

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2001**

CON REVIEW: NH-CB-0601-032

HTC HEALTHCARE, LLC

CONSTRUCTION OF A 60-BED NURSING FACILITY ADDITION IN LAMAR COUNTY

Capital Expenditure: \$700,000

Location: Hattiesburg, Mississippi

Staff Analysis

I. Project Summary

A. Applicant Information

HTC Healthcare will be owned and operated by HTC Healthcare, LLC, a newly formed for-profit Mississippi limited liability company with H. Ted Cain serving as the single presiding member. Mr. Cain owns and operates several long term care facilities in Hancock County, Mississippi.

B. Project Description

HTC Healthcare, LLC. requests Certificate of Need authority for the construction of a 60-bed nursing facility addition to a proposed nursing facility which, in part, replaces Hotel Reed. This proposed project for the construction of 60 additional nursing facility beds in Lamar County will contain 17,850 square feet of space and will require 77.0 full-time equivalent personnel at an estimated annual cost of \$1,290,464. The applicant plans to finance the proposed project with a loan from the First National Bank of Wiggins in the amount of \$700,000. Also, the applicant plans to offer a broad range of services, including: respite, independent living, hospice medical services, etc., to assure a continuum of care. The Division of Health Facilities Licensure and Certification has approved the site for the proposed project, and the applicant agrees not to sale or lease the facility for a period of not less than three years from initial licensure.

II. Type of Review Required (60-Bed Nursing Facility)

This application for the construction/establishment of 60-bed nursing facility beds is reviewed in accordance with Section 41-7-191, subparagraphs (1)(a) and (2)(q)(i), (q)(ii), (q)(iii), (q)(iv), and (q)(v) Mississippi Code of 1972 Annotated, as amended (Senate Bill 2679, 1999 Regular Session), and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health. Senate Bill 2679 authorized the Department to issue Certificates of Need during the next four fiscal years for the construction expansion of nursing facility beds in each county in the state having a need for 50 or more additional nursing facility beds, as shown in the Fiscal Year 1999 State Health Plan.

Lamar County is one of six counties eligible to receive a Certificate of Need for 60 nursing facility beds in Fiscal Year 2002. The department received four applications for the 60-bed nursing facility authorized for Lamar County. Of the four applications, one application, Sentry North, L.P., was deemed incomplete and deferred to a subsequent cycle. The three applications listed below were deemed complete of July 1, 2001 and entered into Review Cycle 3 as competing applications:

NH-CB-0601-025

Windham House of Hattiesburg, LLC
Establishment of a 60-Bed Nursing Facility in Lamar County
Capital Expenditure: \$456,146

NH-CB-0601-026

McElroy-York Life Care community, LLC d/b/a Acadia Court
Construction of a 60-Bed Nursing Facility in Lamar County
Capital Expenditure: \$2,063,418

NH-CB-0601-032

HTC Healthcare, LLC
Construction of a 60-Bed Nursing Facility Addition in Lamar County
Capital Expenditure: \$700,000

In accordance with Section 41-7-797(2) of the Mississippi Code of 1972 Annotated, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The hearing fee of \$4,000 must be paid at the time of the request, to be valid. The opportunity to request a hearing expires on September 4, 2001.

III. Conformance With the State Health Plan and Other Adopted Criteria and Standards

A. State Health Plan (SHP)

The FY 1999 State Health Plan addresses policy statements and specific's criteria and standards which an applicant is required to meet prior to receiving Certificate of Need authority to construct/establish nursing facility beds. This application is in substantial compliance with policy statements and criteria and standards for these types of projects.

SHP Criterion 1 - Need

Lamar County is located in Long-Term Care Planning District IV (LTCPDIV). The FY 1999 State Health Plan shows an unmet need in Lamar County of 76 nursing facility beds and a total unmet need of 923 nursing facility beds for LTCPDIV. Approval of this request for 60 nursing facility beds will reduce the unmet need for nursing facility beds in LTCPDIV by 60 beds.

SHP Criterion 2 - Facility Size

Senate Bill 2679 (1999 Regular Session) authorized the approval of a Certificate of Need for 60 additional nursing facility beds in Lamar County in FY 2002, and this application is in compliance with this criterion and the statute.

SHP Criterion 3 -Statistical Need/Competing Applications

Lamar County is located in Long Term Planning District IV. The FY 1999 State Health Plan shows an unmet need in Lamar County of 76 nursing facility beds and a total unmet need in LTCPDIV of 923 beds. As previously mentioned, the Department received four competing applications for the 60 nursing facility beds authorized by Senate Bill 2679 for Lamar County in FY 2002. Only three applications were deemed complete on July 1, 2001 and entered into Review Cycle 3. Also, all nursing facility applications filed with the Department by June

1, 2001 for the FY 2002 authorization are mandated to be reviewed under the FY 1999 State Health Plan.

