

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

**CON REVIEW: HG-COB-0811-014
TALLAHATCHIE GENERAL HOSPITAL
AND EXTENDED CARE FACILITY
CONVERSION OF 9 NURSING HOME BEDS TO ACUTE CARE BEDS
CAPITAL EXPENDITURE: \$20,000
LOCATION: CHARLESTON, TALLAHATCHIE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Tallahatchie General Hospital and Extended Care Facility (TGH) is a County-owned, non-profit organization offering both acute care and long-term care services. The hospital is owned by the County of Tallahatchie and located in Charleston, Mississippi. Tallahatchie General Hospital and Extended Care Facility is governed by a four (4) member Board of Trustees appointed by the Tallahatchie County Board of Supervisors.

Tallahatchie General Hospital and Extended Care Facility is currently licensed to operate 9 acute care beds and 98 skilled nursing facility beds and is certified to participate in the Medicare-Medicaid programs.

The occupancy rates, average lengths of stay (ALOS) and Medicaid utilization rates for the three most recent years are as follows for the years 2008 through 2010:

**Tallahatchie General Hospital
Utilization Data**

Fiscal Year	Occupancy Rate %	ALOS	Medicaid Utilization Rate (%)
2008	30.87	3.79	11.40
2009	23.07	3.95	9.17
2010	23.62	3.98	5.41

*Including swing beds

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

B. Project Description

Tallahatchie General Hospital and Extended Care Facility is requesting Certificate of Need (CON) authority to convert 9 nursing home beds to 9 acute care bed status at the hospital. The beds will be located in the acute care wing of the hospital. The applicant states that there will be no increase or decrease overall in the total number of authorized beds (currently 9 acute care beds and 128 nursing home beds, 30 of which are being held in abeyance). The licensure category of authorized acute care beds will increase from 9 to 18 and the licensure category of authorized nursing home beds will decrease from 128 to 119 as a result of the proposed. TGH is a current provider of acute care swing bed services. The applicant asserts that upon CON approval of the project, the hospital will have 18 licensed acute care beds, all of which will be certified for participation in the swing-bed program. According to the applicant, the hospital has the non-fixed equipment necessary to furnish the rooms that are currently undergoing renovation. However, TGH has decided it would be in the best interest of its patients to acquire new hospital beds, which acquisition will be accomplished by means of an operating lease with Performance Capital Leasing, LLC. The application contains a copy of the operating lease agreement between TGH and Performance Capital Leasing, LLC of Hattiesburg, Mississippi concerning the project.

According to the applicant, the capital expenditure for the proposed project is \$20,000, which is for non-fixed equipment cost in the event it later determines that some extra miscellaneous furnishings are needed for the proposed project. The applicant proposes to finance the proposed capital expenditure from cash reserves. The project is expected to result in an additional 16.8 FTE (Full-time equivalent employees) at an annual additional cost of \$473,040.

According to TGH, the hospital was previously authorized to renovate, and is currently in the process of renovating its acute care rooms to enlarge the size of such rooms; therefore, no additional renovation or construction is necessary for this project.

The MSDH Division of Health Facilities Licensure and Certification found the project's site acceptable for the stated activity.

The applicant expects that the project will begin immediately after CON approval and be completed one (1) month 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 November 7, 2011.

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

A. State Health Plan

The **FY 2011 State Health Plan** does not contains criteria and standards for the conversion of nursing home beds from one category to another (medical surgical care beds). Also, the project 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 conversion of nursing home beds to medical surgical beds will not result in an overall change in the licensed complement of beds at TGH.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, May 1, 2010, 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 improve the health of Mississippi residents;
- To increase the accessibility, acceptability, continuity, and quality of health services;
- To prevent unnecessary duplication of health resources; and
- To provide some cost containment.

