

**DIVISION OF HEALTH PLANNING AND
RESOURCE DEVELOPMENT
FEBRUARY 2011**

**CON REVIEW: HG-RLS-1210-039
PATIENTS' CHOICE MEDICAL CENTER
LEASE/RELOCATION OF TEN CHEMICAL
DEPENDENCY BEDS AND OFFERING OF
ACUTE ADULT CHEMICAL DEPENDENCY TREATMENT SERVICES
CAPITAL EXPENDITURE: \$58,400
LOCATION: RALEIGH, SMITH COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Patients' Choice Medical Center is a 29-bed short term acute care hospital (including 10 inpatient geriatric psychiatric beds). The hospital is owned by Smith County Board of Supervisors, and managed by Rural Healthcare Developers of Smith County, LLC a Mississippi Limited Liability Company formed May 14, 2010. The registered office of said Limited Liability Company is located at: 2533 Main Street, Plantersville, Mississippi.

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

Patients' Choice Medical Center Utilization Data			
FISCAL YEAR	OCCUPANCY RATE (%)	ALOS (DAYS)	MEDICAID UTILIZATION RATE (%)
2007	2.94	11.69	NA*
2008	0.62	11.00	NA*
2009	1.39	7.74	NA*

*According to the Application for Renewal of Hospital License for fiscal years 2007-2009, PCMC has not received a provider number for inpatient Medicaid Utilization.

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Patients' Choice Medical Center requests Certificate of Need (CON) authority to lease/relocate 10 existing chemical dependency beds from Mississippi Baptist Medical Center for the offering of acute adult chemical dependency services within PCMC of Smith County. According to the applicant, 10 of the 29-bed allotment of PCMC, would be converted to chemical dependency beds, 10 beds will be devoted to an inpatient geriatric psychiatric unit; and the remaining nine beds will remain as acute care beds. Thus, the 29 allotted beds for the hospital will not be reduced. The proposed project does not seek to increase the number of acute adult chemical dependency beds in the State, but to relocate existing, licensed beds from an existing provider of chemical dependency services to PCMC. The applicant has entered into a contract to lease the proposed 10 licensed chemical dependency beds from Mississippi Baptist Medical Center for a period of five years for \$58,400 paid in monthly installments of \$4,866.67. Patients' Choice Medical Center will be a new provider of acute adult chemical dependency services in Smith County.

The applicant states that there will be no new construction to house the proposed beds. In preparing the existing space for utilization as an adult chemical dependency unit, modifications will be performed to create comfortable, efficient and safe accommodations for patients. Security doors and secure windows and overhead will insure an environment conducive to effective treatment for behavioral health conditions while keeping patients and staff safe. Meeting areas will be arranged within the facility where patients participate individual and group therapy sessions. The facility will be staffed by qualified therapists including licensed mental health professions, psychiatrists, psychologists, psychotherapists, nurses and licensed social workers.

The applicant submits that funding the capital expenditure will be provided by working capital of PCMC and/or its manager, Rural Health Care Developers. The application contains a lease agreement between Mississippi Baptist Medical Center, Inc. and Patient Choice Medical Center of Smith County regarding the proposed project. The project requires a capital expenditure of \$58,400 for lease cost.

The applicant submits that 11.5 additional FTE personnel are projected for the proposed project at an estimated annual cost of \$450,000.

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

The applicant anticipates that the capital expenditure will be obligated within 90 days upon CON approval and the project will be complete within one year after 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 (d)(v), Mississippi Code 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State 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 March 16, 2011.

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

A. State Health Plan (SHP) Criteria

The *FY 2011 State Health Plan* contains policy statements, criteria, and standards which an applicant is required to meet before receiving CON authority for acute adult chemical dependency service. This application is in substantial compliance with applicable policy statements, criteria, and standards.

General Criteria and Standards

SHP General Criterion 1 - Need

The *FY 2011 State Health Plan* indicates that the state as a whole shows a need for 21 additional acute adult chemical dependency beds. The applicant is requesting to lease and relocate existing chemical dependency beds from a current provider. Patients' Choice Medical Center of Smith County states that it will replace 10 acute care beds with 10 licensed chemical dependency beds leased from Mississippi Baptist Medical Center for the offering of acute adult chemical dependency services. According to the applicant, the project does not involve the addition of adult acute chemical dependency beds as these beds are already licensed as such.

