

**Division of Health Planning  
and Resource Development  
February 2005**

**CON Review: LTACH-RLS-1205-051  
Select Specialty Hospital, Biloxi  
Replacement and Relocation of 42 Long-Term Acute Care Hospital Beds  
Capital Expenditure: \$3,705,500  
Location: Biloxi, Harrison County, Mississippi**

**Staff Analysis**

**I. PROJECT SUMMARY**

**A. Application Information**

Select Specialty Hospitals are a 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 99 specialty hospitals in 26 states. Prior to the occurrence of Hurricane Katrina on August 29, 2005, two Select Specialty hospitals operated on the Mississippi Gulf Coast. The 42-long-term acute care bed Select Specialty Hospital-Biloxi was located at 638 East Beach Boulevard in Biloxi. Select Specialty Hospital-Gulfport was located on the campus of Memorial Hospital at Gulfport and licensed for 38 long-term acute care hospital (LTACH) beds. As a result of Hurricane Katrina, the Biloxi facility was damaged beyond repair.

Accordingly, Select Specialty Hospital-Biloxi, Inc. ("Select Specialty Hospital" or "Select") requested and obtained an emergency certificate of need (CON) which authorized the replacement and relocation of the 42 LTACH beds located in Biloxi to the Select Specialty Hospital-Gulfport facility. The State Health Officer issued the emergency certificate of need on October 25, 2005. Select submitted this substantive CON application on December 9, 2005, in accordance with the *Mississippi Certificate of Need Review Manual* which requires the recipient of an emergency CON to submit the appropriate CON application to the Department within 45 days of the effective date of the emergency CON.

The State of Mississippi issued a Charter/Certificate of Authority to Select Specialty Hospitals-Gulf Coast, Inc. as a for-profit corporation on September 21, 1994. Select Specialty Hospital-Gulf Coast is a wholly-owned subsidiary of Select Medical Corporation of Mechanicsburg, Pennsylvania.

**B. Project Description**

Select has determined that the most efficacious way to replace the Biloxi facility is to renovate the first floor of the former Garden Park Hospital, located at 1520 Broad Avenue in Gulfport, Mississippi. Select presently leases the second floor of that building pursuant to the Department's declaratory ruling which authorized the relocation of Select Specialty

Hospital-Gulfport from Memorial Hospital at Gulfport to the former Garden Park facility. Select now proposes to lease and renovate the first floor of the building in order to accommodate the Biloxi LTACH beds.

Select proposes to relocate all 42 Biloxi LTACH beds to the former Garden Park facility. Twenty-three of the Biloxi LTACH beds will be located on the first floor and the remaining 19 beds will be located on the second floor. Following the completion of this project, Select will operate 80 LTACH beds at the Gulfport facility.

Select estimates that the relocation project will require the renovation of approximately 20,050 square feet on the first floor of the building. The applicant estimates that renovation cost will be \$110 per square foot; therefore, the estimated construction cost for the facility replacement is \$2,205,500. Additionally, Select estimates that the equipment to be replaced will cost approximately \$1,500,000. Equipment will include patient beds, furniture, and certain movable medical equipment. Accordingly, the estimated capital expenditure for the proposed project is \$3,705,500.

The MDH Division of Health Facility Licensure and Certification has approved the project site. The applicant anticipates that the project will begin immediately upon CON approval.

The applicant will rehire 28.1 and 52.5 full-time equivalent (FTE) nursing staff and non-clinical staff, respectively, for a total of first year staffing of 80.6 FTE personnel. The first-year personnel cost is budgeted at \$11,065,899.

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

The Mississippi Department of Health reviews applications for a CON for the renovation and relocation of a long-term acute care hospital involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191, subparagraph (1)(b) 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, 2006.

## **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 2006 State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, or capital improvement

involving a capital expenditure in excess of \$2,000,000. The applicant is in substantial compliance with these criteria.

**SHP Criterion 1 - Need**

Prior to Hurricane Katrina, Select Specialty Hospitals-Gulf Coast operated two LTACH in Harrison County. The number of admissions, average length of stay (ALOS), and occupancy rate (OR) of these hospitals is listed in the following table.

