

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2010**

**CON REVIEW: HG-COB-1109-032
FORREST COUNTY GENERAL HOSPITAL AT
THE PINE GROVE BEHAVIORAL HEALTH CENTER
CONVERSION OF 24 CHEMICAL DEPENDENCY BEDS
TO ADULT PSYCHIATRIC BEDS
CAPITAL EXPENDITURE: \$1,865,047
LOCATION: HATTIESBURG, FORREST COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Forrest County General Hospital is a 512-bed short term, general acute care, public hospital located in Hattiesburg, Forrest County, Mississippi. The licensed bed complement of the hospital consists of 400 short-term, general acute care beds, 24 rehabilitation beds, 40 adult psychiatric beds, 16 adolescent psychiatric beds, and 32 adult chemical dependency (CDU) beds.

Pine Grove Behavioral Health, is an extension of Forrest General Hospital which includes the 88 mental health (psychiatric and CDU) beds. Pine Grove Behavioral Health houses services ranging from outpatient to inpatient and residential treatment for adults, children, and adolescents. Forrest General Hospital is governed by a seven-member Board of Trustees.

The occupancy rates, average length of stay (ALOS) and the Medicaid utilization rates for fiscal years 2006, 2007, and 2008 are as follows:

**Forrest County General Hospital
Utilization Data**

| Fiscal Year | Occupancy Rate (%) | ALOS (Days) | Medicaid Utilization Rate (%) |
|--------------------|---------------------------|--------------------|--------------------------------------|
| 2006 | 70.55 | 5.11 | 21.96 |
| 2007 | 62.28 | 4.60 | 22.44 |
| 2008 | 61.82 | 4.55 | 19.04 |

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Forrest County General Hospital (Forrest General) is requesting Certificate of Need (CON) authority to convert 24 adult chemical dependency beds to adult psychiatric beds at Pine Grove Behavioral Health.

The applicant submits that the scope of work for this project includes the demolition and renovation of the existing Alcohol and Dependency (A&D) Unit at the Pine Grove Recovery Center.

The Alcohol and Dependency Unit at the Pine Grove Recovery Center consists of approximately 9,542 gross square feet. The renovation project encompasses all areas of the existing department as well as a 400 square foot addition to house the new HVAC unit.

The applicant submits the proposed project will consist of:

- **Architectural:** The existing A&D Patient Rooms will be converted into Adult Psych Rooms (this will include incorporating the design guidelines set forth by the "Design Guide for the Built Environment of Behavioral Health Facilities: Third Edition"). All areas in existing A&D are to receive new and updated finishes which includes flooring, walls, ceiling, etc.
- **Mechanical:**
 1. Remove existing fan coil units, air unit, ductwork, chilled and heating water piping from the connection corridor throughout the building.
 2. Install new air handling unit with medium pressure ductwork to new VAV (variable air volume) boxes for individual room control.
 3. Install new chilled and heating water piping from the connection corridor to the new air handling unit and new heating water piping from the connection corridor to all of the VAV boxes.
 4. Replace the exhaust fans.
 5. Install new DDC controls.
- **Plumbing:**
 1. Replace all the plumbing fixtures (security type in required areas).
 2. Replace all the domestic water piping from the connection corridor.
 3. Modify fire protection as required to match modified work.
 4. All faulty plumbing in patient room toilets will be removed and replaced. This will include the removal of all toilet walls damaged due to faulty plumbing. The appropriate number of ADA compliant toilets will be included in the scope of work.
- **Electrical:**
 1. Replace all of the lighting fixtures. (security type in required areas)
 2. Replace all the receptacles.
 3. Replace all of the fire alarm and nurse call devices with new devices to work with existing system.
 4. Replace all data outlets.

Renovation will include the enhancement to patient rooms, in some cases complete renovation of bathrooms/showers in poor condition, a larger nurses' station and more accessible medication room, and reconfiguration of space to accommodate monitoring of patients. Rooms and bathrooms will be equipped with more appropriate safety features. Additional equipment is minimal, including video monitoring equipment, new beds, oxygen concentrators with monitors, and IV pumps.

If the proposed project is CON approved, the applicant asserts that the project shall commence by May 2010, and be completed by December 2010.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraph (1)(c), 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 March 15, 2010.

