

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

**CON REVIEW HG-CRF-0604-021
INDEPENDENT HEALTHCARE MANAGEMENT, INC. DBA LACKEY MEMORIAL HOSPITAL
CONSTRUCTION OF A REPLACEMENT HOSPITAL
CAPITAL EXPENDITURE: \$20,000,000
LOCATION: FOREST, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Independent Healthcare Management, Inc. dba Lackey Memorial Hospital (LMH) is a 25-bed critical access hospital that offers acute care to 15 in-patients and services to 10 swing bed patients. The hospital currently has a management contract in place with Independent Healthcare Management, Inc., a Mississippi non-profit corporation, to provide various services dealing with the management and operation of Lackey Memorial Hospital.

The hospital filed Articles of Incorporation on January 10, 1989, with the Secretary of State's Office in the state of Mississippi and the facility is presently governed by eight board members.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for the three most recent fiscal years are shown below (medical/surgical beds only).

**Lackey Memorial Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2001	26.81	2.64	4.06
2002	27.29	2.34	2.69
2003	30.02	2.91	2.61

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

B. Project Description

Independent Healthcare Management, Inc. dba Lackey Memorial Hospital requests Certificate of Need (CON) authority for the construction of a replacement hospital. The new facility is to replace the fifty (50) year old hospital structure. LMH proposes to build a thirty-five (35) bed state-of-the-art facility that will offer acute care to fifteen (15) in-patients, services to ten (10) swing-bed patients, and care for ten (10) geriatric-psychiatric patients. LMH asserts that it will request an increase in bed count to thirty-five (35) beds in January of 2005. This increase in bed count will allow for the ten beds to be added to LMH when regulations will allow a critical access hospital to offer geriatric psychiatric services. The hospital intends to reactivate * ten (10) of the hospital's 19 delicensed acute care beds for the Distinct Part Unit (DPU).

The new facility will offer twenty-four (24) hour emergency room, laboratory service, radiology services, out-patient surgery and medical/surgical care. In addition, appointments can be made with various consulting physicians through the hospital's out-patient department. The proposed new hospital facility will be located near the intersection of Highway 35 and Interstate 20 in Forest, Mississippi.

According to the applicant, Lackey Memorial Hospital plans to lease the existing hospital structure to a group interested in providing long-term care to residents in Scott County and the surrounding area. The applicant believes this would alleviate some of the state's shortage of nursing home beds at less cost than new construction.

The applicant projects 27 new full-time equivalent personnel at an estimated cost of \$500,000 the first year for the proposed project.

Note: *Lackey Memorial Hospital was originally licensed for 44 acute care beds. The hospital delicensed 19 of the acute care beds in order to become a 25-bed critical access hospital as required by Senate Bill 1429, effective July 1, 2003 (2003 Regular Legislative Session).

Square footage for new construction of the replacement hospital for the different areas associated with this project are shown below:

New Construction	Square Feet
Lobby/Public Area	2,160
Administrative Services	3,863
Support Services:	
Medical Records	1,500
Dietary/Dinning	3,105
Medical Services:	
Pharmacy	580
Clinical Laboratory	1,559
Imaging	4,433
Emergency Dept.	5,246
Surgery/Recovery	4,433
Outpatient Services	5,280
RT/Sleep Studies	1,247
Nursing Services	12,263
Ancillary Services	6,397
Senior Care Unit	7,779
Subtotal	59,845
Mechanical/Electrical Plant	4,189
Misc. Horizontal/Vertical Circulation	4,189
Exterior Walls/Structure	748
Total	68,971

The total proposed capital expenditure is \$20,000,000 is composed of the following: new construction - 55 percent, site preparation - 5 percent, fixed equipment - 3 percent, non-fixed equipment - 23 percent, land cost -1 percent, fees - 4 percent, capitalized interest - 4 percent, contingency reserve - 4 percent, and other costs - 1 percent. The applicant proposes to finance the proposed project through the following sources:

HUD	\$18,000,000
Private Investor Loans	\$ 1,800,000
Donation of Land	\$ 200,000
Total	\$20,000,000

According to the applicant, construction on the project is expected to commence on January 1, 2005, with completion of construction expected to take place on March 1, 2006.

