

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

**CON REVIEW #NH-CB-0502-025  
YALOBUSHA GENERAL HOSPITAL AND NURSING HOME, WATER VALLEY  
ADDITION OF 48 NURSING HOME BEDS  
CAPITAL EXPENDITURE: \$925,000  
LOCATION: WATER VALLEY, MISSISSIPPI; YALOBUSHA COUNTY**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. APPLICANT INFORMATION**

Prior to November 2000, Yalobusha General Hospital and Nursing Home (YGHNH) operated a 72-bed nursing home facility in Water Valley, Mississippi; Yalobusha County. In November 2000, YGHNH constructed a new 82-bed capacity nursing home facility and moved the residents from the 72-bed facility to the new facility. Currently, the building is being used as office space and now the applicant requests to provide 48 nursing home beds by placing residents in the old building. The facility will be operated as a public facility. Upon CON approval, the facility will be owned and operated by Yalobusha County, Mississippi, governed by the Yalobusha County Board of Supervisors and the Yalobusha General Hospital and Nursing Home Board of Directors. There will not be a lease agreement with any other entity. YGHNH will offer long-term care, short-term care, and rehabilitation services. YGHNH had a six member Board of trustees as of January 29, 2002 and five governing board members who create the Yalobusha County Board of Supervisors. The facility does not have an advisory board or committees. The facility will be certified to participate in the federal and state Medicaid programs. The facility has been approved for renovation by the Mississippi State Department of Health, Division of Licensure and Certification.

**B. PROJECT DESCRIPTION**

Yalobusha General Hospital and Nursing Home (YGHNH) requests CON Authority to renovate 24,870 square feet of space in an existing building and add 48 nursing home beds to the 72 licensed nursing home beds. The applicant states the renovation will involve the following: painting and finishing each existing room, the removal of asbestos, new plumbing, electrical and lighting upgrades, addition of a sprinkler system, heating and cooling upgrade and new fan coil units. The applicant states that the *FY 1999 Mississippi State Health Plan* shows a bed need in each county and the 1999 Senate Bill 2679 decreased the bed shortages in Mississippi counties by authorizing more long-term care beds. However, the applicant feels there will be more long-term care beds needed in the near future because of the increasing elderly population. Currently, YGHNH has a waiting list of over 350 people seeking nursing home care. If a CON is approved for 48 additional nursing home beds, there will continue to be a long-term care bed shortage; however, the new addition of beds will reduce the shortage and maybe keep some residents from seeking care in other counties. With this in mind, the applicant states its primary goal as a county owned facility is to try to offer services to the

Yalobusha County residents rather than primarily concentrating on profits. Thus, the applicant feels the renovation and addition of nursing home beds will provide much needed service to Yalobousha County.

Briefly, the applicant included a schematic drawing of the facility and a letter from the architect stating the project will involve the renovation of 24,870 square feet of space at an estimated cost of \$37.19 per square foot. The square footage of the present building constructed in 1999 (south and east wings of the facility) is 28,200 square feet. Upon approval of the CON, the total square footage will be 53,070. The fixed equipment costs are estimated at \$85,000. Currently, there are 103 personnel. To operate the facility with a 48 bed addition, 150 full-time employees (FTEs) will be required at an estimated annual cost of \$1,159,586; yielding an increase of 47 employees. The application includes the capital expenditure summary, a Three Year Projected Operating Statement, and three-year audited financial statements. The capital expenditure will be obligated within 90 days of approval of the CON by MSDH. The projected date of completion of the project is September 2003. The applicant indicates a commercial loan of \$900,000 from a local bank and \$25,000 through cash reserves will be used to finance the project.

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

This application for the construction/establishment of 48 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. The Bill 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 *Fiscal Year 1999 State Health Plan*. The Department received three applications for the 60 beds authorized for Yalobusha County. Three applications were deemed complete on July 1, 2002, and entered into the July-September Quarterly Review Cycle as competing applications. (See Attachment 1 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 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 Senate Bill 2679 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 Fiscal Year 1999 State Health Plan.

Water Valley is located in the northern portion of Yalobusha County, east of LTC Planning District I. Yalobusha County shows a need of 56 beds and 283 beds are needed in District I as a whole.

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

The applicant states the 48-bed addition to the existing building will be 24,870 square feet situated on county property in Water Valley, Mississippi. Briefly, the square footage of the present building constructed in 1999 (south and east wings of the facility) is 28,200 square feet. Upon approval of the CON, the total square footage of the facility will be 53,070.

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

This application competes with three other applications for the 60 beds authorized for Yalobusha County in the eastern portion of Long Term Care Planning District I. (See Attachment 1) Yalobusha County shows a statistical need for 56 beds.

