

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
AUGUST 6, 2018**

**CON REVIEW NUMBER: NH-CNF-0618-007**

**THE MISSISSIPPI CENTER FOR MEDICALLY FRAGILE CHILDREN, INC.**

**CONSTRUCTION OF PEDIATRIC SKILLED NURSING FACILITY AND ESTABLISHMENT OF PEDIATRIC SKILLED NURSING SERVICES AND LIMITED WAIVER FOR TREATMENT OF INDIVIDUALS OVER AGE 21**

**CAPITAL EXPENDITURE: \$12,844,340.00**

**LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

The Mississippi Center for Medically Fragile Children, Inc. is a not for profit corporation, established for the purpose of constructing a pediatric skilled nursing facility to be located at 3879 Eastwood Drive, Jackson, Hinds County, Mississippi. The applicant indicates that The Mississippi Center for Medically Fragile Children, Inc. is governed by an eight member Board of Directors and Officers. The Mississippi Center for Medically Fragile Children, Inc. will consist of thirty (30) licensed pediatric skilled nursing facility beds.

The applicant provided a Certificate from the Secretary of State, verifying that the corporation was issued a Charter/Certificate of Authority on December 22, 2017. The document indicates that the business is incorporated in the State of Mississippi.

**B. Project Description**

The Mississippi Center for Medically Fragile Children, Inc. requests Certificate of Need (CON) authority for the construction of a Pediatric Skilled Nursing Facility and Establishment of Pediatric Skilled Nursing Services and Limited Waiver for Treatment of Individuals Over Age 21.

The applicant proposes to construct a 35,329 square foot facility to provide highly specialized skilled nursing, rehabilitation and palliative care to medically dependent pediatric patients in Mississippi. The proposed facility will consist of thirty (30) pediatric skilled nursing facility beds.

The State Health Plan defines a pediatric nursing facility as an institution or a distinct part of an institution that is primarily engaged in providing to inpatients skilled nursing care and related services for persons under 21 years of age who require medical, nursing care or rehabilitation services for the rehabilitation of injured, disabled or sick persons.

*Section 41-7-191(2)(u) Mississippi Code Annotated*, as amended, provides that the State Department of Health shall issue a certificate of need to a nonprofit venture for the establishment, construction and operation of a skilled nursing facility of not more than sixty (60) beds who require medical and nursing care or rehabilitation services to be located in a country in which an academic center and a children's hospital are located, and for any construction and for the acquisition of equipment related to those beds. The facility shall be authorized to keep such ventilator dependent or otherwise medically dependent pediatric patients beyond age twenty-one (21) in accordance with regulations of the State Board of Health. For purposes of this paragraph (u), the provisions of *Section 41-7-193(1)* requiring substantial compliance with the projection of need as reported in the current State Health Plan are waived, and the provisions of *Section 41-7-197* requiring a formal certificate of need hearing process are waived. The beds authorized by this paragraph shall be counted as pediatric skilled nursing facility beds for health planning purposes under *Section 41-7-171 et seq.* There shall be no prohibition of or restriction on participation in the Medicaid program, for the person receiving the certificate of need authorized by this paragraph.

In order to aid in the establishment of these critical pediatric services, on March 15, 2018, Governor Phil Byrant signed House Bill 559 which authorized the Department of Finance and Administration (DFA) to enter into an agreement to lease no more than seven (7) acres of state-owned real property in the City of Jackson, Hinds County, Mississippi, to a nonprofit entity for the purpose of creating a pediatric skilled nursing, palliative care and respite facility for the severely disabled and for the use of associated administrative office space for an initial term of no more than forty (40) years and one (1) additional ten (10) year renewal period at the discretion of DFA. In accordance with House Bill 559, the applicant will enter into a lease agreement with DFA for seven (7) acres of real property. The application included a copy of House Bill 559.

The statute provides the State Board of Health may allow exceptions for pediatric care over twenty-one (21) years of age. *Mississippi Code Annotated 41-7-191(1)(u)* "The facility shall be authorized to keep such ventilator dependent or otherwise medically dependent pediatric patients beyond age twenty-one (21) in accordance with regulations over the age of 21 with a lower mental capacity than their age will need the applicant's care. To that end, the applicant requests a waiver of the age requirement for these specified patients.

In addition to pediatric skilled nursing services, the applicant will offer pediatric palliative care and rehabilitation therapy. The applicant affirms that the allocated services will greatly benefit Mississippi's children and their families.

