

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2002**

**CON REVIEW NH-CB-0602-038
HTC HEALTHCARE II, INC. DBA HTC HEALTHCARE II, INC.
CONSTRUCTION/ESTABLISHMENT OF A 60-BED NURSING HOME FACILITY
COUNTY: GEORGE, LTC PLANNING DISTRICT IV
CAPITAL EXPENDITURE: \$700,000
LOCATION: LUCEDALE, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

HTC Healthcare II, Inc. is a proprietary Mississippi Corporation formed on May 11, 2001. The Corporate officers (**Chairman, President, Treasurer and Secretary**) of HTC Health care II, Inc. are held by H. Ted Cain. He is the sole member of the governing board of the Corporation. H. Ted Cain also owns several nursing home in Mississippi.

B. Project Description

HTC Healthcare requests Certificate of Need (CON) authority for construction/establishment of a 60-bed skilled nursing facility in George County, Mississippi. The project will encompass a total of 17,850 square feet of new space and will be added to a ***planned** personal care/assisted living facility, all of which will be designed to fully accommodate the patients' needs. The facility will provide a covered drive-through area that will allow drop-off capability, and a comfortable, spacious lobby to greet both visitors and families. The building will be brick construction and will strive to provide a homelike atmosphere for its residents, promote residents privacy, to accommodate a wide range of programs and services, while meeting or exceeding all standards, codes and requirements for the construction of nursing facilities in Mississippi. The proposed nursing facility will be located at Fig Farm Road, Lucedale, Mississippi 39452.

*According to the applicant, the personal care facility will be tied in between the skilled nursing home facility. The personal care facility will consist of approximately 20,500 square feet of enclosed conditioned space. The plans for the personal care facility largely compliment the design of the skilled nursing beds, as the personal care facility's kitchen, dining areas, and activities areas are large enough to provide the required services to both the personal care facility and the skilled nursing home. Additionally, the personal care facility will provide an additional approximate 1,700 square feet of covered entry/porch space to service both areas of the proposed project.

According to the applicant, the proposed nursing home facility will provide a full range of continuum of care services to meet the needs of the surrounding communities. HTC Healthcare II, Inc.'s facility will include skilled nursing services offered in a twenty (20) bed Medicaid certified and forty (40) bed Medicare certified unit, personal care facilities, assisted living facilities, hospice services and respite care all provided on HTC Healthcare II, Inc.'s campus located in George County.

The applicant asserts that the services offered by HTC Healthcare II, Inc. to its patients are designed to meet the patients' daily needs and to improve their functioning. The services include the following:

Physical Therapy	24-Hour Nursing Care and Supervision
Occupational Therapy	Rehabilitative Treatment
Speech Therapy	Restorative Care
Complex Medical Equipment	Recreational Activities
Individual Activities	Social Services
Independent and/or Assisting Living	

Applicant projects 82.75 full-time equivalents personnel at an estimated cost of \$1,497,850 the first year for the proposed nursing facility.

The total proposed capital expenditure is \$700,000, which is composed of the following: new construction - 63.56 percent, which includes site preparation, fixed equipment - 14.29, non-fixed equipment - 8.57 percent, fees - 6.43 percent, Capitalized interest - 4.29 percent, and contingency reserve - 2.89 percent. The applicant proposes to finance the proposed project through a commercial loan with the Bank of Wiggins. The application included a letter from Mr. James O. Rabby, President of the Bank indicating its willingness to finance the project.

According to the applicant, the capital expenditure for the proposed project will be obligated within 3 months of the receipt of the CON and shall be completed within 12 months of commencement.

The application includes a copy of a letter requesting site approval from the Division of Health Facilities Licensure and Certification, MSDH for the proposed project.

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), and (q)(iv), and (q)(v) of the Mississippi Code of 1972 Annotated, as amended, (Senate Bill 2679, 1999 Regular Legislative Session), and duly adopted rules, procedures, plans, criteria and standards of the Mississippi State Department of Health.

