

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2006**

**CON REVIEW: NH-NIS-0806-019
BAPTIST HOMES, INC. D/B/A SON VALLEY
CONSTRUCTION/ESTABLISHMENT OF AN ADULT 20-BED ICF-MR
NURSING FACILITY/SERVICES
CAPITAL EXPENDITURE: \$1,113,000
LOCATION: CANTON, MISSISSIPPI
COUNTY: MADISON COUNTY, LONG-TERM CARE PLANNING DISTRICT III**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Baptist Homes, Inc. d/b/a SON Valley is a Mississippi not-for-profit corporation established on April 14, 1999, and registered as a charity organization on August 6, 2006. Baptist Homes, Inc. d/b/a SON Valley is governed by a twelve-member Board of Directors.

B. Project Description

Baptist Homes, Inc. d/b/a SON Valley is requesting Certificate of Need (CON) authority to construct/establish a 20-bed adult ICF-MR nursing facility in Canton, Mississippi. The applicant proposes to build and operate two (2) homes as ICF-MR group homes. Each home is to house ten (10) adults with mental retardation. According to SON Valley, phase 1 of the project is being constructed on 80 donated acres in Madison County on Goodloe Road.

According to the applicant, the proposed project involves the following:

- Clearing and grading a portion of the 80 acres;
- Building an entrance road/drive into the property;
- Canton Municipal Utilities extending its gas and sewer facilities north on Highway 51 to Branscomb Road;
- Baptist Homes, Inc. extending Canton Municipal Utilities gas and sewer facilities across private property from highway 51 to SON Valley, to include construction of a sewer pumping station on SON Valley property;
- Securing electrical and telephone services for the property;
- Building two homes, each approximately 5,218 square feet.

The total proposed capital expenditure of \$1,113,000 is composed of site preparation and/or improvement (28 percent), new construction (48 percent), fees (5 percent), contingency reserve (9 percent), fixed equipment (5 percent), non-fixed equipment (4 percent), and legal and accounting fees (1 percent). See capital expenditure summary, page 6. The applicant proposes to finance \$754,000 of the proposed capital expenditure from cash reserves, \$330,970.55 funded from existing cash funds, and the balance of \$28,029.45 from raised funds and donations. The applicant states that Baptist Homes, Inc. has raised \$210,526 so far in 2006 and anticipates another \$90,000-\$95,000 from donations by the end of the year. Finally, the applicant asserts that it has had more volunteer labor and in-kind donations to assist in establishing the proposed project.

According to the applicant, the anticipated date for completion of the proposed project is January 2007.

The MDH Division of Health Facilities Licensure and Certification finds the site is tentatively approved for use as an ICF/MR group home pending documentation addressing other mentioned concerns for the proposed project.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section, 41-7-191, subparagraphs (1)(d) (viii), Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi Department of Health. In addition, the project is reviewed in accordance with Section 41-7-191, subparagraph (8), Mississippi Code of 1972 Annotated, as amended, as passed in House Bill 1221, 2006 Legislative Session.

House Bill 1221 authorizes the MDH to issue a CON to a nonprofit corporation located in Madison County, Mississippi, for the construction, expansion or conversion of not more than twenty (20) beds in a community living program for developmentally disabled adults. The bill also waives the *State Health Plan* need criterion and the provisions of Section 41-7-197 requiring a formal Certificate of Need hearing process for the 20 additional beds.

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

A. State Health Plan (SHP)

The *FY 2006 State Health Plan* addresses policy statements, criteria and standards which an applicant is required to meet before receiving CON authority for the offering of nursing home care services for mentally retarded and other developmentally disabled individuals. This application is in substantial compliance with applicable criteria and standards.

SHP Criterion 1 – Need

As previously mentioned, House Bill 1221 waives the need criterion in the *State Health Plan* for the proposed 20 bed addition.

SHP Criterion 2 – Facility Size

House Bill 1221 (2006 Legislative Session) authorized the approval of 20 beds for developmentally disabled adults in Madison County.

The applicant is in compliance with House Bill 1221.

SHP Criterion 3 – Priority Consideration

Baptist Homes, Inc. d/b/a SON Valley proposes to construct a 20-bed facility, composed of two 10 bed units.

No priority consideration of the proposal was necessary due to its authorization by House Bill

1221.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2006 Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

The project is in substantial compliance with applicable criteria, standards and policies of the *FY 2006 State Health Plan*. House Bill 1221, 2006 Legislature Session, waived the need criterion in the *Plan*.

