

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2006**

**CON REVIEW: NH-CR-0306-007
BRIAR HILL REST HOME, LLC D/B/A BRIAR HILL REST HOME
CONSTRUCTION, RENOVATION AND EXPANSION PROJECT
CAPITAL EXPENDITURE: \$2,469,632
LOCATION: FLORENCE, MISSISSIPPI
COUNTY: RANKIN, LONG-TERM CARE PLANNING DISTRICT III**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Briar Hill Rest Home, LLC d/b/a Briar Hill Rest Home is licensed for 60 skilled nursing home beds and two personal care beds at the existing facility. Briar Hill Rest Home, LLC is a Louisiana limited liability company authorized to do business in Mississippi. The facility is a proprietary facility governed by a four-member Board, consisting of its owners.

B. Project Description

Briar Hill Rest Home, LLC d/b/a Briar Hill Rest Home is requesting Certificate of Need (CON) authority for construction, renovation and expansion of the existing facility. The additional space will be used primarily to convert semi-private rooms to private. The proposed project will encompass a total of 13,423 square feet of space, to include 13,083 square feet of new construction and renovation of 340 square feet of existing space.

A breakdown of new construction and renovated space is as follows:

New Construction at 13,083 square feet

- This new space will be used for resident rooms (to allow all residents to have a private room), a nurse's station, an ice cream parlor, a hair salon, a dayroom and storage.

Renovation at 340 square feet

- The renovated space, currently used for a day room and a resident room, will be used as a bathing room and a resident room.

According to the applicant, the proposed project is an expansion of existing space; no new beds will be added as a result of the project.

The total proposed capital expenditure of \$2,469,632 is composed of new construction (61.85 percent), renovation (1.24 percent), site preparation (7.23 percent), fees (6.80 percent), fixed equipment (9.72 percent), contingency reserve (8.00 percent), capitalized interest (3.56 percent), and other cost (1.60 percent). See capital expenditure summary, page 7. The applicant proposes to finance the project from a H.U.D. loan with Love Funding Corporation, Washington, DC. The applicant asserts that Briar Hill Rest Home Holdings, LLC will borrow

the funds for the proposed project and will act as lessor and lease the facility to Briar Hill Rest Home, LLC. Briar Hill Rest Home Holdings, LLC and Briar Hill Rest Home, LLC have a common ownership but are two separate and distinct entities. The application contains an operating lease agreement between Briar Hill Rest Home Holdings, LLC and Briar Hill Rest Home, LLC.

According to the applicant, the capital expenditure will be obligated on July 31, 2006, with a completion date of July 31, 2007.

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 Section 41-7-191, subparagraph (1)(j), 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 June 5, 2006.

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 for construction/renovation and expansion of a long-term care facility/beds, as proposed by this application. The project is therefore subject solely to the general review criteria as further discussed 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 in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

According to the applicant, the project is in full compliance with all criteria, standards and policies of the *FY 2006 State Health Plan*.

GR Criterion 2 - Long Range Plan

According to the applicant, an integral part of Briar Hill Rest Home's long range plan is to provide services to all residents, regardless of reimbursement sources, with the quality of care the facility expects for the ones in need.

GR Criterion 3 – Availability of Alternatives

The applicant considered the following alternatives before proceeding with the proposed project:

- Retain the status quo. The applicant believes that under this alternative the facility would retain semi-private rooms.
- Replace the entire facility. Briar Hill Rest Home rejected this alternative because the facility has many remaining years of useful life.
- Expand at Existing Location. The applicant asserts that to expand the existing facility at the existing location will allow for new space including all private rooms. The proposed capital expenditure is a balance between the first and second alternative referenced above.

GR Criterion 4 - Economic Viability

The application contains a financial feasibility study prepared by Dean and Dean, CPA, Baton Rouge, Louisiana, attesting to the financial status of this project.

Briar Hill Rest Home projects net incomes from operation to be \$185,836 for the first three years after completion of this project.

