

**Division of Health Planning  
and Resource Development  
August 2002**

**CON REVIEW NH-CB-0502-031  
Covenant Care of Decatur, Inc-Decatur  
Construction of a 60-bed Nursing Facility in Newton County  
Capital Expenditure: \$1,354,700  
Location: Decatur, Newton County, Mississippi**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Covenant Care of Decatur, Inc. ("Covenant" or "Applicant") operates as a for-profit Mississippi corporation that remains in good standing with the office of the Mississippi Secretary of State, as documented in the project application. The Applicant has a proven record of delivering quality care and service to nursing home residents through out the state, with more than 28 years operations and management experience.

**B. Project Description**

Covenant seeks CON authority to obligate capital expenditure in the amount of \$1,354,700 to construct a 60-bed nursing facility in Decatur, Newton County, Mississippi. The completed project will culminate in a multi-level, continuing care, long-term care complex, including a 20 bed private pay independent care cottage unit, a 20-bed assisted living unit, a 60-bed skilled nursing facility, and space for an adult day-care center for Alzheimer's patients and individuals with other day care needs, according to the application.

The proposed nursing facility will contain 26,002 square feet which will allow for 38 rooms, established as 22 semi-private and 16 private rooms, and additional space to accommodate the needs of the residents of those beds, including a dining area, living room, and therapy room among others. The applicant will be competing against three other applicants for the 60 beds authorized by Senate Bill 2679 (1999 Legislative Session). Attachment I lists these competing applicants.

The \$1,354,700 total capital expenditure finances the following: new construction \$ 83.4 percent (\$1,130,000); fixed equipment cost \$ 3.0 percent (\$40,000); Land cost -- 3.7 percent (\$50,000); site preparation cost \$1.1 percent (\$15,000); contingency reserve --3.0 percent (\$40,000); and fees -- 3.7 percent (\$49,700). Financing for this nursing home project will be by commercial bank loan. The application contains a letter from the Bank of Morton attesting the willingness of the bank officials to provide financing. Capital expenditure will be obligated upon final CON approval; targeted completion date is set for 12 months later, according to the applicant. The proposed site for Covenant Care Nursing Home has been conditionally approved (contingent upon a receipt of verification from the City of Decatur that the access road will be paved) by the Division of Health Facilities Licensure and Certification. The facility will be Medicare/Medicaid certified.

Applicant projects 80.5 full-time equivalent staff at an estimated personnel cost of \$815,496.93 during the first year of operation. The applicant also project a 60 percent occupancy rate during the first full year of operation.

## II. Type of Review Required

This application for the construction/establishment of 60 nursing facility beds is reviewed in accordance with Section 41-7-191, subparagraphs (1) (a) and (2)(q)(i), (q)(ii), (q)(iii), (q)(iv), and (q)(v) Mississippi Code of 1972 Annotated, as amended (Senate Bill 2679, 1999 Regular Session), and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health. Senate Bill 2679 (1999 Legislative Session) authorized the Department to issue Certificates of Need during the next four fiscal years for the construction or expansion of nursing facility beds in each county in the state having a need for 50 or more additional nursing facility beds, as shown in the *Fiscal Year 1999 State Health Plan*. Newton County is one of the six counties authorized for additional bed during the year 2003. Other counties authorized within the state for additional beds during fiscal year 2003 are: Covington, George, Monroe, Tallahatchie, and Yalobusha.

The Department received four applications for the 60 beds authorized for Newton County. These applications were deemed complete on July 1, 2002 and entered into the July-September 2002 Quarterly Review Cycle as competing applications. (See Attachment I for a listing of the competing applications).

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 September 4, 2002.

## III. Conformance With the *State Health Plan* and Other Adopted Criteria and Standards

### A. State Health Plan

The *FY 1999 State Health Plan* addresses policy statements and specific criteria and standards which an applicant is required to meet prior to receiving CON authority to construct/establish nursing home beds. This application is in substantial compliance with the policy statements and criteria and standards for these types of projects.

