

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

**CON REVIEW: NH-CRF-0607-010
MEADOWBROOK HEALTH AND REHAB, LLC
CONSTRUCTION OF A 60-BED NURSING HOME IN LAUDERDALE COUNTY BY
RELOCATION OF 21 BEDS FROM KEMPER HOMEPLACE
NURSING FACILITY (KEMPER COUNTY) AND RELOCATION
OF 39 BEDS FROM POPLAR SPRINGS NURSING CENTER IN
MERIDIAN (LAUDERDALE COUNTY)
CAPITAL EXPENDITURE: \$5,000,000
LOCATION: MERIDIAN, MISSISSIPPI
COUNTY: LAUDERDALE COUNTY, LONG-TERM CARE PLANNING DISTRICT IV**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Meadowbrook Health and Rehab, LLC (Meadowbrook) is a limited liability company, registered and in good standing with the state of Mississippi. Meadowbrook was formed on May 8, 2007. The company is owned by Charles Bruce Kelly (100%) and has three Board members.

Charles Bruce Kelly presently owns and operates Poplar Springs Nursing Center, LLC, a 130-bed Medicare and Medicaid certified long-term care facility in Meridian, Lauderdale County. Mr. Kelly also acquired Kemper Homeplace Nursing Home (21 Beds) on February 13, 2006.

B. Project Description

Meadowbrook Health and Rehab, LLC is requesting certificate of need (CON) authority to construct a replacement facility in Lauderdale County for Kemper Home Place Nursing Facility, Inc., a 21-bed nursing facility (now closed) located in DeKalb, Kemper County, Mississippi. In addition, the applicant proposes to relocate and combine 39 existing nursing home beds now licensed to Poplar Springs Nursing Center in Meridian with the 21 beds from Kemper County to form a new 60-bed facility in Meridian, Lauderdale County. Both Kemper and Lauderdale counties are located in Long Term Care Planning District (LTCPD) IV. The proposed 60-bed facility is designed to accommodate residents with Alzheimer's disease. The applicant states that at some point a specialized unit will be set up for Alzheimer's patients.

Poplar Springs Nursing Center, LLC, Meridian, acquired Kemper Homeplace Nursing Facility, Inc., DeKalb, effective February 23, 2006. On March 7, 2006, the applicant requested to place the 21 beds held by Kemper Homeplace Nursing

Facility, Inc. in abeyance. In addition, Poplar Springs Nursing Center, LLC requested on April 13, 2007, that 10 of its 130 nursing facility beds be placed in abeyance. According to the MSDH Division of Health Facilities Licensure and Certification, Kemper Homeplace Nursing Facility was voluntarily closed effective January 31, 2006.

The application contains a copy of the transfer agreement between Kemper Homeplace Nursing Facility, Inc. and Poplar Springs Nursing Center, LLC concerning the transfer of 21 nursing home beds to Poplar Springs Nursing Center, LLC. Additionally, the application also contains documentation requesting that the 21 nursing home beds be placed in abeyance.

Meadowbrook asserts that there is no room at Poplar Springs Nursing Center to add the additional 21 beds acquired from Kemper Homeplace Nursing Facility. Poplar Springs Nursing Center is currently licensed for 120 beds with an additional 10 beds held in abeyance. Upon relocation of 39 beds as a result of the proposed project, Poplar Springs Nursing Center will be licensed for 91 nursing home beds. The applicant believes that the proposed project will allow for more private rooms to be created that will better serve the community. These private rooms will allow the facility to market and service more therapy driven residents under the Medicare reimbursement program as opposed to state funded Medicaid. Many residents looking for the shorter term stays will travel to facilities that offer private rooms. According to the applicant, private rooms are one of the most sought after amenities by families that are searching for nursing home placement.

The applicant states that renovating the existing facility, Poplar Springs Nursing Center, would not have met the ultimate goal of creating more private rooms because space and available land would not have permitted a project of that size. In addition, due to the age of the existing structure, it would have been extremely challenging to tie in a renovation and meet all of the new life safety standards now in effect. The applicant believes that approval of this project will allow for the creation of a completely new all private room facility as well as help transform an older existing facility to one that offers more private rooms.

The applicant believes that construction of Meadowbrook Health and Rehab will not only create 60 brand new private rooms, but will free up facility space at Poplar Springs Nursing Center, LLC to allow semi-private rooms to be changed into private rooms.

