

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

**CON REVIEW: LTACH-NIS-1206-036
SELECT SPECIALTY HOSPITAL-TUPELO, INC.
ESTABLISHMENT OF A 44-BED LONG-TERM ACUTE CARE HOSPITAL
CAPITAL EXPENDITURE: \$15,279,453
LOCATION: TUPELO, LEE COUNTY, MISSISSIPPI**

Staff Analysis

I. PROJECT SUMMARY

A. Application Information

Select Specialty Hospitals (“the applicant” or “Select Specialty”) is part of a network of acute care facilities within Select Medical Corporation. Select Medical Corporation and its subsidiaries focus on providing specialty, long-term acute care through 93 specialty hospitals in 26 states and four medical rehabilitation hospitals in New Jersey. The applicant affirms that Select Specialty Hospitals’ long-term acute care hospitals (LTACH) provide highly specialized therapies that promote recovery from the most critical and complex medical maladies, including: pulmonary conditions, neurological disorders, cancers, cardiac conditions, wound care, renal disorder, infectious diseases, and other complicating conditions.

The Mississippi Secretary of State recognizes Select Specialty Hospital-Tupelo, Inc. as a for-profit corporation with good standing. Select Specialty Hospital-Tupelo is a wholly-owned subsidiary of Select Medical Corporation of Mechanicsburg, Pennsylvania.

B. Project Description

This Certificate of Need (CON) project seeks authority to establish a 44-bed LTACH in Tupelo, Lee County, Mississippi. This project involves the lease of 44 short-term acute care beds currently licensed to North Mississippi Medical Center, the construction of a freestanding LTACH, and the conversion of these 44 beds into long-term acute care beds. The new facility will be constructed on an 11-acre tract of land adjacent NMMC’s Longtown Medical Center in Tupelo.

Select estimates that the construction project will require approximately 36,425 square feet of new construction, at an estimated total project cost of \$15,279,453. Of the \$15,279,453, 16.73 percent (\$2,556,600) is allocated toward land cost and site preparation; 47.68 percent (\$7,285,000) toward new construction; 23.26 percent (\$3,554,978) toward equipment purchase; and 2.8 percent (\$480,000) toward project development. The remaining \$1,402,875 is allocated to fees, contingency, interest, and other start-up cost. The applicant expects to obligate capital immediately upon approval of this project with completion scheduled within 18 months

The Division of Health Facility Licensure and Certification has approved the project site.

The project calls for the employment of 84.7 full-time equivalent personnel with a first year estimated annual personnel cost of \$3,593,426.

II. TYPE OF REVIEW REQUIRED

The Mississippi Department of Health reviews applications for a CON for the establishment of a long-term acute care hospital under the applicable statutory requirements of Section 41-7-173, 41-7-191, subparagraph (1)(a), (b), (c), (d)(xiv), and (e) of the Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi Department of Health, and 41-7-193, Mississippi Code of 1972, as amended.

In accordance with Section 41-7-197 (2) of the Mississippi Code of 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 March 7, 2007.

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

A. State Health Plan (SHP)

The Acute Care Chapter of the *FY 2007 State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for the establishment of a long-term acute care hospital. The applicant is in substantial compliance with these criteria.

Policy Statements Regarding Certificate of Need Applications for Long-Term Care Hospital Beds

SHP Policy Statement 1 – Restorative Care Admissions

The applicant affirms that all admissions to the proposed LTACH will be in accordance with the *State Health Plan*. Specifically, patients admitted to Select Specialty will have one or more of the following conditions or disabilities: neurological disorders, central nervous system disorder, cardio-pulmonary disorders, and/or a pulmonary disease.

SHP Policy Statement 2 – Bed Licensure

The applicant affirms that the proposed LTACH will be licensed as a general acute care facility containing 44 long-term acute care beds.

SHP Policy Statement 3 – Average Length of Stay

The applicant affirms that patients served by the proposed LTACH will have an average length of stay of 25 days or more.

SHP Policy Statement 4 – Size of Facility

The LTACH proposed by this application includes 44 long-term acute care beds, larger than the 20-beds minimum stipulated in the *FY 2007 SHP*.

SHP Policy Statement 5 – Transfer Agreement

The application contained transfer agreements between the applicant and North Mississippi Medical Center for both acute and comprehensive medical rehabilitative care.

SHP Policy Statement 6 – Long-Term Medical Care

The applicant affirms that the patients to be treated in the LTACH unit will not require more than three hours of rehabilitation or comprehensive rehabilitation per day.