<b>Select Specialty Hospital-Gulf Coast, Inc. Utilization Statistics 2002-2004</b>			
<b>Select Specialty-Biloxi</b>			
Year	Admissions	ALOS	OR (percent)
2004	301	27.87	54.40
2003	332	24.33	50.18
2002	326	23.93	56.98
<b>Select Specialty-Gulfport</b>			
2004	361	25.01	65.53
2003	302	26.01	54.87
2002	351	29.57	68.87
<b>Select Specialty-Collective (Biloxi and Gulfport)</b>			
2004	662	26.41	59.86
2003	634	25.14	52.42
2002	677	28.83	62.63

Source: Application for Renewal of Hospital License for Calendar Year 2003, 2004, and 2005

Select has adequately demonstrated compliance with the need criteria of 450 clinically appropriate restorative admissions with an average length of stay of 25 days. The applicant has also demonstrated that the LTACH is financially feasible.

**SHP Criterion 2 – Acute Care Licensure**

The applicant affirms that present beds are licensed as long-term acute care hospital beds and will remain as long-term acute care hospital upon completion of this project. No increase or decrease in bed capacity is being proposed.

**SHP Criterion 3 – Licensure Requirements**

The applicant affirms that the relocated LTACH beds will meet all regulatory and licensure requirements for re-licensure as 42 long-term acute care hospital beds.

#### **SHP Criterion 4 – Indigent/Charity Care**

Select affirms that the relocated hospital 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 affirms that the renovation and equipment cost of the proposed project is reasonable in comparison with the cost of similar projects in the state. The applicant expects the renovation cost per square foot to be \$110. This cost does not exceed the median cost by more than 15 percent, of other similar projects approved by the Department within the most recent 12-month period.

#### **SHP Criterion 6-- Floor Areas and Space Requirements**

The applicant affirms that the gross square footage of the proposed project is comparable to state and national norms for LTACHs; the proposed facility will not place restraints on the LTACH; and that the move is necessitated by local conditions, due to the devastation and destruction caused by Hurricane Katrina.

#### **SHP Criterion 7-- Transfer Agreements**

The original transfer agreement with the University Hospitals and Clinics in Jackson satisfies the criteria for having a transfer agreement with an acute care medical center and a comprehensive medical rehabilitation facility. The applicant also states that it has a transfer agreement with Memorial Hospital at Gulfport.

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

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, May 13, 2000, (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*\_Certificate of Need Criteria and Standards for Long-Term Care Hospital/Beds.

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

Select had no long range plan for response to a devastating hurricane which resulted in total destruction of their Biloxi facility.

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

According to the applicant, after Hurricane Katrina, Select considered all available alternatives. The proposed relocation to and renovation of the first

floor of the former Garden Park hospital facility is the most effective and least costly method of meeting the needs of Select's market area.

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

The applicant projects an annual income from operation of \$601,212, \$1,515,257, and \$2,027,669 during the first, second, and third years of operation of the 80-bed freestanding LTACH, respectively.

- a. Proposed Charges: The applicant projects a cost of \$1,199 per day and a proposed charge of \$1,299. This charge is established by CMS and is comparable to other LTACH charges within the state.
- b. Projected Level of Utilization: The applicant projects an occupancy rate of 55.77, 66.59, and 76.07 percent during the first, second, and third years of operation, respectively.
- c. Financial Feasibility Study: The application contains a letter from the chief fiscal officer of Select Medical Corporation (the parent company to Select Specialty Hospital-Gulf Coast, Inc.) attesting that he considers the proposed project to be economically feasible.

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

The proposed project requires the replacement of a LTACH which was destroyed by Hurricane Katrina. The need for the facility has been demonstrated by the fact that prior to Hurricane Katrina the LTACH was operational with a healthy occupancy rate.

- a. Underserved Populations: Select 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: Select avows that the proposed relocation will allow the LTACH to continue to meet the needs of the residents of the Mississippi Gulf Coast for long-term acute care services.
- c. Projected Utilization of Like Facilities in the Area: Select Specialty Hospital-Gulf Coast, Inc. is the only LTACH on the Mississippi Gulf Coast. Accordingly, this project is important in meeting the needs of that area with respect to LTACH services, according to the applicant.
- d. Probable Effect of Proposed Facility on Existing Facilities: This proposal is for replacement and relocation of 42 existing LTACH beds. No additional beds or change in the scope of service are requested.
- 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 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 has 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 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 continue to treat all patients requiring LTACH services.
- d. **Range of Means to Provide Access:** The Select Specialty-Biloxi will be relocated to the Garden Park Hospital building. According to the applicant, the facility will be fully equipped to provide access to all handicapped patients.

