

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
NOVEMBER 2005**

**CON REVIEW NH-CO-0905-029
YALOBUSHA GENERAL HOSPITAL AND NURSING HOME, WATER VALLEY
COST OVERRUN/AMENDMENT TO CON #R-0617
(ADDITION OF 60 NURSING HOME BEDS)
APPROVED CAPITAL EXPENDITUE: \$925,000
ADDITIONAL CAPITAL EXPENDITURE: \$1,057,503
LOCATION: WATER VALLEY, YALOBUSHA COUNTY, MISSISSIPPI;**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Yalobusha General Hospital and Nursing Home (YGHNH) is a public facility owned and operated by Yalobusha County, Mississippi. The facility is governed by a seven-member Board of Trustees, which is selected by the Yalobusha County Board of Supervisors. Yalobusha General Hospital and Nursing Home consists of 26 acute care beds and 72 long-term care beds. The facility is certified to participate in the Medicaid program. The Mississippi Department of Health Division of Health Facilities Licensure and Certification has approved the facility for renovation.

B. Project Background (CON #R-0617)

Yalobusha General Hospital and Nursing Home (YGHNH) was granted Certificate of Need (CON) #R-0617 on July 31, 2003, to renovate 24,870 square feet of space in an existing building and add 48 nursing home beds to the 72 licensed nursing home beds, with a capital expenditure of \$925,000. The square footage of the building constructed in 1999 (south and east wings of the facility) was 28,200 square feet. The approval of the CON provided total square footage of 53,070. The CON granted to YGHNH gave the nursing home the authority to renovate the Spears Wing.

On December 18, 2003, YGHNH amended CON #R-0617 to add 12 beds to its approved 48 bed project and increase the total square feet of renovation from 24,840 to 26,870, which is a difference of 2,030 square feet. The applicant stated that the initial project description did not change; however, the pharmacy wing would be moved. In turn, the former wing created space for six semi-private rooms which would be used to house 12 more residents. The applicant stated there would be no structural changes; however, it would cost less than \$3,000 to paint and make cosmetic improvements to the 2,030 square feet of space. Those improvements would be completed by YGHNH maintenance staff.

The amendment application included a capital expenditure summary, an audited Financial Statement, and a revised First Year Projected Operating Statement. The original application indicated that YGHNH employed 103 personnel and required 150 additional FTEs to operate the facility with a 48 bed addition at an estimated annual cost of \$1,159,586, yielding an increase of 47 employees. Upon approval of the CON amendment, YGHNH stated it would add 8.4 FTE employees; however, the additional employees would be recruited from the local labor force and through in-house training. Yalobusha General Hospital and Nursing Home indicated a commercial loan of \$900,000 from a local bank and \$25,000 through cash reserves will be used to finance the project. No additional debt financing will be required for the amendment project.

C. Project Description

Yalobusha General Hospital and Nursing Home requests a cost overrun on CON #R-0617 to add a family/living room to the end of the A wing, or the D.E. Spears Wing, by constructing 1,204 square feet of new space. Also, the additional money will pay for all final costs associated with the construction project (see expenditure summary).

Based on new updates, 1,204 of the 2,030 square feet was constructed to add a new living area; 816 square feet of space was covered with metal roofing; and the remaining 10 feet is unused space. Since the space is an open area that is not heated or cooled, the applicant did not include the square feet in the new construction cost formula. Also, 10 of the 72 original nursing homes beds have been sold and relocated to North Sunflower County Hospital.

The applicant included the following revised documents: a capital expenditure summary, a projected operating statement, an amortization schedule, and a depreciation schedule. The applicant also provided financial statements for fiscal year 2004. There were no changes in staffing, manpower costs, or transfer/referral/affiliation agreements.

The applicant indicates that the commercial bank loan used to finance the initial project was paid in full, and YGHNH used cash reserves to pay project costs. In order to fund specific YGHNH projects and the amendment project, the applicant refinanced the project and received a short term loan. Shortly thereafter, the applicant was issued Series 2005 Bonds to refund outstanding hospital bonds, Series 1996. Cash reserves will be used to complete the remaining portion of the project. However, past cash reserves paid to fund the project will be reimbursed from profits generated from the Series 2005 Bonds. The applicant states the constructio is complete; however, the facility is waiting for the arrival of furnishings for the additional nursing home beds.

II. TYPE OF REVIEW REQUESTED

The State Health Officer reviews all projects for cost overrun and amendments in accordance with 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 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 December 5, 2005.

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

A. State Health Plan (SHP)

The original project was in substantial compliance with the *FY 1999 State Health Plan* as required by Senate Bill 2679. This project continues to be in substantial compliance with the *FY 1999 State Health Plan*.

This amendment does not change the scope or overall objectives of the original project.

B. General Review (GR) Criteria

The original project was in substantial compliance with Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 revision*. This application continues to be in substantial compliance with general review criteria contained in the Manual.