SHP Policy Statement 7 – Need for Converted Beds

The applicant request Certificate of Need authority to convert 44 acute care beds to long-term acute care beds. The need for this project has been adequately demonstrated.

**Certificate of Need Criteria for the Establishment
of Long-Term Care Hospitals**

SHP Criterion 1 - Need

The *FY 2007 State Health Plan* requires a minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days and a financial feasibility of the project by the third year of operation.

The applicant maintains that one of Select Specialty Hospital-Tupelo, Inc.'s primary goals is to serve the long-term acute needs of the patient population of North Mississippi Health Services (NMHS) and its flagship hospital, North Mississippi Medical Center (NMMC), both of Tupelo. Select Specialty has worked closely with the leadership of NMMC to develop this proposal, and to document the need for the proposed LTACH, according to the applicant.

North Mississippi Health Services

North Mississippi Health Services operates as a diversified regional health care organization, servicing 22 counties in north Mississippi and northwest Alabama. The NMHS organization offers a broad range of acute diagnosis and therapeutic services through a number of health care facilities, including NMMC in Tupelo; a community hospital system with locations in Eupora, luka, Pontotoc, and West Point, Mississippi, and in Hamilton, Alabama; North Mississippi Medical Clinics, a regional network of more than 30 primary and specialty clinics; and nursing homes. In FY 2005, NMHS had 38,187 inpatient

admissions, 108,396 emergency department visits, 288,874 outpatient visits, and 578,969 clinic encounters, according to the applicant.

North Mississippi Medical Center

North Mississippi Medical Center, a 650-bed (554 acute care, 33 psychiatric, 33 CDU, and 30 rehabilitation beds) regional referral center, is the largest hospital in Mississippi and the largest non-metropolitan hospital in the United States. NMMC's medical staff represents more than 40 medical specialties, including cancer treatment, neurosurgery, cardiac surgery, cardiology, pulmonology, rehabilitation, chemical dependency, and neonatology. As a designated Level II trauma center, NMMC offers a full range of emergency services and trauma care modalities, according to the applicant.

Restorative Care Discharges at North Mississippi Medical Center

As part of the need documentation process, Select Specialty analyzed data of patients discharged from NMMC during the 12-month period from October 2005 through September 2006 (NMMC's most recently completed fiscal year) having a length of stay greater than 15 days. These data exclude newborns, pediatric, psychiatric, rehabilitation, skilled nursing, and obstetrical-gynecological patients, since they are often not appropriate candidates for admission to an LTACH. Additionally, these data were limited to Medicare and commercial pay patients, since 97 percent of the LTACH patients will be Medicare and commercial pay patients.

The discharge data was further broken down to list patients by diagnosis-related group (DRG) and description of medical condition, as well as the number of patients and average length of stay (ALOS) within each DRG. The data show that during its most recent completed fiscal year, NMMC had 634 Medicare patients with a length of stay of 15 days or greater, with an ALOS of 23.24 days, and 155 commercial pay patients with a length of stay of 15 days or greater, with an ALOS of 23.71 days.

	<u>Medicare</u>	<u>Commercial</u>	<u>Total</u>
Total Patients	634	155	789
Less: Non-LTACH DRG Patients	<u>-99</u>	<u>-21</u>	<u>-120</u>
New Patient Total	535	134	<u>669</u>

The applicant determined, from the pool of 669 patients with an extended ALOS, the number of these patients who may be appropriate for admission to an LTACH by eliminating those DRG categories which are not appropriate DRGs published by the Centers for Medicare and Medicaid Services (CMS). The resulting potential LTACH patients are as follows:

	<u>Medicare</u>	<u>Commercial</u>	<u>Total</u>
Number of Patients	437	86	<u>523</u>
Patient Days	10,813	2,430	13,243
ALOS (days)			25.32

As indicated in the above table, the applicant has demonstrated a minimum need of approximately 523 clinically-appropriate restorative care admissions/patients with an ALOS of 25 days or greater during the first year of operation.

The applicant projects a financial income/ (loss) during the first, second, and third years of operation of (\$2,059,849), (\$745,209), and \$476,016, respectively; i.e., a projection of financial feasibility by the third year of operation.

The applicant has adequately complied with this criterion.

SHP Criterion 2 – Acute Care Licensure

The applicant affirms that present beds are licensed as **short-term** acute care hospital beds and will be relicensed as **long-term** acute care hospital beds upon completion of this project. No increase or decrease in the acute care bed capacity is being proposed within General Hospital Service Area 1.

