

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2005**

**CON REVIEW: NH-RLS-0905-032
COMMUNITY PLACE
CONSTRUCTION/REPLACEMENT/RELOCATION OF COMMUNITY PLACE NURSING HOME
FROM HINDS COUNTY TO RANKIN COUNTY
CAPITAL EXPENDITURE: \$7,488,800
LOCATION: JACKSON, MISSISSIPPI
COUNTY: HINDS, LONG-TERM CARE PLANNING DISTRICT III**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Community Place is a Mississippi non-profit corporation established in 1934, and is governed by a 24-member Board of Directors. Community Place presently operates a 60-bed Medicare and Medicaid certified long-term care nursing facility in Jackson, Hinds County.

B. Project Description

Community Place is requesting Certificate of Need (CON) authority to construct, replace and relocate its existing 60-bed nursing home from Hinds County to Rankin County. Both Hinds and Rankin counties are located within Long-Term Care Planning District (LTCPD) III. Community Place indicates that it will relocate its entire facility including all long-term care beds and all staff. The applicant proposes to construct a normal twenty (20) bed nursing home, and four Green Houses which will have ten (10) beds each for a total of sixty (60) long-term care beds. (A Green House is a self-contained dwelling for seven to 10 people that is designed to look like a private home or apartment in the surrounding community.)

The applicant asserts that it intends to use the Green House concept to de-institutionalize long-term care and provide a "warm, smart and green" home for elders. The applicant believes that the greenhouses will provide a better quality of life for Community Place residents since the residents will live in a more comfortable, home-like environment. Community Place's Green Houses will be located on a 10-acre piece of land just inside of Rankin County within the city limits of Pearl, Mississippi. The donated land will serve as a neighborhood for 60 residents. Phase I of the project will consist of four, 10-bed Green Houses with a separate administrative building called the mothership. This building will have private and semi-private rooms, bathrooms, kitchen, and laundry for 20 residents (mostly short-term therapy and extremely critical residents who may need additional supervision), a large gathering/activity room for neighborhood activities, administrative offices, documentation rooms for nursing staff, and storage. Phase II of the proposed project will add two additional Green Houses so all residents will have an opportunity to live in Green Houses and the mothership will only be for gatherings and office space.

According to the applicant, the current facility was appraised at \$600,000. Community Place is currently working with the Jackson Public School system, specifically George Elementary School so that the vacant building can be used for educational purposes in place of the school's temporary buildings. If Community Place is unable to reach an agreement with the school system it will approach other non-profit organizations in the area. The money generated from the sale of the vacant facility will be utilized to help pay for new construction at the proposed location.

The applicant projects a net increase of 3 full-time equivalent personnel at an estimated annual cost of \$96,000 for the proposed project.

The total proposed capital expenditure of \$7,488,800 is composed of new construction - 77.12 percent; land - 0.13 percent; site preparation - 8.28 percent; fees - 5.48 percent; and contingency reserve - 8.99 percent (See capital expenditure summary, page 5). The applicant proposes to finance the proposed project through a commercial loan with Trustmark National Bank, Jackson. The application included a letter from Mr. Nelson F. Gibson, First Vice President of the bank, indicating an interest in financing the project.

According to the applicant, the capital expenditure will be obligated within 60 days of CON approval. The project will be completed as soon as possible after CON approval.

The MDH Division of Health Facilities Licensure and Certification has approved the site for the proposed project.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Sections, 41-7-191, subparagraphs (1)(b) and (e), Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi 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 December 5, 2005.

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

A. State Health Plan

The **FY 2006 State Health Plan** does not address policy statements and specific criteria and standards which an applicant is required to meet before receiving CON authority for construction/replacement and relocation of a long-term care facility as proposed by this project. However, the Plan gives guidelines and overall objectives for all health planning in Mississippi. The project is not in substantial compliance with the overall objectives of the **Plan**. (See General Review Criterion 1, below).

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 Revision*, addresses general criteria by which all CON applications are reviewed. This application is not in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

The State Health Plan does not contain criteria and standards for the construction/replacement and relocation of beds as proposed by this application. However, the Plan gives guidelines for all health planning in Mississippi. The Plan states that: "Mississippi's health planning and health regulatory activities have the following purposes:

- To prevent unnecessary duplication of health resources
- To provide cost containment
- To improve the health of Mississippi residents
- To increase the accessibility, acceptability, continuity, and quality of health services"

This project is not consistent with the above stated goals of health planning. Specifically, the project does not provide cost containment, nor does the relocation increase accessibility.

GR Criterion 2 - Long Range Plan

According to the applicant, the long-range plan of Community Place is to provide high quality, accessible, and affordable long term care. The applicant states that the proposed project is consistent with the plan because it will provide increased access to patients in need of quality care.

GR Criterion 3 – Availability of Alternatives

The applicant considered maintaining its nursing home at its current location; however in order to better serve Community Place residents and provide them with a higher quality of life, the applicant believes that the project is necessary.

GR Criterion 4 - Economic Viability

The application contains a letter signed by Charles L. (Chuck) Morris, CMB, attesting to the financial feasibility of this project.