The applicant has reviewed Table VI-4 (2000 Projected Nursing Home Bed Need) of the *Mississippi State Health Plan FY 1999* and found that the projected population for persons over the age of 65 in Long Term Care Planning District I is 10,694. There are 3,070 existing or approved nursing home beds with a projected nursing home bed need of 3,353. The difference of the two numbers indicate that District I needs 283 nursing home beds. Yalobusha County has the 17<sup>th</sup> highest need in District I.

## **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**

YGHNH states that Yalobusha County long-term care patients have been forced to resort to seek care in other counties thus, causing hardship on the patient and families. Presently, the applicant operates a 26- bed acute care hospital with 10 licensed swing beds, a physician's clinic, and a 72- bed nursing home facility with two assisted living beds. These alternatives do not offer quality long-term care solutions to Yalobusha County residents but place a great burden on health care providers to search for other health care arrangements and unintentionally keep patients on a long waiting list until the delivery of proper health care services are provided. Thus, the applicant states that there are no other alternatives available to address the LTC bed need in Yalobusha County. Since Senate Bill 2679 (1999 Legislation) seeks to address the bed need in the counties listed in the bill, YGHNH's intent is to fulfill the state's legislation. If a CON is granted to YGHNH, the applicant believes their project will provide health care solutions to address the current bed need in Yalobusha County.

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

The applicant submitted a Three Year Projected Operating Statement to verify the immediate and long-term financial feasibility of the proposal. The statement shows that the gross revenue will increase from \$1,570,650 to \$1,657,909 the net profit will be -\$6,592 the first year and increase to \$44,53 second year; however, it will decrease to \$26,487 in year three following the approval of the project; thus, indicating the facility will be viable.

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

Senate Bill 2679 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 *Fiscal Year 1999 State Health Plan*.

In District I, Yalobusha County has a need of 56 and has the 17th highest need for nursing home beds in the District.

Since the applicant has a 72-bed nursing facility, the applicant does not consider Yalobusha General Hospital and Nursing Home (YGHNH) as a new institutional service and does not include any letters of support in the CON application.

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

The applicant affirms that all Yalobusha County residents and elderly Medicaid recipients will have access to the proposed facility regardless of race, creed, color, sex or national origin. The facility will be staffed and operated 7 days per week, 24 hours per day. The applicant indicates the expected payor mix by type payor will be as follows: Medicaid will be 86%, Medicare 0%, and Private Pay will be 14%.

#### **GR Criterion 7 - Information Requirement**

YGHNH affirms that they will record and maintain the information required by this criterion and shall make the data available to the Mississippi State Department of Health within fifteen (15) business days of request.

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

The applicant states the nursing facility will allow other facilities in the community to locate beds for patients who need long-term care services. Presently, the applicant operates a 26-bed acute care hospital with 10 licensed swing beds, a physician's clinic, and a 72-bed nursing home facility with two assisted living beds with a current personnel at 103. The applicant feels the renovation and addition of nursing home beds will help Yalobusha County current long-term care system by minimizes the shortage of beds. In addition, the applicant states a Medical Director, Dietary Consultant, Rehabilitation Therapy Services, and Reference Lab will provide services to the facility under contract.

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

YGHNH states that it will recruit staff locally and continue to employ their four person medical staff including two employed physicians, and medical director. The facility does not have to recruit for administrative positions because those jobs are currently staffed. The applicant states that their staffing history shows that YGHNH do not have a problem with recruiting personnel nor keeping staff. As an alternative of resources, the applicant states that the facility officials are considering adding assisted-living programs in the future.

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

The Department received three applications for the 60 beds authorized for Yalobusha County in the north central portion of Long Term Care Planning District I. (See Attachment 2 for the comparative analysis).

#### **CR Criterion 16 - Quality of Care**

The applicant states the facility undergoes an annual state survey and their most recent report shows no substandard care. YGHNH will continue to provide adequate health care for the elderly population.

**IV. Financial Feasibility**

**A. Expenditure Summary**

| <b>A. CAPITAL EXPENDITURE SUMMARY</b>                                 |                     |
|---|---------------------|
| Construction Cost -New  |                     |
| Construction Cost-Renovation  | \$610,250.00        |
| Capital Improvements, i.e. (minor painting and repairs, refurbishing) | \$125,000.00        |
| Total Fixed Equipment Cost  | \$85,000.00         |
| Total Non-Fixed Equipment Cost  | \$40,000.00         |
| Land Cost   |                     |
| Site Preparation Cost   |                     |
| Fees (Architectural, Consultant, etc.)                                | \$64,750.00         |
| Contingency Reserve   |                     |
| Capitalized Interest  |                     |
| Other Cost (Specify)  |                     |
| <b>TOTAL PROPOSED CAPITAL EXPENDITURE</b>                             | <b>\$925,000.00</b> |

The above estimated capital expenditure is proposed for renovation of 24,870 square feet of space at a cost of \$37.19 per square foot. The cost per bed is approximately \$19,270.83. The cost per bed is comparable to the median range for nursing homes of this size as listed in book titled the *Means Building Construction Cost Data FY 2002*. According to the *Means Construction Cost Data*, the median cost for nursing homes is \$38,200 per bed, and \$92.00 per square foot.