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

A. State Health Plan (SHP)

The *FY 2010 State Health Plan* contains policy statements, criteria and standards which an applicant is required to meet prior to offering or adding adult psychiatric beds. Forrest County General Hospital d/b/a Pine Grove Behavioral Health is a licensed facility currently providing both psychiatric and chemical dependency services. This application is in substantial compliance with applicable criteria and standards.

1. Need Criterion:

106.02 (1a) New/Existing Acute Psychiatric, Chemical Dependency, and/or Psychiatric Residential Treatment Facility Beds/Services: The applicant shall document a need for acute psychiatric, chemical dependency, and/or psychiatric residential treatment facility beds using the appropriate bed need methodology as presented in this section under the service specific criteria and standards.

Forrest General is an existing provider of psychiatric services and is requesting a conversion of beds. The 2010 projected bed need for adult psychiatric beds is based on .21 beds per 1,000 population. Utilizing this methodology, the *Plan* indicates that the state has an excess of 96 adult psychiatric beds.

106.02 (1c) Projects which involve the addition of beds: The applicant shall document the need for the proposed project. Exception: Notwithstanding the service specific statistical bed need requirements as stated in "a" above, the Department may approve additional beds for facilities which have maintained an occupancy rate of at least 80 percent for the most recent 12-month licensure reporting period or at least 70 percent for the most recent two (2) years.

Forrest County General Hospital states that the demand for inpatient chemical dependency services has dramatically decreased in the last few years. The applicant suggests that the trend in care management is that patients can be very effectively treated in the less expensive outpatient or residential setting. However, the applicant states that there has been an increase in demand for acute inpatient psychiatric treatment, including dual diagnosis of psychiatric illness and chemical dependency.

According to the applicant, many psychiatric patients with secondary medical issues present directly to the Forrest General Hospital Emergency Department for medical services. The applicant states that because of their psychiatric conditions, many of these patients require one-on-one nursing observation at Forrest General for the safety of the psychiatric/medical patient and other medical/surgical patients. The applicant further states that this situation is an inappropriate use of medical/surgical nursing and acute care resources, which could be alleviated with additional psychiatric capacity at Pine Grove.

The applicant asserts that these trends make it necessary to maximize the functionality of Pine Grove's bed and staff complement because psychiatric beds can also be used to treat psychiatric patients or dual diagnosis patients. The applicant confirms that patients who need chemical addiction treatment usually have other co-morbid psychiatric and even medical conditions.

Pine Grove is the only non-state behavioral health center offering inpatient psychiatric and chemical dependency services in Hattiesburg and surrounding areas.

The applicant states that the proposed project, to reclassify chemical dependency beds to psychiatric beds will result in better utilization of facility and staff.

The applicant affirms that Pine Grove psychiatric occupancy exceeds the State Health Plan's 80% threshold for the most recent 12-month licensure reporting period as well as the 70% threshold for the most recent two years. The following table shows the applicant's occupancy rates for the past two years.

Pine Grove Psychiatric Beds Occupancy

| | Adult Psychiatric | Total Psychiatric |
|-----------------------|-------------------|-------------------|
| 2009 Reporting Period | 77.54% | 88.49% |
| 2008 Reporting Period | 74.26% | 83.05% |

The applicant states that this filing is consistent with the *FY 2010 State Health Plan*.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, December 1, 2009 Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria. (See Below).

GR Criterion 1 – State Health Plan

This project has been reviewed for compliance with the *2010 State Health Plan*.

GR Criterion 2 - Long Range Plan

According to the applicant, each year as part of Forrest General's planning process a Vision Alignment matrix is developed. There are four strategies: quality patient experience, quality staff experience, quality business experience, and alignment with physicians.

The applicant states that Forrest General's Facility Planning Committee reviews the Long Range Facility Development Plan and shares it with the Board of Trustees. The Board then must approve the Plan before any action is taken by Administration. The applicant submits that the proposed project is consistent with the hospital's long range development plan.

GR Criterion 3- Availability of Alternatives

According to the applicant, the following alternatives are available:

- **To make no changes** – this alternative was not considered as without the conversion of beds, an increased demand for acute inpatient psychiatric beds will continue to result in patients either displaced in inappropriate medical beds at Forrest General Hospital or lacking a resource to receive appropriate care at all.
- **The establishment of an inpatient unit at Forrest General Hospital** – this alternative was not considered because there is a lack of space and trained staff within the facility.
- **Expanding the psychiatric unit, and keeping the CDU beds** – not a viable option considering the underutilization of CDU beds.
- **Close CDU** – this alternative was not considered because an unused unit will deteriorate quickly, and licensed beds will go unused.

