

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

**CON REVIEW LTCH-RLS-0305-006
SELECT SPECIALTY HOSPITAL-JACKSON, INC.
RELOCATION OF A 40-BED LONG-TERM ACUTE CARE HOSPITAL AND
EXPANSION BY 13 ADDITIONAL LTAC BEDS
CAPITAL EXPENDITURE: \$23,212,092
LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

The applicant, Select Specialty Hospital-Jackson, Inc. is a wholly-owned subsidiary of Select Medical Corporation, a company dedicated to providing quality care to patients who may need a longer acute stay for their recovery or well being. Select Specialty Hospital-Jackson, Inc. is a proprietary Delaware corporation in good standing with the Mississippi Secretary of State's Office. In Mississippi, Select Specialty currently operates long-term acute care hospitals in Biloxi, Gulfport, and Jackson.

Select Medical Corporation and its subsidiaries focus on providing specialty long-term acute care through 99 specialty hospitals in 26 states operating as long-term acute care hospitals, and, in addition, operating four acute medical rehabilitation hospitals. According to the applicant, Select Medical Corporation is also a leading operator of outpatient rehabilitation clinics in the United States and Canada, operating approximately 741 rehabilitation clinics. Select's programs and services are designed to complement the continuum of care provided by traditional hospitals, skilled nursing units and sub-acute facilities, and other rehabilitation hospitals.

A long-term acute care (LTAC) hospital operates as a freestanding, Medicare-approved, acute care hospital that provides chronic long-term medical care to patients who do not require more than three hours of comprehensive rehabilitation care per day. Mississippi's first LTAC opened in 1993. As of September 2004, nine LTACs were operational in Mississippi, with 2,505 admissions and 68,150 inpatient days of service provided. Tri-Lake Medical Center, Batesville, holds a Certificate of Need for a 35-bed LTAC, but is not yet in operation. See Attachment I of this Staff Analysis for a listing of operational and approved LTAC's in Mississippi.

B. Project Description

This Certificate of Need proposal involves the relocation of an existing 40-bed long-term acute care, "hospital within a hospital", currently leased from and located within the Central Mississippi Medical Center (CMMC), 1850 Chadwick Drive, Jackson, Mississippi, to a freestanding facility to be purchased by Select Specialty Hospital at 5903 Ridgewood Road, Jackson, Mississippi. The applicant requests the

addition of 13 beds to its existing complement of services to be offered at the Ridgewood Road facility. Select Specialty proposes the lease of these 13 additional beds from CMMC and that these beds be designated as “high observation beds” in the new location. If approved, the new facility will be licensed and operated as a 53-bed LTAC hospital. The hospital reported the following occupancy rate, average length of stay (ALOS), and Medicaid utilization rates for the LTAC for the three most recent fiscal years:

Utilization Data Select Specialty Hospital -Jackson			
Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid* Utilization Rate (%)
2002	13.17	25.83	0
2003	34.82	28.40	0
2004	80.18	29.16	0

Source: Division of Health Facilities Licensure and Certification, MSDH
 * LTACs are Medicare certified.

Select Specialty proposes to purchase the CMMC-North Campus facility and convert it into a freestanding long-term acute care facility. The first floor of Ridgewood Road facility consists of space that was constructed in compliance with applicable standards for an acute care hospital. The total proposed capital expenditure is budgeted at \$23,212,092, most of which (\$16,972,580 or 73.12 percent) has been allocated toward the purchase of the facility. The remaining expenditures are allocated toward land cost (\$3,027,420), fixed equipment cost (\$2,057,092), capital improvement cost (\$1,130,000), and fees (\$25,000). The applicant will transfer the existing staff to the new LTAC site. The first-year personnel cost is projected to be \$6,351,803.

The obligation of capital expenditure will occur within 30 days of CON approval. The applicant expects that long-term acute care services would commence at the new location within six months following project approval. The Division of Health Facilities Licensure and Certification has approved the proposed relocation site.