According to the applicant, the hospital needs additional swing bed capacity, and the nursing home beds that will be converted to acute care beds and certified as swing beds are not currently in use. By bringing those beds on-line for utilization in their highest and best use, TGH will further this purpose. The applicant asserts that the

proposed project will allow the residents of the hospital's service area to receive both critical access acute care services and step-down swing bed rehabilitation services without the necessity of traveling distances to receive such service. TGH indicates that the proposed project does not contemplate any new service or a new provider. The hospital is already providing swing bed services and is merely converting 9 of its nursing home beds to acute care beds certified as swing beds because TGH is experiencing high occupancy rates in its acute care beds. The applicant indicates that from April 1 through June 30, 2011 (91 days), the hospital was 100 percent occupied on 14 of those days with 9 patients in its 9 acute care beds and was 89 percent occupied on 22 of those days with 8 patients in its 9 acute care beds. The applicant believes that based on the support for this project and the dramatic increase in its occupancy rate, converting fewer beds would not sufficiently alleviate the expected demand.

GR Criterion 2 - Long Range Plan

According to the applicant, the proposed project comports with the hospital's goal to provide quality, efficient health care to all residents of Tallahatchie County and surrounding communities and is compatible with its long range plans.

TGH asserts that the hospital first met with local physicians and physicians within an area for which the hospital receives swing-bed referrals regarding this proposed project. The response and support has been enthusiastic. After considering the support of its medical staff and physicians within the referral area, the hospital determined the best way to meet the needs of the community was to seek authority for the proposed project.

GR Criterion 3 – Availability of Alternatives

According to the applicant, the hospital considered doing nothing and continuing to operate with only 9 acute care beds. However, failure to accomplish the project would result in the hospital continuing to provide critical access acute care services and swing bed services with only 9 licensed acute care beds. This alternative to the project was rejected because such decision would not be in the best interest of the hospital's patients, the Tallahatchie County community or the surrounding communities.

TGH asserts that it also considered converting fewer than 9 nursing home beds to acute care beds. However, the hospital determined that, based on the support for this project and the dramatic increase in its occupancy rate, converting fewer beds would not sufficiently alleviate the expected demand.

According to the TGH, the hospital also considered converting more than 9 nursing home beds to acute care beds. However, the renovated wing of the hospital contains 18 spacious private rooms that will accommodate the 9 converted beds without the need for construction or additional renovation, thus keeping costs down.

The proposed project does not contemplate any construction or modernization beyond the renovation currently being accomplished in accordance with the Department's approval.

The applicant believes that the alternative selected will provide needed swing bed access to residents in Tallahatchie County and the surrounding communities. It will also assure the hospital of a sufficient number of acute care beds to accommodate its patients when necessary.

GR Criterion 4 - Economic Viability

Tallahatchie General Hospital projects net operating income to be \$748,585 the first year, \$859,388 the second year, and \$1,013,292 the third year after completion of this project. See effect on operating cost, page 7.

GR Criterion 5 - Need for the Project

According to the applicant, all residents of the area, including low income persons, racial and ethnic minorities, women, persons with disabilities, other underserved groups, and the elderly, have access to the acute care and swing bed services provided at TGH and will continue to have access to its acute and swing bed services.

Tallahatchie General Hospital submits that it is a current provider of swing bed services and all of its currently licensed acute care beds are certified as swing beds. The project anticipates that all of the hospital's acute care beds, including the proposed 9 converted nursing home beds to 9 acute care beds, will participate in the swing bed program.

According to TGH, currently, many patients needing swing bed care must be referred to other facilities because the hospital does not have a bed available. Such practice requires patients in need of a swing bed or some type of rehabilitative service to travel to other facilities many miles away from their homes in order to receive the necessary care. TGH asserts that the hospital is renovating its acute care rooms to enlarge and update the rooms. As a result, physicians from surrounding areas are eager to refer patients in need of swing bed services to TGH. Because the TGH is a critical access hospital that is limited in its scope of acute care services, as the acute care utilization at TGH increases, facilities with which the hospital has transfer agreements will benefit as a result of such increase. Therefore, implementation of this project will not adversely impact existing providers.

The applicant believes that implementation of the proposed project will not only provide residents in TGH's services area convenient access to swing bed care but will also assure the hospital has available a sufficient number of beds to provide access to those in need of acute care.

According to the *FY 2011 State Health Plan*, average daily census for swing bed utilization for FY 2009 in General Hospital Service Area 3 was 24.38 percent.

