

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
APRIL 2007**

**CON REVIEW NH-CO-1206-043  
COVINGTON COUNTY HOSPITAL NURSING HOME  
N/K/A ARRINGTON LIVING CENTER  
AMENDMENT/COST OVERRUN ON CON # R-0566  
(CONSTRUCTION/ESTABLISHMENT OF A 60-BED NURSING FACILITY)  
APPROVED CAPITAL EXPENDITURE: \$746,177  
ADDITIONAL CAPITAL EXPENDITURE: \$721,903  
REVISED CAPITAL EXPENDITURE: \$1,468,080  
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 five-member board. Arlington Living Center, formerly, Covington County Hospital Nursing Home, will be operated as a division of the hospital and will also be 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 on the hospital's first floor and the other 16 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%, fixed equipment .3%, non-fixed equipment 5%, land cost 1.9%, site preparation 1%, capitalized interest 2.9%, and fees 5%. The original proposal was to be financed through general obligation bonds.

The Mississippi 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 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 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.

**C. Project Description**

Covington County Hospital now requests an amendment/cost overrun on CON No. R-0566 for an additional capital expenditure of \$721,903, 97% increase of the originally approved capital expenditure. The applicant submits that the original application anticipated placing 16 of the beds in an existing unused wing on the first floor and the other 16 beds in an existing but unused wing on the second floor. However, after further consultation with the project architect and the nursing home administrator, it was determined that in order to achieve the most efficient use of the health care resources available and to better serve the hospital's acute care and behavioral health patients, two wings on the first floor should be utilized for the 32 beds. Furthermore, the two wings will be closer to the 28-bed newly constructed wing.

The amendment encompasses approximately 21,800 square feet of renovation on the first floor of the hospital to house the 32 beds and support/ancillary services for the nursing home.

The applicant states that the overall square footage of the nursing home remains unchanged.

The applicant states that the Covington County Board of Supervisors is contemplating legally separating the nursing home from the hospital in order to have two distinct facilities. The applicant further states that in the event such separation is accomplished, the nursing home will not undergo any changes with respect to ownership or management.

**II. TYPE OF REVIEW REQUIRED**

The original project was reviewed in accordance with Section 41-7-191, subparagraph (1) (a) and (j) of the Mississippi code of 1972 Annotated, as amended.

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 3, 2007.

**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 *State Health Plan*.

**B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual (November 12, 2006, 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**

	<b>Original Approval</b>	<b>Revised Capital Expenditure</b>	<b>Increase/ (Decrease)</b>
New Construction	\$694,459	\$789,610	\$95,151
Renovation		384,000	384,000
Non-Fixed Equipment	37,352	190,064	152,712
Land Cost	14,366	14,366	-0-
Additional Drainage Improvements		14,000	14,000
Fees (Architectural, Consultant, etc.)		26,040	26,040
Contingency Reserve		50,000	50,000
<b>Total Capital Expenditure</b>	<b>\$746,177</b>	<b>\$1,468,080</b>	<b>\$721,903</b>

The project consists of 7,273 square feet of new construction with an estimated cost of \$113 per square foot. Based upon the 2007 edition of the *Means Construction Cost Data* book, the cost per square footage falls between the ¼ and median range (See Attachment 1). The other components of the project consist of renovating 16,767 square feet on the existing first floor of the hospital to house the other 32 beds and 4,936 square feet to be used for support/ancillary services for the nursing home.

The applicant submits that to date, \$817,976.19 of the capital expenditure has been expended to purchase land and construct the new 28-bed nursing wing. Approximately 80% of the project has been completed.

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

- An increase in cost of building materials;
- Preparation of the construction/renovation site required additional engineering work;
- Additional drainage work;
- Non-Fixed equipment increases because the facility elected to purchase all new furnishings for the new and existing rooms; and
- Additional equipment that was not listed in the original application is needed. The equipment was not a requirement, but increases cost.

**B. Method of Financing**

The applicant states that the county, as the owner of the nursing home, has financed or will finance all or part of the project with proceeds received from the issuance and sale of tax-exempt bonds.

**C. Effect on Operating Cost**

The applicant projects the following revenue, expenses, net income, and utilization during the first year of operation:

	Year I	Year 1 Revised
<b>Revenue:</b>		
Medicare	\$801,400	\$1,001,750
Medicaid	\$185,460	\$393,480
Private Pay	\$473,500	\$852,300
<b>Total Revenue</b>	<b><u>\$1,460,360</u></b>	<b><u>\$2,247,530</u></b>
Deduction From Revenue	(\$29,207)	(\$44,951)
<b>Total Net Revenue</b>	<b><u>\$1,431,153</u></b>	<b><u>\$2,202,579</u></b>
<b>Expenses:</b>		
Personnel	\$866,730	\$1,388,510
Supplies	\$309,566	\$633,943
Depreciation	\$21,117	\$39,082
Interest Expense	\$28,355	\$28,000
<b>Total Expenses</b>	<b><u>\$1,225,768</u></b>	<b><u>\$2,089,535</u></b>
<b>Net Operating Income</b>	<b><u>\$205,385</u></b>	<b><u>\$113,044</u></b>
<b>Assumptions:</b>		
Occupancy Rate	50%	50%
Patient Days	10,928	10,928
Cost/Patient Day	\$112	\$191
Charge/Patient Day	\$134	\$206

**D. Cost to Medicaid/Medicare**

Covington County Hospital projects that the additional cost as a result of the project will have very minimal, if any, effect on Medicaid patients and no effect on Medicare or other payors. (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%	\$824,169
Other Payers	43%	\$973,854
<b>Total</b>	<b>100%</b>	<b>\$2,247,529</b>

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid received a copy of this amendment/cost overrun application for comment. No written comments were received.

**VI. CONCLUSION AND RECOMMENDATION**

The project was in substantial compliance with the overall objectives as contained in the *FY 1999 State Health Plan*; the *Mississippi Certificate of Need Review Manual*, revised 2000, 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 recommends approval of this application submitted by Covington County Hospital Nursing Home for an amendment/cost overrun of CON No. R-0566.

**Attachment 1**

**Computation of Construction and Renovation Cost**

<u>Cost Component</u>			<u>Total</u>	<u>New Constructon</u>	<u>Renovation</u>
A	New Construction Cost		\$789,610	\$789,610	
B	Renovation Cost		\$384,000		\$384,000
C	Total Fixed Equipment Cost				
	Total Non-Fixed Equipment Cost		\$190,064	\$0	
	Capital Improvement				
	Land Cost		\$14,366		
D	Site Preparation Cost		\$14,000	\$14,000	
E	Fees (Architectural, Consultant, etc.)		\$26,040	\$6,536	\$19,504
F	Contingency Reserve		\$50,000	\$12,550	\$37,450
G	Capitalized Interest			\$0	\$0
	<b>Total Proposed Capital Expenditure</b>		<b>\$1,468,080</b>	<b>\$822,696</b>	<b>\$440,954</b>

Square Footage	<b>28,976</b>	7,273	21,703
Allocation Percent		25.10%	74.90%

<b>Costs Less Land, Non-Fixed Eqt. &amp; Cap. Improvement</b>	<b>\$1,263,650</b>	<b>\$822,696</b>	<b>\$440,954</b>
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<b>Cost Per Square Foot</b>	<b>\$43.61</b>	<b>\$113.12</b>	<b>\$20.32</b>
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<b>Cost per Bed (n=60)</b>	<b>\$21,061</b>
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