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

II. TYPE OF REVIEW REQUIRED

Projects which propose the construction of a replacement facility are reviewed in accordance with Section 41-7-191, subparagraphs (1)(b), and (c) 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.

Effective July 1, 2004, Senate Bill 2519 (2004 Regular Legislative Session) states that: "To the extent permitted under Section 41-7-171 et seq., a critical access hospital may establish a distinct-part psychiatric unit and a distinct-part rehabilitation unit, each of which must be certified under Title XVIII of the Federal Social Security Act and each of which may consist of no more than ten (10) beds. No bed in the critical access hospital's distinct-part psychiatric unit or distinct-part rehabilitation unit shall be counted for purposes of the twenty-five (25) bed limit. Each distinct-part unit in a critical access hospital must comply with all applicable state licensure laws and federal certification laws."

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 September 7, 2004.

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

A. State Health Plan (SHP)

The **Fiscal Year 2004 State Health Plan** addresses criteria and standards which an applicant is required to meet before receiving CON authority for construction/replacement and relocation projects. As previously stated, this proposal involves construction/replacement of the applicant's current facility.

SHP Criterion 1 - Need

According to the applicant, LMH is seeking authorization for the construction of a new facility to replace the 50 year old existing hospital structure. LMH asserts that the architectural design of the existing building places drastic restraints on the expansion that is necessary to keep up with continual changes in the building codes. To upgrade the old plant it would be necessary to replace the existing boiler system in whole, and undertake major repairs to the building's roof and its electrical and plumbing systems. In addition, the existing hospital is located in a residential area near the downtown area of the city of Forest. This location makes it difficult for new residents to the area or individuals traveling through the area to locate. The decision to build a new replacement facility was chosen based on the need for a modern healthcare facility to better serve Scott County and the surrounding area. LMH believes that modernization of the facility will allow Lackey Memorial Hospital to better meet the needs of its patients in the manner in which they deserve.

LMH asserts that the hospital intends to provide services to the residents of Scott County and the surrounding area for many years. The construction of a new hospital facility will allow LMH to provide much needed services to the citizens of the community who might otherwise be unable to attain the quality healthcare services offered by LMH.

SHP Criterion 3 - Charity/Indigent Care

The applicant affirms its intent to provide a reasonable amount of indigent and charity care. LMH projects to provide two percent charity/indigent care of total patient revenue in the new replacement hospital.

SHP Criterion 4 - Project Cost

Lackey Memorial Hospital submits that the cost of the proposed project's new construction (68,971 square feet) will be \$225 per square foot, which does not exceed the high construction costs for similar projects in the state.

According to the applicant, the design, renovation and location issues make the renovation of the existing building not as financially competitive or patient serviceable as the construction of a new facility in a more patient accessible area.

B. General Review (GR) Criteria

Chapter 8 of the **Mississippi Certificate of Need Review Manual**, 2000 revision, addresses general criteria by which all applications for Certificate of Need are reviewed. This application is in substantial compliance with applicable criteria.

GR Criterion 2- Long Range Plan

According to the applicant, the administration and governing board of Lackey Memorial Hospital believes that the construction of the new hospital facility will be vital in the overall long-range plan for the development of the hospital.

GR Criterion 3 - Availability of Alternatives

As previously mentioned, LMH asserts that the only alternative to building a new hospital facility would be the extensive renovation of the existing 50 year old structure. The architectural design of the existing building places drastic restraints on the expansion that is necessary to keep up with continual changes in the building codes. To upgrade the old physical plant it would be necessary to replace the existing boiler system in whole, and undertake major repairs to the building's roof and its electrical and plumbing systems. In addition, the existing facility is located in a residential area near the downtown area of the city of Forest. This location makes it difficult for new residents to the area or individuals traveling through the area to locate. The design, renovation and location issues make the renovation of the existing building not as financially competitive or patient serviceable as the construction of a new facility in a more patient accessible area.