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.

Patients' Choice Medical Center of Smith County asserts that the project is to convert acute care beds to licensed adult chemical dependency beds leased from Mississippi Baptist Medical Center. These beds are already among the CON approved and licensed beds for the State, according to the *FY 2011 State Health Plan*.

According to the applicant, the project would provide residents of the east central region of Mississippi services for treatment of chemical dependency/dual diagnosis in an environment suited to enable patients to withdraw from use of chemical substances and become educated in techniques needed to cope with situations that have triggered their use. The project would make more efficient use of hospital beds that have been under-utilized as an acute care hospital.

The *Plan* allows deviations of up to 25 percent of the total licensed beds as "swing beds" to accommodate patients having diagnoses of both psychiatric and substance abuse disorders. Therefore, Patient Choice is allowed up to three dual-diagnosed beds. However, Patient Choice Medical Center must demonstrate to the Division of Licensure and Certification that the "swing bed" program meets all applicable licensure and certification regulations for each service offered before providing such "swing beds".

This application is in compliance with this criterion.

SHP General Criterion 2 -Information Recording/Maintenance

Patients' Choice Medical Center affirms that it will record and maintain the information required by this criterion and shall make the data available to the Mississippi State Department of Health within fifteen (15) business days of request.

SHP General Criterion 3 - Memoranda of Understanding

The applicant will be a new provider of adult acute chemical dependency bed/services. The application contains a Memorandum of Understanding between PCMC and Weems Community Mental Health Center, which indicates that their intent and pledge cooperation with PCMC to accept referrals and provide admission for charity and medically indigent patients.

SHP General Criterion 4 - Letters of Comment

The application contains five letters of support from community leaders, and no letters of opposition have been received.

SHP General Criterion 5 - Scope of Services

Patients' Choice Medical Center of Smith County is in compliance with this criterion for the proposed project.

SHP General Criterion 6 - Charity/Indigent Care

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

Service Specific (SS) Criteria And Standards

SHP SS Criterion 1 – Need

The Department bases the statistical need for adult chemical dependency beds on a ratio of 0.14 beds per 1,000 population aged 18 and older for 2010 in the state as a whole. The current SHP indicates that the state is under-bedded by 21 adult chemical dependency beds. Patients' Choice Medical Center of Smith County asserts that it recognizes the statistical need for adult chemical dependency beds in the *Plan*. The applicant's project proposes to convert 10 acute care beds to licensed chemical dependency beds leased from Mississippi Baptist Medical Center. The applicant believes that these beds are already in the total number of licensed CON approved beds.

SHP SS Criterion 2 – Size/Location of Unit

The applicant proposes to establish a 10-bed adult chemical dependency unit, which is less than the 30-bed maximum for hospital based adult chemical dependency units. The applicant asserts that the project will have 10 licensed chemical dependency beds locating in a hospital-based environment. The CDU will be staffed by nurses, social workers, an activity director, counselor, psychiatrist and medical physician.

SHP SS Criterion 3- Aftercare Services

According to PCMC, its program patients will be provided a psychiatric evaluation and treatment as well as chemical dependency treatment. Following treatment, patients will be provided outpatient support and continued follow-up care.

SHP SS Criterion 4 – Type of Clients

The applicant asserts that patients admitted to the chemical dependency unit will be provided treatment for drug abusers, alcohol abusers, prescription drugs, and street drugs.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised 2010 addresses general criteria by which all CON applications are reviewed. The applicable criteria are as follows:

GR Criterion 1 – State Health Plan

This project has been reviewed for compliance with 2011 *State Health Plan*.

GR Criterion 2 – Long Range Plan

The applicant submits that the long-range mission of the Rural Healthcare Developers, leaseholder of Patients' Choice Medical Center of Smith County, is to provide needed medical services for residents in rural communities. The company's specialty is development of behavioral health services for geriatric patients and chemical dependency patients, both inpatient and outpatient settings.

The applicant believes that the creation of a chemical dependency unit at Patients' Choice Medical Center of Smith County represents the opportunity to extend the continuum of care through outpatient behavioral health programs in adjoining communities. Converting acute care beds in the hospital to chemical dependency beds proposes the best use of the facility. As an acute care hospital, PCMC was under-utilized by the community and suffered and low census over a period of years.

