

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

**CON REVIEW LTCH-RLS-0305-008
REGENCY HOSPITAL COMPANY, LLC D/B/A REGENCY HOSPITAL OF JACKSON
ESTABLISHMENT OF A 36-BED LONG TERM ACUTE CARE HOSPITAL AT ST.
DOMINIC
CAPITAL EXPENDITURE: \$1,744,552
LOCATION: JACKSON, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Regency Hospital Company, LLC, d/b/a Regency Hospital of Jackson, is a Delaware Limited Liability Company authorized to do business in the state of Mississippi. The entity has six corporate officers and a five-member Board of Managers. Regency Hospital Company, LLC currently operates Regency Hospital of Hattiesburg and Regency Hospital of Meridian.

Regency Hospital of Jackson proposes to become a Medicare provider and obtain certification by the Joint Commission of American Healthcare Organizations.

B. Project Description

Regency Hospital of Jackson (Regency) requests certificate of need (CON) authority to develop a long-term acute care hospital (LTAC) within St. Dominic – Jackson Memorial Hospital (St. Dominic), in Jackson, Mississippi. Regency will provide chronic or long-term medical care to patients who do not require more than three hours of rehabilitation or comprehensive rehabilitation per day.

Regency has entered into a lease agreement with St. Dominic to lease 36 beds and related space to develop and operate a 36-bed separately licensed LTAC. In return for the space and services, Regency will pay an annual lease payment of \$12,000 per bed, or \$432,000 for the 36 beds. The initial term of the lease will be 10 years, with options to extend for additional 5-year periods.

As part of the lease arrangement, St. Dominic will provide the following services: utilities, plant maintenance, security, and access for employees, patients, and families to parking and the cafeteria.

Regency will purchase certain ancillary services from St. Dominic or a third party, including: radiology/imaging (inclusive of nuclear medicine

and other complex radiological services), surgery and related diagnostic procedures, emergency response, laboratory, housekeeping, dietary and dietitian, and laundry.

The project will require renovation of 19,000 square feet of space on the sixth floor that is currently a nursing unit containing 36 beds and support services. The renovation will result in a nursing unit containing 36 beds that will be used for a long-term acute care hospital-in-hospital operated by Regency Hospital of Jackson, LLC. All beds will meet ADA requirements. The project also involves renovation of 3,000 square feet in the adjacent medical plaza.

The project will require 31.5 FTE personnel during months 1 – 6, at a cost of \$809,887, and 73.9 FTE personnel during months 7 – 12, at a cost of \$1,710,915.

The site for the proposed LTAC has been approved by the MSDH Division of Health Facilities Licensure and Certification. Regency proposes to begin renovation upon CON approval, and obtain licensure by October 2006.

II. TYPE OF REVIEW REQUIRED

Projects which propose the establishment of a long-term acute care hospital are reviewed in accordance with Section 41-7-191, subparagraphs (1)(a), and (d)(xiv) Mississippi Code 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 person may request a hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on June 6, 2005.

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

A. State Health Plan (SHP)

The *FY 2005 Mississippi State Health Plan* contains policy statements, criteria and standards which an applicant is required to meet before receiving CON authority for the construction, development, or otherwise establishment of a long-term acute care hospital. This application is in compliance with the *FY 2005 Mississippi State Health Plan*.

SHP Criterion 1 – Need

The applicant shall document a minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days, and must project financial feasibility by the end of the third year of operation.

The applicant documented the availability of a minimum of 450 clinically appropriate restorative care admissions with an average length of stay (ALOS) of 25 days and that the project will be financially feasible by the end of the third year of operation.

Three LTAC hospitals are presently operating within General Hospital Service Area 3, wherein the proposed facility will be located. They are as outlined below:

Long-Term Acute Care Hospitals Operating Within General Hospital Service Area 3			
Hospital	Bed Capacity	Occupancy Rate (%)	ALOS
MS Hospital Restorative Care-Jackson	25	83.49	32.53
Promise Specialty Hospital-Vicksburg	33	11.90	26.98
Select Specialty Hospital-Jackson	40	80.18	29.16

Source: Division of Health Facilities Licensure and Certification, Application for Renewal of Hospital License for Calendar Year 2005 and FY 2004 Annual Hospital Report.

