

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
FEBRUARY 2003**

**CON REVIEW HG-NIS-1202-072
BAPTIST MEMORIAL HOSPITAL-NORTH MISSISSIPPI, INC.
DBA BAPTIST MEMORIAL HOSPITAL-NORTH MISSISSIPPI
ESTABLISHMENT/ADDITION OF A LEVEL II 20-BED COMPREHENSIVE
MEDICAL REHABILITATION UNIT/SERVICES
CAPITAL EXPENDITURE: \$2,528,960
LOCATION: OXFORD, LAFAYETTE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Baptist Memorial Hospital-North Mississippi (BMH-NM), is a short-term, acute care, not-for-profit hospital. The hospital is owned by the City of Oxford/Lafayette County, Mississippi, and is leased to Baptist Memorial Healthcare System, Inc., Memphis, Tennessee. The hospital is governed by a five- member Board.

BMH-NM is currently licensed to operate 199 general medical/surgical beds and five adult psychiatric beds.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the three most recent fiscal years at BMH-NM are as follows (medical/surgical beds only):

**Baptist Memorial Hospital-North Mississippi
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
1999	68.79	5.17	9.73
2000	69.68	5.08	7.90
2001	71.57	5.18	11.30

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

B. Project Descriptions

Baptist Memorial Hospital-North Mississippi, Inc. is requesting Certificate of Need (CON) authority to establish/add a Level II 20-bed comprehensive medical rehabilitation program/services. The proposed project involves approximately 9,657 square feet of renovation on the third floor of the hospital. BMH-NM cites that in its continuing efforts to meet the needs of its patients, the project proposes to enhance its service complement and provide a continuum of care for patients seeking comprehensive medical rehabilitation services. The application contains an equipment list for the proposed Level II 20-bed comprehensive medical rehabilitation unit.

According to BMH-NM, there will be an increase of 20 beds in the licensed bed capacity at the hospital as a result of this project.

BMH-NM asserts that there will be no adverse impact on any ancillary or support services offered by the hospital. The applicant projects 28.7 FTE personnel for the new rehabilitation unit at an annual cost of \$1,470,989.

The total proposed capital expenditure is \$2,528,960, which is composed of the following: renovation -68.73 percent, non-fixed equipment - 9.32 percent, fixed equipment - 1.97 percent, capital improvements (minor painting and repairs, refurbishing) - 3.55 percent, fees - 5.53 percent, contingency reserve - 7.90 percent, and other costs - 2.96 percent, which the applicant proposes to finance from the hospital's accumulated cash reserves.

The applicant asserts that upon CON approval BMH-NM will immediately begin construction of the proposed project. Completion of the project is anticipated within 12 months of implementation of construction.

The application contains a letter requesting site approval from the Division of Health Facility Licensure and Certification for the proposed project.

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 Sections 41-7-173, 41-7-191, subparagraphs (1) (a), (d), (iii) and (j), and 41-7-193 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.

In accordance with Section 41-7-197 (2) of the Mississippi Code 1972 Annotated, 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 contains 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. However, the applicant is one of three applicants for Level II comprehensive medical rehabilitation beds.

Baptist Memorial Hospital-North Mississippi proposes to develop and implement a program of Level II comprehensive medical rehabilitation services and to provide those services through a coordinated delivery system of inpatient care. These services will be developed to meet the needs of residents of its service area and the surrounding community.

The applicant used two formulas to confirm the need for the proposed project. BMH-NM's need formulas are as follows:

- A. **FY 2003 State Health Plan Methodology.** Based on this methodology, there is a documented need for a Level II, 20-bed CMR unit at BMH-NM as one of the hospitals which qualifies for the proposed project.
- B. **BMH-NM's Prevalence Methodology.** The applicant indicates that applying the prevalence model to institution-specific discharge data from all patients at BMH-North Mississippi indicates a need for 28 CMR beds. The applicant asserts that by applying the Level II prevalence methodology by excluding certain diagnoses categories, under this method, the total bed need is estimated to be a minimum of 18, based on historical discharge patterns. This approach indicates that the hospital alone could support the CMR unit proposed in the application, without referrals from any other area facilities.

SHP Criterion 2 - Treatment Limitation

BMH-NM asserts that it will meet all conditions required of this criterion for the proposed project.

The applicant indicates that it will record, maintain and provide the following information to the Department of Health upon request: total admissions, average length of stay by diagnosis, patient age, sex, race, zip code, payor source, and length of stay by diagnosis.

SHP Criterion 3B - Staffing

As previously mentioned, the applicant projects 28.7 FTE personnel for the proposed project. The applicant affirms that it has the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to pursue this project.

- B. General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, May 13, 2000 revisions, addresses general criteria by which all CON applications are reviewed. This project is in substantial compliance with applicable criteria.

GR Criterion 3 - Availability of Alternative

The applicant asserts that the alternatives considered include continuing to refer patients elsewhere for comprehensive medical rehabilitation (CMR) services or the better and more appropriate alternative to enhance the continuum of care offered by BMH-North Mississippi by offering CMR services at the hospital.

GR Criterion 4 - Economic Viability

The applicant projects excess revenues over expenses of \$1,158,791 the first year. The revenues are to exceed expenses by \$1,976,949 for the second year and by \$2,721,764 for the third year following completion of this project.

The application contains a feasibility study which documents the applicant's financial ability to undertake the project.

GR Criterion 5 - Need for Project

The applicant indicates that proposed services will be accessible to all residents of the area, including all racial and ethnic minorities, low income persons, elderly, women and handicapped persons, and any other underserved groups.

The applicant asserts that the objectives of BMH-NM in pursuing the proposed project are to promote quality and continuity of care to its patients. The addition of CMR services is crucial in meeting all patient needs of the service area.