The applicant asserts that the proposed project is consistent with the company's mission statement: "Bringing Modern Healthcare to Rural Communities".

GR Criterion 3 – Availability of Alternatives

According to the applicant, there were three alternatives identified for the proposed project as follows:

1. The first alternative would be to do nothing. However, recent past history has shown that the utilization of the facility has been extremely low. As demonstrated in the Plan. The applicant asserts that PCMC's scored 40.03 percent occupancy rate in its allotted 10-bed geriatric psychiatric unit. The hospital had a .40 average daily census and an occupancy rate of 1.39 percent, as reported in the *2009 Report of Hospitals*. The hospital would not be a viable healthcare entity if nothing were done.
2. The second alternative would be to provide outpatient services for chemical dependency patients. Weem Mental Health Center has a program for outpatient services in Raleigh. The establishment of another program in the area would be a duplication of services.
3. The third alternative would be to have a detoxification program in the hospital but this alternative does not address the need for services to address addiction and associated psychological problems.

The applicant believes that the proposal for leasing of 10 chemical dependency beds and removing 10 acute care beds will better serve the community and that the hospital should experience higher levels of utilization. The proposed project will enhance the ability to support further development of the hospital for general acute care.

GR Criterion 4 - Economic Viability

The project appears to be economically viable. The three-year operating projections reflect a net income from operations of \$271,251 for the first year, \$365,735 for the second year, and \$371,155 for the third year. It is noted that the facility operated at a loss for the past two fiscal years shown in the application (2005-2009). The applicant did not project revenue or expenses for its current services; therefore, it is difficult to determine the impact of the project on the overall operations of the facility. However, the addition of chemical dependency services should improve the overall operations of the facility.

GR Criteria 5 – Need for the Project

The applicant asserts that because the disease can affect persons from all stations of life, all residents of the area would have access to the services whether they are low income, racial and ethnic minorities, women, handicapped or elderly.

Patients' Choice Medical Center asserts that the service area for mental health is the entire State. The applicant indicates that PCMC is located in Raleigh, Smith County, Mississippi, approximately 60 miles southeast of Jackson. The principal chemical dependency providers with proximity to Smith County are: Alliance Health Center in Meridian; Forrest General Hospital, Hattiesburg; and South Central Regional Medical Center, Laurel.

The following table gives the adult chemical dependency unit/bed utilization for FY 2009 for the referenced providers with proximity to Smith County:

City	Provider	Beds	ADC %	Occupancy%
Meridian	Alliance HC	8	5.76	69.55
Hattiesburg	*Forrest General	32	10.73	34.16
Laurel	South Central Regional MC	10	5.30	53.01

*Forrest General Hospital received a CON to convert 24 adult CDU beds to adult psychiatric beds April 2010.

Patients' Choice Medical Center asserts that a large part of PCMC Smith County's primary market is Scott, Jasper, Covington, Simpson, and Rankin counties are areas underserved with adult chemical dependency services. The applicant believes that converting underutilized acute care beds to CDU beds represents an efficient use of PCMC Smith County's medical resources.

According to the Plan's methodology for determining the need for chemical dependency beds (14 beds per 1,000 over the age 18 population), the 12-county region around Smith County would provide a need for 55.77 beds. With 26 beds currently in operation, the addition of 10 beds at PCMC would provide a total of 36 beds, leaving 19.77 beds remaining to meet the need of

the area. The demonstrated need for beds in service for the population is justification for CDU beds at PCMC of Smith County.

According to the applicant, the project will provide chemical dependency services for residents of south central Mississippi. Location of the facility in Raleigh, Mississippi, is geographically positioned in the region to serve the counties of Smith, Jasper, Covington, Simpson, Rankin, and Scott. The proposed project only contemplates relocating beds and not services. After the relocation, MBMC will remain a provider of chemical dependency services, and thus, the services provided are not being relocated.

Under this proposal, 10 beds will be relocated from Mississippi Baptist Medical Center in Hinds County to PCMC, Raleigh. According to the *2011 State Health Plan*, Baptist had an occupancy rate of 2.13 percent for FY 2009 for its adult chemical dependency beds. The beds will be relocated to PCMC, which will be a new provider of acute adult chemical dependency services.

The application contained five letters of support for the proposed project.

The Department received one letter of opposition to the project from Alliance Health Center, Meridian.

