

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

CON REVIEW NH-CB-0502-030

**Newton Hospital, Inc., dba Newton Regional Hospital-Nursing Home, Newton
Construction of a 60-Bed Nursing Facility in Newton County**

Capital Expenditure: \$1,719,271

Location: Newton, Newton County, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

The citizens of District IV of Newton County, Mississippi owns Newton Hospital, Inc., a 501(c)3C corporation which, in turn, owns Newton Regional Hospital, a community-based, non-profit, acute care facility. The Board of Supervisors, District IV, maintains fiduciary responsibility for the hospital through an appointed a five-person policy board of trustees. The citizens of Newton County, District IV, will also own the proposed Newton Regional Nursing Home, when approved.

B. Project Description

Newton Hospital, Inc., dba Newton Regional Hospital (applicant) requests CON authority to obligate capital expenditure of \$1,719,271 for the construction of a 21,670 square foot, 60-bed nursing facility in Newton, Newton County, Mississippi to satisfy the intent of Senate Bill 2679 (1999 Legislation). The proposed facility will be named Newton Regional Nursing Home when completed. The applicant competes against three other applicants for the 60 beds authorized by Senate Bill 2679 (1999). Attachment I lists these competing applicants. Applicant projects 58.8 full-time equivalent staff, at an estimated personnel cost of \$1,152,873 during the first year of operation. The applicant also projects an 80 percent occupancy rate during the first full year of operation.

Of the \$1,719,271 total capital expenditure, allocations are as follows: new construction \$ 81.4 percent (\$1,400,000); fixed equipment cost \$ 3.1 percent (\$53,296); land cost -- 1.5 percent (\$25,500) site preparation cost \$ 0.6 percent (\$10,000); capitalized interest -- 3.05 percent (\$52,500); contingency reserve -- 2.9 percent (\$45,000); and fees -- 4.9 percent (\$85,000). Financing for this nursing home project, by nature if its organizational structure, can be financed under HUD Section 232. HUD financing allows a qualified entity to borrow up to 95 percent of the cost of construction of a nursing facility for a period of up to 40 years. Capital expenditure will be obligated within 90 days of the final CON approval; targeted completion date is set for December 31, 2003. Anticipated capital expenditure obligation is January 1, 2003. The Division of Health Facilities Licensure and Certification approved the proposed site for Newton Nursing Home. The facility will be Medicare/Medicaid certified.

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 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 *F Y 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, 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.

Legislative Priority: Under Section 41-7-191(2)(q)(vi). Mississippi Code of 1972: if more than one application is made for a certificate of need for nursing home facility beds available under this paragraph (q), in Yalobusha, Newton, or Tallahatchie County, and one of the applicants is a county-owned hospital located in the county where the nursing facility beds are available, the department shall give priority to the county-owned hospital in granting the certificate of need if the following conditions are met: 1. The county-owned hospital fully meets all applicable criteria and standards required to obtain a certificate of need for the nursing facility beds; and 2. The county-owned hospital's qualifications for the certificate of need, as shown in its application and as determined by the department, are at least equal to the qualifications of the other applicants for the certification of need.

Since this applicant is a county-owned hospital and located in a county cited in the above referenced Section, staff must conduct a comparative analysis of all competing applications to determine if this application is "...at least equal to the qualifications of the other applicants for the certificate of need" ...available for Newton County. Since Senate Bill 2679, by nature, created a competitive environment in which all competing applicants vie for the same CON authority to construct 60 additional beds in the counties mentioned in SB 2679, this application become competitive to other applications submitted on behalf of non-county owned hospital entities. The Department and the Board of Health have developed a comparative analysis system to ascertain the more qualified application among all competing applicant. All applications are evaluated and scored according to the size in square feet of the proposed 60-bed facility, capital expenditure, cost per square foot, cost per bed, staffing, Medicare utilization, first year cost to Medicaid, per diem cost to Medicaid, and continuum of care. This application, submitted on behalf of the proposed Newton Regional Nursing Home, does qualify under Section 412-7-191(2) (q) (vi) Mississippi Code of 1972 to be reviewed as a competing application and if it is found to be of equal qualifications as another competing application, it will be given priority in accordance with Section 41-7-191 (2) (q) (vi). The results of this comparative analysis is outlined in Attachment III of this staff analysis.

SHP Criterion 2 - Facility Size

Senate Bill 2679 (1999) 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: "The 1999 State Legislature, recognizing the need for additional long-term beds in Newton County, passed SB 2679, authorizing the Department of Health to grant a Certificate of Public (sic) Need to a qualified applicant seeking to construct a sixty (60) bed nursing facility in Newton County. We are hereby applying for said CON to satisfy the intent of state law; any other alternative would be contrary to the bill".