Community Place projects a net loss from operations to be \$164,000 the first year, and net income of \$160,000 the second year, and \$491,000 the third year after completion of this project.

The applicant's proposed costs and charges are high compared to similar facilities. In addition, the applicant's Medicaid per diem for FY 2004 was only \$148.12. The average projected charge for similar sized facilities has been \$146 to \$164. The applicant proposes to charge \$175.37 per patient day in the first year, \$192.74 in the second year and \$211.48 in the third year of operation.

The projected levels of utilization are also high in comparison to similar facilities. The average utilization for Mississippi nursing homes for 2004 was 88.25 percent occupancy.

Staff did not consider the applicant's high projections to be significant, since Community Place had a utilization of 94.5 for 2004.

The capital expenditure of this project is also relatively high in comparison to similar projects. For these reasons, staff contends that the economic viability of this project is questionable.

GR Criterion 5 - Need for the Project

According to the applicant, Community Place will not discriminate against low income persons, racial and ethnic minorities, elderly, women, handicapped persons, or any other group.

In determining the need for this project, Community Place asserts that it has been at its current location for 65 years. Community Place has built onto its facility multiple times and has outgrown its land, and has no room to expand the facility. The applicant asserts that even though Community Place has built onto the facility many times, its residents are housed two, three, and four to a bed room, and have shared bathrooms. The applicant asserts its goal is to provide the Green House concept for its residents, and the residents of the tri-county area in the future.

The applicant asserts that Community Place needs land to expand and wanted to be in a growing area. Since the development of Trustmark Park and other future development plans, the applicant believes that Pearl will be in a growing area. The land that is being donated is surrounded by undeveloped land that could be purchased if Community Place should choose to expand for any reason. The applicant believes that moving its existing nursing home to land which is approximately five miles from its current location would enable a smooth transition for its residents and staff, and provide the area with a new concept for long-term care.

In the case of relocation of a facility or service, the Department must consider factors which include, but are not limited to the need that the population presently served has for the service and the extent to which that need will be met adequately by the proposed relocation or by alternative arrangements. The **FY 2006 State Health Plan** indicates that LTCPD III has a need for 2,569 new nursing facility beds district-wide. However, Hinds County (where Community Place is currently located) has a need for 741 additional nursing facility beds, while Rankin County has a need for 597 additional nursing facility beds, a difference of 144 beds. The relocation of the existing 60-bed nursing home requested in this project from Hinds County, will result in the redistribution of nursing facility beds from an area of greater need to an area of less need. If approved, Hinds County will have a need for 801 beds while the need in Rankin County will decrease to 537 beds. As identified by the **Plan**, one of the goals of health planning is to increase the accessibility, acceptability, continuity, and quality of health services. Staff is concerned that the proposed project will reduce accessibility in Hinds County for the elderly, the indigent and minority groups, while creating an additional facility for Rankin County which has less need for additional nursing home beds. Staff contends that the applicant has not adequately demonstrated a need for relocation of this facility.

The application contains numerous letters of support for the proposed project.

GR Criterion 6 - Access to the Facility or Service

According to Community Place, all residents of Long-Term Care Planning District III, as well as the State, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and elderly will have access to the services of the facility.

The following table shows the percentage of estimated gross patient revenue and the actual dollar amount of health care provided to medically indigent patients for the past three fiscal years at Community Place:

Fiscal Year	Percent of Gross Patient Revenue	Dollar Amount
2002	0.31	\$ 5,675.99
2003	1.32	\$31,791.17
2004	2.29	\$72,273.98

GR Criterion 7 - Information Requirement

Community Place affirms that it will record and maintain the information required by this criterion and make it available to the Mississippi Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Community Place is currently located in Hinds County, and Long-Term Care Planning District III. The proposed long-term care facility will be located in the same Long-Term Care Planning District III, Rankin County. Community Place does not propose to add new long-term care beds to LTCPD III, only to relocate the same existing beds within the same Planning District.

Community Place indicates that since it is proposing to relocate within the same LTC Planning District, it does not anticipate an adverse impact on other facilities in LTC Planning District III.

The application received a letter of opposition from Briar Hill Rest Home, LLC, Florence, Mississippi.

GR Criterion 9 - Availability of Resources

The applicant asserts that it has sufficient resources available to it for commitment to this project. The applicant will relocate its entire staff to the proposed facility, and it will promote, train, and recruit qualified staff and health professionals as needed.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that the proposed project will not have an adverse impact on ancillary or support services. The project will strengthen and complement the availability of existing health care services to residents of the Planning District.

GR Criterion 14 - Construction Projects

The capital expenditure for this project is high compared to similar projects. The applicant proposes new construction of 41,816 square feet of space at \$178.85 per square foot. The square foot cost exceeds the high range as contained in the **Means Construction Cost Data, 2006 Edition** (\$146) by 23 percent. The **Means Construction Cost Data, 2006**, indicates that the high cost per bed or per person is \$66,000. The applicant's cost of \$124,813 per bed exceeds the high cost per bed by 89 percent. The capital expenditure of \$7,488,800 is almost twice that of an average facility this size. The project is not in compliance with this criterion.