#### **SHP Criterion 1 - Need**

The applicant proposes to construct a 60-bed nursing facility in Newton County which is in Long-Term Care Planning District IV (LTCPD-IV). The *FY 1999 State Health Plan* shows a need for 54 additional nursing home beds in Newton County and 923 additional nursing home bed for LTCPD-IV. Although, this application, if approved, will slightly over-bed Newton County with nursing facility beds, Senate Bill 2679 (1999 Legislative Session) authorized the issuance of CON authority for 60 additional nursing home beds for Newton County and no fewer.

### **SHP Criterion 2 - Facility Size**

Senate Bill 2679 authorizes the MSDH to issue CONs to qualified applicants to construct additional nursing home beds in each of the four LTCPDs in counties of the greatest need, limited to 60 beds per county in those counties listed above. This application conforms to both the size and purpose of the facility.

### **SHP Criterion 3 -Statistical Need/Competing Applications**

As previously mentioned, the Department received four competing applications for the 60 nursing facility beds authorized by Senate Bill 2679 for Newton County. Also, all nursing facility application filed on June 1, 2002 for the FY 2003 authorization are mandated to be reviewed under the *FY 1999 State Health Plan*.

## **B. General Review Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised 2000, addresses general review criteria by which all CON applications are reviewed. This application is in substantial compliance with applicable general review criteria.

### **GR Criterion 3 - Availability of Alternatives**

Applicant states that the proposed project is being undertaken to satisfy the need for additional long-term care beds as is outlined by the *State Health Plan* and Senate Bill 2679; no other alternative has been considered.

### **GR Criterion 4 - Economic Viability**

Based on the operation projections provided by the applicant, this appears to be an economically viable project. Financial projections contained in the application reflect a net gain of \$77,258; \$246,985; and \$155,443 during the first, second, and third year of operation, respectively.

### **GR Criterion 5 - Need**

Senate Bill 2679 (1999 Legislature) authorized the issuance of a CON to a qualified applicant for the addition of 60 additional skilled nursing care beds in Newton County. The *State Health Plan* shows a need for 54 additional nursing home beds in Newton County and 923 additional beds for the total LTCPD-IV. The need for additional nursing home beds for the area has definitely been established by the *State Health Plan*.

**GR Criterion 6 - Accessibility**

The applicant indicates that the proposed facility will be certified for reimbursement from both Medicaid and Medicare, located in central Newton County (the existing 120-bed nursing facility is located in south-central Newton County), and the completed project will part of an “aging-in-place” complex, with independent living, assisted living, day care, and skilled nursing services offered in one location.

The application contained 20 letters of support from health care providers and other community leaders. No letters of opposition were received

**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 State Department of Health within 15 business days of request.

**GR Criterion 8 - Relationship to Existing Health Care System**

Newton County has one 120-bed skilled nursing homes but needs 174 beds to serve its present elderly population, leaving a need of 54 additional beds, according to the *FY 1999 Mississippi State Health Plan*. Considering this need, this facility should have no adverse economic effect on existing nursing home.

**GR Criterion 9 - Availability of Resources**

According to the applicant, resources needed to construct and operate the proposed nursing facility in Newton County are available.

**GR Criterion 15 - Competing Applications**

See Attachment III for a comparative analysis on the applicants competing for nursing home beds in Newton County.

**CR Criterion 16 - Quality of Care**

The applicant has had some 28 years experience in the operation and management of nursing homes in Mississippi.

**V. Financial Feasibility**

**A. Expenditure Summary**

New Construction	\$ 1,130,000
Total Fixed Equipment	40,000
Total Non-Fixed Equipment	n/a*
Land	50,000
Site Preparation	15,000
Fees(Architectural, Consultant,	49,700
Capitalized Interest	30,000
Contingency Reserve	<u>40,000</u>
<b>Total Capital Expenditure</b>	<b><u>\$ 1,354,700</u></b>

\* non-fixed equipment will be leased

The above estimated capital expenditure is proposed for the new construction of 26,002 square feet of space at a per square foot cost of \$50.17. The cost per bed is approximately \$22,578, considerably below the first quartile range for nursing homes of this size as listed in the *Means Construction Cost Data 2002*. According to the *Means Construction Cost Data*, the first quartile cost for nursing homes this size is \$31,000 per bed, and \$71.50 per square foot.