GR Criterion 4 - Economic Viability

Based on the operation projections provided by the applicant, this appears to be an economically viable project. Financial projections in the application reflect net incomes of

\$713,082 the first year, \$763,113 the second year, and \$799,249 the third year of operation of the proposed project.

The application contains a financial feasibility study prepared by Lackey Memorial Hospital's Chief Financial Officer documenting the hospital's financial ability to undertake this project.

GR Criterion 5 - Need for Project

Applicant states that Scott County, home to Lackey Memorial Hospital and 78 percent of its patients, is considered a medically under-served district. Over 34 percent of the population of the individuals served by LMH are 45 years of age or older. In addition, racial and ethnic minorities comprise almost 43 percent of the service population with women accounting for over 64 percent of its patients.

The applicant asserts that it will be necessary to relocate the facility in order to construct a new hospital. The new facility will be relocated to an area that will be more accessible to the population presently being served and will in no way affect the ability of under-served groups or the elderly to obtain needed healthcare.

According to the applicant, the project's final objectives are as follows:

1. Other health care providers: The applicant states that the construction of a new critical access hospital facility would not have any material impact on other health care providers within its health planning area since the only change in its services will be the addition of senior care beds.
2. Results from failure to implement: The applicant believes that failure to construct the new hospital facility could render LMH incapable of meeting the health care needs of its service community and ultimately result in the closure of the critical access hospital facility.
3. Result of the project implementation: The applicant asserts that the long-term care result of the construction of the new critical access hospital facility is an improved continuum of care for residents of LMH's service area and a stronger, better serving health care facility.

The applicant believes that failure to construct the new hospital facility could render LMH incapable of meeting the health care needs of its service community and ultimately result in the closure of the critical access hospital facility.

The applicant received five (5) letters of support from health care providers of the area, the Mayor and Police Chief of the City of Forest, for the proposed project.

GR Criterion 6 - Accessibility

The applicant submits that LMH presently provides services to all residents within its health planning service area, and will continue to provide these services after completion of the new hospital facility. LMH does not prohibit or exclude any patients from receiving services due to their age, ability to pay, race or ethnic affiliation, sex or being handicapped. The following table gives the percentage of gross patient revenue of health care provided to medically indigent patients for the last three calendar years:

Year	2001	2002	2003
Percentage (%)	4%	3%	3%

Lackey Memorial Hospital projects indigent patient care to be two percent of total patient revenue in the new facility.

GR Criterion 7 - Information Requirement

According to the applicant, Lackey Memorial Hospital has a system in place to record and maintain utilization data and information required by this criterion and will 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

Lackey Memorial Hospital is located in General Hospital Service Area 3 (GHSA), which contains 3,430 licensed acute care beds. This application does not propose new services in General Hospital Service Area 3. Lackey Memorial Hospital is only replacing an existing hospital in the area with a facility designed to better serve the patients within the service area.

GR Criterion 9 - Availability of Resources

The applicant states that the project will involve an addition of 27 FTE staff and the annual cost of these employees will be \$500,000. According to the applicant, Pioneer Health Services, Inc., the applicant's management company, has an employee that devotes 100 percent of his time to the recruitment of healthcare professionals. This includes, but is not limited to, RN's, LPN's and MD's.

GR Criterion 10 - Relationship to Ancillary or Support Services

According to the applicant, Lackey Memorial Hospital plans to utilize the same staffing plan as it has in the past. LMH asserts that no problems or complaints have ever been lodged due to under-staffing issues from a licensing authority.

GR Criterion 16 - Quality of Care

Lackey Memorial Hospital is in substantial compliance with the **Minimum Standards for Operation of Mississippi Hospitals**, according to the Division of Health Facilities Licensure and Certification.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction	\$11,000,000
Fixed Equipment	\$ 613,000
Non-Fixed Equipment	\$ 4,500,000
Site Preparation	\$ 1,200,000
Fees (Architectural, Consultant, etc.)	\$ 800,000
Contingency Reserve	\$ 700,000
Capitalized Interest	\$ 800,000
Land Cost	\$ 200,000
Other Cost	\$ 187,000
Total Capital Expenditure	\$20,000,000

The above estimated capital expenditure is proposed for new construction of 68,971 square feet of space at a per square foot cost of \$225. **Means Building Construction Cost Data 2004** (MCCD) shows the high range per square foot cost of new construction to be \$248. It also involves purchases of fixed and non-fixed equipment.

