

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2008**

CON REVIEW: NH-CRF-0908-039

COMMUNITY PLACE

**CONSTRUCTION/REPLACEMENT/RELOCATION OF COMMUNITY PLACE NURSING HOME
FROM HINDS COUNTY TO RANKIN COUNTY**

CAPITAL EXPENDITURE: \$9,870,000

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 six "cottages" which will have ten (10) beds each for a total of sixty (60) long-term care beds. (A cottage is a self-contained dwelling for 10 people that is designed to look like a private home or apartment in the surrounding community.) The applicant states in its application that the proposed cottages are similar in concept to the Green House© Project in Tupelo, Mississippi, but the applicant is not legally affiliated with the Green House; therefore, the project is termed cottage.

The applicant asserts that it intends to use the cottage concept to de-institutionalize long-term care and provide a "warm, smart and green" home for elders. The applicant believes that the cottages 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 cottages 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 six, 10-bed cottages with a separate administrative building called the Commons Building. This building will have a large gathering and activity room, administrative offices, documentation rooms for nursing staff, and storage. Phase II, as part of the applicant's future plans and not part of the current CON request, proposes to add additional cottages for assisted living and independent living residences to create other options for elder care. The applicant's long range plan is to provide a continuum of care for elders in the Metro Jackson Community.

According to the applicant, the current facility was appraised at \$600,000. Gateway Rescue Mission (Gateway) has submitted to Community Place a letter of intent dated August 27, 2008, to purchase the existing building for \$500,000. Gateway intends to convert the nursing facility to a women's and children's shelter. The applicant states that Gateway has been interested in purchasing the building since 1995. Community Place will use the money generated from the sale of the current facility to help pay for the new construction project.

The applicant does not project a net increase of full-time equivalent personnel; however, the mix of personnel will change with the addition of aides (7), custodial (2), and administrative (1), and the reduction of dietary and food service (7), and maintenance, supply, and laundry (3).

The total proposed capital expenditure of \$9,870,000 is composed of new construction – 80.98 percent; land – 2.29 percent; site preparation – 3.67 percent; fees – 3.34 percent; fixed equipment – 3.89 percent; non-fixed equipment – 1.52 percent; capitalized interest – 1.52 percent, other legal and accounting fees – 1.27 percent; and contingency reserve – 1.52 percent (See capital expenditure summary, page 7). 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 MSDH 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 State 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 8, 2008.

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

A. State Health Plan

The *FY 2009 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 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*, February 23, 2008 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

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

This project is consistent with the above stated goals of health planning.

GR Criterion 2 - Long Range Plan

The applicant is in an outdated facility that has nine 4-bed wards, two 3-bed wards, and nine 2-bed wards. The facility has a limited campus and is landlocked from expansion. Further, the applicant states that the facility is located in an undesirable, high crime area of the city of Jackson. All these factors make recruitment and retention of residents a challenge for the facility. Therefore, the applicant concluded that relocation of the facility was the solution to address these issues.

The applicant has adopted the following Eden Mission and Vision Statements:

Eden Mission Statement: Compassionately nurturing and empowering our village by continually combating the plagues of loneliness, helplessness and boredom while promoting dignity and quality care in a Human Habitat.

Eden Vision Statement: To be the leader in innovative approaches to elder care and an inclusive provider of charitable services to the community.

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, while it could continue maintaining its nursing home at its current location, believes in order to better serve Community Place residents and provide them with a higher quality of life, that relocation is necessary.

Finding relocation necessary, the applicant also considered “many different options” including merging with other healthcare organizations to provide continuum of care. Community Place management have rejected these merger arrangements mainly because they are more efficient currently than they would be in any merger arrangement in that they do not have management fees or pay owner return.

The applicant also sought land for relocation in rural Hinds County (outside the city of Jackson), but found that access to healthcare for its residents would decrease. Apparently, the applicant also rejected relocation within the city of Jackson, where we would expect higher land costs, less availability of land, and continued issues with crime.