The applicant affirms that the proposal encompasses 35,329 square feet of space. The applicant states that Dale Partners Architects, P.A. in Jackson, MS has been selected as the architectural firm for the proposed project. The applicant further

states that a detailed scope of work for the contractor will be developed for the currently undeveloped land. The application contained schematics for the proposed site.

The applicant affirms that the objective of the proposed project is to provide specialized care to Mississippi children living with complex chronic illness in an environment designed for children with staff accustomed to dealing with unique needs of chronic pediatric illnesses while providing support to these patients' families and caregivers.

The MSDH Division of Health Facilities Licensure and Certification approved the site for the project on June 1, 2018.

The applicant asserts that the project will require 50.00 full-time equivalents (FTEs) personnel at an annual cost of \$3,711,681.41.

The applicant indicates the proposed capital expenditure of \$12,844,340.00 will be funded by the following sources: Bank Loan of \$7,240,400.00; and Monetary Gifts of \$5,603,940.

The applicant projects that the capital expenditure will be obligated within six (6) months, upon CON approval. The proposed project is expected to be complete within one (1) year of start date.

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

This project is reviewed in accordance with Section 41-7-173, 41-7-191 1(a) and (d)(viii), and 41-7-193 of the Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

The governing legislation and the Mississippi State Department of Health rules provide that any person directly affected by the proposal may request a public hearing during the course of review. However, in accordance with Miss. Code Ann. 41-7-191(2)(u), the provisions of Section 41-7-193 requiring a formal certificate of need hearing process are waived.

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

### **A. State Health Plan (SHP)**

The *FY 2015 Mississippi State Health Plan* (MSHP) does not contain criteria and standards for the construction, renovation and expansion of a long term care facility as proposed by this application. However, the *Plan* provides guidelines for all health planning in Mississippi. The *Plan* states that Mississippi's planning and health

regulatory activities include the purposes below. The applicant provides information within the CON application, which addresses these purposes:

**To improve the health of Mississippi residents**

- The applicant submits that their desire is to improve the health and quality of life for all Mississippi children living with complex chronic illnesses and their families, by establishing a pediatric skilled nursing facility in Hinds County. The applicant states that the goal of the proposed facility is to provide pediatric patients with the best quality health care services in an environment that is child-centered and family focused.

**To increase the accessibility, acceptability, continuity, and quality of health services**

- The applicant states that the proposed facility will be the first of its kind in the state of Mississippi. Medically dependent pediatric patients and their caregivers will finally have access to skilled nursing, rehabilitation and palliative care services. The applicant suggests that currently patients must forgo or travel to another state to receive treatment. The implementation of the proposed project will allow patients to receive treatment in their home state.

**To prevent unnecessary duplication of health resources**

- The applicant asserts that the proposed project will not result in an unnecessary duplication of health resources, as the proposed project will be a new service provided in Mississippi. Furthermore, the applicant affirms that there are no facilities in Mississippi that specialize in this type of cohesive care for pediatric patients.

**To provide some cost containment**

- The applicant states that The Mississippi Center for Medically Fragile Children, Inc. has worked with Medicaid to arrive at a reimbursement rate that is acceptable to the State and the applicant to begin providing services. The applicant affirms that cost containment will result from pediatric patients being able to receive care in a pediatric skilled nursing facility rather than receiving treatment in an acute care hospital. Further, the applicant states that by collaborating with DFA to lease the land for the proposed facility, The Mississippi Center for Medically Fragile Children, Inc. has been able to save funds so that the capital expenditure can be applied to the care of patients.

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

The 1993 Mississippi Legislature authorized the Department of Health to issue a Certificate of Need for the construction of a pediatric nursing facility not to exceed 60 new beds. The Mississippi Center for Medically Fragile Children, Inc. is a nonprofit corporation seeking to establish, construct and operate a thirty (30) bed skilled nursing facility (not more than sixty (60) beds) to provide skilled nursing care for ventilator dependent or otherwise medically dependent pediatric patients who require medical and nursing care or rehabilitation services. The proposed project will be located in Hinds County where the University Mississippi Medical Center (the states only academic medical center) and Blair E. Batson Children's Hospital are located.

