

DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
APRIL 2006

CON REVIEW NH-CO-0306-001
DANIEL HEALTH CARE, INC.
AMENDMENT/COST OVERRUN ON CON # 0678
CONSTRUCTION OF A 130-BED REPLACEMENT NURSING FACILITY
APPROVED CAPITAL EXPENDITURE: \$7,600,000
ADDITIONAL CAPITAL EXPENDITURE: \$4,970,698
REVISED CAPITAL EXPENDITURE: \$12,570,698
LOCATION: FULTON, ITAWAMBA COUNTY, MISSISSIPPI

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Daniel Health Care, Inc., a Mississippi corporation, is a 130-bed for-profit nursing facility located in Fulton, Mississippi (Long Term Care Planning District II). The operators lease the premises from Holland Real Estate, Inc., a Mississippi corporation and an affiliate entity. The facility is governed by a three-member governing board.

B. Project Background

Daniel Health Care, Inc. received CON No. 0678 on June 30, 2005, to construct a replacement facility consisting of 130 nursing facility beds. The facility was relocating from its present location at 804 South Adams to 1905 South Adams, Fulton, Mississippi. The applicant proposed to continue to provide all of the services that it currently provides. The applicant stated that their primary focus would be toward more efficiency and providing more dignity to its residents in an updated modern environment.

The new facility, as originally proposed, would comprise approximately 65,000 square feet of space, allowing increases in the size of the bedrooms, day rooms, dining rooms, kitchen, and bathrooms.

The applicant's original application stated a projection of nine (9) additional full-time equivalent personnel at an estimated cost of \$240,000 for the first year.

Holland Real Estate, Inc. had committed to financing the original project through a commercial loan from Union Planters Bank. Daniel Health Care, Inc leases the facility from Holland Real Estate, Inc.

C. Project Description

Daniel Health Care, Inc. now requests a cost overrun on CON No. 0678. The applicant submits that the original application anticipated the new facility would comprise approximately 65,000 square feet of space, allowing increases in the size of the bedrooms, day rooms, dining rooms, kitchen, and bathrooms. However, the square footage had to be increased to 83,043 square feet, due to the following:

- The original plan did not include space on an upstairs floor, which houses all administrative offices.
- Patient rooms had to be increased by 5 square feet because of space requirements for the showers in each room.
- The kitchen had to be increased by 4 feet to accommodate additional equipment.
- The laundry and maintenance departments had to be moved from the main building to a separate building adjacent to the main building.

The applicant purchased 5 acres adjacent to the original site to accommodate the increase in square footage. Additional property on an adjacent site has been zoned the same as the original site and has been approved by Licensure and Certification.

In the original application the architect had estimated cost at \$100.77 per square foot based upon the *2004 edition of Means Construction Cost Data* book. However, this estimate was made prior to Hurricane Katrina which applicant states caused the estimated cost to increase from \$100.77 to \$145.00 per square foot.

II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all projects for amendments and cost overrun in accordance with duly adopted procedures and standards of the Mississippi 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 May 11, 2006.

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

A. State Health Plan (SHP)

The original application was in substantial compliance with the overall objectives of the plan in effect at the time of submission. The amendment/cost overrun project continues to be in compliance with the plan.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual (May 13, 2000, as amended)*, addresses general criteria by which all applications for Certificate of Need are reviewed. This project was in substantial compliance with general review criteria at the time of original submission, and continues to be in substantial compliance with said criteria.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approval	Revised Capital Expenditure	Increase/ (Decrease)
New Construction	\$ 6,000,000	\$9,429,745	\$3,429,745
Fixed Equipment	325,000	636,000	311,000
Land Cost	275,000	545,000	270,000
Site Preparation	50,000	110,000	60,000
Fees (Architectural, Consultant, etc.)	300,000	1,032,914	732,914
Contingency Reserve	500,000	472,508	(27,492)
Capitalized Interest	150,000	344,531	194,531
Total Capital Expenditure	\$ 7,600,000	12,570,698	4,970,698

The cost overrun includes an increase in square feet to 83,043 square feet at an estimated total project cost of \$145 per square foot. The cost per square foot is comparable to projects in the third quadrant listed in the *Means Construction Cost Data, 2006 Edition*.