Senate Bill 2679 authorized the Mississippi State Department of Health to issue a Certificate 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 beds or more additional nursing facility beds, as shown in the Fiscal Year 1999 State Health Plan. George County is one of the six counties authorized for additional beds during the year 2003. Other counties authorized within the State for additional beds during fiscal year 2003 are: Tallahatchie, Yalobusha, Monroe, Newton, and Covington.

The Department received three applications for the 60 beds authorized for George County. These applications were deemed complete on July 1, 2002, and entered into the July-September 2002 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 (SHP)**

The Fiscal Year 1999 State Health Plan addresses policy statements and specific criteria and standards which an applicant is required to meet before receiving CON authority to construct/establish nursing home beds. The proposed project is in substantial compliance with the policy statements and criteria and standards for these types of projects.

SHP Criterion 1 - Need

George County Hospital proposes to construct/establish a 60-bed nursing home facility in George County, which is in Long Term Care Planning District IV. The District as a whole shows a need for 1,404 more beds than the 5,335 existing/CON approved beds in LTCPD IV. Currently there is one existing nursing home facility located in George County. The **Plan** shows that George County has a need for 74 nursing home beds.

The 1999 Legislative Session, pursuant to Senate Bill 2679, authorized the approval of 60 nursing home beds in George County. The need for additional nursing home beds for the area has definitely been established by the **State Health Plan**.

SHP Criterion 2 - Facility Size

HTC Healthcare II, Inc. proposes to construct a 60-bed facility in LTC Planning District IV, George County. The applicant is in compliance with this criterion.

SHP Criterion 3 - Statistical Need/Competing Applications

This application competes with two other proposals for the 60-bed nursing facility in LTC Planning District IV. (See Attachment 1). George County shows a statistical need for 74 beds. The Plan shows a need for 1,404 additional long term care beds in LTCPD IV. In Planning District IV, there are currently 5,335 existing or approved nursing home beds.

B. General Review (GR) Criteria

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

GR Criterion 3 - Availability of Alternatives

The applicant believes that the proposed project is the most cost effective alternative and will enhance access to those in need of the services. The applicant asserts that other alternatives were considered and rejected.

GR Criterion 4 - Economic Viability

Based on the operation projections provided by the applicant, this appears to be an economically viable project. Financial projections in the application reflect a net loss of \$131,499 the first year, a net income of \$115,059 the second year and \$123,064 the third year of operation of the proposed project.

The applicant indicates that the operation of HTC Healthcare II, Inc. will fund retirement of debt and provide the operating capital.

GR Criterion 5 - Need for Project

Applicant states that the proposed facility will be available to all persons in the service area including low income persons, racial and ethnic minorities, women, handicapped persons and other under served groups. As the project contemplates a skilled nursing facility, the elderly will have priority access to the proposed nursing home facility.

The Plan indicates that 1,404 additional long term care beds are needed in LTCPD IV. Furthermore, 74 nursing home beds are needed in George County.

The applicant indicates that the proposed project is needed because of the need identified in George County, and the **State Health Plan**, the proposed project will allow the flexibility to accommodate the needs of the residents of George County while providing additional capacity in the most effective and efficient manner, and will provide a better continuum of care, and will help to meet community needs.

According to the applicant, the project's final objective is to accommodate the statistical need for skilled nursing services in George County in the most cost effective manner possible.

The applicant believes that failure to implement the proposed project will only result in transitional patients continuing to experience delays in placement.

The applicant received twenty-two (22) letters of support from community members of the area for the proposed project.

George County Hospital, one of the competing applicants submitted a letter of comments concerning the proposed project for George County.

GR Criterion 6 - Accessibility

The applicant submits that all residents of the health planning service area, hospital service area or patient service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, elderly, will have access to the services of the proposed long-term care facility. The facility will provide skilled nursing services to all individuals without regard to age, creed, sex, race, or religion.

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

There is one existing nursing home located in George County. The proposed long term care facility will be located in District IV, George County. According to the Plan, currently there are 5,335 existing/CON approved nursing home beds in District IV. The location of the site is George County where there is a need for 74 nursing home beds.