The *FY 2015 MS State Health Plan* defines a pediatric nursing facility as an institution or distinct part of an institution that is primarily engaged in providing to inpatients skilled nursing care and related services for persons under 21 years of age who require medical, nursing care, or rehabilitation services for the rehabilitation of injured, disabled or sick persons. The applicant affirms that The Mississippi Center for Medically Fragile Children, Inc. acknowledges the notated definition. However, per *Mississippi Code Ann 41-7-191(2)(u)*, the applicant is requesting a waiver for three (3) individuals over the age of 21 who are currently being cared for in a non-dedicated pediatric skilled nursing facility. The applicant states that these individuals function at a lower mental capacity than their age and would greatly benefit from the specialized pediatric care and treatment provided at their proposed facility. The applicant believes that with the approval of this waiver, these patients will finally have access to treatment and care in a pediatric facility specialized to meet their specific needs.

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

Chapter 8 of the *Mississippi Certificate of Need Review Manual, April 9, 2017, Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria contained in the Manual.

### **GR Criterion 1 – State Health Plan**

The application is in compliance with the overall objectives of the *FY 2015 State Health Plan*.

### **GR Criterion 2 – Long Range Plan**

The Mississippi Center for Medically Fragile Children, Inc. states that their long range plan is to provide high quality easily accessible treatment and care for medically dependent pediatric patients in a homelike environment tailored to the special needs of chronically ill pediatric patients.

### **GR Criterion 3 – Availability of Alternatives**

The applicant believes that there are no less costly or more effective alternative methods of providing essential pediatric services in Mississippi. The applicant states that the only alternative option would have been to forgo the proposed project, which would not foster improvements or innovations in the delivery of healthcare services to medically dependent pediatric patients.

The applicant maintains that this project is not a duplication of existing services as currently there are no pediatric skilled nursing facilities in the state. The applicant states that the establishment of a pediatric skilled nursing facility will mark a breakthrough achievement for Mississippi health care.

### **GR Criterion 4 - Economic Viability**

Based on the applicant's three-year projections, this project will have a net patient revenue of \$7,525,594 the first year, \$10,158,929 the second year, and \$10,313,059 the third year of operation, respectively.

The applicant projects the following inpatient days at the facility during the first three years of operation:

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Inpatient Days	8,100	10,800	10,800

The applicant affirms that the inpatient estimates are based on thirty (30) beds consisting of thirty (30) patients each year.

The applicant affirms that the proposed charges, profitability and utilization levels are comparable to other states with similar facilities, which include Utah, Pennsylvania and Massachusetts. The applicant states that the proposed project will not result in an increase to pediatric skilled nursing, rehabilitation and palliative care services or Medicaid.

The applicant indicates the proposed capital expenditure of \$12,844,340.00 will be funded by the following sources: Bank Loan of \$7,240,400.00; and Monetary Gifts of \$5,603,940. The application contains a signed letter from Palladium's Chief Financial Officer (David Malorana) attesting to the financial feasibility of the proposed project.

**GR Criterion 5 - Need for the Project**

- a. **Access by Population Served:** The applicant affirms that there is a significant need for the population to be served to have access to the proposed pediatric skilled nursing facility. The applicant states that admission to The Mississippi Center for Medically Fragile Children, Inc. is not based on race, color, sex, age, religious belief, disability, national origin, or any other classification protected by applicable discrimination laws.
- b. **Relocation of a Facility or Services:** The project does not propose the relocation of a facility or services.
- c. **Current and Projected Utilization:** The applicant affirms that there are no comparable facilities within the proposed service area or the state. Therefore, Criterion 5 (c) is not applicable.
- d. **Existing Facilities:** The applicant states that currently there are no pediatric skilled nursing facilities in the state. Therefore, Criterion 5 (d) is not applicable.
- e. **Community Reaction:** The application contains over fifty (50) letters of support for the proposed project from the Justice of the Supreme Court, various physicians, registered nurses and Mississippi residents.

The Department did not receive any letters of opposition concerning the proposed project.

**GR Criterion 6 - Access to the Facility or Service**

The applicant submits that the establishment of a pediatric skilled nursing facility will create accessible skilled nursing, rehabilitation and palliative care for all children including Medicaid and medically indigent pediatric patients.

The following table shows the projected percentage of estimated gross patient revenue and dollar amount of health care to medically indigent/charity care patients:

<b>Fiscal Year</b>	<b>Charity Care (%)</b>	<b>Dollar Amount</b>
Historical Year 2016	N/A	N/A
Historical Year 2017	N/A	N/A
Projected Year 1	10.00%	\$829,768.00
Projected Year 2	10.00%	\$1,142,350.00

The Mississippi Center for Medically Fragile Children, Inc. will be conveniently located near I-55 in Jackson and operate 24 hours per day, 7 days per week.

