

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2016**

**CON REVIEW NH-RC-0316-007
SHEARER-RICHARDSON MEMORIAL NURSING HOME
PHASE III RENOVATIONS AND ADDITIONS
CAPITAL EXPENDITURE: \$3,409,260
LOCATION: OKOLONA, CHICKASAW COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Shearer-Richardson Memorial Nursing Home (Shearer-Richardson) is a long-term care, public, nursing home located at 512 Rockwell Drive, Okolona, Chickasaw County, Mississippi. Shearer-Richardson is owned by a component unit of Chickasaw County Board of Supervisors. The nursing home is managed by Orchard Health Care of Okolona, LLC, a Mississippi limited liability company. The application contains a management service agreement between Orchard Health Care, LLC and Shearer-Richardson Memorial Nursing Home, Board of Trustees, a component unit of Chickasaw County Board of Supervisors. Shearer-Richardson Memorial Nursing Home is license for 73 long-term care beds.

B. Project Description

Shearer-Richardson Memorial Nursing Home is located in Long-Term Care Planning District (LTCPD) II. In this district, Shearer-Richardson requests Certificate of Need (CON) authority for phase III renovations and additions of the facility. According to the applicant, the proposal encompasses 15,845 square feet of space, to include 5,450 square feet of new construction and 10,395 square feet of existing renovated space. The applicant asserts that approximately 420 square feet of space will be demolished and not renovated as part of the proposed project. A breakdown of the project's new construction and renovation of areas by square feet is as follow:

<u>Renovated Area</u>	<u>Square Feet</u>
Renovated Patient Bed and Bath	6,625
Renovated Circulation	3,770
<u>Total Renovated Area</u>	<u>10,395</u>
<u>New Construction</u>	<u>Square Feet</u>
New Patient Bed and Bath	4,147
New Janitorial	66
New Circulation	1,237
<u>Total New Construction</u>	<u>5,450</u>

The applicant asserts that the proposed project will renovate and modernized Shearer-Richardson's 73 bed long-term care facility including construction of a 12-patient room addition and a 4-patient room addition, respectively, to create two wings of the existing Shearer-Richardson facility. The project also includes the renovation of the existing resident/patient rooms on the west wings of the facility including the addition of private baths for each private room. Rooms are currently access bathrooms from the hallway. The applicant asserts that all resident/patients will be private rooms with private baths at the completion of the project. Extensive work has already been done on the MEP systems on this part of the building as well as architectural renovations of other parts of the building. Other improvements in this project include improved air condition/handling, new ceiling and floor finishes, new doors and furnishings for patient rooms. Access enhancements include the construction of a new, permanent handicap ramp. This proposal is for phase III of Shearer-Richardson Memorial Nursing Home's long range plan to improve the facility to better meet the needs of the population it serves with skilled nursing services.

According to the applicant, the project has been designed to improve and modernize the Shearer-Richardson facility so it will meet or exceed all licensure standards and requirements. Upon completion of the project, this 73 bed facility will consist of 46,812 square feet of space. No new services or additional beds will be offered as a result of this project.

The applicant's final objectives for the proposed project are to renovate, replace and update the existing skilled nursing facility rooms with the goal of improving privacy, the physical environment and therefore, the quality of life of existing and future residents of the 73 bed facility.

The applicant indicates that the project will not require any additional full-time equivalents (FTEs) personnel.

The total proposed capital expenditure is \$3,409,260, at an estimated cost of \$375.70 per square foot for new construction and \$108.98 per square foot for renovated space (see Expenditure Summary for complete percentage breakdown of project). The applicant projects that the capital expenditure will be obligated immediately upon CON approval and finalization of construction contracts. The project is expected to be complete within 18-24 months from commencement of construction. The applicant asserts that the timeline for the proposed project has been designed to assure minimum inconvenience for facility residents during the project.

The applicant indicates the proposed capital expenditure will be funded with existing capital reserves from Orchard Health Care, LLC the applicant's management Services. The application contains a signed letter from Orchard Health Care, LLC's financial manager attesting to the financial feasibility of the project.

The MSDH Division of Health Facilities Licensure and Certification approved the site for the project on January 22, 2016.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-173, 41-7-191 1(j), and 41-7-193 of the Mississippi Code of 1972, Annotated, as amended, 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 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 June 6, 2016.

