

**DIVISION OF HEALTH PLANNING  
AND RESOURCE DEVELOPMENT  
JANUARY 2007**

**CON REVIEW: HG-RLS-0806-022  
PHYSICIANS AND SURGEONS HOSPITAL GROUP, D/B/A TRI-LAKES  
MEDICAL CENTER  
RELOCATION/ADDITION OF 10 ADULT CHEMICAL DEPENDENCY BEDS  
CAPITAL EXPENDITURE: \$0  
LOCATION: BATESVILLE, PANOLA COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Physicians and Surgeons Hospital Group, d/b/a Tri-Lakes Medical Center (Tri-Lakes) is a Mississippi non-profit short term acute care hospital located in Batesville, Mississippi. Tri-Lakes' licensed capacity includes 77 acute care hospital beds (including 22 inpatient geriatric psychiatric beds), 13 adult chemical dependency beds, 10 adolescent chemical dependency beds, and 10 adult psychiatric beds. Tri-Lakes Medical Center also houses Batesville Specialty Hospital consisting of six long-term acute care beds.

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

Tri-Lakes Medical Center Utilization FY 2004, 2005, and 2006			
FISCAL YEAR	OCCUPANCY RATE (%)	ALOS (DAYS)	MEDICAID UTILIZATION RATE (%)
<b>2004</b>	35.88	5.55	14.95
<b>2005</b>	42.83	5.89	20.56
<b>2006</b>	88.00	NA	28.00

Source: Division of Health Facilities Licensure and Certification, MDH.  
NA: – Not available.

**B. Project Description**

Tri-Lakes Medical Center requests Certificate of Need (CON) authority to expand its adult chemical dependency unit (CDU) bed capacity from the present 13 to 23 beds through a lease agreement with Mississippi Baptist Medical Center (Baptist) of Jackson, Mississippi. The application contains a

proposed lease agreement between Tri-Lakes and Baptist for the lease of 10 adult CDU beds for an initial period of three years. The agreement will be automatically renewed for three additional years thereafter, unless terminated by either party. Further, upon termination of the lease, ownership of the beds will revert to Baptist.

The project requires no capital expenditure; however, the applicant will pay \$4,635 per month (\$15.45/day/bed) for the 10 beds for a total lease cost of \$55,620 per year.

Tri-Lakes estimates that the project will require no increase in personnel. The applicant submits that the staff in the existing 13-bed adult CDU will be adequate for the initial phase of operation of the planned 23-bed unit and as the occupancy rate increases, additional personnel will be employed.

The applicant submits that the final objective of the project is to expand services in an effort to meet the dramatically increasing demand for inpatient adult chemical dependency services in Mississippi. The applicant states that the existing unit has been operating near or above capacity for several months.

The MDH Division of Health Facilities Licensure and Certification has approved the Tri-Lakes Medical Center site for the project. The applicant expects that implementation of the project will begin immediately upon CON approval.

## **II. TYPE OF REVIEW REQUIRED**

Projects which propose the lease and relocation of adult chemical dependency beds are reviewed in accordance with Section 41-7-191, subparagraphs (1)(b), (c), and (g), Mississippi Code 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 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 February 5, 2007.

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

### **A. State Health Plan (SHP)**

The *FY 2006 State Health Plan* (in effect at the time of submission of this application) contains policy statements, criteria, and standards which an applicant is required to meet before receiving CON authority for the expansion of an existing adult chemical dependency service. This application is in substantial compliance with applicable criteria and standards.

## **General Criteria and Standards**

### **SHP General Criterion 1 - Need**

The *FY 2006 State Health Plan* indicates that the state as a whole needs an additional 26 adult CDU beds. However, the *State Health Plan* states that notwithstanding the service specific statewide statistical bed need requirement, the Department may only approve additional beds for existing facilities which have maintained an occupancy rate of at least 80 percent for the most recent 12-month licensure reporting period or at least 70 percent for the most recent two (2) years.

In accordance with a recent Mississippi Supreme Court ruling [No. 2004-SA-02468-SCT (Biloxi Regional Medical Center – vs – Singing River Hospital Systems, March 30, 2006)], the court opined that the relocation of beds from one facility to another must meet existing standards for addition of beds.

Tri-Lakes has reported the following adult chemical dependency bed utilization for the past two years:

Tri-Lakes Medical Center Adult Chemical Dependency Unit Fiscal Years 2005 and 2006			
Fiscal Year	Licensed Bed Capacity	Occupancy Rate (percentage)	Discharges
2005	13	77.81%	612
2006	13	115.00%	754

This application is in compliance with this criterion.

