

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

**CON REVIEW NH-RLS-0501-017
HTC HEALTHCARE LLC,
REPLACEMENT/RELOCATION OF HOTEL REED NURSING CENTER
CAPITAL EXPENDITURE: \$2,117,000
LOCATION: BAY ST. LOUIS, MISSISSIPPI**

STAFF ANALYSIS

I. Project Summary

A. Applicant Information

HTC Healthcare LLC (HTC) is a Mississippi proprietary limited liability company, formed on April 3, 2001. The single presiding member of HTC Healthcare LLC is Mr. H. Ted Cain. Mr. Cain also owns Hotel Reed Nursing Center, an 89-bed facility located in Bay St. Louis, Hancock County; Woodland Village Nursing Center, a 60-bed facility located in Diamondhead, Hancock County; Stone County Hospital, and a 20-bed Alzheimer's unit, located in Wiggins, Stone County.

B. Project Description

H. Ted Cain requests CON authority to replace Hotel Reed Nursing Center by disbursing the 89-bed facility to three different locations within Long-Term Care Planning District IV. The project will be accomplished in three phases as following:

Phase I

Phase I involves the construction of a new 40-bed facility in Hattiesburg, Lamar County. This phase of the project will consist of 20,513 square feet of new construction in Hattiesburg. The one-story facility will meet all standards, codes and requirements for nursing facilities in the state of Mississippi.

HTC has begun the process of networking and affiliating with other providers to maximize the availability of complementary and support services to serve both the facility and the community. Furthermore, HTC will provide comprehensive approach to meeting the health care needs of residents of Hattiesburg, Lamar County, in the most cost effective manner.

The applicant states that 32.2 full time equivalent employees will be needed at an annual cost of \$666,129.

Phase II

In Phase II, 20 long term care beds will be relocated to Woodland Village Nursing Center, in Diamondhead. Twenty personal care beds at Woodland Village will be converted to fully Medicaid certified skilled and intermediate nursing care beds, to complete this relocation. The

beds will be located in a 6,240 square foot facility which will meet all the standards, codes and requirements for nursing facilities in the State of Mississippi. The facility will be designed for efficient operation and staffing and will provide a most cost effective and appropriate setting for patient care.

The applicant states that 19 full time equivalent employees will be needed at an annual cost of \$455,000.

Phase III

Phase III involves relocating 29 of the Hotel Reed beds to the Stone County facility, in Wiggins. The facility will consist of 10,000 square feet of new construction in a one story building. The construction of the facility shall meet all standards, codes and requirements of nursing facilities in the State of Mississippi. The facility will be designed for efficient operation and staffing and will provide a most cost-effective and appropriate setting for patient care.

The applicant states that 30.25 full time equivalent employees will be needed at an annual cost of \$645,232.

Health Care Services Inc. of Wiggins, a quality provider of long-term care services to nursing homes, will direct operations of the nursing home in each of the above phases.

The applicant states that the capital expenditure associated with all phases of the project will be obligated within 3 months of the receipt of the CON and shall be completed within 12 months of commencement.

II. TYPE OF REVIEW REQUIRED

Projects which purpose the construction of a replacement facility/relocation of long term care beds are reviewed in accordance with Section 41-7-191, subparagraph 1(b), Mississippi Code of 1972 Annotated, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi State Department of Health.

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, 2001.

III. **CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS**

A. State Health Plan (SHP)

The *FY 2001 State Health Plan* does not address criteria and Standards for construction/replacement and relocation of a Long Term Care Facility/Beds. As previously stated, this proposal involves construction/replacement of a Long Term Care Facility and/or Long Term Care Beds. The project is in substantial compliance with overall objectives of the *Plan*.

B. General Review (GR) Criteria

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

GR Criterion 3 - Availability of Alternatives

HTC considered different alternatives in each phase of the project. The alternatives were to maintain the status quo and to request more or less beds. These alternatives were rejected and the proposal in each phase of this project was found to be the best solution.

GR Criterion 4 - Economic Viability

Based on the operating projections provided by the applicant, this appears to be an economically viable project. Financial projections in the application reflect a net loss of \$30,286 the first year, and a net income of \$1,361, the second year, and \$45,493 the third year in Phase I of the project. In Phase II, projections reflect a net income of \$18,225 the first year, \$27,785 the second year, and \$31,589 the third year. In Phase III, projections reflect a net income of \$3,650 the first year, a net income of \$22,170 the second year, and \$85,072 the third year.