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

A. State Health Plan (SHP)

The *FY 2015 Mississippi State Health Plan* (MSHP) does not contain criteria and standards for construction, renovation, and expansion of long term care facility as proposed by this application. However, the *Plan* provides guidelines for all health planning in Mississippi. The *Plan* states that: Mississippi's planning and health regulatory activities have the following purposes:

To improve the health of Mississippi residents

The applicant submits that Shearer Richardson's will further its long range plan after completion of the proposed project. The project will allow for sufficient space to provide a private room, with private bath, for each resident. Currently, many resident bathrooms are accessible only from the hallways. The applicant asserts that the project will remedy the problem with a private bath and private rooms, which will provide additional privacy for the residents and promote a higher quality of life.

To increase the accessibility, acceptability, continuity, and quality of health services

The applicant asserts that the project will promote a higher quality of health services for the residents of the facility. Privacy concerns, attendant semi-private rooms and poor accessible resident bathrooms will be alleviated by the project. Current and future residents will enjoy all private rooms, each with its own private bath. In addition, the project includes upgrades to the mechanical systems for more efficient operations, improved furnishings and treatments to resident rooms and all to promote a more acceptable physical environment of the beds delivery of skilled nursing services to residents. Shearer-Richardson asserts that there is a documented need for skilled nursing services in Chickasaw County and LTCPD II.

The applicant asserts that services at Shearer-Richardson will continue during the project and the need for the skilled nursing services provided by the facility.

To prevent unnecessary duplication of health resources

Shearer-Richardson Memorial Nursing Home asserts that the proposed project only involves the renovation and modernization of an existing skilled nursing facility currently licensed for 73 beds. Space and structural limitations prevent residents from having private rooms and many resident rooms have bathrooms accessible only from the hall ways. The proposed project will only provide space for privacy in a more acceptable environment for current and future residents. The Shearer-Richardson's 73 long-term beds are licensed in the State's total beds count and will not be an increased as a result of this project.

According to the 2014 *Report on institutions for the Aged or Infirm*, Shearer-Richardson Memorial Nursing Home had an occupancy rate of 85.36% in 2014.

To provide some cost containment

The applicant contends that the implementation and completion of this project is not expected to significantly increase the cost of existing services provided. Further, improvements to the physical and mechanical plant will allow for the reduction of some costs of operation, including in the provision of utility services as a result of more efficient mechanical systems.

The proposed project is consistent with the above stated goals of health planning.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 1, 2011*; addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria contained in the manual.

GR Criterion 2 – Long Range Plan

The applicant states that its request authority for approval to implement phase III of Shearer-Richardson's long range plan. Phase I and II have already been completed. In 2006, Shearer-Richardson engaged Architecture South, a Mississippi licensed architectural firm, to develop a master plan for the facility. Much of the existing facility was once part of an old hospital not utilized for decades. Shearer-Richardson's governing board of trustees desired and committed to bring Shearer-Richardson Nursing Home up to the most modern standards and to develop a facility best equipped to meet the needs of the elderly population of Chickasaw County and its surrounding community. Shearer-Richardson's Board of Trustees engaged

operator Orchard Health Care, LLC to oversee the implementation of the master/long range plan. The application contains a copy of the applicant's first amendment to the management services agreement between Shearer-Richardson and Orchard Health Care, LLC regarding the proposed project.

GR Criterion 3 – Availability of Alternatives

According to the applicant, Shearer-Richardson Memorial Nursing Home's governing Board of Trustees and management operators evaluated and considered plans to raise the facility and construct a new replacement facility. This alternative was determined not to be as cost effective as the proposed project. As mentioned the governing Board of Trustees and management operators determined that modernization of the existing facility would be more cost effective than rebuilding and replacing the existing facility. Operation of Shearer-Richardson Memorial Nursing Home has provided cash reserves necessary to complete phase III of the applicant's master plan/long range plan, pending CON approval of the proposed project.

GR Criterion 4 - Economic Viability

The applicant asserts that since the nature of the skilled nursing services will not change due to the proposed project and charges will continue to be based on current Medicaid methodology. The applicant states that the operating expenses at Shearer-Richardson are expected to remain the same and the room rates for private resident will not increase as a result of this project. Reimbursement from the Medicaid program is projected to increase as a result of an increase in the property component of the Medicaid rate. The applicant asserts that this offset in whole or part by any reductions in operating costs in housekeeping, repairs and maintenance, and utility consumption due to the improved efficiency of the newer and improved nursing home facility.