**B. Method of Financing**

The applicant indicates a commercial loan and cash reserves will be used to finance the project. The People Bank & Trust Company submitted a letter to the applicant expressing an interest in financing the project and included an amortization schedule. The schedule indicates that the bank will finance \$900,000 at a rate 6.250%, payable in 120 payments of \$10,105.24 per year.

**C. Effect on Operating Cost**

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

|                                 | <b>First Year</b>  | <b>Second Year</b> | <b>Third Year</b>  |
|---------------------------------|--------------------|--------------------|--------------------|
| Medicaid Income                 | 1,350,759          | 1,425,802          | 1,425,802          |
| Private Pay Income              | 219,891            | 232,107            | 232,107            |
| <b>Total Revenues</b>           | <b>\$1,570,650</b> | <b>\$1,657,909</b> | <b>\$1,657,909</b> |
| Nursing Home wing A             | 866,743            | 892,745            | 906,136            |
| Nursing Home Pharmacy           | 13,588             | 13,996             | 14,206             |
| Medical Records                 | 19,377             | 19,958             | 20,258             |
| Dietary                         | 178,373            | 183,724            | 186,480            |
| Nursing Home-Overhead           | 50,439             | 51,952             | 52,731             |
| Housekeeping                    | 72,771             | 74,954             | 76,078             |
| Laundry                         | 43,663             | 44,973             | 45,647             |
| Patient Accounting              | 19,377             | 19,958             | 20,258             |
| Data Processing                 | 12,089             | 12,452             | 12,638             |
| Nursing Home Administration     | 76,776             | 76,776             | 77,928             |
| Nursing home Social Work        | 21,530             | 21,530             | 21,853             |
| Nursing Home Activities         | 21,530             | 21,530             | 21,853             |
| Depreciation                    | 55,065             | 55,065             | 55,065             |
| Employee Benefits               | 71,566             | 73,713             | 74,819             |
| Interest                        | 54,355             | 50,051             | 45,471             |
| <b>Total Operating Expenses</b> | <b>\$1,577,242</b> | <b>\$1,613,378</b> | <b>\$1,631,421</b> |
| <b>Net Income/Loss (-)</b>      | <b>(-\$6,592)</b>  | <b>\$44,531</b>    | <b>\$26,487</b>    |

Utilization, cost, and charges are projected as follows:

|                           | Year 1    | Year 2    | Year 3    |
|---------------------------|-----------|-----------|-----------|
| <b>Occupancy Rate (%)</b> | 90.00%    | 95.00%    | 95.00%    |
| <b>Patient Days</b>       | 15,768.00 | 16,644.00 | 16,644.00 |
| <b>Cost/Patient Day</b>   | \$100.03  | \$96.93   | \$98.02   |
| <b>Charge/Patient Day</b> | \$99.61   | \$99.61   | \$99.61   |

The applicant states the per diem cost to Medicaid for the first year is \$99.61.

The staff concurs with the applicant's calculation of costs/patient day and charges/patient day for three years.

**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           | Utilization Percentage | Patient Days | First Year Revenue |
|-----------------|------------------------|--------------|--------------------|
| <b>Medicaid</b> | 86%                    | 13,560.48    | \$ 1,350,759.00    |
| <b>Medicare</b> | 0%                     | 0.00         | \$ 0.00            |
| <b>Other</b>    | 14%                    | 2,207.52     | \$ 219,891.00      |
| <b>Total</b>    | 100.00%                | 15,768.00    | \$ 1,570,650.00    |

YGHNF projects 0.5% percent bad debt of gross patient revenues.

The facility will be certified to participate in the federal and state Medicaid programs.

**V. Recommendation of Other Affected Agencies**

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, this project is expected to increase Medicaid expenditures by approximately \$1,489,355 annually in total funds based on a stable occupancy rate. Also, the Division of Medicaid states the per diem cost to Medicaid is \$104.05 at an 95% 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 *1999 State Health Plan*, the *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 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 *Fiscal Year 1999 State Health Plan*.

