, for the construction, expansion or conversion of not more than 19 nursing facility beds. The bill also waives *State Health Plan* need criterion and the provisions of Section 41-7-197 requiring a formal Certificate of Need hearing process for the 19 additional beds.

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 the 41-bed replacement only within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on September 5, 2006.

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

A. State Health Plan (SHP)

The original project was proposed during the FY 2002 State Health Plan, in effect at the time of submission, which did not contain criteria and standards that relate to the replacement of a nursing home facility. However, the original project was in substantial compliance with the overall objectives of the Plan. This amendment/cost overrun continues to be in substantial compliance with the Plan.

This application amends the original application by the addition of 19 nursing home beds utilizing the Green House model. However, House Bill 1221 waives the need criterion in the *State Health Plan* for these beds.

The applicant has documented that 19 additional beds will be constructed.

The application is not a competing application, and the applicant does not propose to establish an Alzheimer's/Dementia Care Unit. Therefore, the project is in substantial compliance with the criteria and standards stated in the FY 2006 *State Health Plan* for the establishment of new nursing home care beds.

B. General Review (GR) Criteria

The original project was in substantial compliance with the Certificate of Need Review Manual, May 13, 2000. The applicant requests the addition of 19 new nursing home beds, which changes the scope of the existing CON for the replacement of 41 beds. The CON Review Manual stipulates that if an approved project is changed substantially in scope in construction, services, or capital expenditure the existing CON is void. This amendment/cost overrun continues to be in compliance with applicable criteria and standards.

IV. **FINANCIAL FEASIBILITY**

A. Capital Expenditure Summary

Item	<u>Originally Approved</u>	<u>Revised Amount</u>	<u>Increase/ (Decrease)</u>
New Construction	\$3,744,794	\$4,950,000	\$1,205,206
Fixed Equipment	123,600	123,600	
Non-Fixed Equipment	290,900	290,900	
Land Cost	204,742	204,742	
Site Preparation	510,000	510,000	
Fees	228,761	400,000	171,239
Contingency Reserve	150,000	150,000	
Capitalized Interest	155,410	155,410	
Other	<u>2,500</u>	<u>2,500</u>	<u>-</u>
Total	\$5,410,707	\$6,787,152	\$1,376,445

The applicant states that the overall capital expenditures increased by 25% due to a 46% increase in licensed bed capacity from 41 beds to 60 beds. The project proposes 42,000 square feet of new construction at a cost of \$149.74 per square foot (attachment 2). The new construction cost is slightly above the ¾ percentile of nursing home construction projects listed in the *Means Construction Cost Data, 2006 Edition*.

The applicant submits that to date, \$479,189.47 of the capital expenditure has been expensed for land and site work, and 7% of the project has been completed.

B. Method of Financing

The applicant proposes to finance the project by a tax-exempt bond issue or by a HUD Section 232 loan for \$5,322,502. According to the applicant, \$1,465,000 will come from donations from individuals and businesses in the area that support the project.

The applicant states that the silent phase of the capital campaign started in the spring and will conclude by the end of August, then the public campaign will begin. The applicant further states that Martha Coker anticipates reaching \$1.4 million prior to the end of the silent phase and exceeding their fund raising goal easily by the end of 2006.

Applicant submits to date their current fund raising total is \$1,118,360.

C. Effect on Operating Cost

The applicant's first three years operating statement is presented in Attachment 1. The statement shows the first year net income of \$91,129, \$244,232 the second year, and \$313,139 during the third year of operation.

D. Cost to Medicare/Medicaid

Martha Coker is a private nursing facility and currently does not participate in the Medicare/Medicaid program. However, the applicant states that it will begin participating in the Medicare/Medicaid program when the new facility opens. The applicant states that the facility is grandfathered into the program; therefore, they will expand services to the community. The following is a breakdown of proposed patient mix by type of payor:

Payor Mix	Utilization Percentage	Year 1 Revenue
Private Pay	30	\$1,187,077
Medicaid	60	2,374,155
Medicare	10	395,693
Total	100	\$3,956,925

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. According to the Division of Medicaid, the proposed construction is expected to increase Medicaid expenditures by approximately \$1,893,933 annually based on a stable occupancy rate. The Division of Medicaid did not oppose the approval of the Certificate of Need request.