The applicant asserts that the proposed project will have no adverse impact on the existing health care system but will in fact fill a void in the existing delivery system with respect to patients transitioning from both the acute care setting and patients who have special needs requiring placement in a skilled nursing facility and provide a superior continuum of care.

GR Criterion 9 - Availability of Resources

The applicant asserts that health care personnel are readily available from the Hattiesburg and/or Gulf Coast areas. No problems are anticipated in the hiring of staff for the facility using existing recruiting efforts.

GR Criterion 15 - Competing Applications

See Attachment II for a comparative analysis on the three applications for the 60 nursing home beds in George County.

GR Criterion 16 - Quality of Care

The applicant currently owns and operates several health care facilities (nursing homes) licensed by the Department. The applicant asserts that the referenced facilities consistently exceed the standards and criteria for resident care.

The applicant asserts that the proposed facility will participate in the Medicaid program and will be certified for participation in the Medicare program.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction*	\$ 445,000
Fixed Equipment	\$ 100,000
Non-Fixed Equipment	\$ 60,000
Site Preparation	\$Included in *
Fees (Architectural, Consultant, etc.)	\$ 45,000
Contingency Reserve	\$ 20,000
Capitalized Interest	\$ 30,000
Total Capital Expenditure	\$700,000

The above estimated capital expenditure is proposed for new construction of 17,850 square feet of space at a per square foot cost of \$35.85. The cost per bed is approximately \$11,667.67. The cost per bed is below the low range of cost for nursing homes as listed in MCCD 2002. According to MCCD 2002, the low range cost for nursing homes this size is \$31,000 per bed, and \$71.50 per square foot. It also involves purchases of fixed and non-fixed equipment.

B. Method of Financing

Applicant states that the proposed project's capital expenditure of \$700,000 will be financed through a commercial loan with the Bank of Wiggins. The application included a letter from Mr. James O. Rabby, President of the bank indicating its willingness to finance the project.

According to the applicant the operations of HTC Healthcare II, Inc. will fund retirement of debt and provide the operating capital.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization, and results from operation for the first three years following completion of this project:

Item	First Year	Second Year	Third Year
Salaries and Benefits	\$ 1,497,850	\$ 1,572,743	\$1,604,197
Supplies	\$ 115,400	\$ 150,020	\$ 156,500
Other Direct Expenses	\$ 710,215	\$ 781,237	\$ 804,674
Administration And General	\$ 467,394	\$ 536,513	\$ 560,468
Depreciation	\$ 32,800	\$ 32,800	\$ 32,800
Interest	\$ 55,465	\$ 54,237	\$ 52,907
Total Expenses	\$2,879,124	\$ 3,127,549	\$3,211,546

Revenues

Gross Patient Rev.	\$2,870,725	\$3,415,305	\$3,542,325
Total Deduction	\$(131,100)	\$(181,697)	\$ (217,715)
Net Patient Rev.	\$2,739,625	\$3,233,608	\$3,324,610
Other Rev.	\$ 8,000	\$ 9,000	\$ 10,000
Net Income	\$ 131,499	\$ 115,059	\$ 123,064

Utilization, Cost and Charges

Occupancy Rate (%)	60%	80%	85%
Patient Days	13,141	17,520	18,615
Cost/Patient Day	\$219.11	\$178.51	\$172.52
Charge/Patient Day	\$218.47	\$194.94	\$190.29

The applicant's projections appear to be realistic and comparable to other nursing homes of the same size.

D. Cost to Medicaid/Medicare

Based on HTC Healthcare, II's gross patient revenue projected in this project, the applicant projects the impact of the project on third party payers as follows for the first year:

Payor Mix	Utilization Percentage	Patient Days	Cost First Year
Medicaid	13.89	1,825	\$ 133,590
Medicare	69.44	9,125	\$ 2,548,434
Other Payers*	16.67	2,190	\$ 197,100
Total	100	13,140	\$ 2,879,124

*Includes 1 percent for bad debt and charity care patients for the proposed project.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid is not opposed to the approval of this application. According to the Division of Medicaid, the approval of this project is expected to increase Medicaid expenditures by approximately \$524,888 annually in total funds based on a stable occupancy rate. Medicaid projects the per diem rate to be \$110.62 for the proposed project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for nursing home beds as contained in the *FY1999 State Health Plan*, the *Mississippi Certificate of Need Review Manual*, revised 2000, 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 Mississippi State 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 **State Health Plan**.