B. General Review Criteria

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

GR Criterion 3 - Availability of Alternatives

The applicant considered a variety of alternatives and feels this project is the most feasible for HTC Healthcare since it is in the process of relocating 40 nursing facility beds from Hancock to Lamar County.

GR Criterion 4 - Economic Viability

According to the applicant's projected operating statement, gross revenues for the first three years will be \$3,221,490, \$3,632,480 and \$3,747,273, respectively. Net income for the first three years is projected to be \$2,939, \$289,454 and \$305,150, respectively. Consequently, the proposed project appears to be economically viable.

GR Criterion 5 - Need

Lamar County is located in Long-Term Care Plan District IV (LTCPD IV). The FY 1999 State Health Plan shows an unmet need in Lamar County of 76 nursing facility beds and a total unmet need in LTCPD IV of 923 beds. Approval of this request for 60 nursing facility beds would reduce the unmet need in LTCPD IV by 60 beds. The application contained 795 letters of support for this project and two letters of opposition on behalf of Windham House of Hattiesburg, LLC.

GR Criterion 6 - Accessibility

The applicant indicated 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, the elderly and other underserved groups. The

applicant projects that the payor mix will be as follows: Medicaid - 8.33 percent, Medicare - 43.75 percent, and Private Pay - 47.92 percent.

GR Criterion 7 - Information Requirement

HTC Healthcare, LLC affirms that it will record and maintain the information required by this criterion and will make it available to the Mississippi State Department of Health within 15 business days of such request.

GR Criterion 8 - Relationship to Existing Health Care System

There are two nursing facilities located in Lamar County, totaling 150 nursing facility beds: Adventist Health Center - 120; and Windham House of Hattiesburg, LLC - 30. The occupancy rate for the two facilities in 2000 was 97.29 percent and 40.24 percent, respectively. The applicant will establish transfer agreements with area hospitals. The application contained 795 letters of support for this project and two letters of opposition on behalf of Windham House of Hattiesburg, LLC.

GR Criterion 9 - Availability of Resources

The applicant has a well organized employee recruitment and retention program and should have no significant problems obtaining the required staff for the proposed facility. The applicant projects that the staffed facility will utilize 77.0 full-time equivalent personnel, costing \$1,290,464 the first year.

GR Criterion 15 - Competing Applications

The Department received four applications for the 60 nursing facility beds authorized for Lamar County in FY 2002. See Appendix I for a comparative analysis of the three applications deemed complete and entered in Review Cycle 3 as competing applications.

CR Criterion 16 - Quality of Care

HTC Healthcare, LLC will be licensed under the Minimum Standards of Operations for Institutions for the Aged or Infirm and will have in place a quality

improvement program integrated with recruitment and retention efforts.

IV. Financial Feasibility

A. Capital Expenditure Summary

New Construction Cost	\$445,000
Fixed Equipment	100,000
Non-Fixed Equipment	60,000
Fees	45,000
Contingency Reserve	50,000
TOTAL PROPOSED CAPITAL EXPENDITURE	\$700,000

The above estimated capital expenditure is proposed for the new construction of 17,850 square feet of space at a cost per square foot of \$35.85. The cost per bed, based on the total capital expenditure, is \$11,667. Means Construction Cost Data 2001 shows the low range per square foot to be \$69.25 and the low range per bed cost to be \$30,000. This project is below the low range in costs for both square foot and per bed costs listed in Means.

B. Method of Financing

The applicant proposes to finance the proposed project with a loan from the First National Bank of Wiggins, Mississippi.

C. Effect on Operating Cost

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

EXPENSES	Year 1	Year 2	Year 3
Salaries and Benefits	\$1,290,464	\$1,327,438	\$1,357,975
Supplies	52,502	57,507	62,708
Other Direct Expenses	1,035,215	1,094,630	1,163,270
Administrative/General	471,919	497,875	516,786
Depreciation	32,800	32,800	32,800
Interest	62,468	61,238	59,893
TOTAL EXPENSES	\$2,945,368	\$3,071,488	\$3,193,432

REVENUES	Year 1	Year 2	Year 3
Gross Patient Revenue	\$3,221,490	\$3,632,480	\$3,747,273
Total Deductions	(227,183)	(276,538)	(254,691)
Net Revenue	\$2,944,307	\$3,355,942	\$3,492,582

	Year 1	Year 2	Year 3
Occupancy Rate (%)	80.00	90.00	92.00
Patient Days	17,520	19,710	20,148
Cost/Patient Day	\$168.11	\$155.83	\$158.50
Charge/Patient Day	\$183.88	\$184.30	\$185.99
NET INCOME(LOSS)	\$2,939	\$289,454	\$305,150

The applicant projects that the per diem cost to Medicaid for the first year would be \$97.00.