### **GR Criteria 7 – Information Requirement**

The applicant states 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**

This relocation proposal will allow Select to continue to provide long-term acute care hospital services to residents of the Mississippi Gulf Coast. This project is vital to the continuum of care that was delivered on the Gulf Coast prior to Hurricane Katrina, according to the applicant. The project adds no beds but relocates 42 LTACH beds from Biloxi to Gulfport, both located within Harrison County.

### **GR Criteria 9 – Availability of Resources**

The application contains documentation of Select Specialty Hospital's health, management and financial resources necessary to carry forward with this project, and affirms the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to pursue this project.

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

Select avows no adverse effect on any 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 to relocate the Biloxi LTACH beds will require the renovation of approximately 20,500 square feet on the first floor of the former Garden Park Hospital. The applicant estimates that the cost per square foot of renovation to be \$110. The applicant affirms that the facility will be renovated to meet or exceed all national, state, and local minimum standards for operation of the completed project as a licensed LTACH.

**GR Criteria 16 – Quality of Care**

Applicant is accredited by Medicare and the Joint Commission on Accreditation of Healthcare Organizations.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure of \$3,705,500 is prorated as follows:

			Percent
a.	Construction Cost -- New	\$ 0	0
b.	Construction Cost -- Renovation	2,205,500	59.52
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	1,500,000	40.48
e.	Total Non-Fixed Equipment Cost	0	0
f.	Land Cost	0	0
g.	Site Preparation Cost	0	
h.	Fees (Architectural, Consultant, etc.)	0	0
i.	Contingency Reserve	0	0
j.	Capitalized Interest	0	0
k.	Other Cost	0	0
l.	Total Proposed Capital Expenditure	<u>\$ 3,705,500</u>	<u>100.00</u>

The project involves 20,050 square feet of renovation and an estimated renovation cost per square foot of \$110.

**B. Method of Financing**

The proposed project will be financed through an intercompany loan.

**C. Effects on Operating Cost**

Select Specialty Hospital-Gulf Coast, 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:

<b>Select Specialty Hospital-Gulf Coast, Inc</b> 80-Bed Long-Term Acute Care Hospital First Year Operation		
Patient Mix	Utilization Percentage	First year Cost
Medicaid	0	0
Medicare	90	\$19,245,954
Other Third Party	<u>10</u>	<u>1,914,739</u>
<b>Total</b>	<b><u>100</u></b>	<b><u>\$21,160,693</u></b>

**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 construction, renovation, and expansion projects as contained in the FY 2006 Mississippi State Health Plan; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised 2000; 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-Biloxi, Inc. for the renovation and relocation of 42 long-term acute care hospital beds from Biloxi to Gulfport.

Attachment I

<b>Select Specialty Hospital-Gulf Coast, Inc.</b>			
(80 Freestanding Long-Term Acute Care Hospital Beds)			
<b>Three Year Projected Operation Statement</b>			
<b>Revenue</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Gross Patient Revenue	\$ 43,495,877	\$ 53,698,506	\$ 63,201,232
Contractual Allowance	(22,335,184)	(28,161,455)	(33,694,651)
<b>Total Net Revenue</b>	<b>21,160,693</b>	<b>25,537,051</b>	<b>29,506,581</b>
<b>Operating Expense</b>			
Personnel Cost	11,065,899	13,110,385	15,169,524
Bad Debt	634,821	766,112	885,197
Building Rent	780,000	780,000	780,000
Contracted Debts	2,612,113	3,210,875	3,779,066
Supplies	2,298,232	2,804,479	3,271,266
Utilities	363,993	375,064	386,472
Equipment Lease/Rental	425,823	438,775	425,121
Deprecation	433,958	454,762	479,048
Other	918,791	607,443	625,918
<b>Total Expense</b>	<b>19,533,630</b>	<b>22,547,895</b>	<b>25,801,612</b>
Income from Operation	1,627,061	2,989,156	3,704,969
Intercompany Interest Expense	(616,621)	(442,505)	(315,499)
Pretax Income	1,010,440	2,546,651	3,389,470
Taxes	409,228	1,031,394	1,361,801
<b>Income (loss) from Operation</b>	<b>\$ 601,212</b>	<b>\$ 1,515,257</b>	<b>\$ 2,027,669</b>
<b>Assumptions</b>			
Occupancy Rate	55.77%	66.59%	76.07%
Patient Days (80 beds)	16,286	19,444	22,212
Cost (patient day)	\$ 1,199	\$ 1,160	\$ 1,162
Charge (patient day)	\$ 1,299	\$ 1,313	\$ 1,328