

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

**CON REVIEW: HG-COB-0505-014
MAGNOLIA REGIONAL HEALTH CENTER
CONVERSION OF 13 LEVEL II REHABILITATION BEDS
TO 13 ACUTE CARE BED STATUS
CAPITAL EXPENDITURE: \$-0-
LOCATION: CORINTH, ALCORN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Magnolia Regional Health Center (MRHC) is a non-profit, 164-bed general acute care hospital, jointly owned by the city of Corinth, Mississippi and Alcorn County. Magnolia Regional Health Center is governed by a five-member Board of Trustees. MRHC is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi Department of Health.

The licensed bed capacity of the hospital is made up of 132 medical surgical beds, 13 rehabilitation beds and 19 adult psychiatric beds.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the medical surgical beds at MRHC are as follows for the three most recent fiscal years:

**Magnolia Regional Health Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2002	56.42	4.72	15.69
2003	52.63	4.40	16.98
2004	48.53	3.97	18.04

Source: Division of Health Facilities Licensure and Certification, Mississippi Department of Health, (MDH).

B. Project Description

Magnolia Regional Health Center is requesting Certificate of Need (CON) authority to convert 13 Level II rehabilitation (rehab) beds back to 13 acute care medical surgical bed status at

the hospital. The applicant asserts that there is no current need for the existing Level II rehab bed category at MRHC. Magnolia Regional Health Center wishes to close its Level II rehab beds and return to its original status of 145 acute care medical surgical beds. The proposed project will change Magnolia Health Center 's existing bed complement from 132 acute medical surgical, 19 psychiatric, and 13 rehab beds to 145 acute medical surgical and 19 psychiatric beds. The facility's total licensed bed capacity will not be affected by the proposed project.

According to the applicant, there are no costs associated with the change of bed status. Nor are there any equipment costs associated because the facility already has the allotted equipment from the original license of 145 acute care beds and will utilize the existing equipment for the bed status change.

According to MRHC, the hospital will utilize existing floor space for the proposed change in bed status.

According to MRHC, no additional FTE personnel and no capital expenditure are required, as a result of the proposed project.

The applicant expects that the project will begin immediately after CON approval.

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 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 December 5, 2005.

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

A. State Health Plan

The **FY 2005 State Health Plan** (in effect at the time of submission of this application) contains criteria and standards which an applicant is required to meet prior to undertaking major construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. This project, for the conversion of hospital beds from one category to another, does not contemplate the addition of hospital beds, nor does it involve construction, renovation, expansion, capital improvement, or replacement. In addition, the project does not require the addition of any new health care services.

The applicant received CON authority in 2003 to convert a skilled nursing unit containing 13 acute care beds, to a Level II rehab unit. After determining that the Level II rehab unit is not profitable for MRHC, it now wishes to reinstate the 13 beds lost in the conversion, to their

original status. The conversion of acute care medical surgical beds to rehab beds did not result in an overall change in the licensed complement of beds at Magnolia Regional Health Center, nor will the reinstatement of beds to medical surgical beds result in a change in the total bed complement.

B. General Review (GR) Criteria

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

GR Criterion 1 – State Health Plan

The State Health Plan does not contain criteria and standards for the conversion of beds from one category to another such as proposed by this application. However, the Plan gives guidelines for all health planning in Mississippi. The Plan states that: “Mississippi’s health planning and health regulatory activities have the following purposes:

- To prevent unnecessary duplication of health resources
- To provide cost containment
- To improve the health of Mississippi residents
- To increase the accessibility, acceptability, continuity, and quality of health services”

Prior to authorizing MRHC to convert acute medical surgical beds to acute rehab beds, the Department of Health determined that there was a need for 40 additional acute Level II rehab beds in the state. These 40 beds were split among three applicants, with MRHC receiving 13 beds and converting 13 of its acute medical surgical beds to that use. After initiating the project, MRHC determined that the beds were not profitable and now wishes to return them to their original classification where they can be better utilized. The project does not require a capital expenditure; therefore, the goal of “cost containment” is met. The applicant projects that the beds will serve 57 percent Medicare recipients, 12 percent Medicaid, and 31 percent other; therefore, the goal “to improve the health of Mississippi residents” is met. The applicant is averaging a 49 percent utilization rate for its acute care beds, which is the norm for acute care beds in Mississippi. According to the *2004 Annual Hospital Report*, the average utilization for Mississippi Hospitals is 47.67 percent. Maintaining an excess of **licensed** acute care beds at the hospital will ensure the “accessibility, acceptability, continuity, and quality of health services” for the facility’s patients in the peak season and in the event of a catastrophic event.

GR Criterion 2 - Long Range Plan

According to the applicant, the proposed project is consistent with the hospital’s long range development plan.

GR Criterion 3 – Availability of Alternatives

According to the applicant, there is no less costly alternatives for the proposed reallocation of beds to acute care status.

GR Criterion 4 - Economic Viability

Magnolia Regional Health Center projects net operating income to be \$732,200 the first year, \$791,040 the second year, and \$851,180 the third year after completion of this project. See effect on operating cost, page 6.

