

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

**CON REVIEW NH-CB-0502-027  
COVENANT CARE, INC.  
CONSTRUCTION/ESTABLISHMENT OF A 60-BED NURSING HOME FACILITY  
CAPITAL EXPENDITURE: \$1,363,200.00  
LOCATION: WATER VALLEY, MISSISSIPPI; YALOBUSHA COUNTY**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. APPLICANT INFORMATION**

Covenant Care, Inc (CCI) is 60-bed 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 Covenant Care, Inc., a Mississippi corporation. There will not be a lease agreement with any other entity. CCI will offer long-term care, short-term care respite care, and rehabilitation services. Also, the facility will provide licensed assisted living and adult day care services to the residents of Water Valley and surrounding areas. CCI projects these services will require 80.50 full-time employees (FTEs) to operate each department in the facility. CCI filed Articles of Incorporation on April 22, 2002 with the Office of the Secretary of State and is presently governed by the President and Vice-President of the nursing home facility. Since present laws and regulations do not require skilled nursing facilities have an advisory board or committees, none are foreseen in the immediate operation of CCI. The facility will be certified to participate in the Medicare and Medicaid programs. The facility has been approved for construction by the Mississippi State Department of Health, Division of Licensure and Certification.

**B. PROJECT DESCRIPTION**

Covenant Care, Inc. requests CON Authority to construct a 60-bed skilled nursing facility. If the CON proposal is approved, the project will allow CCI the opportunity to focus on their long range goals of establishing a multi-level, continuing care, long-term care complex. The future complex will include a 20-bed private pay independent care cottage, and a 20-bed assisted living unit. The schematic drawing does not show space for an adult day care center for alzheimers patients and individuals with other day care needs services; however, the applicant states the center will be included in the 26,002 square feet stated in the application. Although CCI envisions the future of long term-care delivery, the corporation will begin the first stages of their plans by only focusing on the construction of the 60-bed skilled nursing unit. The applicant believes that the FY 1999 Mississippi State Health Plan addresses the bed need in each county and the 1999 Senate Bill 2679 temporarily solves the bed need problem 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 increased number of "baby boomers" who are growing old. Thus, the applicant feels the long term care system must be diversified to take on the many problems that face the aged population.

Briefly, the applicant included a schematic drawing of the facility and a letter from the architect stating the project will involve the construction of 26,002 square feet of new construction at a cost of \$50.56 per square foot. The fixed equipment costs are estimated at \$40,000. To operate the facility, 80.50 persons will be hired as staff at an estimated annual cost of \$815,496.93. The application includes the capital expenditure summary and a Three Year Projected Operating Statement. The capital expenditure will be obligated 90 days upon the approval of the CON by MSDH. The projected date of completion of the project is November 30, 2003. The applicant indicates a commercial loan of \$1,600,000 from a local 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 north portion of Yalobusha County, east 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 26,002 square feet constructed on 5-acres located at Highway 7 North in Water Valley, Mississippi. Briefly, the applicant states that there are no other projects which are in the process of being constructed or will be developed upon approval of separate CON applications. However, CCI would like to request CON authority in the future to include a 20-bed private pay independent care cottage, a 20-bed assisted living unit, and space for an adult day care center for alzheimers patients and individuals with other day care needs. Total square footage has not been determined for future services.

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

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

The applicant 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**

CCI states that Yalobusha County long-term care patients have been forced to resort to seeking care in other counties or states, accept other acute care arrangements instead of what is needed to address their medical condition, settle for minimum level care, or do without proper care due to the current long-term care bed shortage. These alternatives do not offer quality long-term care solutions to Yalobusha County residents; however, these alternatives welcome more problems. 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, CCI's intent is to fulfill the state's legislation. If a CON is granted to CCI, the applicant believes their project can be instrumental in providing several health care solutions to help elderly individuals address their health care needs.

