

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
APRIL 2009**

**CON REVIEW: NH-RLS-0109-002
MEADOWBROOK HEALTH & REHAB, LLC
CONSTRUCTION OF NORTHPOINTE HEALTH & REHAB FOR THE REPLACEMENT OF
21-BED KEMPER COUNTY NURSING HOME & RELOCATION OF 39 BEDS FROM
POPULAR SPRINGS NURSING & REHABILITATION
CAPITAL EXPENDITURE: \$5,168,500
LOCATION: MERIDIAN, LAUDERDALE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Meadowbrook Health and Rehab, LLC is a Mississippi limited liability company, registered and in good standing. The company's sole member and manager is Mr. Charles Bruce Kelly.

Charles Bruce Kelly presently owns and operates Popular 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) in February 2006. Meadowbrook was formed on May 8, 2007, as the replacement entity for the Kemper County Nursing home.

B. Project Description

Meadowbrook Health and Rehab, LLC is requesting Certificate of Need (CON) authority for the replacement and relocation of the 21-bed Kemper Homeplace Nursing Facility formerly located in DeKalb, Kemper County, Mississippi to Meridian, Lauderdale County, Mississippi. In addition, the applicant proposes to relocate and combine 39 existing nursing home beds now licensed to Popular Springs Nursing Center with the 21 beds from Kemper County to form a new 60-bed facility in Meridian. Both Kemper and Lauderdale counties are located in Long Term Care Planning District (LTCPD) IV. The new facility, housing both the Kemper County beds and beds located from Popular Springs Nursing Center will be known as Northpointe Health & Rehab.

Popular Springs Nursing Center, LLC, Meridian, obtained Kemper Homeplace Nursing Facility, Inc., DeKalb, effective February 2006. On March 7, 2006, the applicant requested to place the 21 beds held by Kemper Homeplace Nursing Facility, Inc. in abeyance. Popular Springs Nursing Center, LLC also requested on April 13, 2007, that 10 of its 130 nursing facility beds be placed in abeyance. Kemper County Homeplace Nursing Facility reported in 2004, the last period for which statistics are available for this facility, an occupancy rate of 87.95% or 18.47 patients.

Popular Springs Nursing Center is currently licensed for 120 beds with an additional 10 beds held in abeyance. Upon completion of the relocation of beds from Popular Springs to the replacement facility, Popular Springs will consist of 69 private rooms and 11 semi-private rooms. No renovation will be required at Popular Springs to accommodate this setting.

The site for the Kemper County Facility replacement is located on Windmill Drive and Highway 39 in Lauderdale County, Meridian, approximately 24 miles from the site in Kemper County.

The replacement facility will be constructed as an all-private room, state-of-the-art facility geared to meet the rising demands of the aging population.

The applicant's stated ultimate goal of the project is to create a viable 60-bed replacement facility that will improve the quality of life of the residents by creating a more homelike setting. By the offering of private rooms to all its residents at the replacement facility and by converting some of the semi-private rooms to private rooms at Popular Springs, the applicant proposes to provide additional space thereby aiding in the improvement of quality of life. Also, by relocating the 21 beds to the replacement facility and by adding to those 21 beds the 39 beds from Popular Springs, the replacement facility will be able to realize savings within its program based on economics of scale that it could not realize with just a 21-bed facility.

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 41-7-173, 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 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 April 23, 2009.

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

A. State Health Plan (SHP)

The FY 2009 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: Mississippi's planning and health regulatory activities have the following purposes:

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

The applicant believes that the proposed project will work in accordance with the Plan. According to FY 2009 State Health Plan, currently there are 5,536 licensed/CON approved nursing home beds in Long Term Care Planning District

IV, with a need of 6,577 beds, leaving a net need of 738 beds in the district. The proposed nursing home will be located in Lauderdale County where the projected nursing home bed shortage is 19 beds.