GR Criterion 5 - Need for the Project

- Access by the Population Served:** The applicant believes that all residents of the area, in particular low income persons, racial and ethnic minorities, women, handicapped persons, other underserved groups, and the elderly, deserve to live out what may be their last days in a private room.
- Relocation of Services:** This application is for the renovation and expansion of an existing facility in its current location.
- Current and Projected Utilization of Like Facilities:** The applicant states that the actual utilization for the last three years of Briar Hill Rest Home has been 99.89 percent for 2003; 99.25 percent for 2004; and 99.61 percent for 2005. The applicant's projected utilization for the first year of operation of this project is 99.25 percent. The applicant's utilization statistics are consistent with like facilities in the area.
- Probable Effect on Existing Facilities in the Area:** The proposed project should have no effect on existing facilities in the area because Briar Hill Rest Home is at full capacity and the proposed project does not add beds or services.
- Community Reaction:** Based on comments the facility has received, the community reaction has been completely favorable for the proposed project. The application contains three (3) letters of support for the proposed project.

According to the applicant, the final objective for this proposed project is to provide a better quality of life for the residents at Briar Hill Rest Home by offering private rooms and amenities.

The applicant believes that failure to implement the proposed project will result in the inability to offer a patient a private room. According to the applicant, the intent of the project is to provide residents with more privacy and enhance their quality of life.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** According to the applicant, Briar Hill Rest Home has a large percentage of elderly residents. The applicant states that Briar Hill Rest Home has more females as a percentage of the residents than females are of the population of the area (90 percent verse 51 percent).
- b. **Performance in Meeting Federal Obligations:** The applicant indicates that the facility serves all persons including minorities, and is in compliance with federal requirements.
- c. **Unmet Needs to be Served by Applicant:** According to the applicant, the existing facility receives Medicare and Medicaid reimbursement. In addition, Briar Hill Rest Home asserts that it will provide some indigent care.
- d. **Range of Access:** Briar Hill Rest Home indicates that the service will primarily serve the elderly in need. The majority of the residents are covered by Medicaid.

GR Criterion 7 - Information Requirement

Briar Hill Rest Home 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

Briar Hill Rest Home is located in Rankin County, and Long-Term Care Planning District III. The applicant believes that the proposed project will have a neutral impact on other health care providers within LTCPD III, because the applicant is not requesting additional beds or services, only to construct, renovate, and expand existing space at Briar Hill Rest Home.

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

GR Criterion 9 - Availability of Resources

The applicant asserts that no additional staff will be needed as a result of the proposed project.

GR Criterion 10 – Relationship to Ancillary or Support Services

Briar Hill Rest Home asserts that there will be no change in the use of ancillary or support services as a result of the proposed project.

GR Criterion 14 - Construction Projects

The applicant proposes new construction of 13,083 square feet of space at a cost of \$182.53 per square foot and renovation of 340 square feet of existing space at a cost of \$123.76 per square foot, calculated using the formula set forth in *the FY 2006 State Health Plan* (see Attachment I). The *Means Construction Cost Data, 2006 Edition*, shows the range per square foot cost of New Construction to be between \$93.50 and \$146. Although the proposed cost per square foot exceeds the high end of the range of \$146, the proposed cost per bed (41,161) is below the median (\$51,500) as listed in the *Means Construction Cost Data, 2006*.

GR Criterion 16 - Quality of Care

Briar Hill Rest Home 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	\$ 1,527,454	61.85%
Renovation	\$ 30,600	1.24%
Fees (Architectural, Consultant, etc.)	\$ 167,998	6.80%
Contingency Reserve	\$ 197,646	8.00%
Site Preparation	\$ 178,471	7.23%
Fixed Equipment Cost	\$ 239,935	9.72%
Other Cost	\$ 39,529	1.60%
Capitalized Interest	\$ 88,000	3.56%
Total Capital Expenditure	\$ 2,469,632	100%

The above estimated capital expenditure is proposed for new construction of 13,083 square feet of space at a cost of \$182.53 per square foot and 340 square feet of renovated space at a cost of \$123.76 per square foot. The cost of new construction exceeds that high cost of similar projects listed in the *Means Building Construction Cost Data 2006 (MCCD)* by 25

percent. The *MCCD* shows the high end of the per square foot cost for new construction to be \$146. The applicant's cost per bed (\$41,161) is also below the median cost of \$51,500 for nursing homes as listed in *MCCD*. The proposed project also involves the purchase of fixed equipment.