II. TYPE OF REVIEW REQUIRED

Construction/renovation/relocation and expansion projects are reviewed in accordance with Section 41-7-191, subparagraph (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 Department of Health.

The application was deemed complete on April 1, 2005. Any affected 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 7, 2005.

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

A. Mississippi State Health Plan (SHP)

The *FY 2005 Mississippi State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for establishing, or, in this case, the relocation of, long-term acute care services. This application submitted on behalf of Select Specialty Hospital-Jackson, Inc. is in substantial compliance with applicable criteria and standards, state criteria scope, bed addition, and relocation criteria.

SHP Criterion 1 - Need

Three LTAC hospitals are presently operating within General Hospital Service Area 3 as outlined below:

Long-Term Acute Care Hospitals Operating Within General Hospital Service Area 3 Fiscal Year 2004					
Hospital	Bed Capacity	Occupancy Rate (%)	ALOS	2004 Admissions	Patient Days
MS Hospital Restorative Care-Jackson	25	83.49	32.53	243	7,639
Promise Specialty Hospital-Vicksburg	33	11.90	26.98	55	1,312
Select Specialty Hospital-Jackson	40	80.18	29.16	395	11,738

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

Currently, Select Specialty Hospital-Jackson, Inc. leases space and 40 acute care beds from Central Mississippi Medical Center. These beds have been converted to a long-term acute care "hospital within a hospital" at CMMC. Select Specialty seeks CON authority to purchase a facility located at 5903 Ridgewood Road, Jackson, Mississippi, and to relocate the 40-bed LTAC to the Ridgewood Road site. Select Specialty further proposes to lease an additional 13 beds from CMMC to be used as high observation beds at the new facility.

Select Specialty currently occupies approximately 30,000 square feet of space on the fifth floor of CMMC and offers its long-term acute care services there. According to the applicant, space at the present site has become unbearably crowded. For instance, the current space leased at CMMC does not allow enough room for equipment storage, causing Select to rent outside storage space in order to store equipment and medical records. Select's pharmacy is scheduled to receive two additional medicine/dispensing machines in order to improve safety and efficiency in dispensing medications, yet there is no space in the current configuration to properly install them. Additionally, whirlpool and wound care services are badly needed by patients, but space is inadequate to house them. Patient care space is presently being used for storage, thereby reducing the census of the LTAC. Because of space constraints, Select is forced to use its administrative conference room to meet with family members for education and consultation.

The relocation of the LTAC to the Ridgewood Road facility will alleviate the space constraints currently existing at CMMC and allow Select to better deliver LTAC services, according to the applicant. The facility offers some 100,000 square feet of useable space on the first floor that was constructed as a medical/ surgical wing, and as such, would require minimal renovation in order to offer long-term acute care.

Select Specialty Hospital-Jackson, Inc. also requests CON authority to lease an additional 13 acute care beds from CMMC and use these beds as "high observation beds" at the Ridgewood Road facility. Before additional beds can be approved, the applicant must be able to demonstrate: (a.) **a minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days, and (b.) a projection of financial feasibility by the end of the third year of operation.**

Four hundred fifty clinically appropriate restorative care admissions with an average length of stay of 25 days will generate 11,250 ($450 \times 25 = 11,250$) patient days of care. The applicant projects that the relocated facility will generate 12,778, 13,505, and 14,084 patient days during the first, second, and third years of operation, respectively. During the same projected three-year operational period, the applicant projects a net income of \$4,723,516, \$5,754,489, and \$7,561,770. The applicant is in substantial compliance with this criterion.

SHP Criterion 3 – Transfer/Relocation of Beds

The project involves the relocation of an existing 40-bed LTAC hospital from its CMMC location to a Ridgewood Road facility that was constructed to acute-care hospital standards. The applicant proposes to lease an additional 13 acute care beds from CMMC and relocate these beds to a new facility as a 53-bed LTAC hospital. The applicant affirms that the 53-bed facility will meet all

regulation/licensure requirements for a long-term care hospital.