SHP Criterion 2- Documentation of Acute Care Beds

The applicant affirmed that all of the LTAC beds are currently licensed as acute care beds and will remain so through this project.

SHP Criterion 3 – Transfer/Relocation of Beds

The beds are currently licensed and located at St. Dominic-Jackson Memorial Hospital. The applicant assures that the project will meet all state and federal regulatory and license requirements.

SHP Criterion 4 - Indigent/Charity Care

The applicant proposes to provide a reasonable amount of charity/indigent care.

SHP Criterion 5 - Cost of Project

The project will cost \$26.88 per square foot for renovations. The applicant believes that construction cost and equipment cost are reasonable considering the high acuity needs of these LTAC patients.

SHP Criterion 6 - Floor/Areas Space Requirements

The applicant states that the gross square footage of 22,000 square feet (including administrative space) is similar to that of other LTACs nationally and locally of similar size. All of the 36 beds are private.

SHP Criterion 7 – Transfer Agreement

The application contains transfer agreements with St. Dominic-Jackson Memorial Hospital and a proposed agreement with Methodist Rehabilitation Hospital, a comprehensive rehabilitation hospital, located in Jackson.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, (May 13, 2000, as amended)* addresses general criteria by which all CON applications are reviewed. The applicable criteria are discussed below:

GR Criterion 1 – Consistency with the State Health Plan

This application is consistent with the *FY 2005 Mississippi State Health Plan*.

GR Criterion 2 – Long Range Plan

The applicant states that the project is consistent with the Long Range Development Plan of Regency Hospital of Jackson to provide LTAC services to patients of General Hospital Service Area (GHSA) 3 in a high quality and cost effective manner.

GR Criterion 3 – Availability of Alternatives

The applicant states that it reviewed three alternatives: do nothing; construct a new LTAC; or lease under-utilized space from St. Dominic for

the establishment of a LTAC “hospital within a hospital” and transfer 36 acute care beds from St. Dominic to the proposed Regency Hospital of Jackson. The third alternative was considered the most cost effective manner of providing the highly needed LTAC services.

GR Criterion 4 – Economic Viability

The application contains documentation of the economic viability of the project. Projections are reasonable; the proposed charges are comparable to those charges proposed by other facilities for similar services; and the proposed levels of utilization are consistent with other facilities.

GR Criterion 5 – Need for the Project

The application documented that more than 450 LTAC appropriate admissions are available with an ALOS greater than 25 days.

The application contained approximately 45 letters of support.

Criterion 6 – Access to Facility or Services

The applicant states that the facility will provide access to everyone, including Medicare, Medicaid, and indigent/charity patients. Patients will be accepted by physician referral.

The applicant further states that each patient, regardless of ability to pay, will be assessed utilizing the established admissions review process, with attention to the appropriateness of the admission to an LTAC and with regards to attainable clinical goals. The applicant projects approximately 2.5 percent care for medically indigent patients.

GR Criterion 7 – Information Requirement

Regency Hospital of Jackson states that the required data will be maintained and furnished to the Mississippi State Department of Health when requested.

GR Criterion 8 – Relationship to Existing Health Care System

Patients are usually admitted to the acute care hospital initially and transferred to the LTAC as their physician identifies the need. Therefore, staff contends that this project should not have an adverse affect on similar facilities in the area.

GR Criterion 9 – Availability of Resources

The applicant states that Regency has never failed to attract sufficient nurses and physicians and allied health professionals to staff its hospitals. According to the applicant, the physicians and other clinical resources are available in GHSA 3.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that the ancillary and support services are available through the purchased services agreement with St. Dominic.