The applicant asserts that the objective of the proposed project at TGH is to meet the current and future healthcare needs of the Tallahatchie County community, the hospital's patients, and all persons residing in the hospital's service area.

The application contains six (6) letters of support for the project.

GR Criterion 6 - Access to the Facility or Service

According to TGH, all residents of the hospital's health planning service area, patient service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly have access and will continue to have access to the services to the existing facility. The applicant asserts that TGH provides care to all persons regardless of payor source or their ability to pay.

The following table shows the percentage of estimated gross patient revenue and actual dollar amount of health care provided to medically indigent and charity patients for the past two fiscal years at TGH:

Fiscal Year	Percent of Gross Patient Revenue	Dollar Amount
2010	6%	\$609,851
Oct 2010-May 2011	6%	\$660,939
Projected Year 1	6%	\$1,176,943
Projected Year 2	6%	\$1,195,906

GR Criterion 7 - Information Requirement

Tallahatchie General Hospital and Extended Care Facility affirms that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Tallahatchie General Hospital is located in General Hospital Service Area 3. The conversion from nursing home beds to acute medical surgical beds will not change the total bed complement, and 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 3.

The applicant believes that failure to implement the proposed project may result in denying the people living in Tallahatchie general service area, who are in need of an acute care bed, access to an acute care bed when such beds are fully occupied.

GR Criterion 9 - Availability of Resources

As previously mentioned, the project is expected to result in an additional 16.8 FTE (Full-time equivalent employees) at an annual additional cost of \$473,040.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that all necessary support and ancillary services are currently in place at TGH, and any increase in the use of such ancillary or support services will not have a detrimental effect on those services.

GR Criterion 16 - Quality of Care

Tallahatchie General Hospital is in compliance with **the Minimum Standards for the Operation of Mississippi Hospitals**, according to the Division of Health Facilities Licensure and Certification, MSDH.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The capital expenditure for the proposed project is \$20,000, which is for non-fixed equipment cost in the event it later determines that some extra miscellaneous furnishings are needed for the proposed project.

B. Method of Financing

According to the applicant, TGH proposes to finance the proposed capital expenditure from cash reserves.

C. Effect on Operating Cost

Tallahatchie General Hospital 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
Gross Patient Revenue	\$ 6,654,984	\$ 6,895,984	\$ 7,136,984
Deductions	\$ (3,955,557)	\$(3,972,699)	\$ (3,980,667)
Net Patient Revenue	\$ 2,699,427	\$ 2,972,699	\$ 3,156,317
Net Operating Revenue	<u>\$ 2,699,427</u>	<u>\$ 2,923,285</u>	<u>\$ 3,156,317</u>
Expenses	Year 1	Year 2	Year 3
Salaries & Wages	\$ 473,040	\$ 180,250	\$ 192,920
Benefits	139,466	143,650	147,959
Supplies	665,212	685,168	705,723
Services	511,141	526,475	548,161
Lease	23,780	21,720	-0-
Other	138,203	141,953	179,903
Total Expenses	<u>\$ 1,950,842</u>	<u>\$ 2,063,898</u>	<u>\$ 2,143,026</u>
Net Operating Income	\$ 748,585	\$ 859,388	\$ 1,013,292
Patient Days	2,410	2,482	2,557
Charge/Patient Day	\$2,761	\$2,778	\$2,791
Cost/Patient Day	\$809	\$831	\$838

C. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Revenue
Medicaid	3	\$ 199,649
Medicare	93	\$6,189,136
Other	<u>4</u>	<u>\$ 266,199</u>
Total	<u>100</u>	<u>\$6,654,984</u>

TGH projects 5 percent of gross revenue for medically indigent patients and one (1) percent for charity 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; however, no comments were received as of this staff analysis.

VI. CONCLUSION AND RECOMMENDATION

This project is in compliance with the overall objectives of the **FY 2011 State Health Plan**; the **Mississippi Certificate of Need Review Manual, Revised May 1, 2010**; and duly 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 by Tallahatchie General Hospital to convert 9 nursing home beds to 9 acute care beds.