#### **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 \$2,814,563 to \$3,245,340 the net profit will increase the first year and second year from \$78,027 to \$158,073; however, it will decrease to \$68,530 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 11 letters of support from various state officials, residents, and physicians.

#### **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 32.5%, Medicare 42.5%, and Private Pay will be 25.0%.

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

CCI 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, hospitals and other nursing facilities are having to scramble to find beds for patients because of the long-term bed shortage. However, if CCI's CON application is approved for 60-beds, the strain of finding long-term beds will be minimized but not totally eliminated because of the growing elderly population. In addition, the applicant provides contracts and letters from Covenant Pharmacy of Water Valley; Trinity Rehabilitation of Madison, Mississippi; a Medical Records Consultant; a licensed Social Worker; Nutritionist; and Dynicare Laboratories stating they will provide services to the facility under contract.

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

CCI states that it will recruit staff from the local labor market and employ physicians to provide adequate care to the patients. The applicant states that their staffing history shows that all the nursing home facilities owned or operated by the applicants do not have a problem with recruiting personnel nor keeping staff. As an alternative of resources, the applicant states that the facility will have available space to include for adult day care services to give care givers respite during the day so the patients can return home at night. Although the schematic drawing included in the application does not show space for the center, the applicant states the space for adult day care will be included in the 26,002 square feet stated in the application.

#### **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 officers of CCI, Inc. have been providing health care services for over 28 years. Throughout the years, the facility has adapted to health care changes by adding services needed to accommodate the needs of its patients. In this case, the facility will continue to provide adequate health care for the elderly population who suffer from disabilities associated with old age.

**IV. Financial Feasibility**

**A. Expenditure Summary**

<b>A. CAPITAL EXPENDITURE SUMMARY</b>	
Construction Cost -New	\$1,130,000.00
Construction Cost-Renovation	
Capital Improvements, i.e. (minor painting and repairs, refurbishing)	
Total Fixed Equipment Cost	\$40,000.00
Total Non-Fixed Equipment Cost	
Land Cost	\$48,500.00
Site Preparation Cost	\$25,000.00
Fees (Architectural, Consultant, etc.)	\$49,700.00
Contingency Reserve	\$40,000.00
Capitalized Interest	\$30,000.00
Other Cost (Specify)	
<b>TOTAL PROPOSED CAPITAL EXPENDITURE</b>	<b>\$1,363,200.00</b>

The above estimated capital expenditure is proposed for new construction of 26,002 square feet of space at a cost of \$50.56 per square foot. The cost per bed is approximately \$22,720. The cost per bed is comparable to the median range for nursing homes of this size as listed in book titled *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. The Bank of Morton of Morton, 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 \$1,600,000 at a 6.50% interest rate, payable in 180 payments of \$142,499.28 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:

	First Year	Second Year	Third Year
<b>Revenue</b>			
Basic daily Service (PVT)	320,929	353,022	388,324
Room Differential (PVT)	7,200	7,920	8,712
Vending Machine	156	172	189
Basic Daily Service-Medicaid	320,773	465,272	499,196
Enteral/Tube	16,000	17,600	19,630
Medicare part B Revenues	530,000	535,300	540,653
Medicare Revenues	1,619,505	1,702,100	1,788,907
<b>Total Revenues</b>	<b>2,814,563</b>	<b>3,081,385</b>	<b>3,245,340</b>
<b>Expenses</b>			
Aides	287,524	301,900	316,995
LPNs	74,880	78,624	86,486
LPN/CDP	74,880	78,624,	86,486
RNs	90,133	94,640	104,104
DON	33,280	34,944	38,438
Dietary	69,680	73,164	80,480
Maint./Laundry	29,120	30,576	33,634
Social Service/Activities	33,280	34,944	38,438
Administrator	37,440	39,312	43,243
Admin.-Clerical	56,160	58,968	64,685
Housekeeping	29,120	30,576	33,634
Payroll Taxes	61,553	64,631	71,094
Group Health Insurance	30,000	36,000	39,600
Worker's Comp.	36,000	45,000	49,500
Medical Supplies (Chargeable)	6,000	6,300	6,930
Contract Therapies MCR Part B	485,000	509,250	560,175