The application contains financial statements documenting that the applicant has the financial ability to undertake this project.

GR Criterion 5 - Need

Applicant states that HTC Healthcare, LLC will not discriminate against low income persons, racial and ethnic minorities, elderly, women, handicapped persons, or any other underserved groups in the provision of its services.

Hotel Reed Nursing center, LLC, located in Bay St. Louis, Mississippi, was built in 1933 as a beach-front resort hotel. Later, the facility was converted to an 89 bed skilled nursing facility

providing high level skilled nursing care to the residents of Hancock County, Mississippi. The building was designed to be used as a hotel, and therefore, presents staffing challenges which are not normally found in modern state-of-the art-nursing facilities. Furthermore, Hotel Reed's site directly faces the Gulf of Mexico which is a high risk of both flooding and serious storm damage in the event of a hurricane.

Mr. H. Ted Cain, the presiding member of Hotel Reed Nursing Center, LLC, retained outside consultants to analyze both structural and operational inefficiencies of the existing facility and it was their recommendation that the construction of replacement facilities to relocate the skilled nursing beds would be the most appropriate resolution of the many issues reviewed.

GR Criterion 6 - Accessibility

The applicant submits that with regard to delivery of its health care services ,HTC does not discriminate against the handicapped, women, the elderly and members of racial and ethnic minorities. Patients will be provided health care services without regard to physical condition, age or ethnic background.

GR Criterion 7 - Information Requirement

HTC 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

HTC proposes that this project will fill a void in the existing delivery system of health care with respect to patients transitioning from both acute care setting and patients who have special needs to be in a skilled nursing facility. Therefore, the applicant states that the impact on other providers offering the service should be minimal.

GR Criterion 9 - Availability of Resources

HTC will have available all necessary personnel needed at the facility. HTC states it shall have a physician medical director, however, patients will be able to maintain their same personal physician while at the facility.

GR Criterion 16 - Quality of Care

HTC Healthcare LLC is owned by Mr. H. Ted Cain, who has over twenty years of nursing home experience and presently owns other facilities in the State of Mississippi. The applicant states that the quality of care provided by Mr. Cain's facilities has consistently exceeded the standards and criteria in the states in which the facilities are located.

IV. Financial Feasibility

A. Capital Expenditure Summary (for Phase I, II, & III)

Construction	\$1,277,000
Fixed Equipment	358,000
Non-Fixed Equipment	109,000
Land Cost	200,000
Fees	103,000
Contingency Reserve	40,000
Capitalized Interest	<u>30,000</u>
Total Proposed Capital Expenditure	<u>\$2,117,000</u>

Phase I of the project will consist of 20,513 square feet of new construction at a cost of \$78 per square foot. Phase III of the project will consist of 10,000 square feet of new construction at a cost of \$48.80 per square foot. The *2001 Means Construction Cost Data* indicates that the median cost per square foot for nursing home's is \$91.55 and the low is \$69.25.

B. Method of Financing

The total capital expenditure for this project is \$2,117,000 which the applicant states will be financed through a commercial loan with the First National Bank of Wiggins. The application included a letter from Mr. John Hammond, President & CEO, of the bank indicating its willingness to finance the project.

C. Effect on Operating Cost

HTC projects the following expenses, utilization, and revenue for the three years after initiation for each Phase of the project:

Phase I

<u>Expenses</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Salaries & Benefits	\$ 666,129	\$ 687,994	\$ 721,650
Supplies	42,102	51,507	55,708
Other Direct Expenses	86,249	93,108	98,256
Administrative & General	129,611	141,997	152,557
Indirect Expenses	94,214	113,262	119,640
Depreciation or lease	80,023	88,023	88,023
Interest	<u>148,138</u>	<u>145,222</u>	<u>142,033</u>
Total Expenses	<u>\$1,254,466</u>	<u>\$1,321,113</u>	<u>\$1,378,137</u>