The MSDH received three applications requesting a Certificate of Need for all of the nursing home beds (60 long term care beds) for George County. All applications were deemed complete 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 nursing home bed/services. Based on comparative analysis prepared by the Department, staff has determined that the application submitted on behalf of George County Hospital is the most appropriate application to provide the proposed nursing facility services authorized by Senate Bill 2679 (See Attachment II). Approval of this application precludes approval of any other applications submitted by any other applicant.

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Consequently, the Division of Health Planning and Resource Development recommends approval of the application submitted on behalf of George County Hospital and disapproval of the application submitted by HTC Healthcare II, Inc.

Attachment I

Competing Applicants for 60 Nursing Facility Beds for George County

CON REVIEW NH-CB-0602-036
George County Hospital, Lucedale
Establishment/Construction of a 60-Bed Nursing Home Facility
Capital Expenditure:\$390,000

CON REVIEW NH-CB-0602-037
Delco, Inc. dba Glen Oaks Nursing Home, Lucedale
Establishment/Construction of a 60-Bed Nursing Home Facility
Capital Expenditure:\$ 786,162

CON REVIEW NH-CB-0602-038
HTC Healthcare II, Inc. dba HTC Healthcare II, Inc., Lucedale
Establishment/Construction of a 60-Bed Nursing Home
Capital Expenditure:\$700,000

**Attachment II
 COMPARATIVE ANALYSIS
 PROPOSED 60-BED NURSING FACILITIES
 GEORGE COUNTY, MISSISSIPPI
 (THIRD YEAR OF OPERATION)**

		George County Hospital		Glen Oaks		HTC Healthcare, II Inc.
SIZE (sq. Ft.)	1	25,307	3	15,036	2	17,850
CAPITAL EXPENDITURE	1	\$369,000	3	\$786,162	2	\$700,000
COST/SQ. FT.	1	\$13.99	3	\$52.28	2	\$35.85
COST/BED (TOT.COST)	1	\$6,150	3	\$13,102.70	2	\$11,667
GROSS REVENUE		\$2,419,950		\$2,681,341		\$3,542,325
DEDUCTIONS		\$(341,213)		\$(385,753)		\$(217,715)
NET REVENUES		\$2,078,737		\$2,295,588		\$3,324,610
EXPENSES		\$1,936,901		\$1,954,020		\$3,211,546
NET INCOME		\$142,586		\$341,568		\$123,064
OCCUPANCY RATE		85%		98.33%		85%
PATIENT DAYS		18,615		21,535		18,615
COST/PATIENT DAY		\$104.05		\$90.74		\$172.52
CHARGE/PATIENT PAY		\$111.67		\$106.60		\$190.29
PERSONNEL REQUIRED ANNUAL COST 1 st YEAR	2	75.1 \$931,892	3	57.5 \$694,597	1	82.75 \$1,497,850
MEDICAID UTILIZATION (%)		35%		56%		13.89%
MEDICARE UTILIZATION (%)	2	46%	3	22%	1	69.44%
PRIVATE PAY UTILIZATION (%)		19%		22%		16.67%
COST TO MEDICAID (1 st YEAR)	2	\$364,528	3	\$708,246	1	\$133,590
PER DIEM COST TO MEDICAID 1 st YEAR	1	\$69.50	3	\$73.72	2	\$73.20
CONTINUUM OF CARE (Yes/No)	1	Yes	1	Yes	1	Yes
SIGNED AGREEMENT	-1	Yes	-1	Yes	-1	Yes
COMPOSITE SCORE	11		24		13	