Lauderdale County has a need for 19 beds while Kemper County has a need for 2 beds. The relocation of the beds from Kemper County to Lauderdale County will redistribute the beds, leaving Kemper County with a need for 23 beds and Lauderdale County will be over-bedded by 2 beds.

Staff contends, however, that should the applicant replace the facility in Kemper County, relocating the 39 beds from Lauderdale County in order to create a 60-bed facility, would leave a void in Lauderdale of 58 beds.

B. General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, Revised February 23, 2008, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The FY 2009 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 19 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 2 beds.

The Mississippi State Department of Health 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 Popular Springs Nursing Center, in Lauderdale County, to create a 60 bed nursing facility.

The facility located in Kemper County is closed and the beds are presently held in abeyance; therefore, no patients will be impacted by the relocation of these beds. Lauderdale County also has a greater need for nursing facility beds compared to Kemper County; consequently, there should be no significant impact on the citizens of Kemper County related to the relocation of these beds.

GR Criterion 2 – Long Range Plan

The applicant affirms that the focus has been placed on evolving the care delivery system to better meet the needs of the largest population in America's history. One of the ways to better meet those needs is to offer more private rooms and more amenities focused on the rehabilitative aspects of long-term care.

The applicant states that upon taking ownership of Popular Springs, Mr. Kelly, as the sole member and manager of Popular Springs Nursing Center, assessed how to better utilize the existing facility and bed count to assist in evolving toward more modern styles of care. Upon careful analysis, those responsible for the

operation of Popular Springs developed a workable plan to maximize the existing space at Popular Springs along with project plans for a relocation of 39 beds to the Kemper Nursing Home replacement facility.

GR Criterion 3 – Availability of Alternatives

According to Meadowbrook, it considered other options such as renovation to the existing Meridian facility, or relocation of the beds to another county within Long Term Care Planning District IV (LTCPD IV); but after careful 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.

GR Criterion 4 – Economic Viability

Based on the applicant's three-year projections, this project will receive a net operating income of \$48,437 the first year, \$266,398 the second year, and \$323,024 for the third year.

- a. **Proposed Charge:** The applicant projects charges of \$192 per inpatient day for the first year, \$196 for year two, and \$201 for year three. The applicant projects cost of \$215 for the first year, \$208 for year two, and \$211 for year three of the operation for the proposed project.

The applicant states that the project will have minimal, if any, impact on the cost of health care in Mississippi or on Medicaid, Medicare, or any other payor. By transferring 39 existing beds from Popular Springs, Meadowbrook will experience a budget neutral transfer of utilization. Although currently not set up and staffed, the applicant affirms that the 21 beds relocated from Kemper County are existing beds that have long been approved for reimbursement by Medicaid. Meadowbrook's gross revenue projections and operating expenses are based on operations at other facilities managed by Trend Consultants, LLC, a Mississippi limited liability company whose sole member and manager is Bruce Kelly. As set forth above, Trend Consultants will manage the replacement facility.

The applicant states that the proposed reimbursement will follow the standard Medicare RUG schedule, the State Medicaid reimbursement schedule, and the Medicare Part B physician fee schedules. According to the applicant, such reimbursement compares favorably with similar facilities in the area and the services provided will be in compliance with the regulations for each payor source.

- b. **Projected Levels of Utilization:** Meadowbrook projects that its occupancy rates for the first three years of operation are 79% for the first year, 90% for the second year, and 93% for year three, respectively.

According to the Report on Institutions for the Aged or Infirm, 2007, Popular Springs Nursing Center had an occupancy rate of 82.48% in 2007. The applicant states that in November 2008 Popular Springs' occupancy rate was 98.64%. Currently, the only operating facility in Kemper County is Mississippi Care Center of DeKalb with an occupancy rate of 97.97%.

- c. **Project's Financial Feasibility Study:** Since the capital expenditure for the proposed project is \$5,168,500, therefore exceeding \$2,000,000, the applicant provided a letter from the Chief Financial Officer of Trend Consultants, LLC attesting to the financial feasibility of this project.