The applicant suggests that by re-deploying under utilized chemical dependency beds, Pine Grove will be providing the appropriate care environment for patients in the most cost effective way. The applicant concluded that the proposed project is the most efficient workable solution.

GR Criterion 4 - Economic Viability

- a. **Proposed Charge:** The applicant projects charges of \$1,337 per inpatient day for years 1-3 of operation for the proposed project.

The applicant submits that the project itself will not drive any change in charges. The applicant further suggests that if anything, the need for charge increases will be ameliorated by the more effective and efficient use of facilities and staff.

- b. **Projected Levels of Utilization:** The applicant projects 1,500 inpatient days for year one, 1,800 inpatient days for year two, and 2,000 inpatient days for year three.

- c. **Project's Financial Feasibility Study:** If the capital expenditure of the proposed project is \$2,000,000 or more, the applicant must submit a financial feasibility study prepared by an accountant, CPA, or the facility's financial officer. The study must include the financial analyst's opinion of the ability of the facility to undertake the obligation and the probable effect of the expenditure on present and future operating costs. In addition, the report must be signed by the preparer.

The capital expenditure for the proposed project is below \$2,000,000.

GR Criterion 5 - Need for the Project

According to the applicant, patients are currently being turned away due to shortage of psychiatric beds. As a result, both quality of care and patient safety are compromised. Therefore, the applicant believes that it is critical that Pine Grove be allowed to make the most efficient and effective use of its bed complement and staff in response to changing market trends.

The *FY 2008 Hospital Report* lists 16 Adult Psychiatric Facilities, including Forrest General Hospital. For these facilities, the number of licensed beds range from 9 to 83 with inpatient days that vary from 2,097 to 15,063. For FY 2008, Forrest General Hospital reported 40 adult psychiatric beds with inpatient days totaling 10,871. For the conversion of the 24 beds, the applicant projects 1,500 inpatient days for year one, 1,800 inpatient days for year two, and 2,000 inpatient days for year three.

Forrest General proposes to convert 24 of its 32 CDU beds to psychiatric. The CDU has had less than 50% occupancy for the past two years while the occupancy rate for psychiatric services has been approximately 80%.

Pine Grove is the only non-state behavioral center offering inpatient psychiatric and chemical dependency services in Forrest County and the Hattiesburg surrounding area. The applicant states the proposed project should have no effect on existing facilities because no additional beds or services will be added.

The application contained five letters of support from physicians, government officials, and the community.

GR Criterion 6 – Accessibility

According to the applicant, all residents including Medicaid and Medicare recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly will have access to the services of the proposed project.

The applicant affirms that services will be available to patients 24 hours per day, 7 days a week, 365 days a year.

The applicant states that the proposed facility has no existing obligations under any federal regulation requiring the provision of uncompensated care or access by minority and handicapped persons.

The following table shows the percentage of estimated gross patient revenue and actual dollar amount of health care provided to medically indigent patients for the last fiscal year and the projections for years 2011 and 2012.

| Fiscal Year | Percent of Gross Patient Revenue | Dollar Amount |
|----------------------------|---|----------------------|
| Historical Year 2009 | 14.81 | \$125,211,810 |
| Projected Year 1 (2011) | 15.13 | \$158,870,836 |
| Projected Year 1 (2012) | 15.48 | \$ 64,173,340 |

GR Criterion 7- Information Requirement

Forrest County General Hospital indicates 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

As previously stated, Pine Grove is the only non-state behavioral health center offering inpatient psychiatric and chemical dependency services in the Hattiesburg and surrounding area. However, Forrest General Hospital and Pine Grove Behavioral Health have transfer agreements with numerous facilities in the state.

The applicant believes that the proposed project should have no effect on existing facilities in the service area because no additional beds or services will be added.

GR Criterion 9 - Availability of Resources

The applicant affirms that as this project is only the reclassification of beds, minimal new personnel will be required to staff the new area. With two universities and several junior colleges in the area, the applicant states recruiting appropriate staff will not be an issue.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that psychiatric services do not require a heavy use of ancillary services. The applicant further states, Forrest General Hospital will provide any special ancillary services that are needed. There will be no change in charges as a result of the proposed project. The applicant states that proposed charges are based on historical trends and will be market driven.