GR Criterion 2 - Long Range Plan

The applicant asserts that its initial long range plan for the proposed project started in 1998. It took several years to define the mission, to develop the Board of Directors, to incorporate and to obtain IRS recognition as a 501(c) (3) not-for-profit entity. The construction plans of phase 1 for the proposed project started after the location for the proposed facility was resolved with the donation of 80 acres of land in Madison County and several years of fundraising along with the architectural design of the master plan.

GR Criterion 3 – Availability of Alternatives

The applicant asserts that there were no other alternatives to the proposed project. The application was submitted as a result of authorization granted through passage of House Bill 1221.

GR Criterion 4 - Economic Viability

The applicant projects net incomes from operation to be \$4,581 the first year, \$5,009 the second year, and \$6,685 the third year after completion of this project.

- a. **Proposed Charges:** The applicant projects a cost of \$266 per inpatient day and a proposed charge of \$267 for year one for the proposed project.
- b. **Projected Levels of Utilization:** The applicant states that given the size of the proposed facility (20 beds), the unique appeal of the Christian environment, and the early indication of interest (a waiting list of 90 names), the applicant projects that its occupancy rate will be approximate 100 percent. Baptist Homes, Inc. d/b/a SON Valley asserts that it should always have potential residents ready to fill the next vacancy.
- c. **Financial Feasibility Study:** The capital expenditure for this project is \$1,113,000; therefore, a feasibility study is not required for this project since the capital expenditure does not exceed \$2,000,000.

GR Criterion 5 - Need for the Project

- a. **Underserved Populations:** SON Valley states that a substantial percentage of the population to be served by the proposed facility has not been previously served, but the time has come for them to live somewhere other than their family home. The applicant currently has 90 names on its waiting list, and SON Valley believes that this further indicates the need for the services that SON Valley will provide.

The application contains testimonies concerning the proposed project from three individuals who will be residents of SON Valley.

- e. **Community Reaction:** The applicant states that the Madison County Board Supervisors voted unanimously to rezone the 80 acres so that SON Valley could be built. Currently, the proposed facility has 90 names on its waiting list, which is an indicator of support for establishment of the facility.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved:** The applicant asserts that it will comply with this criterion, provided that the residents qualify for treatment in an ICF-MR environment.
- b. **Performance in Meeting Federal Obligation:** SON Valley indicates that it has no existing obligations under any federal regulations requiring provision of uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be served by Applicant:** The applicant states that House Bill 1221 will allow SON Valley to participate in the Medicaid program for the proposed 20 beds.
- d. **Range of Access:** SON Valley asserts that individuals who qualify for admission are admitted without consideration to race, color, creed, sex, age, national origin, and/or physical disability.

GR Criterion 7 - Information Requirement

Baptist Homes, Inc. d/b/a SON Valley 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

Baptist Homes, Inc. d/b/a SON Valley is proposing to establish/construct a 20-bed adult ICF-MR nursing facility in Madison County, Canton, Mississippi, Mentally Retarded/Developmentally Disabled Long Term Care (LTC) Planning District II. Currently there is one ICF/MR facility located in Madison County.

The applicant asserts that Canton Manor is the closest ICF-MR to SON Valley, and receives Medicaid funding. According to SON Valley, a primary difference in the resident population at SON Valley will probably be the fact that it will serve a wider area of Mississippi, and families

across the state will seek a place at SON Valley for their loved ones due to the unique Christian atmosphere offered.

The applicant received no letters of opposition for the proposed project.

GR Criterion 9 - Availability of Resources

According to the applicant, the project will involve 34 full-time equivalent personnel at an estimated annual cost of \$900,000. The applicant believes that it can attract professional staff to Canton, given the lure of a new facility with a smaller number of residents, along with the emphasis on a Christian atmosphere.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that all necessary support and ancillary services for the proposed project are available.

GR Criterion 14 – Construction Projects

The applicant proposes new construction of 10,436 square feet of space at \$100.90 per square foot. *Means Building Construction Cost Data 2006 (MCCD)* shows the median per square foot cost for new construction to be \$119. The applicant's cost per bed (\$55,650) is below the $\frac{3}{4}$ point of \$66,000 for nursing homes as listed in *MCCD 2006*. (The $\frac{3}{4}$ point indicates that 75 percent of projects cost less and 25 percent cost more). See Attachment 1 for computation of new construction cost for the proposed project.