The Department received three applications requesting a Certificate of Need for all of the nursing home beds for Yalobusha County. Three 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. After a thorough examination and analysis of each of the three competing CON applications filed for a 60-bed nursing facility in Yalobusha County, including the development and utilization of a comparative analysis covering 19 factors, and consideration of comments from the Division of Medicaid, the Division of Health Planning and Resource Development has determined that the application submitted by Strategic Health Care, LLC dba Martin Manor Nursing and Rehabilitation Center (MMNRC) is the most appropriate application to provide the proposed nursing facility services authorized by Senate Bill 2679 (See Attachment 2). Approval of this application precludes approval of any other application submitted for Yalobusha County. Consequently, the Division of Health Planning and Resource Development recommends disapproval of the application submitted by Yalobusha General Hospital and Nursing Home (YGHNH).

**ATTACHMENT I**

**PROPOSED NURSING FACILITIES  
DISTRICT I, YALOBUSHA COUNTY**

Covenant Care, Inc.  
CON Review NH-CB-0502-027  
Construction/Establishment of a 60-Bed Nursing Home Facility  
Capital Expenditure: \$1,363,200.00

Strategic Health Care, LLC  
CON Review NH-CB-0602-034  
dba Martin Manor Nursing and Rehabilitation Center, Water Valley  
Establishment/Construction of a 60-Bed Nursing Home Facility  
Capital Expenditure: \$1,078,950

Yalobusha General Hospital and Nursing Home, Water Valley  
CON Review NH-CB-0502-025  
Addition of 48 Nursing Home Beds  
Capital Expenditure: \$925,000

**Attachment II**

**COMPARATIVE ANALYSIS OF  
PROPOSED NURSING FACILITIES  
IN YALOBUSHA COUNTY (THIRD YEAR OF OPERATION)**

| Facilities                                     | Covenant Care, Inc. |              | Martin Manor Nursing and Rehabilitation Center |              | Yalobusha General Hospital and Nursing Home |             |
|--|---------------------|--------------|--|--------------|---|-------------|
|  |                     | 60-Beds      |  | 60-Beds      |   | 48-Beds     |
| SIZE (Sq. Ft.)                                 | 1                   | 26,002       | 3  | 22,000       | 2   | 24,870      |
| CAPITAL EXPENDITURE                            | 3                   | \$1,363,200  | 2  | \$1,078,950  | 1   | \$925,000   |
| COST/SQ. FT.                                   | 3                   | \$50.56      | 2  | \$44.25      | 1   | \$37.19     |
| COST/BED (TOT. COST)                           | 3                   | \$22,720     | 1  | \$17,982.50  | 2   | \$19,270.83 |
| GROSS REVENUE                                  |                     | \$3,245,340  |  | \$4,738,162  |   | \$1,657,909 |
| DEDUCTIONS                                     |                     | \$0          |  | \$0          |   | \$0         |
| NET REVENUES                                   |                     | \$0          |  | \$0          |   | \$0         |
| EXPENSES                                       |                     | \$3,176,810  |  | \$4,357,639  |   | \$1,631,421 |
| NET INCOME                                     |                     | \$68,530     |  | \$380,523    |   | \$26,487    |
| OCCUPANCY RATE                                 |                     | 95%          |  | 85%          |   | 95%         |
| PATIENT DAYS                                   |                     | 20,805       |  | 18,615       |   | 16,644      |
| COST/PATIENT DAY                               |                     | \$73.82      |  | \$105.49     |   | \$98.02     |
| CHARGE/PATIENT PAY                             |                     | \$73.82      |  | \$85.49      |   | \$99.61     |
| PERSONNEL REQUIRED                             | 2                   | 80.50        | 1  | 96.7         | 3   | 47          |
| ANNUAL COST 1 <sup>ST</sup> YEAR               |                     | \$815,496.93 |  | \$1,819,843  |   | \$1,159,586 |
| MEDICAID UTILIZATION(%)                        |                     | 32.50%       |  | 11%          |   | 86%         |
| MEDICARE UTILIZATION(%)                        | 2                   | 42.50%       | 1  | 63%          | 3   | 0%          |
| PRIVATE PAY UTILIZATION (%)                    |                     | 25%          |  | 26%          |   | 14%         |
| COST TO MEDICAID (1 <sup>ST</sup> YEAR)        | 1                   | \$320,773    | 2  | \$481,876.67 | 3   | \$1,350,759 |
| PER DIEM COST TO MEDICAID 1 <sup>ST</sup> YEAR | 2                   | \$75.10      | 1  | \$66.19      | 3   | \$99.61     |
| CONTINUUM OF CARE (Yes/No)                     | 1                   | Yes          | 1  | Yes          | 1   | Yes         |
| SIGNED AGREEMENT                               | -1                  | Yes          | -1   | Yes          | -1  | Yes         |
| <b>Composite Score</b>                         | <b>17</b>           |              | <b>13</b>                                      |              | <b>18</b>                                   |             |

**HP&RD (08/02)**  
**YALOBUSHA GEN. HOSP. AND**  
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