

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2007**

**CON REVIEW NH-A-0907-025
MARTHA COKER CONVALESCENT HOME, INC.
AMENDMENT TO CON #R-0717
(CONSTRUCTION OF A 41-BED REPLACEMENT
NURSING HOME FACILITY AND ADDITION OF 19
NURSING HOME BEDS) SITE CHANGE AND COST OVERRUN
APPROVED CAPITAL EXPENDITURE: \$6,784,652
ADDITIONAL CAPITAL EXPENDITURE: \$2,491,898
REVISED CAPITAL EXPENDITURE: \$9,279,050
LOCATION: YAZOO CITY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Martha Coker Convalescent Home, Inc. is a Mississippi non-profit corporation located in Yazoo City, Mississippi. The facility's licensed bed capacity consists of 41 long-term care beds. The facility's occupancy rate was 90.66 in 2004 and 97.02 in 2005. Martha Coker has a nine-member Governing Board.

B. Project Background

Martha Coker Convalescent Home, Inc. ("Martha Coker") was granted Certificate of Need authority under CON No. R-0565 to construct a replacement facility consisting of 41 skilled nursing facility beds and 19 assisted living units on May 30, 2002. The applicant was granted CON No. R-0717 on September 28, 2006, as amendment to CON No. R-0565, to add 19 beds to its complement of nursing home beds and to construct the 60-bed facility under the "Green House" concept. The new facility was proposed to be located on a wooded site just west of Highway 49 near Ridgewood Road and would utilize the south third of a 45 acre tract.

The "Green House" model will consist of six houses with ten beds per house. Authorization for the additional 19 skilled nursing beds was included in House Bill 1221, 2006 regular session, and signed by the Governor on March 29, 2006.

The project originally proposed to encompass approximately 39,000 square feet of space at a cost of \$6,784,652.

C. Project Description

Martha Coker requests an amendment and cost overrun on CON No. R-0717. The amendment will authorize the applicant to relocate the proposed site of construction approximately three miles from the originally approved site and approximately one mile from the existing facility. The new address is 2041 Grand Avenue, Yazoo City, Mississippi. In addition, approval of this amendment will authorize an additional \$2,491,898 in capital expenditures necessary for the addition of 5,104 square feet of space. A summary of increases and decreases in capital expenditure items is presented in the Financial Feasibility Section of this staff analysis.

The applicant submits that when it initially applied for the CON, actual 2005 construction pricing on a similar project had been \$140 per square foot. The lowest bidders for the project came in at \$190 per square foot. The applicant anticipates that the project will commence upon approval of the amendment and will be complete by March 1, 2009.

II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all projects for amendment and cost overrun in accordance with duly adopted plans, policies, and procedures 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 the 41-bed replacement within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on December 5, 2007.

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

A. State Health Plan (SHP)

The original project was proposed during the FY 2002 State Health Plan, in effect at the time of submission, which did not contain criteria and standards that relate to the replacement of a nursing home facility. However, the original project was in substantial compliance with the overall objectives of the Plan. The amendment granted on September 28, 2006, was in substantial compliance with House Bill 1221 which authorized the addition of 19 nursing home beds to be constructed under the "Green House" concept and waived the need criterion in the Plan. This amendment/cost overrun continues to be in substantial compliance with the Plan and House Bill 1221.

B. General Review (GR) Criteria

This amendment/cost overrun continues to be in compliance with applicable criteria and standards contained in the Certificate of Need Review Manual in effect at the time of original approval.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

<u>Item</u>	<u>Originally Approved</u>	<u>Revised Amount</u>	<u>Increase/ (Decrease)</u>
New Construction	\$4,950,000	\$7,848,866	\$2,898,866
Fixed Equipment	123,600	123,600	
Non-Fixed Equipment	290,900	290,900	
Land Cost	204,742	100,000	(104,742)
Site Preparation	510,000	344,893	(165,107)
Fees	400,000	225,000	(175,000)
Contingency Reserve	150,000	187,881	37,881
Capitalized Interest	<u>155,410</u>	<u>155,410</u>	
Total	<u>\$6,784,652</u>	<u>\$9,276,550</u>	<u>\$2,491,898</u>

The overall capital expenditures increased by 37% due to an increase of 5,104 square feet of new construction and a 30% increase in prices of lumber, fuel costs, copper and steel as a result of Hurricane Katrina, according to the applicant. The project will cost approximately \$201 per square foot (attachment 2). The new construction cost is above the ¾ percentile for nursing home construction projects listed in the *Means Construction Cost Data, 2007 Edition*.

B. Method of Financing

The applicant submits that financing of the project will be with cash on hand and funds received from a capital fundraising campaign. The balance of the debt will be financed by the issue of tax-exempt bonds with a bank letter of credit enhancement. The applicant states that the project also calls for a community building that will be covered by a fund raising campaign or it will not be built. Total bond financing will be \$7,310,120 on a 30 year term at 6% interest.