V1. CONCLUSIONS AND RECOMMENDATION

The original project was found to be in substantial compliance with the overall objectives stated in the Plan in effect at the time of submission; the Certificate of Need Review Manual, revised 2000, and all adopted rules, procedures, and plans of the Mississippi Department of Health and continues to be in compliance with the same. This request for an amendment/cost overrun is a change in

scope, but does not change the overall objective of the project. The project is also in compliance with House Bill 1221 which authorizes the issuance of a CON for 19 additional nursing home beds to a nonprofit skilled nursing facility in Yazoo County, Yazoo City, Mississippi. The bill also authorizes that the beds be constructed or established using the "Green House" model and that the need requirement of the current *State Health Plan* and the requirement of a formal CON hearing process be waived.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application submitted on behalf of Martha Coker Convalescent Home, Inc., for the amendment/cost overrun to CON # R-0565, and the addition of 19 nursing home beds utilizing the "Green House" model. The Division further recommends, in accordance with the CON Review Manual, that CON No. R-0565 be considered void, and that a new CON be issued for the replacement of 41 nursing facility beds and the addition of 19 nursing home beds.

ATTACHMENT 1

MARTHA COLKER CONVELSCENT HOME, INC.
 Yazoo City, Mississippi
 Income Statement

	Latest Actual	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue:				
Inpatient care	\$1,541,589	\$3,956,925	\$4,204,714	\$4,372,902
Outpatient care	-	-	-	-
Gross patient care	\$1,541,589	\$3,956,925	\$4,204,714	\$4,372,902
Charity care	-	-	-	-
Deductions from revenue	-	-	-	-
Net patient care	\$1,541,589	\$3,956,925	\$4,204,714	\$4,372,902
Other operating revenue	12,841	-	-	-
Total operating revenue	\$1,554,430	\$3,956,925	\$4,204,714	\$4,372,902
Operating Expenses:				
Salaries	\$927,652	\$1,585,764	\$1,630,551	\$1,679,467
Benefits	206,803	557,002	578,911	596,278
Supplies	57,064	91,200	93,936	96,754
Services	-	494,244	509,071	524,343
Lease	-	14,400	14,832	15,276
Depreciation	24,655	187,717	187,717	187,717
Interest	-	315,249	306,643	301,937
Other	455,301	620,220	638,821	657,991
Total operating expense	\$1,671,475	\$3,865,796	\$3,960,482	\$4,059,763
Net Operating Income	\$(117,045)	\$91,129	\$244,232	\$313,139
Assumptions				
Inpatient Days	14,478	21,462	21,462	21,462
Cost/day	-	-	-	-
Charge/day	-	-	-	-

NOTE: "Latest Actual" column represents last completed fiscal year ending September 30, 2005.

ATTACHMENT 2
Computation of Construction and Renovation Cost

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$4,950,000	\$4,950,000	
Renovation Cost			
Total Fixed Equipment Cost	\$123,600	\$123,600	
Total Non-Fixed Equipment Cost	\$290,900	\$290,900	
Land Cost	\$204,742	\$204,742	
Site Preparation Cost	\$510,000	\$510,000	
Fees (Architectural, Consultant, etc.)	\$400,000	\$400,000	
Contingency Reserve	\$150,000	\$150,000	
Capitalized Interest	\$155,410	\$155,410	
<i>Other</i>	\$2,500	\$2,500	
Total Proposed Capital Expenditure	\$6,787,152	\$6,787,152	\$0

Square Footage	42,000	42,000	870
Allocation Percent		99.00%	1.00%

Costs Less Land, Non-Fixed Eq.	\$6,289,010	\$6,289,010	\$0
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Cost Per Square Foot	\$149.74	\$149.74	\$0.00
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Cost per Bed (n=60)	\$113,119
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