B. Method of Financing

The proposed capital expenditure of \$2,469,632 will be financed by a H.U.D. loan from Love Funding Corporation, Washington, DC. The application contains a letter from Love Funding Corporation, stating its willingness to finance the proposed project.

C. Effect on Operating Cost

Briar Hill Rest Home projects the following expenses, revenues, and utilization for the first three years of operation:

	Year 1	Year 2	Year 3
<u>Revenues</u>			
Patient Revenue	\$ 3,478,355	\$ 3,478,355	\$ 3,532,025
Net Pt. Revenue	<u>\$ 3,478,355</u>	<u>\$ 3,478,355</u>	<u>\$ 3,532,025</u>
Total Operating Rev.	\$ 3,478,355	\$ 3,478,355	\$ 3,532,025
<u>Expenses</u>			
Salaries	\$ 1,193,158	\$ 1,193,158	\$ 1,193,158
Benefits	\$ 293,585	\$ 293,585	\$ 293,585
Supplies	\$ 268,330	\$ 268,330	\$ 268,330
Services	\$ 840,952	\$ 840,952	\$ 840,952
Lease	\$ 408,902	\$ 408,902	\$ 408,902
Depreciation	\$ 4,577	\$ 4,577	\$ 4,577
Other	<u>\$ 283,015</u>	<u>\$ 283,015</u>	<u>\$ 283,015</u>
Total Expenses	<u>\$ 3,292,519</u>	<u>\$ 3,292,519</u>	<u>\$ 3,292,519</u>
Net Income	<u>\$ 185,836</u>	<u>\$ 185,836</u>	<u>\$ 239,506</u>
<u>Utilization</u>			
Occupancy Rate (%)	99.25%	99.42%	9.61%
Patient Days	21,713	21,713	21,713
Cost/Patient Day	\$ 152	\$ 152	\$ 152
Charge/Patient Day	\$ 160	\$ 160	\$ 163

D. **Cost to Medicaid/Medicare**

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	71	\$2,337,689
Medicare	18	\$592,653
Other	<u>11</u>	<u>\$362,177</u>
TOTAL	<u>100</u>	<u>\$3,292,519</u>

According to the Division of Medicaid, the Medicaid per diem rate for Briar Hill Rest Home was \$127.27 for the period of January through March 2006.

V. **RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

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

VI. **CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the overall objectives as contained in the *FY2006 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.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Briar Hill Rest Home, LLC d/b/a Briar Hill Rest Home for construction, renovation and expansion.

Attachment 1

Computation of Construction and Renovation Cost

Cost Component	Total	New Constructon	Renovation
New Construction Cost	\$1,527,454	\$1,527,454	
Renovation Cost	\$30,600		\$30,600
Total Fixed Equipment Cost	\$239,935	\$239,935	
Total Non-Fixed Equipment Cost	\$0	\$0	
Land Cost	\$0	\$0	
Site Preparation Cost	\$178,471	\$178,471	
<i>Fees (Architectural, Consultant, etc.)</i>	\$167,998	\$163,748	\$4,250
<i>Contingency Reserve</i>	\$197,646	\$192,646	\$5,000
<i>Capitalized Interest</i>	\$88,000	\$85,774	\$2,226
Total Proposed Capital Expenditure	\$2,430,104	\$2,388,027	\$42,077

Square Footage	13,423	13,083	340
<i>Allocation Percent</i>		97.47%	2.53%

Costs Less Land, Non-Fixed Eqt.	\$2,430,104	\$2,388,027	\$42,077
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Cost Per Square Foot	\$181.04	\$182.53	\$123.76
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Cost per Bed (n=60)	\$40,502
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