

**Division of Health Planning  
and Resource Development  
October 2003**

**CON Review NH-A-0703-021**

**Mid-South Health Care Associates, LLC**

**d/b/a Trinity Mission Health & Rehab of Great Oaks**

**Amendment/Site Change/Additional Capital Expenditure on CON #R-0543**

**( Establishment of 60-Bed Nursing Facility in Marshall County-Amended)**

**Approved Capital Expenditure: \$1,300,000**

**Revised Capital Expenditure: \$2,495,000**

**Additional Capital Expenditure: \$1,195,000**

**Location: Byhalia, Marshall County, Mississippi**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Application Information**

Mid-South Health Care Associates, L.L.C. is a Delaware limited liability company, authorized to do business in the State of Mississippi. Mid-South currently owns Holly Springs Health & Rehabilitation Center, which is a 120-bed dually-certified long term care facility. The governing board consists of two members. Mid-South currently holds a certificate of need to replace its 120-bed facility.

**B. Project Background**

CON # R-0543, approved by the State Health Officer on April 25, 2002, authorized Larry Fortenberry, d/b/a The Nottingwood, to construct a 60-bed nursing facility in Marshall County, Holly Springs. The facility would be a 15,959 square foot facility, constructed with a capital expenditure of \$1,053,756. Two other applicants, Mid-South Health Care Associates, LLC and Osborne Development Limited Partnership requested CON approval for the same 60 beds in Marshall County. Since the applicants were competing for the beds, only one could be approved. Therefore, the remaining two applicants were disapproved. Mid-South Health Care Associates, LLC requested and was granted a hearing during the course of review of its own application, along with Larry Fortenberry. The hearing requests were subsequently withdrawn.

In July 2002, Mid-South Associates, LLC, b/d/a Holly Springs Health and Rehabilitation Center II, requested and was granted CON authority to transfer the CON from Larry Fortenberry to Mid-South, relocate the proposed facility, and increase the capital expenditure. The request for transfer was made pursuant to an agreement signed by Larry Fortenberry d/b/a The Nottingwood to transfer and assign the Certificate of Need to Holly Springs Health and Rehabilitation Center, II LLC.

Holly Springs proposed to renovate an existing facility, which currently houses its 120 beds, to house the 60 beds. The amendment required an additional capital expenditure of \$246,244.

C. Project Description

Mid-South now seeks CON authority to relocate the proposed facility from the existing 120-bed site in Holly Springs, Mississippi, to a site in Byhalia, Mississippi. Applicant submits that the decision to relocate the site is due to delays and the necessity to relocate all patients from the existing 120-bed facility to its replacement facility prior to initiating renovations on the facility for the instant project. Also, applicant submits that since the amendment to place the beds in the existing structure, applicant has realized that the existing older building will not meet current building code. The renovation costs would exceed those of an entirely new facility. The move to Byhalia, which is in Marshall County, is an attempt by the applicant to avoid having to extend the project even further.

The proposed 60-bed facility will be construction of a new facility resulting in 48 private rooms, 12 semi-private rooms, plus dining, activities, crafts, therapies, adult day care, and other support areas. The new 120-bed replacement facility for the existing Holly Springs Health and Rehabilitation Center located nearby will allow the sharing of referrals and services for the benefit of the residents. Applicant submits that this project will also utilize the existing \$800,000 rehabilitation center, built in 1997, representing an excellent facility for the residents of Marshall County.

**II. TYPE OF REVIEW REQUIRED**

The State Health Officer reviews all projects for amendment and cost overrun in accordance with duly adopted procedures 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 October 23, 2003.

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

A. State Health Plan A (SHP)

The original application was in substantial compliance with the *1999 State Health Plan*, in effect at the time of submission. This amendment project continues to be in substantial compliance with the *Plan*.

B. General Review (GR) Criteria

The original project was in substantial compliance with the Certificate of Need Review Manual, in effect at the time of submission. This application continues to be in substantial compliance with applicable criteria and standards.

**IV. Financial Feasibility**

A. Capital Expenditure Summary

A comparison of the original and revised expenditures is as follows:

| <u>Item</u>                      | <u>Originally Approved</u> | <u>Current Request</u> | <u>Increase/ (Decrease)</u> |
|----------------------------------|----------------------------|------------------------|-----------------------------|
| New Construction                 | \$ -                       | \$ 1,675,000           | \$1,675,000                 |
| Construction/Renovation          | 905,000                    | -0-                    | (905,000)                   |
| Land                             | -0-                        | 130,000                | 130,000                     |
| Site Work                        | 15,000                     | 200,000                | 185,000                     |
| Fixed Equipment                  | 6,000                      | 120,000                | 114,000                     |
| Non-Fixed Equipment              | 129,000                    | 200,000                | 71,000                      |
| Contingency                      | 62,875                     | 50,000                 | (12,875)                    |
| Fees                             | 70,000                     | 60,000                 | (10,000)                    |
| Capitalized Interest             | 112,125                    | 60,000                 | (52,125)                    |
| Capital Improvement              | -0-                        | -0-                    | -0-                         |
| <b>Total Capital Expenditure</b> | <b>\$ 1,300,000</b>        | <b>\$2,495,000</b>     | <b>\$1,195,000</b>          |