SHP Criterion 3 – Bed Licensure Requirements

The applicant affirms that the LTACH beds will meet all regulatory and licensure requirements for re-licensure as 44 long-term acute care hospital beds.

SHP Criterion 4 – Indigent/Charity Care

The applicant affirms that the proposed LTACH will provide a reasonable amount of indigent/charity care as described in Chapter I of the *Mississippi State Health Plan*.

SHP Criterion 5-- Reasonable Cost

Select Specialty has projected a construction cost per square foot of \$283.12, based upon the formula contained in the *FY 2007 State Health Plan*. The applicant maintains that this projected cost for new construction is reasonable in comparison to similar projects approved by the Mississippi Department of Health within the most recent 12-month period. In 2006, the Department approved CON applications for major facility expansion projects for Gilmore Memorial Regional Medical Center with an estimated cost per square foot of new construction at \$386.64, and Magnolia Regional Health Center at a projected cost per square foot for new construction of \$299.05. Accordingly,

Select's projected cost per square foot appears reasonable in comparison to similar construction projects reviewed and approved by the Department within the most recent 12-month period.

Similarly, Select Specialty's estimated equipment cost of \$3,554,978 (fixed and non-fixed) is reasonable and necessary for the establishment of a new LTACH, according to the applicant. By way of comparison, in the construction projects mentioned above, Gilmore proposed non-fixed equipment costs of \$3,283,100, while Magnolia proposed fixed costs of \$5,691,178 and non-fixed equipment costs of \$578,000.

SHP Criterion 6-- Floor Areas and Space Requirements

The applicant affirms that:

- a. The gross square footage of the proposed project is comparable to state and national norms for LTACHs;
- b. The proposed facility will not place restraints on the LTACH; and
- c. No local conditions requiring special considerations exist.

SHP Criterion 7-- Transfer Agreements

The application contains a transfer agreement with North Mississippi Medical Center in Tupelo as both an acute medical center and a comprehensive medical rehabilitation facility.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, November 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 Certificate of Need Criteria and Standards for Long-Term Care Hospital Beds contained in the *FY 2007 State Health Plan*.

GR Criterion 2 – Long Range Plan

According to the applicant, this project is in conformance with its long-range plan to enhance the delivery of long-term acute care services to the patients of NMMC and the surrounding service area.

GR Criterion 3 – Availability of Alternatives

According to the applicant, an alternative to the proposed project would be for patients residing in the Tupelo and surrounding areas to seek long-term acute care services outside the primary service area at other facilities which offer such services, e.g. Jackson, Mississippi or Memphis, Tennessee. The applicant submits that this alternative is not in the best interest of the

residents of the service area. The importance of family support and encouragement during a patient's stay at a long-term acute care hospital is pivotal to progress and recovery. Thus, seeking long-term acute care services outside the primary service area is not desirable or recommended when need can be shown to justify the establishment of such services in the primary service area. The applicant maintains that the project as proposed is the most effective and less costly method of meeting the needs of the health care community served by NMMC.

GR Criterion 4 -- Economic Viability

The applicant projects a loss of \$2,059,849 and \$745,209 during the first and second years of operations, respectively, but a gain of \$476,016 during the third year of operation.

- a. Proposed Charges: The applicant projects a cost of \$1,724 per day and a proposed charge of \$2,744 during the first year of operation. This charge is established by CMS and is comparable to other LTACH charges within the state.
- b. Projected Level of Utilization: The applicant projects inpatient days of 5,584, 10,902, and 12,509 for the first, second, and third years of operation, respectively, or an occupancy rate of 34.77, 67.88, and 77.89 during the same period. The applicant affirms that the projected level is comparable to similar facilities operating within the state.
- c. Financial Feasibility Study: The application contains a letter from the chief fiscal officer (CFO) of Select Medical Corporation (the parent company to Select Specialty Hospital-Tupelo, Inc.) attesting that he considers the proposed project to be economically feasible. The CFO further attests that the corporation has funds available to underwrite the working capital, equipment purchases, and construction expense required to establish and operate the proposed project.

GR Criteria 5 – Need for the Project

The proposed project requires the establishment of a long-term acute care hospital in Tupelo, Mississippi. The need for the facility has been adequately demonstrated.

- a. Underserved Populations: Select Specialty avows not to discriminate against low income persons, racial and ethnic minorities, elderly, women, handicapped persons, or any other underserved groups in the provision of its services.
- b. Relocation of Facility: The proposed project does not involve the relocation of a facility. The proposal seeks to lease 44 acute care beds from NMMC to Select Specialty Hospital-Tupelo, Inc. Select Specialty, in turn, will convert the use of these beds from short-term acute care to long-term acute beds. North Mississippi Medical Center, a 554-bed acute care hospital, reported an average daily census of 347 patients during FY

2006; therefore, the transfer and conversion of these beds constitute a wise use of surplus acute care beds in GHSA 1, according to the applicant.