Revenues

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Gross Patient Revenue	\$1,402,530	\$1,537,380	\$1,664,400
Deductions			
Charity/Indigent Care	(12,410)	(13,403)	(14,425)
Contractual Adj.	(161,330)	(197,106)	(221,920)
Bad Debt	(12,410)	(18,403)	(14,425)
Total Deductions	(\$186,150)	(\$223,906)	(\$250,770)
Other Revenue	\$ 8,000	\$ 9,000	\$ 10,000
Net Patient Revenue	<u>\$1,216,180</u>	<u>\$1,313,474</u>	<u>\$1,413,630</u>
Net Income (Loss)	<u>(\$ 30,286)</u>	<u>\$ 1,361</u>	<u>\$ 45,493</u>

General Assumptions			
Occupancy Rate	85%	90%	95%
Patient Days	12,410	13,140	13,870
Cost/Patient Day	\$ 101.09	\$ 100.54	\$ 99.36
Charge/Patient Day	\$ 113.00	\$ 117.00	\$ 120.00

Phase II

<u>Expenses</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Salaries & Benefits	\$ 445,000	\$ 475,000	\$ 480,000
Supplies	25,000	35,000	37,500
Other Direct Expenses	22,500	23,875	25,319
Administrative & General	65,000	68,250	71,663
Total Expenses	<u>\$ 567,500</u>	<u>\$ 602,125</u>	<u>\$ 614,482</u>

Revenues

Gross Patient Revenue	\$ 701,165	\$ 768,690	\$ 805,920
Deductions			
Charity/Indigent Care	(5,960)	(6,400)	(6,600)
Contractual Adj.	(105,520)	(128,480)	(149,650)
Bad Debt	(5,960)	(6,400)	(6,600)
Total Deductions	(\$117,440)	(\$141,280)	(\$162,850)
Other Revenue	\$ 2,000	\$ 2,500	\$ 3,000

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Net Patient Revenue	<u>\$ 583,725</u>	<u>\$ 627,410</u>	<u>\$ 643,070</u>
Net Income	<u>\$ 18,225</u>	<u>\$ 27,785</u>	<u>\$ 31,589</u>

General Assumptions

Occupancy Rate	85%	90%	92%
Patient Days	6,205	6,570	6,716
Cost/Patient Day	\$ 91.46	\$ 91.65	\$ 91.50
Charge/Patient Day	\$ 113.00	\$ 117.00	\$ 120.00

Phase III

<u>Expenses</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Salaries & Benefits	\$ 645,232	\$ 685,500	\$ 701,250
Supplies	26,251	28,754	31,354
Other Direct Expenses	65,500	67,500	70,983
Administrative & General	235,960	248,938	258,393
Indirect Expenses	94,214	113,262	115,527
Depreciation	34,021	34,021	34,021
Interest	46,137	45,229	44,235
Total Expenses	<u>\$1,147,315</u>	<u>\$1,223,204</u>	<u>\$1,255,718</u>

Revenues

Gross Patient Revenue	\$1,323,490	\$ 1,436,184	\$ 1,544,863
Deductions			
Charity/Indigent Care	(11,700)	(12,650)	(13,600)
Contractual Adj.	(155,125)	(173,010)	(184,873)
Bad Debt	(11,700)	(12,650)	(13,600)
Total Deductions	(\$178,525)	(\$198,310)	(\$212,073)
Other Revenue	\$ 6,000	\$ 7,500	\$ 8,000
Net Patient Revenue	<u>\$1,144,965</u>	<u>\$1,237,874</u>	<u>\$1,332,790</u>
Net Income	<u>\$ 3,650</u>	<u>\$ 22,170</u>	<u>\$ 85,072</u>

General Assumptions				
Occupancy Rate		80%	85%	90%
Patient Days		8,468	8,997	9,527
Cost/Patient Day	\$	135.49	\$ 135.96	\$ 131.81
Charge/Patient Day	\$	156.29	\$ 159.63	\$ 162.16

D. Cost To Medicaid/Medicare

In Phase I of the project 100 percent of the cost is Medicaid. In Phase II, 94 percent is Medicaid and 6 percent is other payors. In Phase III, 64.66 percent of the cost is Medicaid, 26.72 percent is Medicare and 8.62 is other payors.

Hotel Reed's current per diem rate to Medicaid, as of July 1, 2001, is \$97.

In all three phases of the project, the applicant indicates that 1 percent is for bad debt and 1 percent is for indigent patients.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application. No response has been received by the Department as of this writing.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with overall objectives, as contained in the *20001 State Health Plan*, the *Mississippi Certificate Of Need Review Manual, 2000 revisions*, and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by HTC Healthcare, LLC.