GR Criterion 16 - Quality of Care

Baptist Homes, Inc. d/b/a SON Valley will be a new provider of adult ICF-MR Nursing Facility/services in Mississippi. SON Valley proposes to participate in the Medicaid program. The applicant states that the quality of care for its residents will be enhanced by the very nature and definition of an ICF-MR facility.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	Percent
New Construction	\$ 525,000	48%
Site Preparation and/or Improvement	\$ 310,000	28%
Fees (architectural, Consultant, etc.)	\$ 58,000	5%
Contingency Reserve	\$ 100,000	9%
Fixed Equipment Cost	\$ 60,000	5%
Non-Fixed Equipment Cost	\$ 50,000	4%
Legal and Accounting Fees	\$ 10,000	1%
Total Capital Expenditure	\$ 1,113,000	100%

The above estimated proposed capital expenditure of \$1,113,000 is for new construction of 10,436 square feet of space at \$100.90 per square foot. **Means Building Construction Cost Data 2006 (MCCD)** shows the median per square foot cost for new construction to be \$119. The applicant's cost per bed (\$55,650) is below the $\frac{3}{4}$ point of \$66,000 for nursing homes as listed in **MCCD 2006**. (The $\frac{3}{4}$ point indicates that 75 percent of projects cost less and 25 percent cost more).

B. Method of Financing

The applicant proposes to finance \$754,000 of the proposed capital expenditure from cash reserves, \$330,970.55 from existing cash funds, and the balance of \$28,029.45 from raised funds and donations. The applicant states that Baptist Homes, Inc. has raised \$210,526 so far in 2006 and anticipates another \$90,000-\$95,000 from donations by the end of the year.

C. Effect on Operating Cost

Baptist Homes Inc. d/b/a SON Valley projects the following expenses, revenues, and utilization for the first three years of operation:

**SON Valley
 Three-Year Operating Statement**

Expenses	Year 1	Year 2	Year 3
Revenues			
Gross Patient Rev.	\$ 1,871,136	\$1,913,184	\$1,955,232
Net Revenues	<u>\$ 1,871,136</u>	<u>\$1,913,184</u>	<u>\$1,955,232</u>
Total Operating Rev.	\$ 1,871,136	\$ 1,913,184	\$1,955,232
Expenses			
Salaries	\$ 900,000	\$ 927,000	\$ 954,810
Benefits	\$ 180,000	\$ 185,400	\$ 190,962
Supplies	\$ 117,105	\$ 117,105	\$ 117,105
Services	\$ 538,780	\$ 548,000	\$ 555,000
Other	\$ 130,670	\$ 130,670	\$ 130,670
Total Expenses	<u>\$ 1,866,555</u>	<u>\$ 1,908,175</u>	<u>\$ 1,948,547</u>
Net Income	<u>\$ 4,581</u>	<u>\$ 5,009</u>	<u>\$ 6,685</u>
Utilization			
Occupancy Rate (%)	100%	100%	100%
Patient Days	7,008	7,008	7,008
Cost/Patient Day	\$ 266	\$ 272	\$ 278
Charge/Patient Day*	\$ 267	\$ 273	\$ 279

D. Cost to Medicaid

Baptist Homes, Inc. d/b/a SON Valley asserts that the proposed 20 adult ICF-MR beds will be 100 percent Medicaid.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. No written comments were received.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with criteria and standards for the establishment of nursing home beds for mentally retarded and other developmentally disabled individuals as contained in the *FY 2006 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised 2006* and duly adopted rules, procedures and plans of the Mississippi Department of Health. The project is also in compliance with House Bill 1221 which authorizes the issuance of a CON for 20 additional ICF-MR beds to a nonprofit corporation located in Madison County, Mississippi. The bill waives the *State*

Health Plan need criterion and the provisions of Section 41-7-197 requiring a formal Certificate of Need hearing process for the 20 additional beds.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Baptist Homes, Inc. d/b/a SON Valley for the construction/establishment of an adult 20-bed ICF-MR nursing facility/services.

**SON Valley
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Attachment 1

Computation of New Construction Cost

New Construction: 10,436

*New Construction Cost Formula

A.	New Construction	\$ 310,000
C.	Fixed Equipment	\$ 60,000
D.	Site Preparation	\$ 310,000
E.	Fees	\$ 58,000
F.	Contingency Reserve	<u>\$ 100,000</u>
Total		<u>\$1,053,000 ÷ 10,436 = \$100.90/sq. ft.</u>

***Source: FY 2006 State Health Plan**