

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2007**

**CON REVIEW: LTACH-NIS-0607-012
GULF STATES LTAC OF JACKSON COUNTY, LLC, OCEAN SPRINGS
ESTABLISHMENT OF A 40-BED LONG-TERM ACUTE CARE HOSPITAL
CAPITAL EXPENDITURE: \$11,300,000
LOCATION: OCEAN SPRINGS, JACKSON COUNTY, MISSISSIPPI**

Staff Analysis

I. PROJECT SUMMARY

A. Application Information

Gulf States LTAC of Jackson County, LLC (“the applicant” or “Gulf States”) exists as a Mississippi Limited Liability Company. The application submitted on behalf of Gulf States contains a letter attesting the applicant’s good standing with the Office of the Mississippi Secretary of State.

B. Project Description

Gulf States proposes to establish a freestanding 40-bed long-term acute care hospital (LTACH) in Ocean Springs, Mississippi. The application contains a letter from the Singing River Hospital (SRH) agreeing to lease 40 beds presently licensed as acute care medical-surgery beds to Gulf States.

Gulf States estimates that this project will require approximately 28,000 square feet of new construction, at an estimated total project cost of \$11,300,000. Of the \$11,300,000, 61.95 percent (\$7,000,000) is allocated toward building (new construction, fees, contingency reserve, capitalized interest, and other building cost); 7.96 percent (\$900,000) toward land cost and site preparation; 26.55 percent (\$3,000,000) toward equipment purchase; and 3.54 percent (\$400,000) toward project development cost. The applicant expects to obligate capital immediately upon approval of this project with completion scheduled for August 1, 2008.

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

The project calls for the employment of 65.2 full-time equivalent personnel with a first year estimated annual personnel cost of \$3,001,236.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for a certificate of need (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), and (d)(xiv) of the Mississippi Code of 1972, Annotated, as amended,

and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State 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 September 4, 2007.

III. **CONFOMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITEIA 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 an LTACH. 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 Gulf States LTACH will have one or more of the following conditions or disabilities: neurological disorders, central nervous system disorder, cardio-pulmonary disorders, and/or pulmonary diseases.

SHP Policy Statement 2 – Bed Licensure

The applicant affirms that the proposed LTACH will be licensed as a general acute care facility containing 40 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 40 long-term acute care beds, larger than the 20-beds minimum stipulated in the *FY 2007 SHP*.

SHP Policy Statement 5 – Long-Term Medical Care

The applicant affirms that the LTACH 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.

SHP Policy Statement 6 – Transfer Agreement

The application contains transfer agreements between Gulf States and SRH for both acute and comprehensive medical rehabilitative care.

SHP Policy Statement 7 – Need for Converted Beds

The applicant request CON authority to convert 40 acute care beds presently licensed to Singing River Hospital into a free-standing 40-bed long-term acute care hospital. 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.

a. minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days

The applicant used Singing River Hospital (SHR) patient discharge history to prepare an acute-care hospital potential LTACH patient demand analysis. The analysis was done using MedPAR FY 2005 data to determine the number of patients who were discharged that could have potentially benefited from LTAC services. Potential LTACH patients were selected based on DRG assignment and length of stay criteria.

According to the applicant, Singing River Hospital discharged 9,760 Medicare patients in FY 2005; however, only 0.2 percent (23) of these patients was discharged to an LTACH level of care. The analysis of Singing River Hospital patient data determined that an additional seven percent (674) could have been considered potential LTACH patients, representing a need for approximately 47 additional LTACH beds (at 100 percent occupancy) if these patients were discharged to an LTAC hospital or unit.

The applicant adequately demonstrated that at least a minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days were available in the patients discharged from one of the Jackson County hospitals.

b. projection of financial feasibility by the end of the third year of operation

The applicant projects a financial income/(loss) during the first, second, and third years of operation of (\$514,212), \$662,645, and \$1,439,002,

respectively, or a projection of financial feasibility by the end of the third year of operation, based on a projected referral of SRH patients.

In May 2007, the Centers of Medicare and Medicaid Services (CMS) issued policy and payment changes in the Prospective Payment System (PPS) for LTACHs. These changes may possibly impact the reimbursement ratio for Medicare patients that are admitted from a referring hospital to an LTACH.