### **GR Criterion 7 - Information Requirement**

The Mississippi Center for Medically Fragile Children, Inc. 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**

The applicant affirms that currently there are no pediatric skilled nursing facilities in the state. The applicant states that the target population currently accesses treatment at acute care hospitals, nursing facilities designed for adults or other facilities outside the state of Mississippi. The applicant strives to provide their target population accessible and specialized treatment in a homelike environment that is tailored to their special needs.

The applicant believes that failure to implement the proposed project would result in a massive disappointment to pediatric patients diagnosed with complex chronic diseases and their families.

The applicant states that The Mississippi Center for Medically Fragile Children, Inc. anticipates entering into a Transfer Agreement with University of Mississippi Medical Center in Jackson, Mississippi.

### **GR Criterion 9 - Availability of Resources**

The applicant indicates that the project will require 50.00 full-time equivalents (FTEs) personnel at an annual cost of \$3,711,681.41.

The applicant asserts that The Mississippi Center for Medically Fragile Children, Inc. has established professional relationships with physicians and nurses at Blair E. Batson Children's Hospital who support the proposed project. The applicant plans to continue developing these relationships to recruit personnel. Furthermore, the applicant affirms that the surrounding area has sufficient physicians, nurses and therapist with diverse medical certifications to support the proposed facility.

### **GR Criterion 10 – Relationship to Ancillary or Support Services**

The applicant states that The Mississippi Center for Medically Fragile Children, Inc. has all necessary support and ancillary services for the proposed project.

### **GR Criterion 11– Health Professional Training Programs**

The applicant states that The Mississippi Center for Medically Fragile Children, Inc. will cooperate with health professional training programs in the area including UMMC's residency program. The applicant further states that UMMC's residents will



be able to train at The Mississippi Center for Medically Fragile Children, Inc.

### **GR Criterion 12– Access by Health Professional Schools**

The applicant asserts that The Mississippi Center for Medically Fragile Children, Inc. will cooperate to meet the clinical needs of health professional training programs in the area.

### **GR Criterion 13 – Access to Individuals Outside Service Area**

The applicant states that the Criterion 13 is not applicable to the proposed project.

### **GR Criterion 14 - Construction Projects**

- a. **Cost Estimate:** The application contains a signed letter from Palladium’s Chief Financial Officer (David Malorana) attesting to the financial feasibility of the proposed project. The applicant states that the estimated cost of new construction is \$217.54 per square feet.
- b. **Schematic Drawing:** The application contains schematic drawings of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. **New Construction Projects and/or Modernization of Existing Facilities:** The applicant states the proposal encompasses 35,329 square feet of space to include new construction. The applicant states that the total proposed capital expenditure is \$12,844,340.00.
- e. **Cost per Square Foot:** The applicant estimates the cost of new construction to be \$217.54 per square foot. *RSMMeans Building Construction Cost Data (RSMBCCD), 2018, Edition*, lists new construction costs for nursing home construction and costs ranged from \$114 to \$179 per square foot, with a median cost of \$135.

### **GR Criterion 15 – Competing Applications**

The applicant states that The Mississippi Center for Medically Fragile Children, Inc. is not aware of any competing applications. MSDH confirms that there are no competing application on file with the Department.

**GR Criterion 16 - Quality of Care**

The applicant affirms that the proposed pediatric skilled nursing facility will be the first of its kind in the state of Mississippi. As previously stated the applicant strives to provide high quality easily accessible treatment and care for medically dependent pediatric patients in a homelike environment tailored to the special needs of chronically ill pediatric patients. The applicant further suggests that the establishment of a pediatric skilled nursing facility will mark a breakthrough achievement for Mississippi health care.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

	Item	Cost (\$)	Percent (%)
a.	Construction Cost – New	3,450,476	26.87%
b.	Construction Cost -- Renovation	0	0.00%
c.	Capital Improvements	0	0.00%
d.	Total Fixed Equipment Cost	0	0.00%
e.	Total Non-Fixed Equipment Cost	115,879	0.90%
f.	Land Cost	0	0.00%
g.	Site Preparation Cost	904,727	7.04%
h.	Fees (Architectural, Consultant, etc.)	2,378,582	18.52%
i.	Contingency Reserve	951,433	7.41%
j.	Capitalized Interest	0	0.00%
j.	Legal and accounting fees	0	0.00%
k.	Other (Interiors/Plumbing/HVAC/Electrical/Fire)	5,043,143	39.26%
	<b>Total Proposed Capital Expenditure</b>	<b>\$12,844,340</b>	<b>100.00%</b>