GR Criterion 6- Accessibility

The applicant asserts that all residents of the health planning service area and hospital service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly have access to the services at the existing facility; and these residents will have access to the proposed services described in this project.

The applicant submits the following historical and projected percentage gross patient revenue to be provided to the medically indigent/charity care patients for the first two years of this project:

Gross Patient Revenue Amount

	Medically Indigent (%)	Charity Care (%)
Historical Year 2008	NA	NA
Historical Year 2009	NA	NA
Projected Year 1	1.0	1.0
Projected Year 2	1.0	1.0

The applicant asserts that Patients' Choice Medical Center has no existing obligations under any federal regulation requiring provision of uncompensated care, community services, or access by minority/handicapped persons.

Patients' Choice Medical Center asserts that the full range of services offered at the hospital CDU are provided to Medicare, Medicaid and medically indigent patients.

GR Criterion 7- Information Requirement

Patients' Choice Medical Center affirms that it will record and maintain the information required by this criterion and shall make the data available to the Mississippi State 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.

The applicant believes that the development of a chemical dependency program at the hospital will provide better utilization of a healthcare facility which can help sustain its skeletal acute care capacity.

Because no beds will be added as a result of the proposed project, staff concludes that this project would have no adverse affect on other providers in the referenced service area and/or statewide.

GR Criterion 9 – Availability of Resources

According to the applicant, the proposed CDU will require 11.5 new FTE's. Traditional methods of recruitment will be utilized through advertising and internet posting to fill these positions. There are currently two psychiatrics on staff as well as a medical doctor that will be able to staff the CDU.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant submits that all necessary support and ancillary staff are available or will be added as needed to meet the needs of facility and patient population.

GR Criterion 16 - Quality of Care

Patients' Choice Medical Center 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 projects \$58,400 annual cost for lease of the proposed chemical dependency beds.

B. Method of Financing

The applicant has entered into a lease agreement with Mississippi Baptist Medical Center for lease of ten adult chemical dependency beds. Lease payments are estimated to be \$4,866.67 (\$58,400 annual) per month which will be paid from working capital of PCMC's and/or its manager, Rural Healthcare Developers. The application contains correspondences between Patients' Choice Medical Center and Mississippi Baptist Medical Center regarding the terms of the lease agreement.

C. Effects on Operating Cost

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

Patients' Choice Medical Center Adult Chemical Dependency Unit Three-Year Projected Operating Statement			
	First Year	Second Year	Third Year
<u>Revenue</u>			
Gross Patient Revenue	\$2,737,501	\$3,668,250	\$3,887,250
Deductions	(1,812,250)	(2,541,615)	(2,714,995)
Net Revenue	\$ 925,251	\$1,126,635	\$1,172,255
<u>Operating Expenses</u>			
Salaries	\$ 450,000	\$522,000	\$ 552,000
Benefits	90,000	104,400	110,400
Supplies	50,000	65,000	67,500
Services	1,000	1,500	1,700
Lease	58,000	58,000	58,000
Depreciation	0	0	0
Interest	0	0	0
Other	5,000	10,000	11,500
Total Operating Expenses	<u>\$654,000</u>	<u>\$760,900</u>	<u>\$801,100</u>
Net Income	<u>\$ 271,251</u>	<u>\$ 365,735</u>	<u>\$ 371,155</u>
<u>Assumptions</u>			
No. of Beds	10	10	10
Occupancy Rate	50%	68%	71%
Inpatient Days	1,825	2,445	2,592
Cost/Inpatient Day	\$ 358	\$ 311	\$ 309
Charge/Inpatient Day	\$ 1,500	\$ 1,500	\$ 1,500

D. Cost to Medicaid/Medicare

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

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	65	\$ 1,779,375
Medicare	22	602,250
Other	<u>13</u>	<u>355,875</u>
Total	<u>100</u>	<u>\$2,737,500</u>

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project. Based on its analysis, the Division of Medicaid estimates the increase annual cost to Medicaid to be \$7,592 in inpatient hospital services. Any portion related to outpatient services would be paid as outlined in the Medicaid's State Plan. The Division of Medicaid opposes this project.

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 offering of acute adult chemical dependency bed/services as contained in the *FY 2011 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised May 2010; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Patients' Choice Medical Center for the lease and relocation of ten acute adult chemical dependency beds and offering of acute adult chemical dependency services.