

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
MAY 2004**

**CON REVIEW HG-COB-0304-004
GREENWOOD LEFLORE HOSPITAL
ESTABLISHMENT OF A 40-BED LONG-TERM ACUTE CARE HOSPITAL
CAPITAL EXPENDITURE: \$389,750
LOCATION: GREENWOOD, LEFLORE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Greenwood Leflore Hospital (Greenwood) is a short-term acute care facility. The public, non-profit facility is jointly owned by the City of Greenwood and Leflore County. The hospital is governed by a five-member Board of Hospital Commissioners and is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

The hospital's licensed bed complement includes 248 acute care beds in the following licensure categories:

Medical-Surgical	228
Rehab	<u>20</u>
Total	248

Greenwood's occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the medical/surgical beds for the three most recent fiscal years are as follows:

Greenwood Leflore Hospital Utilization Data

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2001	62.01	5.95	19.25
2002	51.32	5.15	23.07
2003	45.21	4.90	22.79

Source: Division of Health Facilities Licensure and Certification, MSDH.

B. Project Description

Greenwood Leflore Hospital requests Certificate of Need (CON) authority to establish a 40-bed long-term acute care (LTAC) hospital on the second floor of Greenwood Leflore Hospital. Greenwood Leflore Hospital proposes to enter into a lease agreement with Allegiance Specialty Hospital of Greenwood, Inc., a Louisiana corporation (Allegiance) to provide the space to support the provision of long-term acute care services. The applicant asserts that Allegiance would lease approximately 14,870 rentable square feet on the second floor of Greenwood Leflore Hospital for the purpose of establishing and operating a 40-bed long-term care hospital. The proposed project involves the conversion of 40 existing acute care beds on the second floor of the hospital to offer much needed long-term acute care bed services. This addition of long-term acute care beds will further enhance the continuum of care through the offering of long-term acute care services to those patients requiring a longer acute care stay who are not medically ready to be transferred to a lower level of care, such as a skilled nursing facility, home, other subacute, or other nursing home facility. The proposed project will encompass a total of approximately 14,870 square feet of existing renovated space. The renovation proposed would require updates to the second floor of Greenwood to appropriately accommodate restorative care patients.

According to the applicant, the licensure status of the beds will remain acute care, but long-term acute care services will be offered. The applicant asserts that increases in ancillary or support services, if any, as a result of this proposed project, will be appropriately accommodated by Greenwood Leflore Hospital.

The total proposed capital expenditure is \$389,750 for renovation - 76.30 percent, non-fixed equipment - 3.52 percent, fees - 7.69 percent, and other costs (start-up) - 12.46 percent. The applicant proposes to finance the proposed project through accumulated cash reserves of the hospital.

The applicant indicates that upon Certificate of Need approval, Greenwood Leflore Hospital will immediately begin the renovations as outlined in the application. It is expected that the renovations would be completed within 120 days.

The application contains a letter from the MSDH, Division of Health Facilities Licensure and Certification, approving the site for the proposed project.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraphs (1)(d) (xiv) 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.

In accordance with Section 41-7-197 (2) of the Mississippi Code 1972 Annotated, 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 June 3, 2004.

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

A. State Health Plan (SHP)

The **FY 2004 State Health Plan** addresses criteria and standards which an applicant is required to meet before receiving CON authority for establishing long-term acute care services. This application is in substantial compliance with the applicable criteria and standards.

SHP Criterion 1 - Need

The **FY 2004 State Health Plan** requires a minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days and the financial feasibility of the project by the third year of operation. The applicant projects that after implementation of this project there will be 173 patients (ADC 13) the first year, 400 patients the second year (ADC 30), and 494 patients (ADC 37) the third year in these acute care long-term beds.

The applicant asserts that the determination of need for long-term acute care is based upon institution-specific service utilization levels, such as diagnoses related groups which are capable of producing long-term acute care admissions, to determine prospective demand for service. Greenwood believes that this approach makes an assumption that current demand or current institution-specific utilization is a base determinant of need for the proposed project.

SHP Criterion 2 - Documentation of General Acute Care Beds

The applicant proposed the conversion of 40 existing acute care beds for the provision of long-term acute care services at Greenwood Leflore Hospital. Therefore, the licensure status of the beds will remain acute care, but long-term acute care services will be offered.

SHP Criterion 4 - Charity/Indigent Care

The applicant asserts that Greenwood and the long-term acute care hospital will provide a reasonable amount of indigent/charity care to its patients. Further, the applicant states that it will provide 2.7 percent to bad debt/charity and uncompensated care.

SHP Criterion 5 - Project Cost

The applicant states that the cost for the proposed project is reasonable in comparison with the cost of similar projects. Greenwood Leflore Hospital submits that the cost of the proposed project's renovation cost per square foot is \$22.02.

SHP Criterion 6 - Floor Areas/Space Requirements

The applicant affirms that the project includes appropriate floor areas and space requirements including favorable gross square footage and architectural design in comparison to state and national norms for similar projects.

SHP Criterion 7 - Transfer Agreement

The application contains a letter of interest from Baptist Memorial Hospital-DeSoto, Inc. regarding transfer arrangements for comprehensive medical rehabilitation services.