The total proposed capital expenditure of \$5,000,000 is composed of new construction (69.68 percent), land (8.80 percent), site preparation (0.50 percent), fees (4.20 percent), capitalized interest (2.10 percent), fixed equipment (9.21 percent), and non-fixed equipment (5.50 percent). See capital expenditure summary, page 9. 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 E. Gibson, First Vice President of the bank, indicating its interest in financing the project.

The applicant projects 60 full-time equivalent personnel at an estimated annual cost of \$1,686,783 for the proposed project.

According to MSDH Division of Health Facilities Licensure and Certification, the site is acceptable for the intended use for the proposed project.

According to the applicant, the anticipated date for obligation of the proposed capital expenditure is October 2007, with completion scheduled for October 2008.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the relocation of nursing home beds under the statutory requirements of Sections 41-7-73, 41-7-191, (1) (b) and (e) and 41-7-193, 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 September 4, 2007.

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

A. State Health Plan

The *FY 2007 State Health Plan* does not contain criteria and standards for 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 planning and health regulatory activities have the following purposes:

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

The applicant believes that the proposed project will work in accordance with the *Plan*. According to the *FY 2007 State Health Plan*, currently there are 5,501 licensed/CON approved nursing home beds in Long Term Care Planning District IV,

with a need of 3,279 beds. The proposed nursing home will be located in Lauderdale County where the projected nursing home bed shortage is 260 beds. Meadowbrook asserts that since the identified need for nursing home beds is greater than the number of beds available in Lauderdale County, the proposed project will utilize existing beds without the need for approving any new beds.

Also, Lauderdale County has a need for 260 beds while Kemper County has a need for 36 beds. The relocation of the beds from Kemper County to Lauderdale County will redistribute the beds from one area with less need to an area with greater need.

The applicant states that with the rising acuity of residents in long-term care facilities, it is believed that facilities that offer a stronger emphasis on rehabilitation can reduce the lengths of stay for many residents and prevent them from becoming long-term care Medicaid recipients.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised November 2006*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the *State Health Plan*

The *FY 2007 State Health Plan* does not contain criteria and standards for construction/replacement and relocation of beds as proposed by this application. The *Plan* shows a need for 260 additional nursing home beds in Lauderdale County, wherein the applicant proposes to construct, replace, and relocate 60 nursing home beds. Beds relocated/constructed in Lauderdale County will replace 21 beds held in abeyance in Kemper County, which has a need of only 36 beds.

The Department does not approve construction of a new or replacement nursing home care facility for less than 60 beds. In order to establish a 60-bed nursing home facility, the applicant proposes to relocate 39 additional beds from its Poplar Springs Nursing Center, in Lauderdale County, to create a 60 bed nursing facility.

As the Kemper County facility is closed and the beds held in abeyance, no patients will be impacted by the relocation of these beds. Also, because Lauderdale County has a greater need for nursing facility beds than Kemper County, there should be no significant adverse impact on the citizens of Kemper County due to the relocation of these beds.

GR Criterion 2 - Long Range Plan

The applicant asserts that as an owner/operator of nursing home services in Mississippi, the focus has been for the last several years on meeting the needs of the “baby boomers” because they are reaching the age of needing the services of

long-term care facilities. The applicant believes that one of the areas of need will be nursing homes to offer more private rooms and more amenities to focus on the rehabilitation side of long-term care.

The applicant states that after taking ownership of the Poplar Springs Nursing Center, Meridian, immediate plans began on utilizing the existing facility and bed count to assist in the completion of this goal. Meadowbrook asserts that it has been meeting with architects for the past year to determine the best course of action that is consistent with the *FY 2007 State Health Plan*. After much thought and consideration, the applicant believes that the proposed project is the best course of action at this time.

GR Criterion 3 – Availability of Alternatives

According to Meadowbrook, it considered other options such as renovations to the existing Meridian facility or relocation of the beds to another county within Long-Term Care Planning District IV (LTCPD IV); but after consideration and deliberation, neither option seemed as effective to meet the needs of its current and new residents. After meeting with architects and other health care professionals, it was determined that the proposed project is the best course of action for use of the proposed beds.

The applicant states that it did not want to relocate the beds to a different county, due to the fact that the applicant wants this to be a project not only geared toward meeting the needs of new residents, but also one that better improves the needs of the current residents.

GR Criterion 4 - Economic Viability

Based on the applicant's three-year projections, this project will receive a net loss of \$64,878 the first year, and net income of \$150,299 the second year and \$19,727 the third year after completion of this project.

