

**Division of Health Planning and Resource Development  
February 2003**

**CON Review HG-NIS-1102-069  
Magnolia Regional Health Center  
Conversion of a Skilled Nursing Unit into a 20-Bed  
Acute Rehabilitation Unit  
Capital Expenditure: \$40,000  
Location: Corinth, Mississippi**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Magnolia Regional Health Center (Magnolia) is a not-for-profit public acute care facility, owned jointly by the City of Corinth, Mississippi and Alcorn County. The facility is governed by a five-member Board of Trustees. Two members are appointed by the Alcorn County Board of Supervisors, two are appointed by the City of Corinth Board of Aldermen, and one is appointed jointly by both groups. The 164-bed JCAHO-accredited facility is composed of 145 acute care beds and 19 psychiatric beds.

The facility's occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the past fiscal years are as follows (medical/surgical beds only):

**Magnolia Regional Health Center  
Utilization Data**

<b>Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid* Utilization Rate (%)</b>
1999	61.29	4.78	10.34
2000	60.18	4.63	12.92
2001	64.29	4.64	14.49

**Source:** Division of Health Facilities Licensure and Certification, MSDH.

**B. Project Description**

Magnolia Regional Health Center requests certificate of need authority to establish Level II Rehabilitation Services at the facility. The applicant proposes to convert the existing 20-bed skilled nursing unit into a 20-bed Level II comprehensive medical rehabilitation unit. Applicant submits that Magnolia has provided the existing transitional care unit for seven years. The unit already has a large classroom for physical therapy, occupational therapy, and a dining area. Minimal renovations will be needed to establish the rehabilitation unit. Certain exercise equipment will be purchased to provide the needs of the patients' rehabilitation requirements.

The unit will provide services for four primary diagnoses as follows: strokes, hip fractures, amputee, and polyarthritis. There are currently two orthopedic surgeons performing procedures at Magnolia, which provide many patients needing this rehabilitation service. There is one neurologist practicing in Corinth, which plans to add another neurologist in 2003, according to the applicant.

The applicant expects that there will be no significant change in the use of ancillary or support services due to the proposed project. Three FTE personnel are projected for the new rehabilitation unit at an estimated annual cost of \$125,000.

MSDH Division of Licensure and Certification has approved the site for the location of a Level II Rehabilitation Unit. The applicant expects to obligate the capital expenditure in January 2003, with completion on March 31, 2003.

## II. TYPE OF REVIEW REQUIRED

Projects which involve the establishment of specified institutional health services require Certificate of Need (CON) review by the State Department of Health, pursuant to Section 41-7-191, subparagraphs (1)(d)(iii) for Comprehensive Inpatient Rehabilitation Services, Mississippi Code 1972, Annotated, as amended.

In accordance with Section 41-7-197(2) of the Mississippi Code of 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 March 6, 2003.

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

### A. *State Health Plan (SHP)*

The *FY 2003 State Health Plan* addresses policy statements, criteria and standards which an applicant is required to meet before receiving CON authority to provide comprehensive inpatient rehabilitation services. The *FY 2003 State Health Plan* was amended, effective November 8, 2002, to allow 40 additional Level II Comprehensive Medical Rehabilitation beds in the state. The applicant is in substantial compliance with applicable criteria and standards.

### **SHP Criterion 1 - Need**

Based on a formula of 0.0489 beds per 1,000 population for the state as a whole, the Mississippi State Department of Health has determined a need for 40 Level II comprehensive medical rehabilitation beds. The applicant is requesting to establish 20 beds.

Magnolia submits that the majority of the patients needing this type of rehabilitation are older patients. The 2000 census reported that the state of Mississippi has 12.1 percent of the population that is 65 years of age or older. Each county in Magnolia's service area is above the state average percentage in this age category. The seven county average is 15.3 percent in excess of 65 years of age. The service area has approximately 150,000 people, according to the 2000 census.

With the requirement that a patient must be willing and able to participate in three hours of therapy per day, Magnolia plans to add one physical and one occupational therapist. If necessary, a physical therapy technician will be added. The hospital will also provide a medical director that will provide approximately 20 hours per week to the rehabilitation unit to monitor and evaluate the patients' progress.