**B. Method of Financing**

This project will be financed through an commercial bank loan.

**C. Effect on Operating Cost**

The applicant projects gross revenues of \$2,809,812; \$3,166,474; and 3,328,600 for the first, second, and third year of operation, respectively; and expenses of \$2,732,554; \$2,919,489; and \$3,173,157 of for the first, second, and third year of operation, respectively. (See Attachment II for the applicant's Three-Year Projected Operating Statement). Utilization, cost, and charges are projected as follows:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Occupancy Rate (%)	60.00	85.00	95.00
Patient Days	13,140	18,615	20,805
Cost/Patient Day	\$207.96	\$170.10	\$159.99
Charge/Patient Day	\$214.04	\$171.43	\$161.20

Applicant's projections appear to be realistic and comparable to other nursing homes of the same size, except the first year projected occupancy rate appears low.

**D. Cost to Medicaid/Medicare**

Based on the gross patient revenue projected in this project and comments received from the Division of Medicaid, the impact of the project on third party payers is as follows for the first year:

Payor Mix	Utilization Percentage	Patient Days	Cost First Year
Medicaid	32.50	4,626	\$ 319,802
Medicare	42.50	6,050	2,165,505
Other Payers	<u>25.00</u>	<u>3,559</u>	<u>327,158</u>
<b>Total</b>	<b>100.00</b>	<b>14,235</b>	<b><u>\$ 2,812,465</u></b>

**V. Recommendation of Other Affected Agencies**

The Division of Medicaid stated that ..."[T]he approval of this certificate of need is expected to increase Medicaid expenditure by approximately \$741,006 annually in total funds based on a stable occupancy rate."

**VI. Conclusion and Recommendation**

This project is in substantial compliance with the criteria and standards for nursing home beds as contained in the *FY 1999 State Health Plan*, the Certificate of Need Review Manual (2000 revision), and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The project also complies with Senate Bill 2679 of the 1999 Legislative Session, which authorized the Department of Health to issue a CON for the construction or expansion of nursing facility beds or the conversion of other beds to nursing facility beds in each county in the state having a need for 50 beds or more additional nursing facility beds, as shown in the *FY 1999 State Health Plan*.

The Department received four applications requesting a Certificate of Need for all of the nursing home beds for Newton County. All applications were deemed complete on July 1, 2002, and entered into the July-September quarterly review cycle as competing applications.

All projects were found to be in substantial compliance with the projection of need. However, with competing applications, the Department must determine which applicant, if any, is the most appropriate applicant for providing the proposed service. Based on a comparative analysis prepared by the Department, staff has determined that Alliance-Laird Nursing Home is the most appropriate applicant to provide the proposed nursing facility services authorized by Senate Bill 2679 (See Attachment III). Approval of this application precludes the approval of applications submitted by any other applicant.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of the application submitted on behalf of Covenant Care of Decatur, Inc.

**Attachment I**

Competing Applicants for 60 Nursing Facility Beds for Newton County

CON REVIEW NH-CB-0602-030

Newton Hospital, Inc, dba Newton Regional Nursing Home-Newton

Construction of a 60-bed Nursing Facility in Newton County

Capital Expenditure: \$1,719,271

Location: Newton, Newton County, Mississippi

CON REVIEW NH-CB-0602-032

Bedford Care Center of Newton, LLC-Newton

60-Bed Expansion of a 120-Bed Nursing Facility in Newton County

Capital Expenditure: \$993,642

Location: Newton, Newton County Mississippi

CON REVIEW NH-CB-O600-047

Alliance Health Systems, LLC dba Alliance-Laird Nursing Home-Union

Construction of a 60 Bed Nursing Facility in Newton County

Capital Expenditure: \$Unknown

Location: Hollandale, Newton County, Mississippi

CON REVIEW NH-CB-O699-048

Covenant Care of Decatur, Inc.-Decatur

Construct a 60-bed Nursing Facility in Newton County

Capital Expenditure: \$Unknown

Location: Decatur, Newton County Mississippi

Attachment I

Three Year Proposed Budget  
 Alliance-Laird Nursing Home  
 Establishment of a 60-Bed Nursing Facility in Newton County  
 NH-CB-0602-024