- a. **Proposed Charge:** The applicant projects charges of \$193 per inpatient day for the first year and \$204 for years two and three of operation for the proposed project. The applicant projects cost of \$197 per inpatient day for the first year, \$192 for year two, and \$199 for year three of operation for the proposed project.
- b. **Projected Levels of Utilization:** Meadowbrook projects that its occupancy rates for the first three years of operation are: 89.29%; 98.33% and 98.33%, respectively.

According to the Report on Institutions for the Aged or Infirm, 2005, Poplar Springs Nursing Center had an occupancy level of 44.09% in 2005. After the proposed 39-beds are relocated from Poplar Springs Nursing Center's

130-bed nursing home to the new nursing home, the bed capacity will be 91 nursing home beds, and the occupancy rate will increase to 57.12%. The occupancy rates in the six other facilities in Lauderdale County range from 82.87% to 99.65%. See Table 1.

- c. **Project's Financial Feasibility Study:** Since the capital expenditure for this project is \$5,000,000 and does exceed \$2,000,000, the applicant provided a letter signed by Stewart & Barnett, Ltd., Magee, certified public accountants attesting to the financial feasibility of this project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts the population served will be the elderly population in Lauderdale County. Currently, providers in the area offer very few private rooms to the elderly population. If a private room is obtained it is usually at additional cost to the resident and /or their family. According to Meadowbrook, it is their goal to be able to offer many more private rooms to its residents, regardless of pay source. In addition, the project will build in a secure unit for the care of Alzheimer's residents for future use.

The applicant believes that failure to implement the project will delay the ability of the community, county, and state to meet the known shortage of available licensed nursing home beds.

- b. **Relocation of Services:** The applicant asserts that in addition to the construction of the new facility, Meadowbrook Health & Rehab, the current population at Poplar Springs Nursing Center will receive the benefit of many more private rooms being created at that facility. According to the applicant, there will be no decline or break of the services being offered at the current facility. The 21 nursing home beds transferred from Kemper County are currently in abeyance; therefore, there will not be any population suffering from a decrease in service of those 21 nursing home beds.
- c. **Probable Effect on Existing Facilities in the Area:** The applicant asserts that the proposed project should have no effect on existing facilities in the area because no additional beds or services will be added.

As previously mentioned, the proposed project involves construction of a 60-bed replacement nursing home in Lauderdale County. The proposed project should not have an adverse impact on other nursing homes in Kemper and Lauderdale Counties because Lauderdale County has a greater need for nursing facility beds than Kemper County.

- d. **Community Reaction:** The application contains five letters of support for the project.

The Department received four letters of opposition from Lauderdale County nursing homes concerning the proposed project. One letter of opposition from a Lauderdale County nursing home was received after the deadline. Staff reviewed health care data from the 2003 through 2005 Report on Institutions for the Aged or Infirm and the FY 2007 Plan and determined that there are seven nursing homes in Lauderdale County and one in Kemper County. The transfer of 21 nursing home beds in abeyance from Kemper Homeplace Nursing Center will reduce the bed capacity in Kemper County from 81 to 60 (see table 1 below).

The licensed bed capacity (LBC), occupancy rates, and average daily census (ADC) for facilities in Kemper and Lauderdale Counties, for 2003, 2004, and 2005 are shown in the following table:

***2003, 2004 and 2005 Utilization of Nursing Facilities**

Table 1

	2003	2003	2003	2004	2004	2004	2005	2005	2005
	LBC	Occup. %	ADC	LBC	Occup. %	ADC	LBC	Occup. %	ADC
Kemper County	81	94.24	76.34	81	95.96	77.73	60	97.69	58.61
Kemper Homeplace Nursing Center	21	90.37	18.98	21	87.95	18.47	Closed		
MS Care Center	60	95.59	57.36	60	98.76	59.26	60	97.69	58.61
Lauderdale County	810	92.99	753.20	808	89.08	719.79	830	81.54	676.79
Beverly Healthcare Broadmoor	120	97.82	117.39	120	98.02	117.62	120	98.16	117.79
Guardian Angel Health Care	128	92.65	118.59	128	82.00	104.96	128	82.87	106.07
Poplar Springs Nursing Center f/k/a King's Daughters & Sons Nursing Home	110	85.06	97.08	110	77.68	85.45	130	44.09	51.98
Meridian Community LC	58	88.06	51.08	58	84.76	84.76	58	86.84	50.37
Queen City Nursing Center	84	96.15	80.77	84	97.11	81.57	84	99.65	83.71
R. P. White Nursing Facility	228	92.24	210.31	226	89.64	202.58	228	83.13	189.54
Riley Healthcare Center	82	95.10	77.98	82	95.67	78.45	82	94.31	77.33

*Source: 2003 through 2005 Report on Institutions for the Aged or Infirm.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** According to Meadowbrook, it is

committed not only to meeting the minimum standards of the State Licensure requirements, but will strive to meet the needs of the community. The facility will offer the same level of services to the indigent patients who are present and admitted to the facility. No restrictions or advantages will be placed on care based on pay source, race, creed, national origin, or disability.