GR Criterion 5 – Need for Project

- a. **Access by Population Served:** The applicant asserts the population served will be the elderly population in Lauderdale County. Currently, existing providers in the proposed area have a very limited supply of private rooms for the care of nursing facility residents. Generally, the served population may only obtain a private room at an additional cost to the resident and/or his/her family when such a private room is available. According to Meadowbrook, it is their goal to offer many more private rooms to their residents, regardless of pay source.
- b. **Relocation of Services:** The applicant asserts that in addition to the construction of the new facility, Meadowbrook Health & Rehab, the current population at Popular Springs Nursing Center will receive the benefit of many more private rooms being created for 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 and will be placed back into service, affording access to private-room nursing facility services by those living in Kemper County and Lauderdale County. The relocation of the 39 licensed beds to the replacement facility will have no adverse impact on the population served.

The distance from DeKalb to Meridian is 21 miles. There are currently no existing acute care hospital facilities located in Kemper County; however, Lauderdale County has four acute care hospitals and two long term acute care facilities. Therefore, residents will have closer access to these type facilities when needed. In addition, it was pointed earlier in this staff analysis that the project would redistribute the beds from Kemper County to Lauderdale County, leaving a need of 23 beds in Kemper County. However, should the applicant replace the facility in Kemper County and relocate 39 beds from Lauderdale County, there would be a greater need in Lauderdale County – a need of 58 beds. Therefore, staff contends that the relocation of beds from Kemper County to Lauderdale County will not have an adverse affect on the nursing home bed need in LTCPD IV.

- 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 since there are no additional beds or services added.

As previously mentioned, the proposed project involves construction of a 60-bed replacement nursing home facility in Lauderdale County. The proposed project should not have an adverse impact on other nursing homes in Kemper and Lauderdale Counties, since the Kemper County beds are currently in abeyance and the Lauderdale County beds being relocated are already set up and staffed.

- d. **Community Reaction:** The application contains six letters of support for the proposed project. The Department received one letter of opposition for the proposed project from Queen City Nursing Center, Meridian Community Living Center and Beverly Living Center, located in Meridian, Mississippi.

2005, 2006, and 2007 Utilization of Nursing Facilities

Table 1

	2005	2005	2005	2006	2006	2006	2007	2007	2007
	LBC	Occ. %	ADC	LBC	Occ. %	ADC	LBC	Occ. %	ADC
Kemper County	60	97.69	58.61	60	96.13	57.68	60	97.97	58.78
Kemper Homeplace Nursing Center	Closed								
MS Care Center	60	97.69	58.61	60	96.13	57.68	60	97.97	58.78
Lauderdale County	830	81.54	676.79	830	89.89	732.86	830	89.81	722.74
Beverly Healthcare Broadmoor	120	98.16	117.79	120	97.62	117.14	120	97.98	117.58
Guardian Angel Health Care	128	82.87	106.07	128	88.49	113.27	128	86.04	110.13
Poplar Springs Nursing Center (f/k/a King's Daughters & Sons Nursing Home)	130	44.09	51.98	130	77.13	100.26	120	82.48	98.97
Meridian Community LC	58	86.84	50.37	58	91.44	53.04	58	95.50	55.39
Queen City Nursing Center	84	99.65	83.71	84	98.80	82.99	84	96.27	80.87
R. P. White Nursing Facility	228	83.13	189.54	228	83.61	190.63	228	82.25	187.52
The Oaks Rehabilitation and Healthcare Center (f/k/a Riley Healthcare Center)	82	94.31	77.33	Closed			82	88.15	72.28

*Source: 2005 through 2007 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 of Mississippi Licensure requirements, but will strive to meet the needs of the community. The facility will offer the same level of care 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 federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.