IV. FINANCIAL FEASIBILITY

A. Expenditure Summary

A comparison of the original and revised expenditure is as follows:

	Original Approved (Capital Expenditure)	Revised (Capital Expenditure)	Increase or (Decrease) Capital Expenditure
<i>Construction Cost -New</i>		\$85,934.00	\$85,934.00
Construction Cost-Renovation	\$610,250.00	\$610,250.00	\$0.00
Capital Improvements, i.e. (minor painting and repairs, refurbishing)	\$125,000.00	\$125,000.00	\$0.00
<i>Total Fixed Equipment Cost</i>	\$85,000.00	\$698,777.00	\$613,777.00
<i>Total Non-Fixed Equipment Cost</i>	\$40,000.00	\$240,000.00	\$200,000.00
Land Cost			
<i>Site Preparation Cost</i>		\$24,998.00	\$24,998.00
<i>Fees (Architectural, Consultant, etc.)</i>	\$64,750.00	\$97,699.00	\$32,949.00
Contingency Reserve			
Capitalized Interest			
<i>Other Cost (Fire Protection)</i>		\$91,686.00	\$91,686.00
<i>Capitalized Interest</i>		\$8,159.07.00	\$8,159.07.00
TOTAL PROPOSED CAPITAL EXPENDITURE	\$925,000.00	\$1,982,503.07	\$1,057,503.07

The original capital expenditure listed above was approved on July 31, 2003. It was for the renovation of 24,870 square feet of space at a cost of \$37.19 per square foot. At the time of application, the cost per bed was approximately \$19,270. The cost per bed was comparable to the median range for nursing homes of this size as listed in the *Means Building Construction Cost Data FY 2002*. According to the *Means Construction Cost Data*, the median cost for nursing homes was \$38,200 per bed and \$92.00 per square foot.

After the initial approval of the project, the applicant stated YGHNH experienced a 14-month delay due to a hearing requested on the project. When the hearing process ended, YGHNH began the project; however, unexpected problems and costs arose. To address these matters, YGHNH revised the capital expenditure summary to cover cost overruns in the following areas:

- ❖ addition of a 1,204 square foot family/living room to the back of the D.E. Spears nursing home wing, and
- ❖ increase of fixed and non-fixed equipment costs.

The applicant stated the new construction of 1,204 square feet of space will cost \$114.64 per square foot.

B. Method of Financing

The original Certificate of Need (CON) NH-CB-0502-025 indicated that a commercial loan and cash reserves would be used to finance the project. The Peoples Bank & Trust Company submitted a letter to the applicant expressing an interest in financing the project and included an amortization schedule. The schedule indicated that the bank would finance \$900,000 at a rate of 6.250%, payable in 120 payments of \$10,105.24 per month.

The applicant indicates that the commercial bank loan used to finance the initial project was paid in full and YGHNH used cash reserves to pay project costs. Money received from a short-term loan, Series 2005 Bonds, and cash reserves will be used to finance the amendment project.

C. Effect on Operating Costs

The applicant projects gross revenues of \$2,106,063, expenses of \$1,769,680, and net income of \$336,383 for the first year of operation in regard to the amendment and cost overrun of this project.

	Original Application First Year	Amendment Application Revised First Year
Medicaid Income	1,350,759	1,874,396
Private Pay Income	219,891	231,667.
Total Revenues	\$1,570,650	\$2,106,063
Nursing Home Wing A	866,743	917,007
Nursing Home Pharmacy	13,588	1,908
Medical Records	19,377	19,377
Dietary	178,373	166,826
Nursing Home-Overhead	50,439	50,439
Housekeeping	72,771	72,771
Laundry	43,663	43,663
Patient Accounting	19,377	19,377
Data Processing	12,089	12,089
Nursing Home Administration	76,776	76,776
Nursing home Social Work	21,530	21,530
Nursing Home Activities	21,530	21,530
Depreciation	55,065	231,934
Employee Benefits	71,566	71,566
Interest	54,355	42,877
Total Operating Expenses	\$1,577,242	\$1,769,680
Net Income/Loss (-)	-\$6,592	\$336,383

Utilization, cost, and charges are projected as follows:

	Initial Year 1	Revised Year 1
Occupancy Rate (%)	90.00%	90.00%
Patient Days	15,768	14,783
Cost/Patient Day	\$100.03	\$119.71
Charge/Patient Day	\$99.61	\$142.47

D. Cost to Medicaid/Medicare

Payor	Utilization Percentage	Patient Days	First Year Costs
Medicaid	89%	14,033.52	\$ 1,575,015.20
Medicare	0%	0.00	\$ 0.00
Other	11%	1,734.48	\$ 194,664.80
Total	100.00%	15,768.00	\$ 1,769,680.00

YGHNF projects 0.5% percent bad debt of gross patient revenues.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, the proposed project is not expected to increase Medicaid expenditures. The Division does not oppose the application.

VI. CONCLUSION AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 1999 Mississippi State Health Plan; Chapter 8 of the Mississippi Certificate of Need Review Manual, 2000 revision*; and all adopted rules, procedures, and plans of the Mississippi Department of Health in effect at the time of the approval. The project continues to be in substantial compliance with applicable criteria and standards and adopted rules, procedures, and plans of the Department.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Yalobusha General Hospital and Nursing Home (YGHNH).