**B. Method of Financing**

The applicant indicates the proposed capital expenditure will be funded by the following source of funds:

<b>Sources of Funds</b>		
Financing Instrument		Mortgage
• Interest Rate		6%
• Loan Period	7/1/2019 to 6/30/2038	
• Amount Financed	\$	7,240,400
Equity Contribution	\$	N/A
Other Sources		
• Cash Reserves	\$	N/A
• Grant	\$	N/A
• Related Company Financing	\$	N/A
• Other*(specify) - Gifts	\$	5,603,940
<b>Total</b>	<b>\$</b>	<b>12,844,340</b>

**C. Effect on Operating Cost**

The Mississippi Center for Medically Fragile Children, Inc. three-year projected operating statement is presented in Attachment 1.

**D. Cost to Medicaid/Medicare**

The applicant projects the cost to third party payors as follows:

<b>Payor Mix</b>	<b>Utilization Percentage (%)</b>	<b>First Year Gross Patient Revenue (\$)</b>
Medicare	0.00%	\$ 0.00
Medicaid	87.00%	\$7,697,832
Commercial	0.00%	\$ 0.00
Self Pay	4.00%	\$ 369,895
Charity Care	9.00%	\$ 769,783
Other	0.00%	\$ 0.00
<b>Total</b>	<b>100.00%</b>	<b>\$8,537,585</b>

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment; however, the Department has not received any response regarding the proposed project, as of the date of this Staff Analysis.

## **VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the overall objectives of the *FY 2015 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, April 9, 2017, Revision*; 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 the application submitted by The Mississippi Center for Medically Fragile Children, Inc. for the construction of a Pediatric Skilled Nursing Facility and Establishment of Pediatric Skilled Nursing Services and Limited Waiver for Treatment of Individuals Over Age 21.

**Attachment 1**

<b>The Mississippi Center for Medically Fragile Children, Inc. Three-Year Operating Statement (Project Only)</b>			
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
<b>Revenue</b>			
Inpatient	\$ 8,537,585	\$11,553,066	\$11,724,425
Outpatient			
<b>Gross Patient Revenue</b>	<b>\$ 8,537,585</b>	<b>\$11,553,066</b>	<b>\$11,724,425</b>
Charity Care	821,470	1,130,927	1,148,156
Deductions from Revenue	<u>190,521</u>	<u>263,210</u>	<u>263,210</u>
<b>Net Patient Revenue</b>	<b>\$ 7,525,594</b>	<b>\$10,158,929</b>	<b>\$10,313,059</b>
Other Operating Revenue	240,000	240,000	240,000
<b>Total Operating Revenue</b>	<b>\$ 7,765,594</b>	<b>\$10,398,929</b>	<b>\$10,533,059</b>
<b>Operating Expenses</b>			
Salaries	\$ 3,016,241	\$ 3,668,833	\$ 3,742,210
Benefits	695,440	837,591	854,343
Supplies	1,215,000	1,652,400	1,685,448
Services	1,053,000	1,432,080	1,460,722
Lease	670,664	670,564	670,664
Depreciation	614,363	614,363	614,363
Interest	387,933	387,933	387,933
Other	250,000	350,000	400,000
<b>Total Expenses</b>	<b>\$ 7,902,542</b>	<b>\$ 9,613,765</b>	<b>\$ 9,815,583</b>
<b>Net Income (Loss)</b>	<b>\$ (136,948)</b>	<b>\$ 785,164</b>	<b>\$ 737,476</b>
Inpatient days	8,100	10,800	10,800
Outpatient days	0	0	0
Procedures	0	0	0
Charge per outpatient day	N/A	N/A	N/A
Charge per inpatient day	\$ 1,054	\$ 1,070	\$ 1,086
Charge per procedure	N/A	N/A	N/A
Cost per inpatient day	\$ 976	\$ 890	\$ 909
Cost per outpatient day	N/A	N/A	N/A
Cost per procedure	N/A	N/A	N/A