B. General Review (GR) Criteria

Chapter 8 of the **Mississippi Certificate of Need Review Manual**, May 13, 2000 revisions, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 2 - Long Range Plan

The applicant states that its long range plan is to ensure high quality health care by providing speciality inpatient long-term acute care and outpatient rehabilitation services to its patients.

GR Criterion 3 - Availability of Alternatives

According to the applicant, the proposed project is the result of planning and the identification of long-range goals for Greenwood Leflore Hospital and the community it services. Furthermore, applicant believes that it is the most efficient and cost-effective method of meeting the health care needs of the community and service area .

GR Criterion 4 - Economic Viability

The applicant projects the following results the first three years of operation: a net loss of \$1,135,338 the first year, a net income of \$996,445 the second year, and a net income of \$1,585,574 the third year. Therefore, the project appears to be economically viable.

GR Criterion 5 - Need

According to Greenwood, the hospital does not discriminate against low-income persons, racial and ethnic minorities, the elderly, women, handicapped persons, or any other under-served groups in the provision of health care services. All groups, including the medically under-served, will have access to the proposed facility.

As previously mentioned, the addition of long-term acute care beds will further enhance the continuum of care offered through the provision of long-term acute care services. This includes those patients requiring a longer acute care stay who are not medically ready to be transferred to a lower level of care, such as a skilled nursing facility, home, subacute unit, or other nursing home facility.

GR Criterion 6 - Access to the Facility or Service

Greenwood Leflore Hospital asserts that the hospital does not discriminate against the poor, the handicapped, women, the elderly, and members of racial and ethnic minorities. These patients will have access to the proposed 40-bed long-term acute care hospital services.

Greenwood projected utilization of the proposed service by medically indigent patients at 2.7 percent.

GR Criterion 7 - Information Requirement

Greenwood Leflore Hospital affirms that it will record and maintain the requested information and make it available to the Mississippi State Department of Health within 15 days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Greenwood Leflore Hospital asserts that no adverse impact is expected on any other long-term acute care provider in the service area. The applicant believes that the proposed project will enhance the health care services provided in the local community by complementing the services already offered by the hospital.

GR Criterion 9 - Availability of Resources

Greenwood Leflore Hospital projects 42.6 additional FTE personnel at an annual cost of \$1,720,888 for the proposed project.

The applicant asserts that any needed personnel will be recruited through present recruiting efforts and affiliation arrangements of the hospital.

GR Criterion 16 - Quality of Care

The applicant is in compliance with the Minimum Standards of Operation for Mississippi Hospitals, according to the Division of Health Facilities Licensure and Certification.

Greenwood Leflore Hospital is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Renovation	\$297,400
Non-Fixed Equipment	\$ 13,750
Fees	\$ 30,000
Other Costs (start-up)	\$ 48,600
Total Proposed Capital Expenditure	\$389,750

The applicant proposes to renovate 14,870 square feet at Greenwood Leflore Hospital at a cost of \$22.02 per square foot.

The proposal also includes the purchase of non-fixed equipment.

B. Method of Financing

The \$389,750 will be financed through accumulated cash reserves. Allegiance Health Management will fund the initial operating capital for the proposed project.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization, and results from operation for the first three years following completion of the project:

Expenses	Year 1	Year 2	Year 3
Wages & Benefits	\$ 1,720,888	\$3,593,376	\$4,332,538
Variable Costs	\$ 1,083,120	\$2,524,000	\$3,117,140
Depreciation & Amortization	\$ 12,615	\$ 12,615	\$ 12,615
Fixed Costs	\$ 557,530	\$ 724,300	\$ 824,010
Interest Expense	\$ 59,522	\$ 125,254	\$ 98,322
Capital Costs	\$ 478,000	\$ 510,000	\$ 510,000
Total Expenses	\$ 3,911,675	\$7,489,545	\$8,894,625

Assumptions:

No. of Licensed Beds	40	40	40
Occupancy Rate	32%	75%	91%
Patient Days	4,634	10,800	13,338
Average Length of Stay	27	27	27
Cost/pt. Day	\$844	\$693	\$667
Charge/pt. Day	\$616	\$808	\$808

Revenues

Total Pt. Rev.	\$2,854,258	\$8,724,160	\$10,774,338
Deductions	\$ (77,921)	\$ (238,170)	\$ (294,139)
Net Revenue	\$ 2,776,337	\$8,485,990	\$10,480,1998
Net Income (loss)	\$(1,135,338)	\$ 996,445	\$ 1, 585,574

D. Cost to Medicaid/Medicare

Patient Mix by type of Payor	Utilization	First Year Cost
Medicaid	3	\$ 117,350
Medicare	86	\$ 3,364,041
Other Payor*	11	\$ 430,284
Total	100	\$ 3,911,675

*The applicant projects 2.7 percent of gross patient revenues to be provided to bad debt/charity and uncompensated care patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. However, no written comments were received.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the criteria and standards for establishment of long-term care beds as contained in the **FY 2004 State Health Plan**; Chapter 8 of the **Certificate of Need Review Manual**, 2000 revisions; 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 Greenwood Leflore Hospital.