### **SHP General Criterion 2 -Information Recording/Maintenance**

Tri-Lakes affirmed that they will record and maintain the information required by this criterion and shall make the data available to the Mississippi Department of Health within fifteen (15) business days of request.

### **SHP General Criterion 3 - Memoranda of Understanding**

The applicant submitted a Memorandum of Understanding with Delta Community Mental Health Services, Darden A & D Facility, regarding the referral and admission of charity and medically indigent patients.

### **SHP General Criterion 4 - Letters of Comment**

The application contains six letters of support from community health care providers, and no letters of opposition have been received.

**SHP General Criterion 5 - Scope of Services**

The applicant submits that existing policies preclude discrimination because of race, color, age, sex, ethnicity, or ability to pay.

**SHP General Criterion 6 - Charity/Indigent Care**

The applicant submits that it provides and will continue to provide a reasonable amount of indigent/charity care.

**Service Specific (SS) Criteria And Standards**

**SHP SS Criterion 1 – Need**

The MDH bases the statistical need for adult CDU beds on a ratio of 0.14 beds per 1,000 population aged 18 and older for 2005 in the state as a whole. The current SHP shows a statewide need for 26 adult chemical dependency beds, however, this application must also be evaluated based on criteria for addition of beds which requires minimum occupancy.

**SHP SS Criterion 2 – Size/Location of Unit**

The applicant proposes to expand its existing 13-bed adult CDU by 10 beds, thereby creating a 23-bed adult unit, which is less than the 30 bed maximum for hospital based adult CDUs. The applicant meets this criterion.

**SHP SS Criterion 3- Aftercare/Follow-up Services**

The applicant currently provides adult CDU services utilizing 10 beds. The facility has established aftercare/follow-up services.

**SHP SS Criterion 4 – Clients to Receive Treatment**

According to the applicant, the proposed expanded adult CDU service will treat both substance abusers as well as alcohol abusers.

**B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, effective August 12, 2006, (as amended) addresses general criteria by which all CON applications are reviewed. The applicable criteria are as follows:

**GR Criterion 1 – State Health Plan**

The proposed project complies with the *FY 2006 State Health Plan's* Certificate of Need Criteria and Standards for the addition of adult Chemical Dependency Beds.

### **GR Criterion 2 – Long Range Plan**

The applicant submits that Tri-Lakes Medical Center's long range strategic plan calls for the expansion of comprehensive behavioral health services. The addition of 10 beds for adult chemical dependency services is consistent with this plan.

### **GR Criterion 3 – Availability of Alternatives**

The applicant states that there are no other alternatives that will adequately fill the needs that this inpatient program will fill. Patients who are chemically dependent generally have to go through a detoxification program as an initial step, and with few limited exceptions, patients require an inpatient setting to complete the detoxification process.

### **GR Criterion 4 -- Economic Viability**

The project appears to be economically viable. The three-year operating projections reflect a net income from operations of \$4,502,083 for the first year, \$5,032,982 for the second year, and \$5,620,727 for the third year. (See Three Year Projected Operating Statement, Page 8).

Based on the three-year projected operating statement, the cost per patient day for the first, second, and third years of operations are \$247, \$246, and \$245, respectively. The charge per patient day during the same time period is \$1,590 for the first year, \$1,657 the second year, and \$1,732 the third year. These costs and charges at Tri-Lakes are based on projected occupancy rates of 75%, 79%, and 83%, during the first, second, and third years of operation, respectively. These projected occupancy rates greatly exceed the reported occupancy rate for adult chemical dependency facilities in the state, an average of 29.61 percent during FY 2005. However, Tri-Lakes' high utilization rates for the past year, as shown on page 3 of this staff analysis, demonstrates that the applicant can meet its projections.

### **GR Criteria 5 – Need for the Project**

As documented under the *State Health Plan* Section of this staff analysis, the applicant maintained an occupancy rate of 115% for its 13 existing adult chemical dependency beds for the past fiscal year. This clearly demonstrates the need for these beds in this area.

The beds will be relocated from Mississippi Baptist Medical Center in Jackson, which according to the *2007 State Health Plan*, had an occupancy rate of 2.81% for FY 2005.

The application contained six letters of support from local physicians, the Human Resources Development Institute, Delta Community Mental Health Services, and city officials.

**GR Criterion 6- Accessibility**

The applicant affirmed that Tri-Lakes is accessible to all residents of the health planning service area, hospital service area, or patient service area.