- c. Projected Utilization of Like Facilities in the Area: The one licensed LTACH in General Hospital Service Area 1 (GHSA 1), the 26-bed Batesville Specialty Hospital, reported no patient data during FY 2006. One other authorized facility, Lee County Specialty, which holds a CON for a 27-bed LTACH has not started construction. Hence, no utilization data are available for comparison.

In Tupelo, the two proposed LTACHs depend on two separate hospital systems for long-term acute patients. Lee County Specialty Hospital based its CON need projections on patients discharged from the four hospitals operated by Baptist Memorial Hospital (BMH) of Memphis: BMH-Booneville, BMH-Golden Triangle, BMH-North Mississippi, and BMH-Union County. Select Specialty based its patient projections from NMMC patient discharge history.

- d. Probable Effect of Proposed Facility on Existing Facilities: The proposed facility will have no adverse effect on other existing or proposed LTACH in GHSA 1, according to the applicant.
- e. Letters of Support: The application contained letters indicating community support of the proposed project. No letters of opposition were received.

GR Criteria 6 – Access to Long-Term Acute Care Facility

The applicant submits that all residents of the health planning service area will continue to be served by the LTACH.

- a. Medically Underserved Populations: Select Specialty avows not to discriminate against low income persons, racial and ethnic minorities, elderly, women, handicapped persons, or any other underserved groups in the provision of its services.
- b. Federal Regulations Requiring Uncompensated Care: Select avows no existing obligations under any federal regulations requiring provision of uncompensated care, community service, or access by minority/handicapped persons. According to the applicant, Select Specialty fully complies with all applicable federal and state laws, including, but not limited to, laws and regulations governing access by minorities and handicapped persons.
- c. Unmet Needs of Medicare, Medicaid, and Medically Indigent Patients: Select avows to treat all patients requiring LTACH services.
- d. Range of Means to Provide Access: The Select Specialty-Tupelo will be established in Tupelo, the economic hub of northeast Mississippi medical trade area. According to the applicant, the facility will be fully equipped to provide access to all handicapped patients.

GR Criteria 7 – Information Requirement

The applicant affirms that it will record and maintain the requested information stated in the above criterion and make it available to the Mississippi Department of Health within 15 working days of request.

GR Criteria 8 – Relationship to Existing Health Care System

According to the applicant, no long-term acute care hospitals are currently operational in the Tupelo primary service area. Patients seeking long-term acute care services must go either in Jackson, Mississippi, Memphis, Tennessee, or facilities outside the service area.

GR Criteria 9 – Availability of Resources

The application contains documentation that demonstrates Select Specialty Hospital's long-term management expertise and its financial resources necessary to carry forward with this project. The parent company pledges the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to assure the implementation of this project.

GR Criteria 10 – Relationship to Ancillary or Support Services

Select avows no adverse effect on the existing ancillary or support services.

GR Criteria 11 –Health Professional Training

Select avows to continue working with area health care providers to accommodate the clinical needs of the health professional training programs in the area.

GR Criteria 14 – Construction Projects

The application contains schematic drawings and cost estimate signed by an architect licensed to do business in Mississippi. Select estimates that the project will require 36,425 square feet of new construction at a cost of \$283.12 per square foot, using the formula prescribed by the Department. The applicant affirms that the proposed project includes appropriate floor areas and space requirements, including favorable gross square footage and architectural design in comparison to state and national norms for similar projects.

GR Criteria 16 – Quality of Care

The applicant is accredited by Medicare and the Joint Commission on Accreditation of Healthcare Organizations. The applicant has also demonstrated the delivery of quality care through the other LTACHs operated by Select Specialty Hospitals in the state.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure of \$15,279,453 is prorated as follows:

	<u>Cost Item</u>	<u>Projected Cost</u>	<u>Percent</u>
a.	Construction Cost -- New	\$ 7,285,000	47.68%
b.	Construction Cost -- Renovation	0	0.00%
c.	Capital Improvements	0	0.00%
d.	Total Fixed Equipment Cost	468,000	3.06%
e.	Total Non-Fixed Equipment Cost	3,086,978	20.20%
f.	Land Cost	1,400,000	9.16%
g.	Site Preparation Cost	1,156,600	7.57%
h.	Fees (Architectural, Consultant, etc.)	584,375	3.82%
i.	Contingency Reserve	409,250	2.68%
j.	Capitalized Interest	409,250	2.68%
k.	Other Cost	<u>480,000</u>	<u>3.14%</u>
l.	Total Proposed Capital Expenditure	<u>\$15,279,453</u>	<u>100.00%</u>