SHP Criterion 4 - Indigent/Charity Care

The applicant affirms that a reasonable amount of indigent and charity care will continue to be provided.

SHP Criterion 5 - Reasonable Cost

This project involves the lease of 53 acute care beds, the purchase of a facility constructed to acute care hospital standards, and the establishment of these leased beds into a freestanding long-term acute care facility in the purchased facility.

The Ridgewood Road property consists of approximately 13.9 acres on which are located a hospital, containing approximately 87,933 square feet; a medical office building, containing approximately 50,000 square feet; and all fixtures permanently affixed thereto. The cost to construct a new facility of similar size and capital expenditure would cost approximately \$168.29 per square foot. This cost falls between the first quarter and median costs for the construction of a hospital suggested by *RS Means Building Construction Cost Data, 63rd Annual Edition* of \$152 and \$181, respectively.

SHP Criterion 6 - Floor Area and Space Requirement

The applicant affirms that the project includes appropriate floor area 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 Agreements

Select Specialty Hospital-Jackson, Inc. presently has transfer agreements with Central Mississippi Medical Center, an acute care medical center, and Mississippi Methodist Hospital and Rehabilitation Center, a comprehensive medical rehabilitation center.

B. General Review (GR) Criterion

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000*, addresses general criteria by which all CON applications are reviewed. This project, submitted on behalf of Select Specialty Hospital-Jackson, Inc., to relocate and to expand an existing Long-Term Acute Care Hospital, is in substantial compliance with these general review criteria.

GR Criterion 3 - Availability of Alternatives

As stated previously, the applicant has determined that conditions at the present

location are unbearably crowded and the facility must be expanded or relocated to a larger facility. The applicant considered expanding the hospital's square-foot capacity by expanding within its present site. Spatial constraints within the Chadwick Drive site caused this alternative to be futile. The only viable option was to relocate to a freestanding facility.

The relocation of Select Specialty hospital to a freestanding setting will provide for enhanced access to Medicare beneficiaries. In August of 2004, the Centers for Medicare and Medicaid Services adopted certain regulatory changes applicable to long-term acute care hospitals that are operating as "hospitals within hospitals." These rules alter the requirement necessary for a "hospital within a hospital" to qualify for reimbursement as a long-term acute care hospital. By relocating to the Ridgewood Road facility and operating as a freestanding long-term acute care hospital, Select Specialty Hospital will be able to insure access to all Medicare beneficiaries without adverse reimbursement consequences, according to the applicant.

According to the applicant, the proposed project is the result of planning and the identification of long-range goals for the community to be served by the proposed facility. The project, as proposed, is the most efficient and cost-effective method of meeting the needs of the health community and service area, according to the applicant. Also, the Ridgewood Road facility will provide enhanced access to patients, as well to area hospitals which may refer patients to Select for care. The new site is more centrally located in Jackson, and will facilitate access to the long-term acute care hospital by physicians and patients.

GR Criterion 4 - Economic Viability

The application contained a letter of commitment from Select Medical Corporation, the parent company to Select Specialty Hospital-Jackson, Inc., to finance the purchase of the Ridgewood Road facility, the relocation of the 40-bed LTAC, the 13-bed expansion of the relocated hospital, and to provide all working capital from Select Medical's net cash flow from the operations and through borrowing under Select Medical's credit facility, if needed. Select Medical also demonstrated that it had adequate assets to support its commitments.

The applicant's Revised Three-Year Projected Operating Statement projects a net income of \$4,723,516, \$5,754,489, and \$7,561,770 during the first, second, and third years of operation, respectively. The project appears to be financially feasible.