#### **SHP Criterion 2 - Treatment Limitation**

The unit will provide services for four primary diagnoses as follows: strokes, hip fractures, amputee, and polyarthritis. The applicant does not propose to provide any of the services which are prohibited for Level II providers.

The applicant states that it will include on its *Annual Report of Hospitals* submitted to the MSDH, information regarding average length of stay by diagnosis, patient age, sex, race, zip code, payor source, and length of stay by diagnosis.

#### **SHP Criterion 3B - Staffing**

The applicant submits that Magnolia will have a Director of Rehabilitation to provide services to the unit and its patients for at least 20 hours per week.

According to applicant, physical, occupational, and speech therapists are currently available to provide the rehabilitation services needed for this Level II unit. Any additional required services will be provided for the rehabilitation unit on a contractual basis.

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

Chapter 8, *Mississippi Certificate of Need Review Manual*, revised 2000, contains general criteria by which all applications for Certificate of Need are reviewed. This project is in substantial compliance with applicable criteria.

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

The applicant submits that no other alternatives were considered. The mileage change in the State Health Plan, made Magnolia Regional Health Center eligible to request the service.

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

The project appears to be economically viable. Based on the three-year operating statement submitted by the applicant, Magnolia will realize net revenue in excess of expenses of \$1,964,031 the first year, \$4,356,767 the second year, and \$4,466,534 the third year of operation.

#### **GR Criterion 5 - Need for Project**

The applicant states that all residents within the hospital service area do, and will continue to have access to the health care facility.

Magnolia submits that the majority of the patients needing this type of rehabilitation are older patients. The 2000 census reported that the state of Mississippi has 12.1 percent of the population that is 65 years of age or older. Each county in Magnolia's service area is above the state average percentage in this age category. The seven county average is 15.3 percent in excess of 65 years of age. The service area has approximately 150,000 people, according to the 2000 census.

#### **GR Criterion 6 - Access to the Facility or Service**

Applicant submits that Magnolia does not discriminate against any classification of patient. The percentages of gross patient revenue provided to medically indigent patients for the past three fiscal years were as follows: .86 percent for FY 2000; 1.98 percent for FY 2001; and 2.13 percent for FY 2002.

#### **GR Criterion 7 - Information Requirement**

Magnolia Regional Health Center affirms that it will keep the appropriate statistical information required and make it available to the Mississippi State Department of Health upon request.

#### **GR Criterion 8 - Relationship to Existing Health Care Systems**

The project is not expected to have an adverse effect on existing providers of comprehensive medical rehabilitation services in the State. However, the applicant is one of three applicants for Level II comprehensive medical rehabilitation beds.

#### **GR Criterion 9 - Availability of Resources**

The applicant expects that potential staff is currently available in the area. Magnolia does not anticipate any problems with acquiring the needed personnel for this project.

### **GR Criterion 15 - Competing Applications**

The Department received three applications requesting approval to establish a 20-bed Level II comprehensive medical rehabilitation unit. The *FY 2003 State Health Plan* (amended) shows a need for only 40 additional Level II beds. Policy Statement 8, Chapter XI of the *Plan*, provides that when reviewing two or more competing CON applications for comprehensive medical rehabilitation beds, the MSDH shall use the following factors in the selection process, including, but not limited to, a hospital having a minimum of 160 licensed acute care beds as of January 1, 2000; the highest average daily census of the competing applications; location of more than 45 mile radius from an existing provider of comprehensive medical rehabilitation services; proposed comprehensive range of services; and has the patient base needed to sustain a viable comprehensive medical rehabilitation service.

All applicants are in compliance with the applicable criteria and standards; all applicants are located more than a 45 mile radius from an existing provider; and all applicants have the patient base needed to sustain a viable comprehensive medical rehabilitation service. Section 41-7-195, Mississippi Code of 1972 Annotated, as amended provides that "The State Department of Health may approve or disapprove a proposal for a certificate of need as originally presented in final form, or it may approve a certificate of need by a modification, by reduction only, of such proposal provided the proponent agrees to such modification." Since hospital-based Level II comprehensive medical rehabilitation facilities are limited to a maximum of 20 beds, staff contends that the need for Level II beds can best be met by approving each application, by reduction. Therefore, staff recommends that Magnolia Regional Health Center be approved, by reduction, for 13 Level II comprehensive medical rehabilitation beds. Because the staff's recommendation is approval by reduction, the applications are not considered to be competing applications in the usual sense.