GR Criterion 16 - Quality of Care

Forrest County General Hospital is in compliance with **the Minimum Standards for the Operation of Mississippi Hospitals**, according to the Division of Health Facilities Licensure and Certification, MSDH and is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

| | Item | Cost | Percentage of Total |
|----|---|--------------------|----------------------------|
| a. | Construction Cost – New | \$ 0 | 0% |
| b. | Construction Cost – Renovation | \$1,621,780 | 86.96 % |
| c. | Capital Improvements | \$ 0 | 0% |
| d. | Total Fixed Equipment Cost | \$ 0 | 0% |
| e. | Total Non-Fixed Equipment Cost | \$ 0 | 0% |
| f. | Land Cost | \$ 0 | 0% |
| g. | Site Preparation Cost | \$ 0 | 0% |
| h. | Fees (architectural, consulting, etc.) | \$ 129,742 | 6.95% |
| i. | Contingency Reserve | \$ 113,525 | 6.09% |
| j. | Capitalized Interest | \$ 0 | 0% |
| k. | Other (Personal Financing) | \$ 0 | 0% |
| | Total Proposed Capital Expenditure | \$1,865,047 | 100% |

The capital expenditure will provide for partial demolition and renovation of the existing alcohol and dependency unit at the Pine Grove Recovery Center. Renovation costs are estimated to be \$187.59 per square foot. The Means Building Construction Cost Data, 2009, does not compare costs for renovation.

B. Method of Financing

The applicant intends to finance the proposed project from operating cash flows. Financial statements contained in the application indicates that there is sufficient cash flows to finance the project

C. Effect on Operating Cost

Forrest County General Hospital projects the following expenses, revenues, and utilization for the first three years of operation for the proposed project:

| | Year 1 | Year 2 | Year 3 |
|---------------------------------|------------------------|------------------------|------------------------|
| Revenue | | | |
| Inpatient Care Revenue | \$ 2,005,655 | \$ 2,406,786 | \$ 2,674,206 |
| Outpatient Revenue | 2,223 | 2,668 | 2,965 |
| Gross Patient Revenue | \$ 2,007,878 | \$ 2,409,454 | 2,677,171 |
| Charity | \$ 315,759 | \$ 378,910 | \$ 421,011 |
| Deductions from Revenue | 1,047,813 | 1,257,376 | 1,397,084 |
| Net Patient Care Revenue | \$ 644,306 | \$ 773,168 | \$ 859,075 |
| Total Operating Revenue | \$ 644,306 | \$ 773,168 | \$ 859,075 |
| Operating Expenses | | | |
| Salaries | \$ 240,077 | \$ 288,093 | \$ 320,103 |
| Benefits | 43,299 | 51,959 | 57,732 |
| Supplies | 7,755 | 9,306 | 10,340 |
| Services | 934 | 1,120 | 1,245 |
| Lease Expenses | 0 | 0 | 0 |
| Depreciation | 10,730 | 12,876 | 14,307 |
| Other | 358 | 430 | 478 |
| Total Operating Expenses | \$ 303,153 | \$ 363,784 | \$ 404,205 |
| Net Operating Income | \$ 341,153 | \$ 409,384 | \$ 454,871 |
| | Proposed Year 1 | Proposed Year 2 | Proposed Year 3 |
| Inpatient days | 1,500 | 1,800 | 2,000 |
| Charge per inpatient day | \$ 1,337 | \$ 1,337 | \$ 1,337 |
| Cost per inpatient day | \$ 202 | \$ 202 | \$ 202 |

D. Cost to Medicaid/Medicare

The applicant projects the following:

| Patient Mix by Payor | Utilization Percentage | First Year Revenue |
|----------------------|------------------------|---------------------|
| Medicaid | 39% | \$ 785,957 |
| Medicare | 17% | 347,243 |
| Other | 43% | <u>874,678</u> |
| Total | 100% | \$ 2,007,878 |

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, and expansion projects as contained in the *2010 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, December 1, 2009*, 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 Forrest County General Hospital, for the conversion of 24 chemical dependency beds to adult psychiatric beds at the Pine Grove Behavioral Health Center.