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 \$36,520; \$217,883; and \$210,141 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, centrally located in Newton County, and the proposed nursing home will be hospital based and, therefore, able to tap into and share the extensive resources readily available.

As noted throughout the application, the applicant not only offers an extensive continuum of care through its own services, but is also an integral and active participant in the health care system in east-central Mississippi. The application contained 7 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 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 four competing applications for nursing home beds in Newton County.

CR Criterion 16 - Quality of Care

Management, administrative, nursing, social services, patient activities, and dietary personnel currently employed by Newton regional Hospital will be available to assist with staffing needs during the initial opening of the hospital-base 60-bed nursing facility. The facility will maintain a Certified Nursing Assistant program to train potential nursing assistants for the new facility. Some staff will be hired from applications currently on file. Recruitment will also be accomplished by local news advertisements. Applicant expects no problems recruiting needed personnel.

V. Financial Feasibility

A. Expenditure Summary

New Construction	\$ 1,400,000
Total Fixed Equipment	53,296
Total Non-Fixed Equipment	47,975
Land	25,500
Site Preparation	10,000
Fees(Architectural, Consultant,	85,000
Capitalized Interest	52,500
Contingency Reserve	<u>45,000</u>
Total Capital Expenditure	<u>\$ 1,719,271</u>

The above estimated capital expenditure is proposed for new construction of 21,670 square feet of space at a per square foot cost of \$75.95. The cost per bed is approximately \$28,654. The cost per bed is 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 a combination of government loan (HUD Section 232) in the amount of \$1,633,307 (95 percent) and accumulated cash reserves in the amount of \$85,964 (five percent).

C. Effect on Operating Cost

The applicant projects gross revenues of \$3,101,040; \$3,488,670; and \$3,488,670 for the first, second, and third year of operation, respectively; and expenses of \$2,002,466; \$2,114,745, and \$2,161,883 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 (%)	80.00	90.00	90.00
Patient Days	17,520	19,710	19,710
Cost/Patient Day	\$ 114.30	\$ 107.29	\$109.68
Charge/Patient Day	\$ 300.00	\$ 300.00	\$ 300.00

Applicant's projections appear to be 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 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	65.00	11,388	\$ 627,180
Medicare	25.00	4,380	1,095,000
Other Payers	<u>10.00</u>	<u>1,752</u>	<u>311,805</u>
Total	100.00	17,520	<u>\$2,033,985</u>

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 expenditures by approximately \$1,410,290 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. These 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 Health Systems dba 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. Furthermore, the comparative analysis shows that this application, submitted on behalf of Newton Hospital, Inc., dba Newton Regional Hospital is not equally qualified to other applicants and, therefore, Section 41-7-191-(2)(q) (vi) does not apply.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of the application submitted on behalf of Newton Hospital, Inc.

Attachment I

Competing Applicants for 60 Nursing Facility Beds for Newton County

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Newton Hospital, Inc, dba Newton Regional Nursing Home-Newton
Construction of a 60-bed Nursing Facility in Newton County
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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-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: Hollandale, Newton County, Mississippi

CON REVIEW NH-CB-0502-031

Covenant Care of Decatur, Inc.-Decatur
Construct a 60-bed Nursing Facility in Newton County
Capital Expenditure: \$1,354,700
Location: Decatur, Newton County Mississippi

Attachment II

Three Year Proposed Budget
 Newton Regional Nursing Home
 Establishment of 60-bed nursing Facility in Newton County

<u>Revenues</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Gross Patient Revenue	\$3,101,040	\$3,488,670	\$3,488,670
Deductions from Revenue	<u>(1,067,055)</u>	<u>(1,161,041)</u>	<u>(1,121,646)</u>
Net Patient Revenue	<u>\$2,033,985</u>	<u>\$2,327,629</u>	<u>\$2,367,024</u>
<u>Expenses</u>			
Nursing	699,611	721,983	737,629
Dietary	236,718	260,676	268,939
Laundry	65,501	70,717	72,693
Housekeeping	53,035	55,916	57,296
Pharmacy	86,370	96,510	97,000
Other Patient Services	302,002	340,785	352,316
Plant Operation and Maintenance	112,536	116,320	120,118
Patient Activities	43,927	45,654	46,689
General and Administrative	236,892	240,836	244,413
Lease Cost	0	0	0
Depreciation Cost	43,927	43,601	43,601
Interest Cost	122,271	121,749	121,189
Total Expense	<u>2,002,466</u>	<u>2,114,745</u>	<u>2,161,883</u>
Net Income (loss)	<u>\$ 36,520</u>	<u>\$ 217,883</u>	<u>\$ 210,141</u>

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	34	58.8	4	52.70	1	83.2	2	80.5
ANNUAL COST 1 ST 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 ST 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
Composite Score	27		26		13		17	