

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

**CON REVIEW NH-CB-0602-034
STRATEGIC HEALTH CARE, LLC
DBA MARTIN MANOR NURSING AND REHABILITATION CENTER, WATER VALLEY
ESTABLISHMENT/CONSTRUCTION OF A 60-BED NURSING HOME FACILITY
CAPITAL EXPENDITURE: \$1,078,950**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

Strategic Health Care, LLC dba Martin Manor Nursing and Rehabilitation Center (MMNRC) is 60-bed skilled nursing home or nursing facility which will be constructed and located in the city of Water Valley, Mississippi, Yalobusha County. The facility will be operated as a for-profit facility and upon CON approval, the facility will be owned and operated by Strategic Healthcare, LLC, a Mississippi Limited Liability Company. There will not be a lease agreement with any other entity. MMNRC will offer long-term care and short-term care; however, the facility will be classified as a long-term care facility. MMNRC filed Certificate of Formation on October 8, 2002 with the Office of the Secretary of State and is presently governed by two owners of the nursing home facility. MMNRC does not have a governing board, advisory board or committees; however, the facility will have a resident council to make recommendations on the daily operation of the facility. The facility will seek accreditation from JCAHO and plans to be certified to participate in the Medicare and Medicaid programs. The facility has submitted a letter requesting site approval from Mississippi State Department of Health, Division of Licensure and Certification for the construction of the facility.

B. PROJECT DESCRIPTION

Strategic Health Care, LLC dba Martin Manor Nursing and Rehabilitation Center (MMNRC) requests CON Authority to construct a 60-bed skilled nursing facility. If the CON proposal is approved, the project will allow MMNRC the opportunity to provide 24 hour skilled nursing services, short term respite care, adult day care, Alzheimer's treatment, in patient and out-patient therapy services including rehabilitation services, social services, family/resident counseling, enteral nutrition, therapeutic diet, hospice care, restorative care, and assistance with ADL's etc.

The applicant provided documentation indicating the facility will be constructed on 10.0 acres of land located on Airport Road in Water Valley, Mississippi. The facility will be 22,000 square feet of space consisting of 60 private beds and semi-private beds, a dining area, living room, and other various rooms. The applicant states the proposal is in response to the FY 1999 Mississippi State Health Plan which addresses the bed need in each county and the 1999 Senate Bill 2679 which authorizes the Mississippi State Department of Health to issue a CON for the construction of more long-term care facilities.

Briefly, the applicant included a schematic drawing of the facility and a letter from the architect stating the project will involve the construction of 22,000 square feet of new construction at a cost of \$44.25 per square foot. The fixed equipment costs are estimated at \$65,000. To operate the facility, 96.7 full time employees (FTEs) will be required at an estimated annual cost of \$1,819,843. The application includes the capital expenditure summary and a Three Year Projected Operating Statement. The capital expenditure will be obligated 60 days upon the approval of the CON by MSDH. The projected date of completion of the project will take 12 months. The applicant indicates a commercial loan of \$863,160 from a bank in the area will be used to finance the 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), (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 north portion of Yalobusha County, eastern portion 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 60-bed nursing facility will be 22,000 square feet constructed on 10-acres of land located on Airport Road in Water Valley, Mississippi. Briefly, the applicant states the square feet of space will consist of 60 private beds and semi-private beds, a dining area, living room, and other various rooms.

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 17th 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

MMNRC states 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, MMNRC's intent is to fulfill the state's legislation. If a CON is granted to MMNRC, the applicant believes their project will minimize elderly problems associated with long-term bed availability and address their health care needs according to their medical/mental condition.

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 \$4,380,697 in year one to \$4,738,162 in year three. The net profit will be \$445,778 the first year and decrease to \$365,887 the second year; however, it will increase to \$380,523 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.

The applicant received 2 letters of support from a physician and City of Water Valley.

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 11%, Medicare 63%, and Private Pay will be 26.0%.

GR Criterion 7 - Information Requirement

MMNRC 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. The applicant provides letters from a licensed Social Worker, a Physician, and Nutritionist stating they will enter an agreement with MMNRC to provide services to the facility under contract. Also, the City of Water Valley states that they will supply water, sewage, fire, and police protection to the property once the facility is constructed.

GR Criterion 9 - Availability of Resources

MMNRC states that it has available resources for health personnel, management personnel, and funds for capital and operating needs in order to provide adequate long-term care services to Yalobusha County residents. The applicants states there are no less costly or more efficient methods to provide services to area county residents.

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

MMNRC, Inc. has not provided health care services in the past; however, based on the applicant's response to the criteria and standards in the Plan and applicable General Considerations (Chapter 8) of the CON manual, MMNRC will accommodate the needs of its patients in Yalobusha County.