Prospective Payment System reimbursement levels for referred patients may decrease dependent upon the referring hospital, the type and location of the referring facility, and patient care characteristics. The impact of the implementation of this rule change is dependent on reimbursement of those patients admitted and its impact is unknown at this time.

Even though the recent policy and payment changes in the Prospective Payment System for LTACHs promulgated by the Centers for Medicare and Medicaid Services (CMS) may impact reimbursement levels, in its projected operating statement, the applicant demonstrated a financial feasibility by the end of the third year of operation.

SHP Criterion 2 – Acute Care Licensure

The applicant affirms that present beds are licensed as **short-term** acute care hospital beds and upon completion of this project, will be relicensed as **long-term** acute care hospital beds. This project will not increase or decrease in the acute care bed capacity within General Hospital Service Area 7 (GHSA-7).

SHP Criterion 3 – Bed Licensure Requirements

The applicant affirms that the LTACH beds will meet all regulatory and licensure requirements for re-licensure as 40 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 Construction and Equipment Cost

Gulf States has projected a construction cost per square foot of \$285.71, 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 State Department of Health within the most recent 12-month period. The applicant cited Select Specialty Hospital-Tupelo, Inc.'s proposal to establish a 44-bed

LTACH (CON REVIEW: LTACH-NIS-1206-036) with a cost per square foot cost of \$282.29.

The proposed construction cost of \$285.71 per square foot compares favorably to *RSMeans Construction Cost Data* which reflects a range of \$164 (where 25 percent of projects have lower cost) to \$300 (where 25 percent of projects have higher cost) per square foot.

Similarly, the applicant compares the proposed equipment cost of \$3,000,000 for the proposed project with Select Specialty's estimated equipment cost of \$3,554,978 (fixed and non-fixed) as reasonable and necessary for the establishment of a new 40-bed LTACH.

SHP Criterion 6-- Floor Area 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 SRH 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*, revised November 12, 2006, 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 Acute 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 Jackson County and the surrounding service area.

GR Criterion 3 – Availability of Alternatives

According to the applicant, Gulf States considered three alternatives to afford the residents of Jackson County medical trade area access to LTAC services: (1) maintain the status quo and do nothing; (2) create a hospital within a

hospital LTAC system, and (3) develop a freestanding LTACH. Gulf States rejected alternatives 1 and 2 for the reasons outlined below.

Under the first alternative, the residents of Jackson County medical trade area are denied access to a local LTACH. Patients needing long-term acute care would continue to receive services in settings not ideally suited to deliver the appropriate level of care.

Under the second alternative, Gulf States could convert general acute care beds to long-term acute care beds within an existing Jackson County hospital. Gulf States recognized that this alternative has been successful in the past, but has experienced that other acute care facilities are unlikely to transfer its patients to a competing acute care facility with an in-house LTACH.

Under the third alternative, Gulf States would establish a freestanding LTACH in Jackson County. Gulf States determined that this alternative was efficacious in meeting the long-term acute care needs of all the patients of Jackson County medical trade area. This alternative affords family support and encouragement necessary to a long term care patient's recovery. Thus, Gulf States determined that this was the only reasonable alternative for Jackson County.

GR Criterion 4 -- Economic Viability

The applicant projects a loss of \$514,212 during the first year of operations and gains of \$662,645 and \$1,439,002 during the second and third years of operation, respectively.

- a. Proposed Charges: The applicant projects a cost of \$1,210 per day and a proposed charge of \$1,921 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 7,300; 9,490; and 10,950 for the first, second, and third years of operation, respectively, or a percentage occupancy rate of 50, 65, and 75 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 executive officer (CEO) of Gulf States Health Services, Inc. attesting that he considers the proposed project to be financially viable.

GR Criteria 5 – Need for the Project

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

- a. Underserved Populations: Gulf States 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 40 acute care beds from SRH. Gulf States, in turn, will convert the use of these beds from short-term acute care to long-term acute.

Singing River Hospital, a 385-bed acute care hospital, reported an average daily census of 108 patients during FY 2006, or 277 unused beds; therefore, the conversion of these beds constitutes a wise use of surplus acute care beds.