GR Criterion 4 - Economic Viability

The application contains a letter signed by Clyde Johnston, CPA, attesting to the financial feasibility of this project. He states that he reviewed audited financial statements for years ended December 31, 2005, 2006, and 2007, and compiled financial statements for seven months ended July 31, 2008, the CON application, and assumptions provided by Community Place, and he concludes that the project is “economically viable”. He recites that Community Place would retain its cash reserves and investments of over \$2,000,000 for future operations, and such should be an adequate cushion in case operations do go according to the plans and assumptions.

Community Place projects a gain (net income) from operations to be \$381,062 the first year, \$441,359 the second year, and \$504,673 the third year after completion of this project.

The applicant’s proposed costs and charges appear to compare favorably to similar facilities. In addition, the applicant’s latest actual per diem revenue per inpatient day is \$210 compared to cost of \$186 per day. The applicant proposes to charge \$243 per patient day in the first year, \$255 in the second year, and \$268 in the third year of operation. We note that the spread between average charge per day and costs per day is reduced dramatically in the first year of operations from latest actual, but it does improve through year three of operations.

The projected levels of utilization are also high in comparison to similar facilities. The average utilization for Mississippi nursing homes for 2007 was 89.30 percent occupancy. Staff did not consider the applicant’s high projections to be significant, since Community Place had an occupancy rate of 95.90 percent for 2007.

The capital expenditure of this project is also relatively high in comparison to similar projects. However, staff cannot conclude that the economic viability of this project is not feasible.

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

even though Community Place has built onto the facility many times, its residents are housed in two, three, and four bedroom units, and have shared dormitory style bathrooms. The applicant asserts that its goal is to provide the cottage homelike concept for its residents, in private rooms with small common areas, 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. Additionally, the safety concerns, namely crime, of staff, residents and their families are minimal in the proposed location.

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 2009 State Health Plan* indicates that LTCPD III has a need for 213 new nursing facility beds district-wide. However, Hinds County (where Community Place is currently located) is over bedded by seven nursing facility beds, while Rankin County has a need for 344 additional nursing facility 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 no need to an area of great need. If approved, Hinds County will have a need for 53 beds while the need in Rankin County will decrease to 284 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. The proposed project is the relocation of beds from an area of low need to that of great need; therefore, staff is not concerned that the proposed project will reduce accessibility in Hinds County for the elderly or the current population served by the applicant, at the expense of increasing access for the elderly population of Rankin County. While in the past Rankin County has had less need for additional nursing home beds, the changing demographics between Hinds and Rankin Counties support the relocation of nursing facility beds from Hinds to Rankin County.

Staff contends that the applicant has adequately demonstrated a need for relocation of this facility.

The application contains numerous letters of support for the proposed project. MSDH has received some letters expressing concerns from facilities operating in Rankin County.

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 two fiscal years at Community Place:

Fiscal Year	Percent of Gross Patient Revenue	Dollar Amount
2006	2.88	\$116,819.63
2007	2.70	\$122,214.37

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 State 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 letters of opposition from Briar Hill Rest Home, LLC, Florence, Mississippi, and Rankin Community Care Center, LLC, d/b/a Brandon Court, Brandon, 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 42,100 square feet of space at \$222.54 per square foot. The square foot cost exceeds the high range as contained in the *Means Construction Cost Data*, 2008 Edition (MCCD) (\$162) by approximately 37 percent. The MCCD indicates that the high cost per bed or per person is \$73,500. The applicant's cost of \$156,149 per bed exceeds the high cost per bed by 112 percent. The capital expenditure of \$9,870,000 is nearly twice that of an average facility this size. However, we are convinced that we are not comparing apples to apples, but rather apples to oranges, since the Means data is based on dormitory or wing style nursing home building plans versus the proposed project of cottage or individual unit with private room construction.

Because we accept that the project is economically viable and that the building expenditure will not translate into an increased expense to State Medicaid, the project should not be compared to the Means data in strict compliance with this general criterion. Specifically, for a number of years the State Medicaid plan has provided depreciation of nursing homes based on the age of the facility or bed, and thus the cost to Medicaid for this project would be the same regardless of actual building expenditure.