- b. **Performance in Meeting Federal Obligations:** The applicant submits that Meadowbrook has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** Meadowbrook indicates the expected payor mix by type payor will be as follows: Medicare will be 28%, Medicaid 26%, and self pay 46%. The applicant further projects that 5 percent of its services will be utilized by medically indigent patients.

GR Criterion 7 - Information Requirement

Meadowbrook affirmed 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

Meadowbrook Health and Rehab, LLC will be located in Lauderdale County in Long-Term Care Planning District IV. As previously mentioned, the *FY2007 State Health Plan* currently shows 5,501 licensed/CON approved nursing home beds in Long Term Care Planning District IV with a need of 3,279 beds. The location of the proposed project's site is Lauderdale County where the projected nursing home bed need is for 260 additional beds.

Meadowbrook does not propose to add new long-term care beds to LTCPD IV, only to move 21 beds from Kemper County, and 39 existing beds from Poplar Springs Nursing and Rehab, located within Lauderdale County, LTCPD IV, to place in the proposed replacement nursing home.

The applicant believes that the impact of the proposed project on surrounding health care facilities should be negligible. The beds from Poplar Springs Nursing Center are already in use and, therefore, will not be any new competition to other providers. Furthermore, these will be private rooms and therefore, fulfilling a need that exists in Lauderdale County, Long-Term Care Planning District IV.

The Department received four letters of opposition from Lauderdale County nursing homes concerning the proposed project. One letter of opposition from a Lauderdale

County nursing home was received after the deadline concerning the proposed project.

Staff does not anticipate that this project will have an adverse impact on any of the existing nursing homes in either Kemper or Lauderdale Counties because facilities other than the Poplar Springs Nursing Center have experienced relatively high occupancy rates.

GR Criterion 9 - Availability of Resources

The applicant projects 60 full-time equivalent personnel at an estimated annual cost of \$1,686,783 for the proposed project.

Meadowbrook states that it will work with Poplar Springs Nursing Center to assist in staffing the facility upon completion. Training of new staff will take place on a phase-in basis at the new facility as well as Poplar Springs. The applicant asserts that ads will be placed in local papers and other publications to assist in the recruiting efforts. All applicants will be offered the same opportunity for employment in accordance with the Equal Opportunity Act for the proposed facility.

GR Criterion 10 – Relationship to Ancillary or Support Services

According to the applicant, the proposed project will have all necessary support and ancillary services.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Johnny Wynne & Associates, P.A.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed construction project.
- c. **Space Allocations:** The applicant submits that it will continue to meet state and local building codes, zoning ordinances and other regulatory requirements.
- d. **New Construction Projects:** The applicant proposes to construct 31,383 square feet of new space at an estimated cost of \$136.53 per square foot.
- e. **Cost per square foot:** The total project will cost \$136.53 per square foot for new construction (see Attachment 1). The *Means Building Construction Cost Data, 2007 Edition*, lists new construction cost ranging from \$98.50 to \$156 per square foot for nursing homes.

GR Criterion 16 - Quality of Care

As previously mentioned, Mr. Charles Bruce Kelly, is the owner of Poplar Springs Nursing Center, Meridian. The nursing home is licensed by the Mississippi State Department of Health and is certified for participation in Medicare and Medicaid programs.

