

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
JULY 2010**

**CON REVIEW NH-C0-0410-021  
COVINGTON COUNTY HOSPITAL AND NURSING HOME  
D/B/A ARRINGTON LIVING CENTER  
COST OVERRUN TO CON #R-0556-A  
(CONSTRUCTION/ESTABLISHMENT OF A 60-BED NURSING FACILITY)  
APPROVED CAPITAL EXPENDITURE: \$2,357,939  
ADDITIONAL CAPITAL EXPENDITURE: \$170,000  
REVISED CAPITAL EXPENDITURE: \$2,527,939  
LOCATION: COLLINS, COVINGTON COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Covington County Hospital is a community hospital located in Collins, Covington County, Mississippi (Long Term Care Planning District IV) and is governed by a six-member Board. Arlington Living Center, formerly Covington Hospital Nursing Home, operates as a division of the hospital and is owned by Covington County, Mississippi.

**B. Project Background**

Covington County Hospital Nursing Home submitted a CON application on June 1, 2002, for the construction/establishment of a 60-bed skilled nursing home. The project involved construction of a new wing to the hospital to house twenty-eight (28) of the skilled nursing home beds, and the remaining thirty-two (32) beds were to be placed on two existing but unused wings of the hospital. The original plans sited 16 beds on the hospital's first floor and the other 16 beds on the second floor.

The applicant's original application stated a projection of 67.7 full-time equivalent personnel at an estimated annual cost of \$866,730 for the first year of operation.

The applicant was approved for the proposed capital expenditure of \$746,177, which included the following: construction (83.7 percent), fixed equipment (0.3 percent), non-fixed equipment (5.0 percent), land cost (1.9 percent), site preparation (1.0 percent), capitalized interest (2.9 percent), and fees (5.0 percent). The original proposal was to be financed through general obligation bonds.

The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification, approved the original site for the proposed project.

The original project was authorized by the Mississippi State Department of Health (CON R-0566), with an effective date of September 26, 2002.

On December 1, 2004, the Office of Health Policy and Planning certified November 4, 2004, as the official date for commencement of construction on CON R-0566.

The applicant states that the construction phase of the project has been completed and the Division of Health Facilities Licensure and Certification has performed preliminary inspections of the new structure. However, the nursing home, which is now known as Arrington Living Center, cannot be licensed to operate until the rooms have been furnished and other non-fixed equipment has been acquired.

On December 21, 2006, the applicant submitted an application for an amendment/cost overrun to CON No. R-0566, which resulted in a revised capital expenditure of \$1,468,080, an increase of \$721,903 in the originally approved capital expenditure of \$746,177. The applicant further amended the CON in 2008 for an additional capital expenditure of \$889,859, which increased the approved capital expenditure to \$2,357,939.

The applicant determined that it would be more effective and efficient for staffing to have all 60 beds together. Covington County Hospital proposes to construct three new miniature wings off the existing, newly constructed 28-bed wing. A total of 8,305 square feet will be used to house the 32 beds, at a cost of \$150 per square foot. The northwest patient room wing will consist of 4,016 square feet the southeast patient room wing will consist of 2,498 square feet, and the remaining wing will consist of 1,791 square feet for living activities and office space. The two largest new miniature wings will be semi-private patient rooms with corridor access. Upon completion of the miniature wings, combined with the newly constructed 28 beds, the total square footage of the nursing facility will be 15,997 square feet.

In January 2008, the Division of Health Facilities Licensure & Certification surveyed the hospital for possible nursing home use and listed several items that could pose a problem at the hospital and with the new addition. Some of the issues adversely affecting the proposal are: main entrance location to the hospital, structural restraints, elopement risks, split of nursing home staff and activities, privacy and dignity concerns for the residents.

On May 26, 2010, Arrington Living Center was approved for a six-month extension on CON No. R-566-A. This extension period will terminate December 18, 2010.

### **C. Project Description**

Covington County Hospital and Nursing Home d/b/a Arrington Living Center now requests an additional cost overrun to its CON No. R-0566-A. The applicant asserts that the proposed cost overrun is necessary to comply with the requirements of the

Mississippi State Department of Health, Division of Health Facilities Licensure and Certification. The application contains a copy of Licensure's letter addressing issues of the project that need to be addressed. The approved capital expenditure of the CON is \$2,357,939 and the applicant requests an additional amount of \$170,000, resulting in a revised capital expenditure of approximately \$2,527,939 for the project. This cost overrun project does not change the scope of the original project.