Staff calculated the proposed charge to be \$3,321 per patient day for the first year of operation. The proposed charge per patient day appears to be in alignment with Medicare acceptable rates. Staff does not have adequate information to determine if these charges are similar to other LTAC s within the state.

The applicant affirms that the projected levels of service utilization are in line with the level of services experienced in similar facilities. Attachment II of this Staff Analysis demonstrates that the applicant's utilization projections equal or exceed all other LTACs in the state.

The application contained a letter from the Chief Financial Officer of Select Medical Corporation stating the parent company's willingness to underwrite the financing of the proposed project.

GR Criterion 5 - Need

The applicant presently operates at an 80-percent occupancy rate, indicating that additional LTAC beds are needed in General Hospital Service Area 3. However, before a LTAC hospital can expand, it must be able to demonstrate that it will generate **a minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days; and a projection of financial feasibility by the end of the third year of operation.**

The Application for Renewal of Hospital License for Calendar Year 2005 and FY 2004 Annual Hospital Report indicates that Select Specialty Hospital-Jackson, Inc. admitted 395 patients and provided 11,738 inpatient days of long-term acute rehabilitative care. The applicant projects to deliver 12,778, 13,505, and 14,084 inpatient days of care during the first, second, and third years of operation, respectively. These inpatient days of care, if the patients had an average length of care of 25 days, would equate to 511, 540, and 563 admissions during the first second, and third years of operation, respectively. Under these projections, the need for the 13-bed proposed expansion has been adequately demonstrated.

GR Criterion 6 - Accessibility

According to the applicant, Select Specialty does not discriminate against the poor, the handicapped, women, the elderly, or members of racial and ethnic minorities. These patients have and will continue to have access to the long-term acute care services provided in the relocated and expanded hospital.

GR Criterion 7 - Information Requirement

Select Specialty affirms that information will be recorded, maintained, and provided to the Mississippi State Department of Health within 15 days of the request for same.

GR Criterion 8 - Relationship to Existing Health Care System

This relocation and expansion project will enhance the health care services provided by Select Specialty Hospital-Jackson, Inc. to long-term acute care patients in the

local community, according to the applicant. Considering the high occupancy rate of the established LTAC hospitals in GHSA 3, this project should pose no adverse effect on other LTACs of the area.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

a. Construction Cost - New	0
b. Construction Cost - Renovation	0
c. Capital Improvement Cost	\$ 1,130,000
d. Total Fixed Equipment Cost	0
e. Total Non-Fixed Equipment Cost	2,057,092
f. Land Cost	3,027,420
g. Site Preparation Cost	0
h. Fees	25,000
i. Capitalized Interest	0
k. Other Cost: Purchase Price of Building	<u>16,972,580</u>
I. Total Proposed Capital Expenditure	<u>\$ 23,212,092</u>

The applicant proposes to purchase a facility, constructed to acute-care hospital standards and specifications; to make roof, foundation, and other repairs; to transfer the 40-bed LTAC from CMMC to the new facility; to expand the transferred LTAC by 13 beds; and to operate the completed facility as a 53-bed long-term acute care hospital. The Ridgewood Road facility has 155,000 total square feet of space.

B. Method of Financing

The proposed relocation and expansion project will be financed through accumulated cash reserves of Select Specialty Hospital-Jackson, Inc. and Select Medical Corporation.

C. Effect on Operating Cost

The applicant's Three-Year Projected Operating Statement is Attachment II of this staff analysis.

D. Cost to Medicare/Medicaid

Select Specialty Hospital-Jackson, Inc. Long-Term Acute Care Hospital Medicare/Medicaid Utilization		
Payment Source	Utilization Percent	Annual Operating Expense for First Full Year
Medicaid	0	N/A
Medicare	82.38	\$ 11,397,344
Other Third-Party Payors	<u>17.62</u>	<u>2,437,742</u>
Total	<u>100.00</u>	<u>\$ 13,835,086</u>

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid takes no position on this project.