GR Criterion 16 - Quality of Care

Community Place is licensed by the Mississippi Department of Health and is certified for participation in Medicare and Medicaid programs.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	Percent
New Construction	\$ 5,775,000	77.12%
Land	\$ 10,000	0.13%
Fees (Architectural, Consultant, etc.)	\$ 410,800	5.48%
Contingency Reserve	\$ 673,000	8.99%
Site Preparation	\$ 620,000	8.28%
Total Capital Expenditure	\$ 7,488,800	100.00%

The above estimated capital expenditure is proposed for new construction of 41,816 square feet of space at \$178.85 per square foot. **Means Building Construction Cost Data 2006** (MCCD) shows the high range per square foot cost for new construction to be \$146. The applicant's cost per bed (\$124,647) is also above the high range cost of \$66,000 for nursing homes as listed in **MCCD 2006**.

B. Method of Financing

Community Place proposed capital expenditure of \$7,488,800 will be financed through a commercial loan with Trustmark National Bank, Jackson. The application included a letter from Mr. Nelson F. Gibson, First Vice President of the bank, indicating its intent to finance the project.

C. Effect on Operating Cost

Community Place projects the following expenses, revenues, and utilization for the first three years of operation:

Three-Year Projected Operating Statement

Expenses	Year 1	Year 2	Year 3
Professional Care	\$ 2,118,100	\$ 2,160,000	\$ 2,203,000
General & Admin. Services	\$ 502,000	\$ 512,000	\$ 522,000
Dietary Services	\$ 399,000	\$ 407,000	\$ 415,000
Housekeeping & Plant Operations	\$ 298,000	\$ 304,000	\$ 310,000
Interest	\$ 418,000	\$ 414,000	\$ 409,000
Depreciation	\$ 272,000	\$ 272,000	\$ 272,000
Total Expenses	\$ 4,007,000	\$ 4,069,000	\$ 4,131,000
Net Patient Revenue	\$ 3,783,000	\$ 4,169,000	\$ 4,562,000
Other Revenue	\$ 60,000	\$ 60,000	\$ 60,000
Total Revenue	\$ 3,843,000	\$ 4,229,000	\$ 4,622,000
Net Operating Income (Loss)	\$ (164,000)	\$ 160,000	\$ 491,000
Occupancy Rate (%)	98.5%	98.5%	98.5%
Patient Days	21,572	21,631	21,572
Cost/Patient Day	\$185.75	\$188.11	\$191.50
Charge/Patient Day*	\$175.37	\$192.74	\$211.48

*According to the applicant, the projected charge per patient day will change to 17.9 percent for the proposed project.

D. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	70	\$2,804,900
Medicare	18	\$721,260
Other	<u>12</u>	<u>\$480,840</u>
TOTAL	<u>100</u>	<u>\$4,007,000</u>

Community Place projects 0.32 percent of gross revenue for bad debt patients, 0.35 percent for medically indigent patients and 0.51 percent for charity care patients.

According to the Division of Medicaid, the Medicaid per diem rate for Community Place, Jackson was \$148.12 for the period October 1, 2004 through December 31, 2004.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division of Medicaid expects the project to increase Medicaid expenditures by approximately \$25,184 annually based on a stable occupancy rate.

VI. CONCLUSION AND RECOMMENDATION

This project is not in substantial compliance with the overall objectives, as contained in the **FY 2006 State Health Plan**; the **Mississippi Certificate of Need Review Manual, Revised 2000**; and duly adopted rules, procedures and plans of the Mississippi Department of Health. Specifically,

- **GR Criterion 1 – State Health Plan.** The project is not consistent with the goals of health planning as established in the **State Health Plan**.
- **GR Criterion 4 – Economic Viability.** The applicant’s cost and charges are high compared to those of similar facilities. In addition, the applicant’s per diem rate for 2004 is much less than the projected charges. Staff contends that the economic viability of this project is questionable.
- **GR Criterion 5 – Need.** The project proposes to relocate nursing facility beds from an area of greater need to an area of less need. Staff contends that the applicant did not adequately document a need for the relocation, and that the project is not needed.
- **GR Criterion 15 – Construction Projects.** The capital expenditure proposed by the applicant is almost twice that of similar projects. The cost per square foot and the cost per

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bed are above the high range of construction projects listed in the **Means Construction Cost Data, 2006**. Staff contends that neither the cost per square foot nor the cost per bed is consistent with the cost containment goal of health planning and Certificate of Need.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of this application submitted by Community Place for construction, replacement and relocation of Community Place Nursing Home from Hinds County to Rankin County.

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Attachment 1

Computation of New Construction Cost

New Construction: 41,816 Square feet

*New Construction Cost Formula

A.	New Construction	\$5,775,000	
D.	Site Preparation	\$ 620,000	
E.	Fees	410,800	
F.	Contingency Reserve	<u>673,000</u>	
	Total	\$7,478,800	÷ 41,816 = \$178.85/sq. ft.

*Source: FY 2006 State Health Plan