B. Method of Financing

Applicant states that the proposed project's capital expenditure of \$20,000,000 will be financed as follows:

*HUD 242 Loan	\$18,000,000
**Private Investor Loans	1,800,000
***Donation of Land	<u>200,000</u>
Total	<u>\$ 20,000,000</u>

The application contains a letter from *HUD concerning financing 90 percent of the proposed capital expenditure, **Joseph S. McNulty's financial statement concerning the private investor's agreement to fund the 1.8 million of the capital expenditure, and an agreement from ***Pioneer Health Services, Inc., which shows its intent to donate 20 acres at a cost of \$200,000 to Lackey Memorial Hospital 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 this project:

Item	First Year	Second Year	Third Year
Salaries & Benefits	\$ 5,017,414	\$ 5,399,637	\$ 5,811,671
Professional Fees	\$ 4,737,998	\$ 4,927,518	\$ 5,124,619
Supplies & Other Misc.	\$ 1,924,607	\$ 2,001,591	\$ 2,081,655
Lease Expense	\$ 242,103	\$ 251,787	\$ 261,858
Maintenance & Utility	\$ 202,275	\$ 210,366	\$ 218,780
Tax & Licenses	\$ 119,094	\$ 143,385	\$ 149,121
Bad Debt	\$ 1,489,434	\$ 1,793,227	\$ 1,864,956
Interest & Penalties	\$ 1,065,111	\$ 1,065,111	\$ 1,065,111
Depreciation & Amortization	\$ 1,345,766	\$ 1,345,766	\$ 1,345,766
Total Expenses	\$16,143,802	\$17,138,388	\$17,923,537

Revenues

Gross Patient Rev.	\$26,229,498	\$ 28,796,548	\$ 31,796,842
Total Deductions	\$ (9,372,614)	\$(10,895,047)	\$(13,074,056)
Net Patient Rev.	\$16,856,884	\$ 17,901,501	\$ 18,722,786
Net Income	\$ 713,082	\$ 763,113	\$ 799,249

Utilization, Cost and Charges

Patient Days	21,947	23,702	25,599
Cost/Patient Day	\$ 736	\$ 723	\$ 700
Charge/Patient Day	\$ 1,195	\$ 1,215	\$1,242

D. Cost to Medicaid/Medicare

Based on Lackey Memorial Hospital's gross patient revenue projected for this project, the applicant projects the impact of the project on third party payors as follows for the first year:

Cost to Medicaid/Medicare & Other Payors

Payor Mix	Utilization Percentage (%)	First Year Cost
Medicaid	20	\$ 3,228,760
Medicare	44	\$ 7,103,273
Other Payors*	36	\$ 5,811,768
Total	100	\$16,143,801

*The applicant projects 3 percent of gross patient revenues to be provided to bad debt patients, 2 percent to indigent patients and 1 percent to charity patients for the first year of operation.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that the increased annual cost to the Medicaid program for the capital expenditure will be \$658,356 for in patient hospital services.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction and relocation as contained in the **FY 2004 State Health Plan**; the **Mississippi Certificate of Need Review Manual**, revised 2000; and all adopted rules, procedures and plans of the Mississippi State Department of Health.

The project also complies with Senate Bill 2519 of the 2004 Legislative Session, which states that: "to the extent permitted under Section 41-7-171 et seq., a critical access hospital may establish a distinct -part psychiatric unit and a distinct-part rehabilitation unit, each of which must be certified under Title XVII of the Federal Social Security Act and each of which may consist of no more than ten (10) beds. No bed in the critical access hospital's distinct-part psychiatric unit or distinct-part rehabilitation unit shall be counted for purposes of the twenty-five (25) bed limit. Each distinct-part unit in a critical access hospital must comply with all applicable state licensure laws and federal certification laws, effective July 1, 2004."

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Independent Healthcare Management, Inc. dba Lackey Memorial Hospital.