<u>Revenues</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Gross Patient Revenue	\$ 2,809,812	\$ 3,166,474	\$ 3,328,600
Deductions From Revenue	0	0	0
<b>Net Patient Revenue</b>	<b><u>2,809,812</u></b>	<b><u>3,166,474</u></b>	<b><u>3,328,600</u></b>
<u>Expenses</u>			
Total Expenses	<u>2,732,554</u>	<u>2,919,489</u>	<u>3,173,157</u>
<b>Net Income (loss)</b>	<b><u>\$ 77,258</u></b>	<b><u>\$ 246,985</u></b>	<b><u>\$ 155,443</u></b>

Attachment III  
 COMPARATIVE ANALYSIS  
 PROPOSED 60-BED NURSING FACILITIES  
 IN Newton COUNTY (THIRD YEAR OF OPERATION)

Competing Nursing Homes	Newton Regional		Bedford		Alliance-Laird		Covenant Care	
SIZE (Sq. Ft.)	2	21,670	4	16,162	3	20,164	1	26,002
CAPITAL EXPENDITURE	4	\$ 1,719,271	2	\$ 993,642	1	\$ 729,050	3	\$1,354,700
COST/SQ. FT.	4	\$ 75.95	3	\$ 58.55	1	\$ 34.74	2	\$ 50.17
COST/BED (TOT. COST)	4	\$ 28,654	2	\$ 16,560	1	\$12,150	3	\$ 22,578.33
GROSS REVENUE		\$ 3,488,670		\$ 4,682,711		\$ 3,966,660		\$ 3,328,600
DEDUCTIONS		\$ (1,121,646)		\$ (46,658)		0		0
NET REVENUES		\$ 2,367,024		\$ 3,376,624		\$ 3,966,660		\$ 3,328,600
EXPENSES		\$ 2,161,883		\$ 2,782,307		\$ 3,889,489		\$ 3,173,157
NET INCOME		\$ 210,141		\$ 197,512		\$ 77,171		\$ 155,443
OCCUPANCY RATE		90.00%		95.00%		85%		95%
PATIENT DAYS		19,710		20,805		18,615		20,805
COST/PATIENT DAY		\$ 109.68		\$ 133.73		\$ 152.91		\$ 159.99
CHARGE/PATIENT PAY		\$ 300.00		\$ 225.52		\$ 214.70		\$ 161.20
PERSONNEL REQUIRED	3	58.8	4	52.70	1	83.2	2	80.5
ANNUAL COST 1 <sup>ST</sup> YEAR		\$ 1,152,873		\$ 1,124,873		\$1,264,692		\$ 815,497
MEDICAID UTILIZATION(%)		65		23		25		32.5
MEDICARE UTILIZATION(%)	4	25	1	47	2	45	3	42.5
PRIVATE PAY UTILIZATION		10		30		30		25.0
COST TO MEDICAID (1 <sup>ST</sup> YEAR)	4	\$ 859,680	3	\$ 406,906	1	\$ 270,312	2	\$ 319,802
CONTINUUM OF CARE (Yes/No)	1	Yes	4	No	1	yes	1	yes
Medicaid Cost Per Diem	2	\$ 75.49	4	\$ 100.15	3	\$ 78.33	1	\$ 74.88
Signed Agreement	-1	yes	-1	yes	-1	yes	-1	yes
<b>Composite Score</b>	<b>27</b>		<b>26</b>		<b>13</b>		<b>17</b>	