According to the applicant, cash-on-hand, charitable gifts to capital campaign, and sell of assets will provide non-debt cash of \$2,305,533. Current capital gift commitments total \$1,500,000.

C. Effect on Operating Cost

The three year operating statement is presented in Attachment 1.

D. Cost to Medicare/Medicaid

Martha Coker is a private nursing facility and currently does not participate in the Medicaid program. However, the applicant states that it will begin participating in the Medicaid program when the new facility opens. The applicant states that the facility is grandfathered into the program; therefore, they will expand services to the community. The following is a breakdown of proposed patient mix by type of payor:

Payor Mix	Utilization Percentage	Year 1 Revenue
Private Pay	30	\$1,280,728
Medicaid	60	2,561,456
Medicare	10	426,909
Total	100	\$4,269,093

V. **RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment, and does not oppose the approval of the project. The Division of Medicaid pointed out, however, that Martha Coker Home is not currently certified to participate in the Medicaid program; but if certified for Medicaid, payment would be based on the age of the facility and any increase in building cost will have no effect on future payments.

VI. **CONCLUSIONS AND RECOMMENDATION**

The original project was found to be in substantial compliance with the overall objectives stated in the Plan in effect at the time of submission; the Certificate of Need Review Manual, revised 2000; and all adopted rules, procedures, and plans of the Mississippi State Department of Health and continues to be in compliance with the same. This request for an amendment/cost overrun is a change in scope, but does not change the overall objective of the project. The project also continues to be in compliance with House Bill 1221 (2006 Legislative Session) which authorized the issuance of a CON for 19 additional nursing home beds to a nonprofit skilled nursing facility in Yazoo County, Yazoo City, Mississippi.

The Division of Health Planning and Resource Development recommends approval of the application submitted on behalf of Martha Coker Convalescent Home, Inc., for the amendment/cost overrun to CON # R-0717.

ATTACHMENT 1

MARTHA COKER CONVALESCENT HOME, INC.
 Yazoo City, Mississippi
 Three-Year Projected Operating Statement

	Year 1	Year 2	Year 3
Revenue:			
Inpatient care	\$4,269,093	\$4,605,936	\$4,831,907
Outpatient care	<u>-</u>	<u>-</u>	<u>-</u>
Gross Patient Revenue	\$4,269,093	\$4,605,936	\$4,831,907
Charity care	-	-	-
Deductions from Revenue	<u>(80,448)</u>	<u>(92,124)</u>	<u>(96,638)</u>
Net patient Revenue	\$4,188,645	\$4,513,812	\$4,735,269
Operating Expenses:			
Salaries	\$1,754,718	\$1,844,628	\$1,918,412
Benefits	651,248	684,624	712,009
Administrative	484,280	508,968	672,608
Utilities	102,655	108,264	112,595
Building and Grounds	47,533	49,920	51,916
Dietary	199,961	210,888	219,324
Housekeeping	39,050	41,184	42,842
Nursing Services	324,997	354,768	368,590
Activities Supplies	4,142	4,368	4,543
Other	<u>29,583</u>	<u>31,200</u>	<u>32,448</u>
Total Operating Expenses	<u>\$3,638,167</u>	<u>\$3,838,812</u>	<u>\$4,135,276</u>
Income Before Depreciation	\$550,478	\$675,000	\$664,745
Depreciation	<u>\$254,012</u>	<u>\$254,012</u>	<u>\$254,012</u>
Net Income	<u>\$296,466</u>	<u>\$420,988</u>	<u>\$345,981</u>
Assumptions			
Inpatient Days	21,462	21,462	21,462
Cost/day	\$165.52	\$ 178.87	\$192.68
Charge/day	\$ 198.91	\$ 214.61	\$225.14

Attachment 2

Computation of Construction and Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$7,848,866	\$7,848,866	
Renovation Cost	\$0		\$0
Total Fixed Equipment Cost	\$123,600	\$123,600	
Total Non-Fixed Equipment Cost	\$290,900	\$290,900	
Land Cost	\$100,000	\$100,000	
Site Preparation Cost	\$344,893	\$344,893	
Fees (Architectural, Consultant, etc.)	\$225,000	\$225,000	\$0
Contingency Reserve	\$187,881	\$187,881	\$0
Capitalized Interest	\$155,410	\$155,410	\$0
Total Proposed Capital Expenditure	\$9,276,550	\$9,276,550	\$0

Square Footage	44,104	44,104	0
Allocation Percent		100.00%	0.00%

Costs Less Land, Non-Fixed Eq.	\$8,885,650	\$8,885,650	\$0
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Cost Per Square Foot	\$201.47	\$201.47	
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Cost per Bed (n=60)	\$148,094
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