No new services or beds are being added but the proposed project will renovate, replace and update existing skilled nursing facility rooms with the goal of improving privacy, the physical environment and quality of life of existing and future resident of Shearer-Richardson Memorial Nursing Home.

The application contains a signed letter from Orchard Health Care, LLC's financial manager, attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant states that the need for long term care beds in Chickasaw County and LTCPD II is documented and will continue. The applicant states that Shearer-Richardson is Medicaid certified facility and services the low income, elderly and handicapped citizens most in needs. The facility will continue to provide services to residents eligible for skilled nursing home placement as available. The proposed project will not

increase the number of licensed beds in the facility but will allow for private rooms with private bath for each resident to better meet the need for long term care beds now and into the future in the district.

- b. **Relocation of Services:** The project does not propose the relocation of services outside the existing facility.
- c. **Community Reaction:** The application contains six letters of support for the proposed project from the following:

Mayo, City of Okolona;
Jerry Hall, Chickasaw County Board of Supervisor;
Administrator of Shearer-Richardson, Aileen Holt;
Okolona Auto Company;
Karen Kay Wilkes RN, LNC, and
Judy Dunn, RN Director of Nursing Service of Shearer-Richardson

The applicant asserts that the proposed project implements phase III of Shearer-Richardson Memorial Nursing Home's long range plan to improve its physical plant and resident environment and to continue to provide the best level of services to its residents.

The Department received no letters of opposition concerning the proposed project.

GR Criterion 6 - Access to the Facility or Service

The applicant submits that Shearer-Richardson Memorial Nursing Home is a Medicaid certified facility and it is expected that the facility will continue to serve primarily Medicaid eligible residents (most low-income and indigent care is provided through the Medicaid program). The applicant states that Shearer-Richardson is currently in operation and will continue operation during the proposed project. Upon completion of the proposed project the facility will continue admission according to its current policies. All persons who meet the requirement for skilled nursing home placement and Medicaid eligibility, if necessary, will be admitted or placed on its waiting list pending bed availability.

GR Criterion 7 - Information Requirement

Shearer-Richardson Memorial Nursing Home affirmed 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

Shearer-Richardson Memorial Nursing Home is located in Chickasaw County and Long-Term Care Planning District II. Currently, Chickasaw County has two nursing

homes, Floy Dyer Manor in Houston (66 beds) and Shearer-Richardson Memorial Nursing Home in Okolona (73 beds). Both nursing homes serve essentially the same population. The applicant asserts that since Shearer-Richardson is currently operating, there will be no impact expected upon other facilities operating in the area and Long-Term Care Planning District II, as a result of the proposed project.

The applicant believes that failure to implement the project would leave the facility with a majority of semi-private rooms, many with bathrooms only accessible from hallways. The elimination of such structural obstacles is necessary to enhance the privacy and physical environment for each resident served.

As previously mention, the Department received no letters of opposition concerning the proposed project.

GR Criterion 9 - Availability of Resources

The applicant indicates that the project will not require any additional full-time equivalents (FTEs) personnel. The applicant asserts that Shearer-Richardson is currently in operation and has a history of successful recruiting and retention practices. The applicant asserts that should census/occupancy increase beyond expectations at Shearer-Richardson, staffing will be adjusted accordingly.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that the proposed project involves the renovation and modernization of an existing facility, which has all the necessary support and ancillary service currently available. All current services will continue to be available during and after completion of the proposed project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Architecture South, Tupelo, Mississippi licensed to do business in Mississippi.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. **New Construction Projects:** This project involves 5,450 square feet of new construction.
- e. **Cost per Square Foot:** The applicant estimates the cost of new construction to be \$375.70 per square foot. *RSMMeans Building Construction Cost Data*

(RSMBCCD), 2015, Edition, lists new construction costs for nursing home construction and costs ranged from \$123 to \$197 per square foot. The applicant projects renovation will cost \$108.98 per square foot. The RSMBCCD does not compare costs of renovation projects.