- c. Projected Utilization of Like Facilities in the Area: Only one LTACH is licensed and operative in GHSA 7: Select Specialty Hospital-Mississippi Gulf Coast, located in Gulfport, Mississippi. Select Specialty currently uses only 20 of its 80 authorized beds and has yet to complete renovation of its current facility. According to the applicant, Select Specialty does not serve the same area as the proposed project. Select Specialty has transfer agreements with the University Hospital and Clinics in Jackson and Memorial Hospital in Gulfport.

An aggregate quarterly patient origin study of patients discharged from Select Specialty during January 2006 and October 2006 reveals that 7.32 percent of Select Specialty's patients originate from Jackson County while 70.73 percent reside in Harrison County.

Select Specialty Hospital-Gulfport		
Patient Origin Study		
Aggregate 2006		
County/Place of Residence	Frequency	Percentage
Alabama	1	2.44
George	1	2.44
Hancock	5	12.20
Harrison	29	70.73
Jackson	3	7.32
Other	1	2.44
Stone	1	2.44

Patients at Jackson County hospitals have a clear need for access to a local LTACH. For this reason, Gulf States will not duplicate the services provided by Select Specialty even when it becomes fully operational, according to the applicant.

- d. Probable Effect of Proposed Facility on Existing Facilities: The proposed facility will have no adverse effect on other existing or proposed LTACHs in GHSA 7, according to the applicant.

- e. Letters of Support: The application contains many letters indicating community support of the proposed project. Two letters of opposition were received.

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

The applicant submits that all residents of the Jackson County medical trade area will be served by the LTACH.

- a. Medically Underserved Populations: Gulf States 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: Gulf States avows no existing obligations under any federal regulations requiring provision of uncompensated care, community service, or access by minority or handicapped persons. According to the applicant, Gulf States 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: Gulf States avows to treat all patients requiring LTACH services.
- d. Range of Means to Provide Access: Gulf States will be established in Ocean Springs, one of the economic centers of the Mississippi Gulf coast. 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 State Department of Health within 15 working days of request.

GR Criteria 8 – Relationship to Existing Health Care System

Select Specialty Hospital-Gulf Coast, the only long-term acute care hospital currently in the GHSA-7, currently operates only 20 of its 80 authorized beds. According to a letter of opposition from Select Specialty, adding additional long-term acute care beds could impose a significant financial hardship upon SSH-Gulf Coast and other existing long-term acute care hospitals serving residents of GHSA-7.

GR Criteria 9 – Availability of Resources

The application contains documentation that demonstrates Gulf States' long-term acute care management expertise necessary to carry forward with this project. A local financial institution has demonstrated willingness to pledge

the financial resources to underwrite the establishment of this project and its initial operating expense.

GR Criteria 10 – Relationship to Ancillary or Support Services

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

GR Criteria 11 –Health Professional Training

Gulf States 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. Gulf States estimates that the project will require 28,000 square feet of new construction at a cost of \$285.71 per square foot. The applicant affirms that the proposed 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.

GR Criteria 16 – Quality of Care

According to the applicant, one of the principals in this enterprise owns and operates ten existing LTACHs. Nine of which are similar in size to the proposed project and all provide excellent patient care.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure of \$11,300,000 is prorated as follows:

Gulf States LTAC of Jackson County, LLC		
Establishment of a 40-bed Long-Term Acute Care Hospital		
Capital Expenditure Estimation		
SITE	COST	PERCENT
1. Land Cost	\$ 900,000	
2. Site preparation and/or improvement		
3. Other		
SUBTOTAL	\$ 900,000	7.96
BUILDING		
1. New construction	\$ 6,000,000	
2. Renovation		
3. Capital improvement		
4. Fees (architectural, consultant, etc.)	\$ 400,000	
5. Contingency reserve	300,000	
6. Capitalized interest	300,000	
7. Other		
SUBTOTAL	\$ 7,000,000	61.95
EQUIPMENT		
1. Fixed equipment	\$ 1,000,000	
2. Non-fixed equipment	2,000,000	
SUBTOTAL	\$ 3,000,000	26.55
PROJECT DEVELOPMENT		
1. Legal and accounting fees	\$ 400,000	
2. Other		
SUBTOTAL	\$ 400,000	3.54
TOTAL PROJECT COST	\$ 11,300,000	100.00

The project involves 28,000 square feet of new construction and an estimated cost per square foot of \$285.71 (See Attachment 2). *RSMeans' Building Construction Cost Data* manual suggest the unit cost per square foot of new construction at various levels as follows: \$164 (where 25 percent of projects cost less); median, \$203, and \$300 (where 25 percent of projects cost more) per square foot.