The revised capital expenditure is for new construction of 28,838 square feet versus renovation of 33,433 square feet. The cost of new construction is approximately \$87 per square foot. The project will cost approximately \$41,583 per bed. Nursing Home projects listed in the *Means Construction Cost Data, 2003 edition*, range from \$74.05 to \$118 per square foot, and from \$32,000 to \$52,500 per bed.

B. Method of Financing

The application contained a letter from Investco, Inc. for the financing of the project. Investco, Inc. proposes to provide construction and permanent financing for the development of a new 60-bed skilled nursing facility for Trinity Mission Health &

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Rehab of Great Oaks in Byhalia, Marshall County, Mississippi. The terms of the loan would begin with a Construction/Interest Only period equal to the earlier of 18 months or receipt of the Certificate of Occupancy, then at conversion convert to monthly payments of interest and principal based on a 25 year amortization, 7 year term. Interest rate would be Prime + 1% during construction period; upon conversion, 225 bp over 7 year treasury.

C. Effect on Operating Cost

The applicant projects the following results from operations the first three years:

|                             | <b>Year 1</b>     | <b>Year 2</b>     | <b>Year 3</b>     |
|-----------------------------|-------------------|-------------------|-------------------|
| Gross Revenue               | \$2,142,037       | \$3,665,322       | \$3,775,058       |
| Deductions                  | 6,994             | 12,245            | 12,062            |
| Net Revenues                | \$2,135,043       | \$3,653,077       | \$3,762,996       |
| Expenses                    | \$1,894,392       | \$3,259,598       | \$3,242,271       |
| <b>Net Income(Loss)</b>     | <b>\$ 240,651</b> | <b>\$ 393,479</b> | <b>\$ 520,725</b> |
| <b>General Assumptions:</b> |                   |                   |                   |
| <b>Occupancy Rate</b>       | <b>56%</b>        | <b>95%</b>        | <b>95%</b>        |
| <b>Total Patient Days</b>   | <b>12,266</b>     | <b>20,805</b>     | <b>20,805</b>     |
| <b>Cost/Patient Day</b>     | <b>\$154.44</b>   | <b>\$156.67</b>   | <b>\$155.84</b>   |
| <b>Charge/Patient Day</b>   | <b>\$174.63</b>   | <b>\$176.18</b>   | <b>\$181.45</b>   |

Note: The applicant does not project any changes in the original projections.

D. Cost to Medicare/Medicaid

Based on the gross patient revenue projected in this project, the applicant submits the following to show the impact of the project on third party payors for the first year (No changes were projected over the original project):

| <b>Cost to Medicaid/Medicare &amp; Other Payors</b> |                               |                     |                        |
|---|-------------------------------|---------------------|------------------------|
| <b>Payor Mix</b>                                    | <b>Utilization Percentage</b> | <b>Patient Days</b> | <b>First Year Cost</b> |
| Medicaid  | 49.03                         | 6,014               | \$ 560,325             |
| Medicare  | 50.00                         | 6,133               | 1,433,770              |
| Other Payors  | .97                           | 119                 | 11,067                 |
| Adult Day Care                                      |                               | Non Patient         | 136,875                |
| <b>Totals</b>                                       | <b>100.0</b>                  | <b>12,266</b>       | <b>\$2,142,037</b>     |

Note: Applicant states that the Medicaid rate is \$93.17 per diem with an annual increase of \$3.00; the Medicare rate is \$233.98 ppd, with an annual increase of \$3.00; Private pay rate is \$93 ppd.

**V. RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this amendment application for review and comment. However, no written comments were received.

**VI. CONCLUSION AND RECOMMENDATION**

The original application was found to be in substantial compliance with the criteria and standards for the establishment of a 60-bed nursing facility contained in the *Mississippi State Health Plan; Certificate of Need Review Manual*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of the approval. This request for an amendment/additional capital expenditure is considered a change in scope, but does not change the overall objectives of the project.

The project also continues to comply 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 or more additional nursing facility beds, as shown in the *Fiscal Year 1999 State Health Plan*.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Mid-South Health Care Associates, L.L.C. d/b/a Trinity Mission Health & Rehab of Great Oaks, for the amendment of CON R-0543, authorizing a site change and additional capital expenditure.