GR Criterion 16 - Quality of Care

Shearer-Richardson Memorial Nursing Home is licensed by the Mississippi State Department of Health and is certified to participate in the Medicaid program.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost (\$)	Percent (%) of Total
a.	Construction Cost – New	\$1,875,000	55%
b.	Construction Cost -- Renovation	994,500	29.17%
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	218,812	6.42%
f.	Land Cost	0	0
g.	Site Preparation Cost	100,000	2.93%
h.	Fees (Architectural, Consultant, etc.)	210,948	6.19%
i.	Contingency Reserve	0	0
j.	Capitalized Interest	0	0
j.	Legal and accounting fees	10,000	0.29%
k.	Other	0	0
	Total Proposed Capital Expenditure	\$3,409,260	100%

The above capital expenditure is proposed for construction and renovation of the Shearer-Richardson Memorial Nursing Home. The proposed project involves 5,450 square feet of new space at an estimated cost of \$375.70 per square foot and 10,395 square feet of renovation at an estimated cost of \$108.98 per square foot (see Attachment 2). The costs for nursing home projects listed in The RSMMeans Building Construction Cost Data, 2015 Edition, ranged from \$123 to \$197 per square foot, with a median cost of \$158 per square foot. The RSMBCCD does not compare costs of renovation projects.

B. Method of Financing

The applicant indicates the proposed capital expenditure will be funded with existing capital reserves from Orchard Health Care, LLC; the applicant's management services. As previously mentioned, the application contains a signed letter from Orchard Health Care, LLC's financial manager attesting to the financial feasibility of the project.

C. Effect on Operating Cost

Shearer-Richardson's three-year projected operating statement is presented in Attachment 1.

D. Cost to Medicaid/Medicare

The applicant projects the cost to third party payors as follows:

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	0	0
Medicaid	86	\$4,615,626
Commercial	0	0
Self Pay	1	78,015
Charity Care	0	0
Other	12	670,459
Total	100%	\$ 5,364,100

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment; however, the department received no response, as of the date of this staff analysis.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives of the *FY 2015 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2011 Revision*; and duly adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Shearer-Richardson Memorial Nursing Home for phase III renovations and additions.

Attachment 1

Shearer-Richardson Memorial Nursing Home Three-Year Operating Statement (With Project)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$5,364,100	\$5,456,994	\$5,551,746
Outpatient	0	0	0
Gross Patient Revenue	\$5,364,100	\$5,456,994	\$5,551,746
Charity Care	0	0	0
Deductions from Revenue	12,000	12,240	12,485
Net Patient Revenue	\$5,352,100	\$5,444,754	\$5,539,261
Other Operating Revenue	0	0	0
Total Operating Revenue	\$5,352,100	\$5,444,754	\$5,539,261
Expenses			
Operating Expenses:			
Salaries	\$2,262,556	\$2,307,807	\$2,353,963
Benefits	580,963	592,582	604,434
Supplies	236,480	241,210	246,034
Services	1,380,136	1,407,739	1,435,893
Lease	0	0	0
Depreciation	446,952	455,891	455,891
Interest	0	0	0
Other	0	0	0
Total Expenses	\$4,907,087	\$5,005,229	\$5,096,215
Net Income (Loss)	\$ 445,013	\$439,525	\$443,046
Assumptions			
Inpatient days	21,900	21,900	21,900
Outpatient days	0	0	0
Procedures	0	0	0
Charge/outpatient day	0	0	0
Charge per inpatient day	\$245	\$249	\$254
Charge per procedure	0	0	0
Cost per inpatient day	\$224	\$229	\$233
Cost per outpatient day	0	0	0
Cost per procedure	0	0	0

Attachment 2

**Shearer-Richardson Memorial Nursing Home
 Phase III Renovations and Additions
 Computation of Construction and Renovation Cost**

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$1,875,000	\$1,875,000	
Renovation Cost	\$994,500		\$994,500
Total Fixed Equipment Cost	\$0	\$0	\$0
Total Non-Fixed Equipment Cost	\$218,812	\$0	\$0
Land Cost	\$0	\$0	\$0
Site Preparation Cost	\$100,000	\$100,000	\$0
<i>Fees (Architectural, Consultant, etc.)</i>	\$210,948	\$210,948	\$0
<i>Contingency Reserve</i>	\$0	\$0	\$0
<i>Capitalized Interest</i>	\$0	\$0	\$0
<i>Other</i>	\$10,000	\$0	\$0
Total Proposed Capital Expenditure	\$3,409,260	\$2,185,948	\$994,500
Square Footage	15,845	5,450	10,395
<i>Allocation Percent</i>		34.40%	65.60%
Costs Less Land, Non-Fixed Eqt., Other	\$3,190,448	\$2,185,948	\$994,500
Cost Per Square Foot	\$201.35	\$401.09	\$95.67

Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2015 MSHP.