

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

**CON REVIEW NH-CB-0602-024**

**Alliance Health Systems, LLC dba Alliance-Laird Nursing Home-Union  
Construction of a 60-bed Nursing Facility in Newton County**

**Capital Expenditure: \$729,050**

**Location: Union, Newton County, Mississippi**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Alliance Health Systems operates as a Limited Liability Company (LLC), established pursuant to Section 79-29-1 I, *et seq.* of the Mississippi Limited Liability Act, and is duly licensed and doing business in Mississippi as Alliance Health Systems, LLC. It is member-managed and is in good standing with the office of the Mississippi Secretary of State, as documented in the project application. Alliance plans to create a subsidiary corporation, doing Business as Alliance-Laird Nursing Home, to operate the proposed nursing home. Applicant promises to maintain continuous ownership and to operate the facility for no less than three years from its licensure.

**B. Project Description**

Alliance Health Systems, LLC ( "applicant" or "Alliance") proposes to add a 60-bed long-term care facility to the existing Alliance-Laird Hospital as an addition/renovation project. Alliance plans construct the nursing facility on existing land, located at 25117 Highway 15, Union, Newton County, Mississippi. Applicant responses to Senate Bill 2679 (1999 Legislative Session), which authorizes the Mississippi State Department of Health to issue a CON for the construction of a 60-bed nursing facility for Newton County, by this proposal.

The proposed nursing facility culminates in 20,164 square feet of enclosed space, which allows for 38 rooms, established as 22 semi-private and 16 private rooms, with additional space to accommodate the needs of the residents of those beds, including a dining area, living room, and therapy room, among others. Additionally, applicant anticipates using the additional acres adjacent/surrounding this facility to provide additional services, including independent living, assisted living, and personal care.

Alliance requests CON authority to obligate capital expenditure of \$729,050 for the construction of a 20,160 square foot, 60-bed nursing facility in Union, Newton County, Mississippi with 9,626 in new construction and 10,538 in renovation. 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.

Applicant projects 83.2 full-time equivalent staff at an estimated personnel cost of \$1,264,692 during the first year of operation. The applicant also project a 65 percent occupancy rate during the first full year of operation.

The total capital expenditure of \$729,050 finances the following: new construction/renovation \$ 85.5 percent (\$623,550); fixed equipment cost \$ 2.1 percent (\$15,000); site preparation cost \$ 0.7 percent (\$5,000); contingency reserve --1.5 percent (\$11,000); and fees -- 6.3 percent (\$46,000). An inter-company loan finances this nursing home project. Obligated of capital expenditure will occur immediately upon final CON approval, with targeted completion date 12 month later, according to the applicant. The Division of Health Facilities Licensure and Certification approved the proposed site for Alliance-Laird Nursing Home. The facility will receive Medicare/Medicaid certificaton.

## **II. Type of Review Required**

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 govern the review of this application. Senate Bill 2679 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. Staff declared the four applications complete on July 1, 2002 and entered them 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 must meet prior to receiving CON authority to construct/establish nursing home beds. Alliance complies substantially with the policy statements, criteria, and standards for this type of project.

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

The applicant proposes to construct a 60-bed nursing facility in Newton County, part of 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 beds 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 complies substantially with applicable general review criteria.

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

Applicant states: "The project will fill the projected needs for LTCPD IV and Newton County. The applicant will provide a very cost-effective service with an affordable physical plant and property. By locating in the Union area, many local residents will be served in a cost-efficient manner. The site will allow access to hospitals and doctors' offices while serving an under-served area of the county. The local community would benefit greatly from the addition of this facility to the community of Union and the many opportunities and benefits it will bring with it to the community."

### **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 \$1,035,741; \$1,035,740; and \$1,077,171 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 *State Health Plan* definitely establishes need for additional nursing home beds for the area.

#### **GR Criterion 6 - Accessibility**

The applicant indicates that the proposed facility will be certified for reimbursement from both Medicaid and Medicare, located in northern Newton County (the existing 120-bed nursing facility is located in central Newton County), will be hospital based, and will be able share the extensive resources readily available at Alliance-Laird Hospital.

As noted throughout the application, the applicant not only offers an extensive continuum of care through its own services, but also serves as an integral and active participant in the health care system in east-central Mississippi. The application contained 37 letters of support from regional hospitals. 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 home 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 the county's existing nursing home.

#### **GR Criterion 9 - Availability of Resources**

Applicant demonstrates the availability of adequate resources to construct and operate the proposed nursing facility in Newton County.

#### **GR Criterion 15 - Competing Applications**

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

**CR Criterion 16 - Quality of Care**

According to the applicant: "The applicant has sufficient resources available to it for commitment to this project. Additionally, the Applicant has a proven track record of operation in Mississippi. They will have full authority to recruit and retain staff. The facility will also become a hospital-based nursing home with access to a full spectrum of health care resources available to its subsidiary organizations."