The application contains three (3) letters of comment/support for the proposed project.

GR Criterion 6 - Accessibility

According to the applicant, BMH-NM does not discriminate against the poor, handicapped, women, the elderly and members of racial and ethnic minorities. Patients are provided health care services without regard to physical condition, age or ethnic background.

The applicant asserts that indigent and charity care constitutes approximately three percent of total gross revenue. Indigent and charity care for BMH-NM will continue to constitute approximately three percent of the total gross revenue after the implementation of the proposed project and services.

Criterion 7 - Information Requirement

The applicant affirms in its application that it will record and maintain the required information and will 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

The applicant is one of three applicants for Level II comprehensive medical rehabilitation beds. BMH-NM asserts that the proposed project is expected to have no adverse impact on existing facilities. The applicant believes that the project is vital to the delivery of health care services and continuum of care to the residents of the service area served by the hospital.

GR Criterion 9 - Availability of Resources

According to the applicant, the proposed project includes 28.7 full-time equivalent personnel at an estimated annual cost of \$1,470,989.

The applicant affirms that the hospital has the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to pursue the proposed project.

GR Criterion 15 - Competing Applications

Policy Statement 8, Chapter XI of the **FY 2003 State Health Plan** (amended), 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 service; and has the patient base needed to sustain a viable comprehensive medical rehabilitation service.

The Department received three applications for the establishment of Level II comprehensive medical rehabilitation beds. 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 are believed to have the patient base needed to sustain a viable comprehensive medical rehabilitation services. However, because there are only 40 beds available and because 20 is the maximum number of Level II beds that can be established by any one applicant, staff contends that each applicant can benefit from a reduction of beds allotted to each facility. Therefore, staff recommends that 13 Level II comprehensive medical rehabilitation beds be granted to BMH-NM. Because the staff's recommendation is approval by reduction, the applications are not considered to be competing in the usual sense.

GR Criterion 16 - Quality of Care

Baptist Memorial Hospital-North Mississippi is in compliance with the Minimum Standards of Operation for Mississippi Hospitals, according to the Division of Health Facilities Licensure and Certification. The Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Renovation Cost	\$ 1,738,260
Non-Fixed Equipment Cost	\$ 235,700
Fixed Equipment Cost	\$ 50,000
Fees (Architectural, Consultant, etc.)	\$ 140,000
Contingency Reserve	\$ 200,000
Other Costs (Telecommunications and Information System)	\$ 75,000
Capital Improvements	\$ 90,000
Total Proposed capital Expenditure	\$ 2,528,960

The above capital expenditure is for renovation of 9,657 square feet of space at a cost of \$215.21 per square foot for the proposed project. It also involves purchases of fixed and non-fixed equipment for the proposed project.

B. Method of Financing

The proposed project will be funded from the hospital's accumulated cash reserves. No debt is involved.

The audited financial statements contained in the application indicate that the hospital has sufficient funds for the project.

C. Effect on Operating Cost

BMH-NM projects the following expenses, utilization, and revenue for the first three years after initiation of this proposed project:

	First Year	Second Year	Third Year
Salaries & Benefits	\$1,470,989	\$1,531,704	\$1,731,896
Medical & Surgical Supplies	\$ 129,586	\$ 149,522	\$ 169,459
Non-Med & Non-Surgical	\$ 212,374	\$ 134,193	\$ 152,084
Purchased Services & Other Utilities,	\$ 891,003	\$1,104,369	\$ 1,361,735
Bad Debt	\$ 91,780	\$ 105,900	\$ 120,020
Depreciation	\$ 218,326	\$ 218,326	\$ 218,326
Repairs & Maintenance	\$ 13,472	\$ 13,472	\$ 13,472
Total Expenses	\$3,027,530	\$3,257,486	\$3,766,992

Revenue

# of Patient Days	4,745	5,475	6,205
Cost/Pt. Day	\$ 638	\$ 595	\$ 607
Charge/Pt. Day	\$1,935	\$1,935	\$1,935
Gross Rev.	\$ 9,177,969	\$10,589,964	\$12,001,959

Deductions	\$(4,991,648)	\$(5,355,529)	\$(5,513,203)
Net Pt. Rev,	\$ 4,186,321	\$5,234,435	\$6,488,756
Net Income (Loss)	\$ 1,158,791	\$1,976,949	\$2,721,764

According to BMH-NM, the projected occupancy rates for the first three years are as follows:

Year 1	65%
Year 2	75%
Year 3	80%

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
Medicare	52	\$ 1,574,316
Medicaid	8	\$ 242,202
Other Payors*	40	\$ 1,211,012
Total	100	\$ 3,027,530

* The applicant projects 3.60 percent care for charity and medically indigent patients and 6 percent care for bad debt patients.

V. **RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid (DOM) does not oppose the approval of this project. The Division estimates the increased annual cost to Medicaid for inpatient services to be \$605,515.

VI. **CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for the establishment of Level II comprehensive medical rehabilitation services as contained in the amendment to FY2003 State Health Plan; Chapter 8 of the Certificate of Need Review Manual, May 13, 2000 revisions; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

Baptist Memorial Hospital-North Mississippi is one of three (3) applicants requesting Certificate of Need authority to establish 20 Level II comprehensive medical rehabilitation beds. The FY2003 State Health Plan shows a need for only 40 Level II beds. However, staff contends that patients from all areas involved can benefit from the establishment of Level II beds at each of the facilities, and therefore, recommends a reduction in the number of beds allotted each facility.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Baptist Memorial Hospital-North Mississippi for the establishment of Level II comprehensive medical rehabilitation beds by reduction to 13 beds, provided the applicant agrees in writing to such reduction.