VI. CONCLUSION AND RECOMMENDATION

Select Specialty Hospital-Jackson, Inc. seeks Certificate of Need authority to do the following:

1. Purchase a facility located at 5903 Ridgewood Road that once served as the North Campus of Central Mississippi Medical Center;
2. To transfer the leased 40-bed long-term acute care hospital, presently being operated as a "hospital within a hospital" at Central Mississippi Medical Center;
3. To expand the 40-bed LTAC by an additional 13 beds, also leased from Central Mississippi Medical Center; and
4. To operate the completed facility as a freestanding 53-bed long-term acute care Hospital.

The *FY 2005 Mississippi State Health Plan*, Acute Care Chapter, includes the standards and criteria for the establishment/expansion/replacement of long-term acute care hospitals. The acute care bed-need formula contained in the *Plan* governs need analysis only when the number of licensed beds in the planning area increases as a result of a new facility. Since the number of licensed beds in the area will not increase as a result of this project, the bed-need formula is not applicable.

The project is in substantial compliance with the criteria and standards outlined in the *FY 2005 Mississippi 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 Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of Select Specialty Hospital-Jackson, Inc. for the relocation and expansion of the existing Select Specialty Hospital-Jackson, Inc. Long-Term Acute Care Hospital from Central Mississippi Medical Center to a facility, that the applicant proposes to purchase by this capital expenditure, located at 5903 Ridgewood Road, Jackson, Mississippi, and to operate the completed project as a 53-bed Long Term Acute Care Hospital.

Attachment I Long-Term Acute Care Hospital Utilization Data Fiscal Year 2004			
Hospital	Beds	Admissions	Inpatient Days
Greenwood Specialty Hospital	40	6	59
MS Hospital for Restorative Care	25	243	7,639
Promise Specialty Hospital of Vicksburg	35	55	1,312
Regency Hospital of Hattiesburg	33	160	4,059
Regency Hospital of Meridian	40	383	10,040
Select Specialty Hospital of Jackson	40	395	11,738
Select Specialty Hospital of Biloxi	42	301	8,363
Select Specialty Hospital of Gulfport	38	361	9,114
Specialty Hospital of Meridian	49	601	15,856
Tri-Lake Medical Center	<u>35</u>	<u>CON</u>	<u>CON</u>
TOTAL	377	2,505	68,067

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

Attachment II
Select Specialty Hospital-Jackson, Inc.
Relocation of Long-Term Acute Care Hospital and Addition of 13Beds

Three-Year Projected Operational Statement			
	Year 1	Year 2	Year 3
Gross Patient Revenue			
Inpatient	\$ 42,433,094	\$ 45,811,193	\$ 49,268,117
Contractual Allowance	(22,775,687)	(24,530,224)	(26,358,191)
Total Net Revenues	19,657,407	21,280,969	22,909,926
Operating Expenses:			
Salaries, Wages, and Benefits	6,351,803	6,788,932	7,010,091
Bad Debt	589,722	638,429	687,298
Contracted Departments	2,104,627	2,219,874	2,311,052
Supplies	2,074,051	2,255,295	2,438,106
Utilities	323,215	333,046	343,176
Equipment lease and Rental	243,328	287,228	295,964
Taxes	100,600	103,618	106,727
Other	1,076,367	1,108,440	1,142,155
Depreciation	971,373	980,539	547,975
Total Expense	13,835,086	14,715,401	14,882,644
Income from Operations	5,822,321	6,565,568	8,027,282
Other Income - Expense			
Interest Expense	1,402,608	1,123,996	787,817
Non-Op. Inc./Exp. (MOB Rental)	(303,803)	(312,917)	(322,305)
Net Income	\$ 4,723,516	\$ 5,754,489	\$ 7,561,770
Assumptions			
Licensed Beds	53	53	53
ADC	35.01	37	38.59
Occupancy	66%	70%	73%
Patient Days	12,778	13,505	14,084