**V. Financial Feasibility**

**A. Expenditure Summary**

New Construction	\$ 566,800
Renovation	56,750
Total Fixed Equipment	15,000
Total Non-Fixed Equipment	23,500
Land	0
Site Preparation	5,000
Fees(Architectural, Consultant,	46,000
Capitalized Interest	0
Contingency Reserve	11,000
Other Cost–Landscaping	<u>5,000</u>
<b>Total Capital Expenditure</b>	<b><u>\$ 729,050</u></b>

The above estimated capital expenditure finances new construction of 9,626 square feet of space at a per square foot cost of \$63.80, and 10,538 square feet renovation of the existing Alliance-Laird Hospital at a renovation cost of \$6.80 per square foot, for an average cost of \$34.74 per square foot for the completed facility. The cost per bed approximates \$12,150, 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**

Inter-company loan, in the amount of \$729,050, will provide financing for the total proposed project.

**C. Effect on Operating Cost**

The applicant projects gross revenues of \$3,814,097; \$3,814,097; and 3,996,660 for the first, second, and third year of operation, respectively; and expenses of \$2,779,358; \$2,736,926; and \$2,846,402 of for the first, second, and third year of operation, respectively.

(See Attachment II for the applicant's Three-Year Projected Operating Statement). Applicant projects utilization, cost, and charges as follows:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Occupancy Rate (%)	65.00	85.00	85.00
Patient Days	14,235	18,615	18,615
Cost/Patient Day	\$195.18	\$147.03	\$152.91
Charge/Patient Day	\$267.94	\$204.89	\$214.70

These projections appear realistic and comparable to other nursing homes of the same size.

**D. Cost to Medicaid/Medicare**

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

Payor Mix	Utilization Percentage	Patient Days	Cost First Year
Medicaid	25.00	3,559	\$ 270,312
Medicare	45.00	6,406	2,183,669
Other Payers	<u>30.00</u>	<u>4,270</u>	<u>324,374</u>
<b>Total</b>	<b>100.00</b>	<b>14,235</b>	<b><u>\$ 2,778,356</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 \$514,798 annually in total funds based on a stable occupancy rate."

**VI. Conclusion and Recommendation**

This project complies substantially 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), 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. Staff determined the four applications to be complete on July 1, 2002, and entered them into the July-September quarterly review cycle as competing applications. Staff found all projects to be in substantial compliance with the projection of need. However, with competing applications, the Department must determine which applicant, if any, the most appropriate for providing the proposed service. Based on a comparative analysis prepared by the Department, staff determined Alliance Health Systems LLC dba Alliance -Laird Nursing Home 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 an application submitted by other applicants.

Consequently, the Division of Health Planning and Resource Development recommends approval of the application submitted on behalf of Alliance Health Systems LLC dba Alliance -Laird Nursing Home and finds that Alliance Health Systems LLC dba Alliance -Laird Nursing Home obtained the lowest composite score of all four applicants seeking CON authority to construct a 60-bed nursing facility in Newton County according to the following factors: size in square feet, capital expenditure, cost/square foot, cost/bed, staffing, Medicare utilization, first year cost to Medicaid, per diem cost to Medicaid, continuum of care services, and a signed agreement that the applicant will operate the nursing facility for a minimum of three years following licensure.

**Attachment I**

Competing Applicants for 60 Nursing Facility Beds for Newton County

CON REVIEW NH-CB-0502-030

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-O602-024

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

Construction of a 60 Bed Nursing Facility in Newton County

Capital Expenditure: \$729,050

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 II**

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	\$ 3,814,097	\$ 3,814,097	\$ 3,966,660
Deductions From Revenue	0	0	0
<b>Net Patient Revenue</b>	<b>3,814,097</b>	<b>3,814,097</b>	<b>3,966,660</b>
<u>Expenses</u>			
Nursing	706,053	678,898	706,053
Dietary	235,745	226,677	235,745
Laundry	41,086	39,506	41,086
Housekeeping	90,179	86,711	90,179
Pharmacy	19,219	18,480	19,219
Other Patient Services	1,233,198	1,185,768	1,233,198
Plant Operation and Maintenance	72,333	69,551	72,333
Patient Activities	29,409	28,278	29,409
General and Administrative	441,523	424,542	441,523
Lease Cost	0	0	0
Depreciation Cost	20,744	19,946	20,744
Interest Cost	0	0	0
<b>Total Expense</b>	<b>2,778,356</b>	<b>2,778,357</b>	<b>2,889,489</b>
<b>Net Income (loss)</b>	<b>\$ 1,035,741</b>	<b>\$ 1,035,740</b>	<b>\$ 1,077,171</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		\$ 154.84
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	\$ 70,312	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>	