The applicant submits that the cost overrun is attributed to the following:

- An increase in cost of building materials post Hurricane Katrina;
- Land cost increase due to necessity of acquisition of additional acreage because the increased square footage will not fit on the original site;
- Site work increase because of the additional acreage;
- Fixed equipment increase because the facility elected to purchase all equipment;
- Fees increase because the facility has elected to go from a banking loan to a HUD loan; and
- The capitalized interest increase due to the increase in the size of the loan.

B. Method of Financing

The applicant states that Daniel Health Care, Inc. has sufficient cash reserves to fund the construction of a 130-bed replacement nursing facility project. The application contained a letter from the broker, S and A Capital Resources, attesting to their willingness to finance the project and Greystone Servicing Corporation, Inc. to process and underwrite the application. The application also contained minutes of a Regular Meeting of the shareholders/Board of Director of Daniel Health Care, Inc. discussing the need for an increase in its monthly lease of \$75,000 to Holland Real Estate, Inc. to provide adequate funds to amortize the new loan. The CPA firm of Land and Sonnier advised that adequate cash flow was available to meet the monthly increase in lease cost. Therefore, the Board of Directors approved the recommendation.

The revised capital expenditure is \$12,570,698 and the HUD loan is for \$11,347,700, which leaves a difference of \$1,222,998. The applicant outlined financial contributions toward the difference as follows:

1. Land purchased in 2005	\$ 545,000
2. Site improvements paid in 2005 and 2006	110,000
3. Architect fees paid in 2005	223,467
4. Capitalized interest on ½ of \$11,347,700	<u>344,531</u>
Total cash paid by owner	<u>\$1,222,998</u>

C. Effect on Operating Cost

The applicant projects the following revised revenue, expenses, net income, and utilization for the facility the first year after initiation of this project:

	Year 1 (Original)	Year 1 (Revised)
Revenue		
Medicaid	\$4,683,315	\$5,480,475
Medicare	4,675,650	4,809,240
Managed Care	40,000	60,000
Other Income	20,000	20,000
Total Revenue	\$9,418,965	\$10,369,715
Expenses		
Direct Care	\$3,448,394	\$3,600,910
Therapy	947,914	1,074,800
Care Related	685,154	751,800
Administration	2,390,832	2,736,451
Property/Equipment	710,784	900,000
Other Expense	31,643	10,834
Total Expenses less Depr.	\$8,214,721	\$9,074,795
Depreciation	<u>41,679</u>	<u>41,679</u>
Total Expenses	\$8,256,400	\$9,116,474
Net Income before Taxes	\$1,204,244	\$1,294,920
Income Taxes (Stockholders)	<u>388,981</u>	<u>401,037</u>
Net Income After Taxes	<u>\$773,584</u>	<u>\$852,204</u>
Patient Days	45,990	46,355
Cost Per Patient Day	\$180	\$197
Charge/Patient Day	\$205	\$224

D. Cost to Medicaid/Medicare

Daniel Health Care is an existing nursing facility and therefore the above operating costs represent operating costs of the existing facility after replacement. The applicant submits that additional cost as a result of this project will be \$962,722. Therefore, the additional cost of the project has been allocated to the third party payers:

**Allocation of Additional Cost
 To Third Party Payors**

Payer Mix	Utilization Percentage	Cost First Year(Original)	Revised Cost for First Year
Medicaid	76	\$666,876	\$731,669
Medicare	17	\$149,170	\$163,663
Other Payers	<u>7</u>	<u>\$61,423</u>	<u>\$ 67,390</u>
Total	<u>100</u>	<u>\$877,469</u>	<u>\$962,722</u>

*Note: Calculations by staff, based on applicant's stated utilization percentages.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid received a copy of this amendment/cost overrun application for comment. Medicaid commented that the proposed construction is expected to increase their expenditures by approximately \$33,923 annually based on a stable occupancy rate. The Division of Medicaid did not oppose the original project nor do they oppose this amendment/cost overrun request.

VI. CONCLUSION AND RECOMMENDATION

The project was in substantial compliance with the overall objectives as contained in the *FY 2005 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual (May 13, 2000, as amended)*; and all adopted rules, procedures and plans of the Mississippi Department of Health. The project is a change in scope from the original project, but does not change the overall objectives of the project.

The Division of Health Planning and Resource Development recommend approval of this amendment/cost overrun application submitted by Daniel Health Care, Inc. for the construction/relocation of its 130-bed nursing facility.