GR Criterion 5 - Need for the Project

According to the applicant, all residents within the hospital service area have and will continue to have access to the health care facility. The applicant states that the proposed project will help it meet the needs of the medically under-served populations.

Magnolia Regional Health Center submits that it has a significant need for these beds and projects the need to increase in the future. The hospital is currently not utilizing the 13 rehab beds and due to its need for acute beds, the hospital requests these beds be converted back to acute care hospital beds.

For FY 2004 the average daily occupied bed utilization for acute care beds of Magnolia Regional Health Center is 49 percent. (See table page one).

According to the applicant, the proposed project will allow MRHC to open the existing 13 Level II rehab beds to patients that require an acute care bed.

According to the Report on Hospitals, MDH, the total occupancy rate for acute care hospitals in Mississippi in 2004 was 47.67 percent. The occupancy rate for acute care hospitals in General Hospital Service Area 1 was 44.85 percent. Magnolia Regional Health Center's occupancy rate of 49 percent meets and exceeds the average occupancy rates statewide.

The applicant asserts that the objective of the proposed project at MRHC is to improve the continuity of care for its patients.

GR Criterion 6 - Access to the Facility or Service

According to MRHC, the hospital does not discriminate against Medicaid recipients, the handicapped, women, the elderly or members of racial and ethnic minorities.

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 past three fiscal years at Magnolia Regional Health Center:

Fiscal Year	Percent of Gross Patient Revenue	Dollar Amount
2002	2.13	\$3,151,792
2003	2.58	\$4,188,896
2004	3.00	\$5,093,486

GR Criterion 7 - Information Requirement

Magnolia Regional Health Center indicates that it will record and maintain the information required by this criterion and make it available to the Mississippi Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Magnolia Regional Health Center is located in General Hospital Service Area 1. The conversion from acute medical surgical beds to acute rehab beds did not change the total bed complement, and the reversion from rehab beds to acute medical surgical beds will not require a change in the total bed complement of the facility. Since the project does not propose any additional acute care beds in the service area, the applicant believes that the project will not have an adverse effect on local providers in General Hospital Service Area 1.

GR Criterion 9 - Availability of Resources

As previously mentioned, no additional full-time equivalent personnel is required, as a result of the proposed project.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that the hospital has maintained sufficient staffing of ancillary and support staff. The proposed project involves the conversion of 13 Level II rehab beds to the original 13 medical surgical status.

GR Criterion 16 - Quality of Care

Magnolia Regional Health Center is in compliance with **the Minimum Standards for the Operation of Mississippi Hospitals**, according to the Division of Health Facilities Licensure and Certification, MDH. MRHC is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

This proposed project requires no capital expenditure.

B. Method of Financing

According to the applicant, there are no anticipated dollars being spent to convert the beds. However any items that may arise as a result of the proposed project will be funded through existing operating cash balances. The applicant asserts that MRHC's cash balance as of July 31, 2005 is \$27.6 million.

C. Effect on Operating Cost

Magnolia Regional Health Center projects the following expenses, revenues, and utilization for the first three years of operation for the proposed project:

Expenses	Year 1	Year 2	Year 3
Salaries & Wages	\$ 168,000	\$ 180,250	\$ 192,920
Benefits	\$ 58,800	\$ 63,860	\$ 68,900
Other Operating Expenses	\$ 100,000	\$ 108,150	\$ 116,600
Total Expenses	\$ 326,800	\$ 352,260	\$ 378,420
Gross Patient Revenue	\$ 2,462,000	\$ 2,688,300	\$ 2,936,200
Deductions	\$ (1,403,000)	\$(1,545,000)	\$(1,706,600)
Net Patient Revenue	\$ 1,059,000	\$ 1,143,300	\$ 1,229,600
Net Operating Income	\$ 732,200	\$ 791,040	\$ 851,180
Patient Days	1,000	1,030	1,060
Charge/Patient Day	\$2,462	\$2,610	\$2,770
Cost/Patient Day	\$327	\$342	\$357

C. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	11.5	\$ 37,582
Medicare	57.0	\$186,276
Other	31.5	\$102,942
Total	100.00	\$326,800

Magnolia Regional Health Center projects 3 percent of gross revenue for medically indigent patients and 4.30 percent for bad debt patients for the proposed project.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment.

VI. CONCLUSION AND RECOMMENDATION

This project is in compliance with the overall objectives of the **FY 2005 State Health Plan**; the **Mississippi Certificate of Need Review Manual, Revised 2000**; and duly adopted rules, procedures and plans of the Mississippi Department of Health. Specifically:

- The project is not a duplication of health services.
- The project provides cost containment.
- The project seeks to return beds from a non-profitable use to their original use.

Magnolia adequately showed the need for the proposed project. For FY 2004, Magnolia Regional Health Center's occupancy rate meets and exceeds the average occupancy rate statewide.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Magnolia Regional Health Center to convert 13 rehab beds to acute care hospital beds, thereby, achieving licensed bed capacity of 145 acute care beds.