

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

**CON REVIEW NH-A-0908-036
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: \$1,468,080
ADDITIONAL CAPITAL EXPENDITURE: \$889,859
REVISED CAPITAL EXPENDITURE: \$2,357,939
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 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 applicant has expended \$817,976 on the land and new 28-bed nursing home.

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 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. The applicant requested to increase the original approved capital expenditure of \$746,177 by \$721,903 for a revised total capital expenditure of \$1,468,080. The applicant further requested to change the original location of the 32 beds. The original application anticipated placing 16 beds in an existing unused wing on the first floor of the hospital and 16 beds in an existing but unused wing on the second floor of the hospital. However, it was determined that two wings on the first floor of the hospital should be used for the 32 beds. The amendment would require renovation of approximately 21,800 square feet of the hospital's first floor, without changing the overall square footage of the nursing home. The amendment/cost overrun was authorized by the Mississippi State Department of Health (CON No. R-0566), with an effective date of October 25, 2007.

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.

C. Project Description

Covington County Hospital now requests an additional amendment/cost overrun on CON No. R-0566 for an additional capital expenditure of \$889,859. The applicant submits that the October 2007 amendment/cost overrun was abandoned due to change in administration and management at the hospital and nursing home, but more importantly the concerns cited by Licensure. The applicant requests this amendment/cost overrun to increase the capital expenditure to complete the project.

Covington County Hospital believes it would be more effective and efficient for staffing to have all 60 beds together. The applicant 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 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 previously newly constructed 28 beds, the total square footage of the nursing facility will be 15,997 square feet.

The applicant states that the location of all 60 nursing home beds in one location will help to ensure safety and promote privacy and dignity. The applicant further states that without addressing Licensure concerns, the project would not be able to provide long term care services.

The Division of Health Facilities Licensure and Certification has approved the site for the three miniature wings, and the applicant projects the project will be completed one year after construction commences.

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 State 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 December 4, 2008.

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 (February 23, 2008, 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

	Approved Amended Capital Expenditure Oct '07	Revised Amount	Increase/ (Decrease)
New Construction	\$789,610	\$1,940,209	\$1,150,599
Renovation	384,000	14,900*	(369,100)
Non-Fixed Equipment	190,064	190,064	-0-
Land Cost	14,366	14,366	-0-
Additional Drainage Improvements (Site Work)	14,000	47,500	33,500
Fees (Architectural, Consultant, etc.)	26,040	78,900	52,860
Contingency Reserve	50,000	50,000	-0-
Miscellaneous		22,000	22,000
Total Capital Expenditure	\$1,468,080	\$2,357,939	\$889,859

*Renovation figure does not include renovation of space but includes miscellaneous work in the original facility.

The project consists of 8,305 square feet of new construction with an estimated cost of \$254.86 per square foot. Based upon the 2008 edition of the *Means Construction Cost Data* book, the cost per square foot falls above the ¾ range (See Attachment 1). However, the application contains a cost estimate by Ferguson & Associates Architects, proposing a cost of \$150 per square foot for 8,305 square feet of new construction, which falls between the median and ¾ range, according to the *2008 Edition of the Means Construction Cost Data* book.

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 65% of the project has been completed.

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

- An increase in construction cost;
- Preparations of the adjacent site for construction;
- Additional engineering work (i.e. removal of a generator and a gas meter);
- Additional contingency and architectural fees; and
- Non-Fixed equipment cost for additional furnishings.

B. Method of Financing

The applicant states that the financing for the project will come 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
Revenue:		
Medicare	\$801,400	\$1,001,750
Medicaid	\$185,460	\$393,480
Private Pay	\$473,500	\$852,300
Total Revenue	\$1,460,360	\$2,247,530
Deduction From Revenue	(\$29,207)	(\$44,951)
Total Net Revenue	\$1,431,153	\$2,202,579
Expenses:		
Personnel	\$866,730	\$1,388,510
Supplies	\$309,566	\$633,943
Depreciation	\$21,117	\$66,324
Interest Expense	\$28,355	\$28,000
Total Expenses	\$1,225,768	\$2,116,777
Net Operating Income	\$205,385	\$85,802
Assumptions:		
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 effect on Medicaid patients and other payors. (See One Year Revised Projected Operating Statement for breakdown of revenue by payer source).

Payer Mix	Utilization Percentage	Revised Cost for First Year
Medicaid	20%	\$393,480
Medicare	37%	\$1,001,750
Other Payers	43%	\$852,300
Total	100%	\$2,247,530

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid received a copy of this amendment/cost overrun application for comment. The Division of Medicaid takes no position on this project.

VI. CONCLUSION AND RECOMMENDATION

The original 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 State 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
Covington County Hospital Nursing Home
n/k/a
Arrington Living Center
Computation of Construction and Renovation Cost

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$1,940,209	\$1,940,209	
Renovation Cost			
Total Fixed Equipment Cost			
Total Non-Fixed Equipment Cost	\$190,064	\$0	
Capital Improvement	\$14,900		
Land Cost	\$14,366		
Site Preparation Cost	\$47,500	\$47,500	
Fees (Architectural, Consultant, etc.)	\$78,900	\$78,900	\$0
Contingency Reserve	\$50,000	\$50,000	\$0
Capitalized Interest			\$0
Miscellaneous	\$22,000		
Total Proposed Capital Expenditure	\$2,357,939	\$2,116,609	\$0

Square Footage	8,305	8,305	
Allocation Percent		100.00%	0.00%

Costs Less Land, Non-Fixed Eqt. & Cap. Improvement & Other	\$2,116,609	\$2,116,609	\$0
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Cost Per Square Foot	\$254.86	\$254.86	
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Cost per Bed (n=60)	\$35,277
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