- c. **Unmet Needs to be Served by Applicant:** The applicant projects that 2.5% of its residents will be medically indigent. Meadowbrook states that they are committed not only to the minimum standards of the State's licensure requirements, but also striving to meet the needs of the community. No restrictions or advantages will be placed on care based on payor source, creed, national origin or disability.

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 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 Popular 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 Popular Springs Nursing Center are already in use, and therefore, will not be any new competition to the other providers. By constructing a replacement facility with all private rooms, Meadowbrook will provide to the community it serves an option for private room placement. Additional private rooms will also be available at Popular Springs subsequent to the relocation of the 39 beds to the replacement facility, thereby creating even more private access to the population.

GR Criterion 9 – Availability of Resources

The applicant projects 54.8 full-time equivalent personnel at an estimated annual cost of \$1,421,031 for the proposed project.

The applicant states that the project will require a full complement of nursing staff for the replacement facility. The applicant recognizes that a known nursing shortage exists in some markets; however, it asserts that Popular Springs has been, and continues to be fully staffed with no utilization of agency staffing or outsourcing staffing. The replacement facility will be staffed by offering a pleasant working environment, competitive wages, adequate training, and leadership.

Key personnel such as the Nursing Home Administrator, Director of Nursing, and department heads will be recruited during construction and will be in place prior to opening. These individuals will be trained in the weeks and months prior to opening.

Normal recruiting practices will be used to fill the available positions with the applicants best suited to those positions, including placing ads in local papers and other publications to assist in the recruiting efforts. Special efforts will be made to work with the areas institutions of higher learning to recruit skilled personnel. All applicants will be offered the same opportunity for employment in accordance with the Equal Opportunity Act.

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 project.
- c. **Space Allocations:** The applicant affirms that space allocations at the replacement facility will conform to applicable local, state, or minimum standards. Furthermore, the applicant will not commence construction of the replacement facility until it has received all regulatory authority to do so.
- d. **New Construction Projects:** The applicant affirms that modernization of the building that previously housed the 21 Kemper County Facility beds is not an alternative with respect to this project because not only is the building very old and out-of-date, but Meadowbrook does not own the building. Therefore, renovation of the Kemper County Facility was not an option.

The renovation of the Popular Springs facility to accommodate the relocated 21 beds was considered and rejected since it was determined that the addition and the renovations to the existing structure that would be necessary to add 21 beds and absorb 21 new nursing home patients would result in substantial cost. The resulting facility, which would consist of 151 beds, would be too large, resulting in losing some of the homelike environment that Meadowbrook strives to achieve. The applicant believes that relocating the 39 beds from Popular Springs to the replacement facility will achieve the goal of cost efficiencies, and in this case two facilities, with a homelike environment, can be realized.

- e. **Cost per square foot:** The applicant proposes to construct 31,383 square feet of new space at an estimated cost of \$155.92 per square foot. The Means Building Construction Cost Data, 2009 Edition, lists new construction cost ranging from \$110.00 to \$174.00 per square foot for the average nursing home.

GR Criterion 16 – Quality of Care

As previously mentioned, Mr. Charles Bruce Kelly, is the owner of Popular 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 the approval of this application for Meadowbrook Health & Rehab, LLC will allow the construction of a replacement nursing home facility consisting of private rooms. Such approval will also create

needed space at Popular Springs to allow the conversion from semi-private to private rooms. Each resident will be allowed to create a space personal to him/her and will be given the privacy and dignity he/she deserves. The applicant believes 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	Project Cost	Percentage
New Construction Cost	\$3,900,000	75.46%
Renovation Cost	\$0	0.00%
Total Fixed Equipment Cost	\$150,000	2.90%
Total Non-Fixed Equipment Cost	\$205,000	3.97%
Other (Landscaping)	\$30,000	0.58%
Site Preparation Cost	\$150,000	2.90%
Fees (Architectural, Consultant, etc.)	\$250,000	4.84%
Contingency Reserve	\$210,000	4.06%
Capitalized Interest	\$233,500	4.52%
Legal & accounting fees	\$15,000	0.29%
CON filing fee	\$25,000	0.48%
Total Proposed Capital Expenditure	\$5,168,500	100.00%

The above estimated capital expenditure is proposed for new construction of 31,383 square feet of space at a cost of \$155.92 per square foot (see Attachment 1). The proposed \$155.92 per square foot compares favorably to costs contained in the Means Building Construction Cost Data, 2009 Edition which ranges from \$110.00 to \$174.00 per square foot for nursing homes.