B. Method of Financing

The proposed project will be financed through a commercial loan and equity contributions: \$9,500,000 financed and \$1,800,000 equity contribution.

C. Effects on Operating Cost

Gulf States' 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:

Gulf States LTAC of Jackson County 40-Bed Long-Term Acute Care Hospital First Year Operation (Net Revenue)		
Payor	Utilization Percentage	First Year Revenue
Medicare	86	\$12,045,000
Medicaid	0	0
Charity care	1	150,000
Commerical	<u>13</u>	<u>1,825,000</u>
Total	100	\$14,020,000

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 State Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of Gulf States LTAC of Jackson County, LLC for the establishment of a 40-bed long-term acute care hospital in Ocean Springs, Mississippi.

Attachment I

Gulf States LTAC of Jackson County, LLC			
Establishment of a 40-Bed Long-Term Acute Care Hospital			
Three Year Projected Operation Statement			
Revenue	Year 1	Year 2	Year 3
Gross Patient Revenue	\$14,020,000	\$18,331,000	\$21,105,000
Contractual Allowance	(5,698,000)	(7,512,400)	(8,622,000)
Total Net Revenue	8,322,000	10,818,600	12,483,000
Operating Expense			
Personnel Cost	3,001,236	3,319,392	3,556,992
Supplies	251,850	327,405	377,775
Services	3,058,600	3,851,380	4,379,900
Equipment Lease/Rental	480,000	480,000	480,000
Deprecation	608,059	608,059	608,059
Interest	853,927	812,417	767,462
Other*	582,540	757,302	873,810
Total Expense	8,836,212	10,155,955	11,043,998
Income (loss) from Operation	(\$514,212)	\$662,645	\$1,439,002
Assumptions			
Occupancy Rate (percent)	50	65	75
Patient Days	7,300	9,490	10,950
Cost (patient day)	\$1,210	\$1,070	\$1,009
Charge (patient day)	\$1,921	\$1,932	\$1,927
Total Available Pt. Days	14,600	14,600	14,600
Average Daily Census	20	26	30
Average Length of Stay	25	25	25
Admissions @ 25 Days Avg.	292	380	438

* Includes travel, entertainment, legal and accounting fees, and start-up expense.

Attachment 2

Computation of Construction and Renovation Cost

<u>Cost Component</u>		<u>Total</u>	<u>New Constructon</u>	<u>Renovation</u>
A	New Construction Cost	\$6,000,000	\$6,000,000	
B	Renovation Cost	\$0		\$0
C	Total Fixed Equipment Cost	\$1,000,000	\$1,000,000	
	Total Non-Fixed Equipment Cost	\$2,000,000	\$2,000,000	\$0
	Capital Improvement	\$0		
	Land Cost	\$900,000	\$900,000	
D	Site Preparation Cost	\$0	\$0	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$400,000	<i>\$400,000</i>	<i>\$0</i>
F	<i>Contingency Reserve</i>	\$300,000	<i>\$300,000</i>	<i>\$0</i>
G	<i>Capitalized Interest</i>	\$300,000	<i>\$300,000</i>	<i>\$0</i>
	<i>Other</i>	\$400,000		
	Total Proposed Capital Expenditure	\$11,300,000	\$10,900,000	\$0

Square Footage	28,000	28,000	
<i>Allocation Percent</i>		<i>100.00%</i>	<i>0.00%</i>

Costs Less Land, Non-Fixed Eqt.& Cap. Improvement	\$8,400,000	\$8,000,000	\$0
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Cost Per Square Foot	\$300.00	\$285.71	#DIV/0!
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