Applicant's projections appear reasonable and comparable to other nursing facilities of similar size and payor mix.

D. Cost to Medicaid/Medicare

The impact of the project on third party payers is as follows for the first year:

Payor Mix	Utilization Percentage	First Year Cost
Medicaid	8.33	\$141,620
Medicare	43.75	\$2,006,223
Private Pay	47.92	\$797,525
Total	100.00	\$2,945,168

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 \$ in total funds based on a stable occupancy rate.

VI. Conclusion and Recommendation

This project is in substantial compliance with the criteria and standards for nursing facility beds as contained in the FY 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 a need for 50 or more additional nursing facility beds, as shown in the FY 1999 State Health Plan.

Lamar County is one of six counties eligible to receive a Certificate of Need for 60 nursing facility beds in FY 2002. The Department received four applications for the 60 nursing facility beds authorized for Lamar County. Three of these applications were deemed complete on July 1, 2001 and entered into Review Cycle 3 as competing applications. One of the applications was deemed incomplete on July 1, 2001 and was deferred to a subsequent review cycle, pending completeness. 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 applications filed for a 60-bed nursing facility in Lamar County, including the development and utilization for a comparative analysis and consideration of the comments from the Division of Medicaid, the Division of Health Planning and Resource Development has determined that the application submitted by HTC Healthcare, LLC is the most appropriate applicant to provide the proposed nursing facility services in the 60-bed facility authorized by Senate Bill 2679 for Lamar County in FY 2002 (See Appendix I). Approval of this application precludes approval of any other competing application in Lamar County.

Consequently, the Division of Health Planning and Resource Development recommends approval of the application submitted by HTC Healthcare, LLC and finds that HTC Healthcare, LLC obtained the lowest composite score of the three competing applications ranked according to the following ten factors: size, capital expenditure, cost per square foot, cost per bed, staffing, Medicare utilization, cost to Medicaid, per diem cost to Medicaid, continuum of care services and community support. Each applicant's score was reduced by one point pursuant to an enclosed signed agreement to maintain ownership and operations for a period of at least three years after licensure.

**APPENDIX I
COMPARATIVE ANALYSIS
PROPOSED 60-BED NURSING FACILITIES
LAMAR COUNTY
(THIRD YEAR OF OPERATION)**

		Acadia Court		Windham House		HTC Healthcare
Size (Sq. Foot)	1	24,515	2	23,405	3	17,850
Capital Expenditure	3	\$2,063,418	1	\$456,146	2	\$700,000
Cost/Sq. Foot	3	\$70.03	2	\$63.76* and \$8.37xx	1	\$35.85
Cost/Bed (Total Cost)	3	\$34,390	1	\$7,602	2	\$11,667
Gross Revenue		\$2,665,860		\$2,601,763		\$3,747,273
Deductions		-		-		(254,691)
Net Revenue		\$2,665,860		\$2,601,763		\$3,492,582
Expenses		\$2,374,004		\$2,151,301		\$3,193,432
Net Income		\$291,856		\$450,462		\$305,150
Occupancy Rate		95.0%		98.3%		92.0%
Patient Days		20,805		21,535		20,148
Cost/Patient Day		\$114.11		\$99.89		\$158.50
Charge/Patient Day		\$128.14		\$120.82		\$185.99
Personnel Required	2	58	3	54	1	77
First Year Cost		\$1,095,136		\$699,032		\$1,290,464
Medicaid Utilization (%)		54.0		50.0		8.33
Medicare Utilization(%)	3	28.0	2	29.0	1	43.75
Private Pay Utilization (%)		18.0		21.0		47.92
Cost to Medicaid (1 st yr)	2	\$443,123	3	\$699,081	1	\$141,620
Per Diem Costs Medicaid (1 st yr)	2	\$84.63	1	\$76.14	3	\$97.00
Continuum of Care (yes/no)	1	yes	1	yes	1	yes
Community of Support Letters	1	1,568	3	613	2	795
Signed Agreement	-1	yes	-1	yes	-1	yes
Composite Score	20		18		16	

* New Construction Cost/Square Foot

xx Renovation Cost/Square Foot