	First Year	Second Year	Third Year
Contract Therapies MCR Part A	575,000	603,750	664,125
Pharmacy-Medicare	78,000	81,9000	90,090
Laboratory	28,000	29,400	32,340
Therapy Supplies	240,000	252,000	277,200
Consultant Medical Director	2,400	2,520	2,772
Consultant Medical Records	1,200	1,260	1,386
Tube & Supplemental Feeding	12,000	12,600	13,860
Food-Raw	45,990	65,152	72,818
Food Supplements	1,689	1,773	1,951
Consultant Fees-Dietitian	3,360	3,528	3,881
Dietary Supplies	4,800	5,040	5,544
Laundry Supplies	1,680	1,764	1,940
Linen	1,800	1,890	2,079
Housekeeping Supplies	6,000	6,300	6,930
Drugs-OTC and Legend	2,400	2,520	2,772
Consultant Pharmacy	2,160	2,268	2,495
Repairs and Main.	1,200	3,000	3,300
Telephone & Communication	6,000	6,300	6,930
Utilities	24,000	25,200	27,720
Waste	2,400	2,520	2,772
Depreciation-Bldg.	30,493	30,493	30,493
Land Improvements	625	625	625
Depreciation-Furn. & Fixtures	2,000	2,000	2,000
Equip. Lease	98,216	98,216	98,216
Interest	86,973	83,254	79,287
Prop. Insur.	3,600	3,780	4,158

	First Year	Second Year	Third Year
Prop. Taxes	400,	6,500	7,150
Consultant Fees-Activities	1,120	1,176	1,294
Activities-Supplies	1,440	1,512	1,663
Dues	2,298	2,413	2,654
Licenses	1,200	1,200	1,200
Insurance-Prof. Liab.	16,000	16,800	18,480
Office Supplies & Subscriptions	4,200	4,410	4,851
Postage	600	630	693
Taxes-Other	800	840	924
Provider Tax	8,542	37,230	41,610
Travel	1,200	1,260	1,386
Advertising	1,800	1,890	2,079
Flowers/Gifts Non Allowable	900	945	1,040
<b>Total Operating Expenses</b>	<b>2,736,536</b>	<b>2,923,312</b>	<b>3,176,810</b>
<b>Net Income/Loss (-)</b>	<b>78,027</b>	<b>158,073</b>	<b>68,530</b>

Utilization, cost, and charges are projected as follows:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<b>Occupancy Rate (%)</b>	60.00%	85.00%	95.00%
<b>Patient Days</b>	17,520	18,615	20,805
<b>Cost/Patient Day</b>	\$75.10	\$76.90	\$73.82
<b>Charge/Patient Day</b>	\$75.10	\$76.90	\$73.82

The applicant states the per diem cost to Medicaid for the first year is \$75.10, second year \$76.90, and the third year is \$73.82.

The staff's calculation of costs/patient day and charges/patient day for three years are as follows: \$156.19; \$157.04; \$152.69; and \$160.65; \$165.53; \$155.98, 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	Patient Days	First Year Revenue
Medicaid	32.50%	4,270.50	\$ 320,773.00
Medicare	42.50%	5,584.50	\$ 2,165,505.00
Other	25.00%	3,285.00	\$ 328,285.00
<b>Total</b>	100.00%	13,140.00	\$ 2,814,563.00
CCI projects 1% percent bad debt. Medically indigent, and charity care are approximately 0% of gross patient revenues.			

The facility will 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 \$741,006 annually in total funds based on a stable occupancy rate. Also, the Division of Medicaid states the per diem cost to Medicaid is \$109.59 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 *2000 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 Covenant Care, Inc.

**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>	