GR Criterion 16 – Quality of Care

The applicant submits that it has demonstrated excellent quality of care in Regency Hospital of Meridian and Regency Hospital of Hattiesburg, and in other hospitals around the country.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Renovation	\$591,250
Non-Fixed Equipment	837,257
Fees (Architectural, Consultant, Etc.)	142,057
Contingency Reserve	73,988
Capitalized Interest	0
Other Cost (legal/consulting)	100,000
Total Proposed Capital Expenditure	\$1,744,552

The applicant proposes to renovate approximately 19,000 square feet of space on the 6th floor of St. Dominic-Jackson Memorial Hospital and approximately 3,000 square feet in the adjacent Medical Plaza. The estimated cost of renovation/square foot is \$26.88 before fees and contingencies and \$36.70 after.

B. Method of Financing

The applicant proposes to finance the project through an inter-company loan. No debt is required.

C. Effect on Operating Cost

The applicant's projected three-year operating statement is included as Attachment 1.

D. Cost to Third Party Payors

The cost of the project to third party payors is as follows, based on net revenues:

Patient Mix	Utilization Rate	First Year Cost
Medicare	89.8	\$4,119,675
Medicaid	3.9	148,800
Other Payors*	6.3	279,180
Total	100.00	\$4,547,655

Note: Calculations are based on per diem rates for the various payors and may not calculate based on utilization rates.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of the application for review and comment, however, no comments have been received.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for long-term acute care hospitals, as contained in the *FY 2005 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, (May 13, 2000, as amended)*; and duly 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 Regency Hospital of Jackson for the establishment of an LTAC hospital within St. Dominic-Jackson Memorial Hospital.

Attachment 1

Regency Hospital of Jackson Three Year Operating Statement			
	Year 1	Year 2	Year 3
Key Statistics:			
Average Daily Census	13.33	30.50	32.00
Licensed Beds	36	36	36
Average Length of Stay	26.97	28.89	27.79
Average Occupancy Rate	37.1%	84.7%	88.9%
Patient Days	4,800	10,980	11,520
Adjusted Admission (excluding nursery)			
Patient Revenue			
Inpatient Revenue	10,560,000	26,352,000	29,952,000
Outpatient Revenue	-	-	-
Gross Patient Revenue	10,560,000	26,352,000	29,952,000
Deductions from Revenue			
Inpatient Contractuals	6,012,345	14,707,913	17,292,960
Outpatient Contractuals	-	-	-
Total Revenue Deductions	6,012,345	14,707,913	17,292,960
Net Patient Revenue	4,547,655	11,644,087	12,659,040
Other Operating Revenue	-	-	-
Net Revenue	\$ 4,547,655	\$ 11,644,087	\$ 12,659,040
Operating Expenses			
Salaries & Wages	2,520,802	4,412,423	4,814,604
Benefits	632,700	1,103,106	1,203,651
Medical Supplies	480,000	1,152,900	1,239,840
Non-Medical Supplies	36,000	70,245	74,907
Med Spec	90,000	126,000	129,150
Services	753,600	1,706,292	1,834,963
Utilities	30,000	31,500	32,288
Insurance	90,000	94,500	96,863
Fees	42,000	42,600	43,665
Travel & Entertainment	18,000	18,000	18,450
Operating Interest	100,000	150,000	-
Other	210,953	358,882	379,509
Total Operating Expenses	\$ 5,004,055	\$ 9,266,448	\$ 9,867,890
Income (Loss) from Operations	(456,400)	2,377,639	2,791,150
Capital Expenses			
Facility Rent	432,000	442,800	453,870
Capital Interest	23,598	14,867	4,356
Equipment Rentals	197,400	355,500	345,600
Property Taxes	30,000	31,500	33,075
Depreciation	337,440	341,440	346,773
Amortization	-	-	-
Total Capital Expenses	\$ 1,020,438	\$ 1,186,107	\$ 1,183,674
Hospital Overhead & Management Fee	\$ 450,000	\$ 600,000	\$ 500,000
Net Income (Loss)	\$ (1,926,838)	\$ 591,532	\$ 1,107,476