The project involves 36,425 square feet of new construction and an estimated renovation cost per square foot of \$283.12. *RSMeans' Building Construction Cost Data* manual suggest the unit cost per square foot of new construction as follows: low quartile, \$164; median, \$203 and high quartile, \$300 per square foot. Attachment 2 demonstrates the cost per square foot determination.

B. Method of Financing

The proposed project will be financed through an intercompany loan.

C. Effects on Operating Cost

Select Specialty Hospital-Tupelo, Inc.'s three-year projected operating statement is contained in Attachment I of this Staff Analysis.

D. Cost to Medicaid

The cost of the project to third party payors is as follows:

Select Specialty Hospital-Tupelo, Inc. 44-Bed Long-Term Acute Care Hospital First Year Operation (Net Revenue)		
Patient Mix	Utilization Percentage	First year Cost
Medicaid	3	\$ 228,928
Medicare	83	6,293,834
Charity care	14	1,048,718
Other Third Party	<u>0</u>	<u>(1,839)</u>
Total	<u>100</u>	<u>\$ 7,569,641</u>

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid takes no position on this application.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the establishment of a long-term acute care hospital as contained in the *FY 2007 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised 2006; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of Select Specialty Hospital-Tupelo, Inc. for the establishment of a 44-bed long-term acute care hospital in Tupelo, Mississippi.

Attachment I

Select Specialty Hospital-Tupelo, Inc.			
Establishment of a 44-Bed Long-Term Acute Care Hospital			
Three Year Projected Operation Statement			
Revenue	Year 1	Year 2	Year 3
Gross Patient Revenue	\$ 15,323,144	\$ 33,331,459	\$ 38,691,890
Contractual Allowance	<u>(7,753,503)</u>	<u>(19,968,369)</u>	<u>(23,159,551)</u>
Total Net Revenue	<u>7,569,641</u>	<u>\$ 13,363,090</u>	<u>\$ 15,532,339</u>
Operating Expense			
Personnel Cost	3,593,426	6,375,744	6,591,722
Supplies	844,308	1,397,592	1,637,854
Services	781,899	1,642,656	1,898,727
Equipment Lease/Rental	304,160	343,599	384,694
Depreciation	718,778	739,582	763,857
Interest	979,751	1,046,826	1,073,935
Other*	<u>2,407,168</u>	<u>2,562,300</u>	<u>2,705,524</u>
Total Expense	<u>9,629,490</u>	<u>14,108,299</u>	<u>15,056,323</u>
Income (loss) from Operation	<u>\$ (2,059,849)</u>	<u>\$ (745,209)</u>	<u>\$ 476,016</u>
Assumptions			
Occupancy Rate (percent)	34.77	67.88	77.89
Patient Days	5,584	10,902	12,509
Cost (patient day)	\$ 1,724	\$ 1,294	\$ 1,204
Charge (patient day)	\$ 2,744	\$ 3,057	\$ 3,093

* Includes: Travel and entertainment, maintenance, insurance, computer application, professional fees, etc., according to the applicant.

Attachment 2
Computation of Construction and Renovation Cost
Select Specialty Hospital-Tupelo, Inc.

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$ 7,285,000	\$ 7,285,000	\$0
Renovation Cost	0	0	0
Total Fixed Equipment Cost	468,000	468,000	
Total Non-Fixed Equipment Cost	3,086,978	3,086,978	
Land Cost	1,400,000	1,400,000	
Site Preparation Cost	1,156,600	1,156,600	
<i>Fees (Architectural, Consultant, etc.)</i>	584,375	584,375	
<i>Contingency Reserve</i>	409,250	409,250	
<i>Capitalized Interest</i>	409,250	409,250	
<i>Other</i>	480,000	480,000	
Total Proposed Capital Expenditure	\$15,279,453	\$15,279,453	\$0
Square Footage	36,425	36,425	0
<i>Allocation Percent</i>	100	100	0
Costs Less Land, Non-Fixed Eqt, and. Other	\$10,312,475	\$10,312,475	\$0
Cost Per Square Foot	\$283.12	\$283.12	\$0
Cost per Bed (n=44)	\$234,374	\$234,374	\$0