IV. Financial Feasibility

A. Expenditure Summary

| A. CAPITAL EXPENDITURE SUMMARY | |
|---|-----------------------|
| Construction Cost -New | \$831,450.00 |
| Construction Cost-Renovation | |
| Capital Improvements, i.e. (minor painting and repairs, refurbishing) | |
| Total Fixed Equipment Cost | \$65,000.00 |
| Total Non-Fixed Equipment Cost | \$13,000.00 |
| Land Cost | \$50,000.00 |
| Site Preparation Cost | \$27,000.00 |
| Fees (Architectural, Consultant, etc.) | \$45,000.00 |
| Contingency Reserve | \$5,000.00 |
| Capitalized Interest | \$40,000.00 |
| Other Cost (Landscaping) | \$2,500.00 |
| TOTAL PROPOSED CAPITAL EXPENDITURE | \$1,078,950.00 |

The above estimated capital expenditure is proposed for new construction of 22,000 square feet of space at a cost of \$44.25 per square foot. The cost per bed is approximately \$17,982.50. 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 will be used to finance the project. Bancorp South of Biloxi, Mississippi 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 \$863,160 at a 6.168% interest rate, payable in 240 payments of \$68,023.45 for the first year and \$74,207.40 for each year after.

C. Effect on Operating Cost

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

| | First Year | Second Year | Third Year |
|---------------------------------------|------------------|------------------|------------------|
| Patient Revenues | 4,237,743 | 4,407,253 | 4,583,543 |
| Less-Allow & Discounts: Patient Accts | 0 | 0 | 0 |
| Guest & Employee Meals Revenue | 12,350 | 12,844 | 13,358 |
| Nurse Aide Training and Testing | 0 | 0 | 0 |
| Therapy Part B Revenue | 112,000 | 116,480 | 121,139 |
| Television, Telephone Income | 12,960 | 13,478 | 14,018 |
| Vending Machine Revenue | 5,644 | 5,869 | 6,104 |
| Total Revenue | 4,380,697 | 4,555,924 | 4,738,162 |
| Salaries-Aides | 245,700 | 255,528 | 265,749 |
| Salaries-LPNs | 121,680 | 126,547 | 131,609 |
| Salaries-RNs (Exclude DON) | 93,184 | 96,911 | 100,766 |
| FICA Direct Care | 35,233 | 73,285 | 76,216 |
| Group Health-Direct Care | 49,224 | 76,789 | 79,860 |
| Pensions-Direct care | 0 | 0 | 0 |
| Uniforms Allowance-Direct Care | 6,677 | 6,944 | 7,222 |

| | First Year | Second Year | Third Year |
|--|------------|-------------|------------|
| Workman's Comp. Care Related | 7,848 | 8,162 | 8,488 |
| Drugs-Over the Counter & Legend | 27,000 | 28,080 | 29,203 |
| Medical Supplies-Direct Care | 128,947 | 134,105 | 139,469 |
| Medical Waste Disposal | 12,292 | 12,784 | 13,295 |
| Therapy Expense (Including Part B of 89,600) | 2,213,281 | 2,301,812 | 2,393,885 |
| Salaries-Activities | 42,900 | 44,616 | 46,401 |
| Salaries-MDS Coordinator | 45,760 | 47,590 | 49,494 |
| Salaries-Director of Nursing | 41,600 | 43,264 | 44,995 |
| Salaries Social Services | 23,910 | 24,866 | 25,861 |
| FICA Care Related | 11,794 | 12,866 | 13,380 |
| Group Health Care Related | 7,286 | 11,367 | 11,821 |
| Pensions Care Related | 0 | 0 | 0 |
| Uniform Allowance Care Related | 750 | 780 | 811 |
| Workers Comp Care Related | 878 | 913 | 949 |
| Barber and Beauty Exp. | 1,783 | 1,854 | 1,928 |
| Consultant Fees Medical Director | 6,500 | 6,760 | 7,030 |
| Consultant Fees Nursing | 13,200 | 13,728 | 14,277 |
| Consultant Fees Pharmacy | 6,980 | 7,259 | 7,550 |
| Consultant Fees Social Worker | 1,700 | 1,768 | 1,839 |
| Food Raw | 55,489 | 57,709 | 60,017 |
| Food Supplements | 20,000 | 20,800 | 21,632 |
| Supplies Care Related | 12,495 | 12,995 | 13,515 |
| Salaries-Administrator | 45,000 | 46,800 | 48,672 |
| Salaries-Dietary | 72,800 | 75,712 | 78,740 |
| Salaries-Housekeeping | 44,512 | 46,292 | 48,144 |
| Salaries-Laundry | 18,720 | 19,469 | 20,248 |