According to the applicant, the repairs that will be undertaken with the approval of the increase in capital expenditure include: changing the location of the beds within the room, repairing the ceiling, placing plastic coverings over nurses' stations, and reworking the existing laundry area for compliance.

Covington County Hospital and Nursing Home d/b/a Arrington Living Center asserts that construction is nearly complete (90%) and is scheduled to open in the Fall 2010. To date the applicant has spent or incurred \$1,082,000 under the amended CON #R-0566-A for the project.

## **II. TYPE OF REVIEW REQUIRED**

The original project was reviewed under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (j), Mississippi Code of 1972, as amended.

The State Health Officer reviews all projects for cost overruns in accordance with duly adopted rules, procedures, plans, criteria and standard of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on August 2, 2010.

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

### **A. State Health Plan**

The original project was in substantial compliance with the *FY 2004 State Health Plan*, in effect at the time the original application was submitted. This cost overrun project continues to be in substantial compliance with the *State Health Plan*.

**B. General Review Criteria**

The original project was in substantial compliance with the *Certificate of Need Review Manual, 2000 revision*, in effect at the time of submission. This application continues to be in compliance with applicable general review criteria and standards contained in the *Manual*.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
New Construction	\$1,940,209	\$1,940,209	\$0
Renovation	14,900	184,900	170,000
Capital Improvements	0	0	0
Land	14,366	14,366	0
Site Work	47,500	47,500	0
Fixed Equipment	0	0	0
Non-Fixed Equipment	190,064	190,064	0
Architectural/Engineering Fees	78,900	78,900	0
Contingency Reserve	50,000	50,000	0
Capitalized Interest	0	0	0
Miscellaneous	<u>22,000</u>	<u>22,000</u>	<u>0</u>
<b>Total</b>	<b><u>\$2,357,939</u></b>	<b><u>\$2,527,939</u></b>	<b><u>\$170,000</u></b>

As previously mentioned, the capital expenditure approved in the amended CON is \$2,357,939 and the additional costs for this cost overrun proposal are \$170,000, resulting in a revised capital expenditure of approximately \$2,527,939 for the project. This cost overrun does not change the scope of the original project.

**B. Method of Financing**

According to the applicant, this cost overrun project will be financed from the issuance and sale of tax-exempt bonds (no change from previous amendment).

**C. Effect on Operating Cost**

Revised Projected Operating Statement  
 For the First Full year of Operation  
 After Completion of the Project

<b>Revenue</b>	
Patient Service Revenue	\$2,247,530
Deductions	( 44,951)
<b>Total Net Revenue</b>	<b>\$2,202,579</b>
<b>Expenses</b>	
Personnel	\$1,388,510
Expenses & Supplies	633,943
Depreciation	66,324
Interest	28,000
<b>Total Operating Expense</b>	<b>\$2,116,777</b>
<b>Net Income (Loss)</b>	<b>\$ 85,802</b>
<b>Assumptions</b>	
Occupancy Rate	50%
Patient Days	10,928
Medicare Utilization	36.67%
Medicaid Utilization	20%
Other	42.33%

**D. Cost to Medicare/Medicaid**

Covington County Hospital and Nursing Home d/b/a Arrington Living Center projects the following additional cost as a result of the project. (See One Year Revised Projected operating statement for breakdown of revenue by payer source).

<b>Payer Mix</b>	<b>Utilization Percentage</b>	<b>Revised cost for First Year</b>
Medicaid	20	\$ 449,506
Medicare	37	\$ 831,586
Other Payers	43	\$ 966,438
<b>Total</b>	<b>100</b>	<b>\$2,247,530</b>

**V. RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this cost overrun to CON #R-0566-A for review and comment; however, the Department received no response, as of the date of this staff analysis.

**VI. CONCLUSIONS AND RECOMMENDATION**

This project continues to be in substantial compliance with the overall objectives of the FY 2004 *State Health Plan; Certificate of Need Review Manual, Revised 2000*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Covington County Hospital and Nursing Home, d/b/a Arrington Living Center, for a cost overrun to CON #R-0566 (Construction/Establishment of a 60 Bed Nursing Facility).