Therefore, staff concludes that this project is in compliance with this criterion.

GR Criterion 16 - Quality of Care

Community Place is licensed by the Mississippi State 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	\$ 7,992,337	80.98%
Land	\$ 226,000	2.29%
Fees (Architectural, Consultant, etc.)	\$ 330,000	3.34%
Contingency Reserve	\$ 150,000	1.52%
Site Preparation	\$ 362,586	3.67%
Fixed Equipment	\$ 384,077	3.89%
Non-fixed Equipment	\$ 150,000	1.52%
Capitalized Interest	\$ 150,000	1.52%
Legal and Accounting Fees	\$ 125,000	1.27%
Total Capital Expenditure	\$ 9,870,000	100.00%

The above estimated capital expenditure is proposed for new construction of 42,100 square feet of space at \$222.54 per square foot. MCCD shows the high range per square foot cost for new construction to be \$162. The applicant's cost per bed (\$156,149) is also above the high range cost of \$73,500 for nursing homes as listed in MCCD 2008.

B. Method of Financing

Community Place's proposed capital expenditure of \$9,870,000 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. We note that the applicant used a financing rate of 5.43 percent for 20 years in the amount of \$7,000,000, with the remainder covered by cash reserves (\$370,000) and gifts and sale of current building (\$2,500,000). Considering the bank's letter, the pledges obtained, and the actual fund raising of the applicant, and the proposal of Gateway to purchase the building for \$500,000, staff believes these projections of financing to be reasonable and conservative. Also staff is encouraged in that the applicant has made significant gains in its cash reserves in the past few years.

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
Salaries	\$ 4,488,000	\$ 4,711,200	\$ 4,948,800
Benefits	\$ 1,092,000	\$ 1,144,800	\$ 1,202,400
Supplies	\$ 1,231,200	\$ 1,293,600	\$ 1,356,000
Services	\$ 2,560,800	\$ 2,688,000	\$ 2,820,000
Depreciation	\$ 303,350	\$ 303,350	\$ 303,350
Interest	\$ 375,188	\$ 364,091	\$ 352,377
Total Expenses	\$ 10,050,538	\$ 10,505,041	\$ 10,982,927
Net Patient Revenue	\$ 10,215,600	\$ 10,728,000	\$ 11,266,800
Other Revenue	\$ 216,000	\$ 218,400	\$ 220,800
Total Revenue	\$ 10,431,600	\$ 10,946,400	\$ 11,487,600
Net Operating Income (Loss)	\$ 381,062	\$ 441,359	\$ 504,673
Occupancy Rate (%)	98.5%	98.5%	98.5%
Patient Days	21,572	21,572	21,572
Cost/Patient Day	\$239.00	\$250.00	\$261.00
Charge/Patient Day	\$243.00	\$255.00	\$268.00

D. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Revenue
Medicaid	71	\$7,254,000
Medicare	17	\$1,852,800
Other	12	\$1,108,800
TOTAL	100	\$10,215,600

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 \$32,500 annually based on a stable occupancy rate. The Division of Medicaid is not opposed to this CON request.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives, as contained in the *FY2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual*, Revised February 23, 2008; and duly adopted rules, procedures and plans of the Mississippi State Department of Health.

Consequently, the Division of Health Planning and Resource Development recommends approval of this application submitted by Community Place for construction, replacement and relocation of Community Place Nursing Home, a 60-bed skilled nursing facility, from Hinds County to Rankin County.

**Community Place
NH-CRF-0908-039**

Attachment 1

Computation of New Construction Cost

New Construction: 42,100 Square feet

*New Construction Cost Formula

A.	New Construction	\$7,992,337
C.	Fixed Equipment	384,077
D.	Site Preparation	362,586
E.	Fees	330,000
F.	Contingency Reserve	150,000
G.	Capitalized Interest	<u>\$ 150,000</u>
	Total	\$ 9,369,000 ÷ 42,100 = \$222.54/sq. ft.

*Source: FY 2009 State Health Plan