| | First Year | Second Year | Third Year |
|--|------------|-------------|------------|
| Salaries-Maintenance | 31,200 | 32,448 | 33,746 |
| Salaries-Medical Records | 20,800 | 21,632 | 22,497 |
| Salaries Other Administrative | 68,640 | 71,386 | 74,241 |
| FICA-Admin.& Operating | 23,078 | 40,781 | 42,412 |
| Group Health-Admin. & Operating | 27,526 | 42,941 | 44,659 |
| Pensions-Admin. & Operating | 0 | 0 | 0 |
| Uniform Allowance-Admin. & Operating | 5,104 | 5,309 | 5,521 |
| Workman's Operating-Admin. & Operating | 4,367 | 4,542 | 4,724 |
| Contract-Laundry | 0 | 0 | 0 |
| Consultant Fees-Dietition | 6,500 | 6,760 | 7,030 |
| Consultant Fees- Medical Records | 1,700 | 1,768 | 1,839 |
| Accounting Fees | 8,000 | 8,320 | 8,653 |
| Bank Service Charges | 27 | 28 | 29 |
| Board of Directors Fee | 0 | 0 | 0 |
| Dietary Supplies | 7,955 | 8,273 | 8,604 |
| Dues | 2,752 | 2,862 | 2,976 |
| Educational Seminars & Training | 2,141 | 2,226 | 2,315 |
| Housekeeping Supplies | 19,609 | 20,393 | 21,209 |
| Insurance-Professional Liability | 53,000 | 55,120 | 57,325 |
| Interest Exp.-Non-Capital & Vehicles | 0 | 0 | 0 |
| Laundry Supplies | 5,622 | 5,846 | 6,080 |
| Legal Fees | 2,500 | 2,600 | 2,704 |
| Linen & Laundry Alternatives | 4,004 | 4,164 | 4,331 |
| Misc. (Oper. Consult) | 0 | 0 | 0 |
| Mgt. Fees & Home Office Costs | 0 | 0 | 0 |
| Office Supplies and Subscriptions | 6,468 | 6,726 | 6,995 |

| | First Year | Second Year | Third Year |
|---------------------------------|------------------|------------------|------------------|
| Postage | 1,819 | 1,891 | 1,967 |
| Repairs & Main. | 13,800 | 14,352 | 14,926 |
| Taxes-Other | 45,000 | 46,800 | 48,672 |
| Telephone | 8,687 | 9,034 | 9,396 |
| Travel | 5,000 | 5,200 | 5,408 |
| Utilities | 62,513 | 65,013 | 67,614 |
| Depreciation | 28,324 | 29,457 | 30,635 |
| Property Insurance | 2,346 | 2,440 | 2,537 |
| Property Taxes | 0 | 0 | 0 |
| Interest Expense | 46,952 | 48,830 | 50,783 |
| Nurse Aid Training | 0 | 0 | 0 |
| Penalties & Sanctions | 0 | 0 | 0 |
| Vending Machines | 4,364 | 4,538 | 4,720 |
| Total Operating Expenses | 3,934,919 | 4,190,037 | 4,357,639 |
| Net Income/Loss (-) | 445,778 | 365,887 | 380,523 |

Utilization, cost, and charges are projected as follows:

| | Year 1 | Year 2 | Year 3 |
|---------------------------|-----------|-----------|-----------|
| Occupancy Rate (%) | 65% | 85% | 85% |
| Patient Days | 14,165 | 18,615 | 18,615 |
| Cost/Patient Day | \$ 121.54 | \$ 101.43 | \$ 105.49 |
| Charge/Patient Day | \$ 103.86 | \$ 82.19 | \$ 85.49 |

The applicant states the per diem cost to Medicaid for the first year is \$66.19.

The staff's calculation of costs/patient day and charges/patient day for three years are as follows: \$277.79; \$225.09; \$234.09; and \$309.26, \$244.74, \$254.53, respectively.

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 | First Year Revenue |
|--|------------------------|--------------------|
| Medicaid | 11% | \$ 481,876.67 |
| Medicare | 63% | \$ 2,759,839.10 |
| Other | 26% | \$ 1,138,981.20 |
| Total | 100% | \$ 4,380,696.90 |
| MMNRC projects .5% percent bad debt. Medically indigent, and charity care are approximately .5% of gross patient revenues. | | |

The facility will seek accreditation from JCAHO and plans to be certified to participate in the Medicare and 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 \$226,511 annually in total funds based on a stable occupancy rate. Also, the Division of Medicaid states the per diem cost to Medicaid is \$110.62 at an 85% 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 approval of the application submitted by Strategic Health Care, LLC dba Martin Manor Nursing and Rehabilitation Center (MMNRC).

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 ST 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 ST YEAR) | 1 | \$320,773 | 2 | \$481,876.67 | 3 | \$1,350,759 |
| PER DIEM COST TO MEDICAID 1 ST 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 |
| Composite Score | 17 | | 13 | | 18 | |