The applicant asserts that approval of this application for Meadowbrook Health and Rehab, LLC will allow the expansion of services by a top level provider of Lauderdale County. The proposed project will allow creation of brand new private rooms as well as create needed space at Poplar Springs Nursing Center to aid in the conversion from semi-private to private rooms. This commitment to patient care and dignity will have a positive impact on the overall level of care offered in the community.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

Cost Item	Projected Cost	Percent
Construction Cost -- New	\$ 3,484,250	69.69%
Total Non-Fixed Equipment Cost	275,000	5.50%
Land Cost	440,000	8.80%
Site Preparation Cost	25,000	0.50%
Fees (Architectural, Consultant, etc.)	210,000	4.20%
Capital Interest	105,000	2.10%
Fixed Equipment Cost	460,750	9.21%
Total Proposed Capital Expenditure	<u>\$ 5,000,000</u>	<u>100%</u>

The above estimated capital expenditure is proposed for new construction of 31,383 square feet (nursing home facility) of space at a cost of \$136.53 per square foot (See Attachment 1). The proposed \$136.53 cost per square foot compares favorably to costs contained in the *Means Building Construction Cost Data, 2007 Edition (MCCD, 2007)* shows the per square foot cost for new construction at \$156, at the level where 25 % of projects cost more. The applicant's cost per bed is \$76,000, which is above the cost of \$70,500 (the level at which 35% of projects cost more) for a nursing home bed as listed in *MCCD 2007*. The proposed project also involves the purchase of fixed and non-fixed equipment.

B. Method of Financing

The applicant proposes to finance the proposed project (\$5,000,000) through a commercial loan with Trustmark National Bank, Jackson. The application included a letter from Mr. Nelson E. Gibson, First Vice President of the bank, indicating its interest in financing the project.

C. Effect on Operating Cost

Meadowbrook Health and Rehab projects the following expenses, revenues, and utilization for the first three years of operation:

Meadowbrook Three-Year Operating Statement			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$3,783,375	\$ 4,400,075	\$ 4,401,900
Outpatient	219,000	265,000	289,000
Total Gross Patient Revenue	<u>\$4,002,375</u>	<u>\$ 4,665,075</u>	<u>\$ 4,690,900</u>
Charity Care	\$200,120	\$373,233	\$375,272
Deductions	12,227	12,702	13,176
Total Deductions	<u>\$212,347</u>	<u>\$385,935</u>	<u>\$388,448</u>
Net Patient Revenue	\$3,790,028	\$4,279,140	\$4,302,452
Other Operating Revenue	-0-	-0-	-0-
Total Operating Revenue	<u>\$3,790,028</u>	<u>\$4,279,140</u>	<u>\$ 4,302,452</u>
Expenses			
Salaries	\$1,403,693	\$1,545,822	\$1,592,197
Benefits	283,090	311,755	321,108
Supplies	500,710	500,710	567,952
Services	826,423	910,102	937,405
Depreciation	241,286	241,286	241,286
Interest	348,391	344,719	340,782
Other	228,465	251,599	259,147
Lease	22,848	22,848	22,848
Total Expenses	<u>\$ 3,854,906</u>	<u>\$4,128,841</u>	<u>\$4,282,725</u>
Net Income (Loss)	<u>\$ (64,878)</u>	<u>\$ 150,299</u>	<u>\$ 19,727</u>
Utilization			
Inpatient Day	19,555	21,535	21,536
Outpatient Day	-0-	-0-	-0-
Charge Per Outpatient Day	-0-	-0-	-0-
Charge Per Inpatient Day	\$193	\$204	\$204
Cost Per Outpatient Day	-0-	-0-	-0-
Cost Per Inpatient Day	\$197	\$192	\$199

D. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	26	\$ 1,002,275
Medicare	28	1,079,374
Other	46	<u>1,773,257</u>
Total	<u>100</u>	<u>\$ 3,854,906</u>

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 by publication time.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives of the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised November, 2006*; and duly adopted rules, procedures and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Meadowbrook Health and & Rehab, LLC for construction of a 60-bed replacement nursing home in Lauderdale County.

**Meadowbrook
NH-CRF-0607-010**

Attachment 1

Computation of New Construction Cost*

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>
A. New Construction Cost	\$3,484,250	\$3,484,250
C. Total Fixed Equipment Cost	\$ 460,750	\$ 460,750
Non-Fixed Equipment Cost	\$ 275,000	-0-
Land Cost	\$ 440,000	-0-
D. Site Cost	\$ 25,000	\$ 25,000
E. Fees (Architectural, Consultant, etc.)	\$ 210,000	\$ 210,000
F. Contingency Reserve	-0-	-0-
G. Capitalized Interest	\$ 105,000	\$ 105,000
Total Proposed Capital Expenditure	<u>\$5,000,000</u>	<u>\$4,285,000</u>
Square Footage	31,383	31,383
Allocation Percent		100%
Costs Less Land & Non-Fixed Equipment	\$4,285,000	\$4,285,000
Cost Per Square Foot	\$136.53	\$136.53

*Source: FY 2007 State Health Plan