**GR Criterion 7- Information Requirement**

Tri-Lakes affirmed that it will record and maintain the information required by this criterion and shall make the data available to the Mississippi Department of Health within fifteen (15) business days of request.

**GR Criterion 8 - Relationship to Existing Health Care System**

According to the applicant, this project will not add new adult chemical dependency beds within the state, but will provide a more even distribution of the state's licensed adult CDU beds.

**GR Criterion 9 – Availability of Resources**

The applicant affirmed that adequate qualified staff is available at Tri-Lakes for the initial operation of the proposed ten-bed expansion of the adult CDU program.

**GR Criterion 10 – Relationship to Ancillary or Support Services**

The applicant submits that there will be some nominal increases in costs and charges in that it is anticipated that utilization will increase upon addition of the 10 beds. The applicant further states that most of the costs were incurred when the unit opened. The applicant expects that the existing unit has the capacity to service the unit when increased by 10 beds.

**GR Criterion 16 - Quality of Care**

Tri-Lakes is in compliance with the *Minimum Standards of Operation for Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The project requires no capital expenditure; however, the applicant will pay \$4,635 per month (\$15.45 day/bed) for the 10 beds on an operating lease, for a total of \$55,620 per year.

**B. Method of Financing**

The applicant has entered into a lease agreement with Mississippi Baptist Medical Center, Inc. for lease of 10 adult CDU beds. Lease payments will be \$55,620 per year which will be paid from operating revenue. This project does not require a capital expenditure.

**C. Effects on Operating Cost**

The applicant projects the following expenses, utilization, and results from operation for the first three years of operation for all 23 beds:

<b>Tri-Lakes Medical Center Adult Chemical Dependency Unit (23 beds) Three-Year Projected Operating Statement</b>			
	<b>First Year</b>	<b>Second Year</b>	<b>Third Year</b>
<b><u>Revenue</u></b>			
Gross Patient Revenue	\$10,017,00	\$11,018,70	\$12,120,570
Deductions	0	0	(4,787,625)
	(3,956,715)	(4,352,387)	
<b>Net Revenue</b>	<b>\$6,060,285</b>	<b>\$6,666,313</b>	<b>\$7,332,945</b>
<b><u>Operating Expenses</u></b>			
Salaries	\$ 615,841	\$646,633	\$ 678,965
Benefits	75,732	79,519	83,495
Supplies	44,684	46,918	49,264
Services	563,401	591,571	621,150
Lease	55,620	55,620	55,620
Depreciation	0	0	0
Interest	0	0	0
Other	202,924	213,070	223,724
<b>Total Operating Expenses</b>	<b>\$1,558,200</b>	<b>\$1,633,331</b>	<b>\$1,712,218</b>
<b>Net Income</b>	<b>\$4,502,083</b>	<b>\$5,032,982</b>	<b>\$ 5,620,727</b>
<b><u>Assumptions</u></b>			
No. of Licensed Beds	23	23	23
Occupancy Rate	75	79	83
Patient Days	6,300	6,650	7,000
Cost/Patient Day	\$ 247	\$ 246	\$ 245
Charge/Patient Day	\$ 1,590	\$ 1,657	\$ 1,732

**D. Cost to Medicaid/Medicare**

The cost of the project to third party payors is as follows (based on net patient revenue):

<b>Patient Mix</b>	<b>Utilization Percentage</b>	<b>First Year Cost</b>
<b>Medicaid</b>	87	\$ 5,258,925
<b>Medicare</b>	7	450,765
<b>Other</b>	6	350,595
<b>Total</b>	<b>100.0</b>	<b>\$ 6,060,285</b>

Tri-Lakes projects approximately 25 percent of gross revenue for medically indigent, bad debt, and charity care patients.

**V. RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid estimates that approval of this application will increase annual cost to Medicaid by \$3,378,170 for inpatient hospital services based on the current payment rate and the reported 70% Medicaid utilization rate. Additional amounts billed for hospital outpatient services will be paid as outlined in the Medicaid State Plan.

The Department of Mental Health was also provided a copy of the application for comment; however, no comments were received.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for the addition of adult chemical dependency beds as contained in the *FY 2006 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, effective August 12, 2006, as amended; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Physicians and Surgeons Hospital Group d/b/a Tri-Lakes Medical Center for the lease and relocation of ten chemical dependency beds from the Mississippi Baptist Medical Center in Jackson to the Tri-Lakes Medical Center in Batesville, Mississippi.