### **GR Criterion 16 - Quality of Care**

Magnolia Regional Health Center is in compliance with the *Minimum Standards of Operation for Mississippi Hospitals*. The hospital is accredited by the Joint Commission on Accreditation of Health Care Organizations.

**IV. FINANCIAL FEASIBILITY**

A. Expenditure Summary

Capital Improvement costs	\$ 10,000
Non-Fixed Equipment	30,000
<b>Total Capital Expenditure</b>	<b>\$ 40,000</b>

B. Method of Financing

Capital expenditure will be financed with accumulated cash reserves.

C. Effect on Operating Cost

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

<u>Expenses</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Salaries and Benefits	\$39,434,195	\$ 40,872,221	\$ 42,098,387
Variable Costs	14,363,109	14,794,002	15,237,822
Fixed & Overhead	<u>23,598,048</u>	<u>24,339,739</u>	<u>25,069,932</u>
<b>Total Expenses</b>	<b>\$ 77,395,352</b>	<b>\$ 80,005,962</b>	<b>\$ 82,406,141</b>
Gross Patient Revenue	\$163,406,850	\$173,909,656	\$179,126,945
Contractual Allowances (-)	<u>( 86,278,817)</u>	<u>( 91,824,282)</u>	<u>( 94,579,010)</u>
<b>Net Patient Revenue</b>	<b>\$77,128,033</b>	<b>\$ 82,085,374</b>	<b>\$ 84,547,935</b>
Other Oper. Revenue	1,533,507	1,579,512	1,626,898
<b>Total Revenue</b>	<b>\$78,661,540</b>	<b>\$83,664,886</b>	<b>\$86,174,833</b>
Income from Operations	<b>\$ 1,266,188</b>	<b>\$ 3,658,924</b>	<b>\$ 3,768,692</b>
Nonoperating Gains	697,843	697,843	697,843
Net Rev. in Excess of Exp.	<b>\$1,964,031</b>	<b>\$4,356,767</b>	<b>\$4,466,535</b>
Occupancy Rates	59.9%	61.7%	63.5%
Patient Days	35,839	36,914	38,022
Cost/Patient Day	\$ 2,159	\$ 2,167	\$ 2,167
Charge/Patient Day	\$ 4,559	\$ 4,711	\$ 4,711

The applicant submits that the additional costs to Magnolia as a result of this project is expected to be \$288,750, for nursing, administrative and depreciation costs.

D. Cost to Medicaid/Medicare

The applicant states that the impact of the project on third party payers is as follows:

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	0	\$ -0-
Medicare	95	274,313
Other	<u>5</u>	<u>14,437</u>
<b>Total</b>	<b>100</b>	<b>\$288,750</b>

**Note:** Applicant projects to provide 4.30 percent care to bad debt and 2.13 percent to charity care patients.

V. **RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. Based on their analysis, the Division estimates the increased annual cost to Medicaid for the capital expenditure to be \$32,086 for inpatient hospital services.

VI. **CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with criteria and standards for the establishment of Level II comprehensive medical rehabilitation services as contained in the amendment to *FY 2003 Mississippi State Health Plan; the Mississippi Certificate of Need Review Manual, revised 2000*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

Magnolia Regional Health Center is one of three (3) applicants requesting certificate of need authority to establish 20 Level II comprehensive medical rehabilitation beds. The *FY 2003 State Health Plan* shows a need for only 40 Level II beds. Magnolia Regional Health Center has the lowest number of licensed acute care beds of the three applicants. Section 41-7-195, Mississippi Code of 1972 Annotated, as amended provides that "The State Department of Health may approve or disapprove a proposal for a certificate of need as originally presented in final form, or it may approve a certificate of need by a modification, by reduction only, of such proposal provided the proponent agrees to such modification." Since hospital-based Level II comprehensive medical rehabilitation facilities are limited to a maximum of 20 beds, staff contends that the need for Level II beds can best be met by approving each application, by reduction.

Consequently, the Division of Health Planning and Resource Development recommends approval of this application submitted by Magnolia Regional Health Center for the establishment of Level II comprehensive medical rehabilitation beds, by reduction to 13 beds, provided the applicant agrees in writing to such reduction.