The applicant provided a signed letter from the Chief Financial Officer for Meadowbrook and Trend Consultants, LLC supporting the financial feasibility of this project.

B. Method of Financing

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 Trustmark Bank, indicating its interest in financing the proposed project.

C. Effect on Operating Cost

Meadowbrook Health & 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			
Inpatient Care Revenue	\$3,328,855	\$3,864,347	\$4,095,227
Outpatient Care Revenue	0	0	0
Gross Patient Care Revenue	\$3,328,855	\$3,864,347	\$4,095,227
Charity Care	(\$77,592)	(\$90,979)	(\$96,770)
Contractual Adjustments			
Medicaid	(60,555)	(68,985)	(71,285)
Medicare	572,449	591,504	619,559
Net Patient Revenue	\$3,763,157	\$4,364,872	\$4,618,016
Other Operating Revenue	2,500	2,500	2,500
Total Operating Revenue	\$3,765,657	\$4,367,372	\$4,620,516
Operating Expenses			
Salaries	\$1,421,031	\$1,558,736	\$1,639,058
Benefits	269,333	295,433	310,656
Supplies	314,565	376,303	408,268
Services	450,231	511,665	527,372
Lease	20,016	21,017	22,068
Depreciation	207,457	217,829	228,721
Interest	307,388	293,203	276,000
Other	727,199	826,788	885,349
Total Operating Expense	\$3,717,220	\$4,100,974	\$4,297,492
Net Operating Income (Loss)	\$48,437	\$266,398	\$323,024
Utilization			
Inpatient Days	17,301	19,711	20,367
Outpatient Days	0	0	0
Charge Per Outpatient Day	0	0	0
Charge Per Inpatient Day	\$192	\$196	\$201
Cost Per Outpatient Day	0	0	0
Cost Per Inpatient Day	\$215	\$208	\$211

D. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage (%)	First Year Revenue
Medicaid	56%	\$2,112,197
Medicare	28%	\$1,038,000
Other	16%	\$612,960
Total	100%	\$3,763,157

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this amendment/cost overrun application for review and comment. The Division estimates that this project will cost the Medicaid program \$1,157,850 per year based on a stable occupancy rate. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the overall objectives as contained in the FY 2009 State Health Plan; the Mississippi Certificate of Need Review Manual, revised 2008; and all 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 & Rehab, LLC for replacement of the Kemper County Nursing Home and Relocation of 39 Nursing Facility Beds from Popular Springs Nursing and Rehab to Northpointe Health & Rehab project in Lauderdale County.

**Meadowbrook
NH-RLS-0109-002**

Attachment 1

Computation of New Construction Cost

Cost Component	Total	New Construction
New Construction Cost	\$3,900,000	\$3,900,000
Renovation Cost	\$0	\$0
Total Fixed Equipment Cost	\$150,000	\$150,000
Total Non-Fixed Equipment Cost	\$205,000	\$0
Land Cost	\$0	\$0
Site Preparation Cost	\$150,000	\$150,000
Fees (Architectural, Consultant,)	\$250,000	\$250,000
Contingency Reserve	\$210,000	\$210,000
Capitalized Interest	\$233,500	\$233,500
Other	\$70,000	
Total Proposed Capital Expenditure	\$5,168,500	\$4,893,500
Square Footage	31,383	31,383
Allocation Percent		100.00%
Costs Less Land, Non-Fixed Equipment, and Other	\$4,893,500	\$4,893,500
Cost Per Square Foot		\$155.92