

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

**CON Review HG-COB-1202-073**

**Vicksburg Specialty Medical Center, Inc.-Vicksburg**

**Establishment of a Long Term Acute Care (LTAC) Hospital at River Region-West Campus**

**Capital Expenditure: \$631,010**

**Location: Vicksburg, Warren County, Mississippi**

**Staff Analysis**

**I. Project Summary**

**A. Applicant Information**

A long-term acute care (LTAC) hospital is a freestanding, Medicare-certified hospital with an average length of inpatient stay greater than 25 days that provides chronic long term medical care to patients who do not require more than three hours of rehabilitation or comprehensive rehabilitation per day. Mississippi's first LTAC hospital opened in 1993. As of March 2002, four LTAC hospitals are in operation in Mississippi.

The applicant, Vicksburg Specialty Medical Center, Inc., a wholly-owned subsidiary of Camelot Healthcare, LLC, is part of a regional network owning or managing post-acute care and long-term care facilities and programs throughout Texas and Louisiana. Camelot Healthcare, LLC, with offices in Shreveport and Rayne, Louisiana, was organized in the fall of 1995 by a group of five health care professionals and two investors. In 1997, Camelot acquired a full-service rehabilitation hospital, a long-term acute care hospital, an additional nursing facility with a skilled unit, and also entered into a management contract for a hospital-based rehabilitation unit. Today, Camelot owns or manages hospitals comprising 475 beds in six states. Vicksburg Specialty Medical Center, Inc. is a Louisiana corporation, operating in Mississippi under a Certificate of Existence/Authority through the office of the Mississippi Secretary of State.

**B. Project Description**

Vicksburg Specialty Medical Center requests authority to establish a 35-bed LTAC hospital at River Region-West Campus through a long-term lease agreement that would allow the conversion of 35 existing acute care beds on the second floor of River Region-West Campus into LTAC beds. Applicant plans to renovate some 4,102 square feet on the second floor of River Region-West Campus. After renovation, these 4,102 square feet will become a 35-bed "hospital within a hospital" operated, administratively, totally separate from River Region. The hospital will be governed by its own governing board and administrative personnel.

Total proposed capital expenditure is budgeted at approximately \$631,010, most of which (\$567,260 or 89.9 percent) has been allocated toward renovation cost. The remaining expenditures are allocated toward fixed equipment cost (\$13,750) and fees (\$50,000). The project will be financed through accumulated cash reserves. The applicant expects to employ 18.2 full-time equivalent staff during the first full year of operation at a personnel cost of \$1,182,496.

Obligation of capital expenditure will occur immediately upon the approval of the CON request; completion of the project is expected within 30 days of obligation. The Division of Health Facilities Licensure and Certification has approved the proposed site.

**II. Type of Review Required**

Construction/renovation/relocation and expansion projects are reviewed in accordance with Section 41-7-191, subparagraphs (1)(c) 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.

This application was deemed complete on January 2, 2003. Any affected person may request a 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 *Mississippi State Health Plan* and Other Adopted Criteria and Standards**

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

The 2003 SHP contains criteria and standards which an applicant is required to meet before receiving CON authority for establishing long-term acute care services. This application is in substantial compliance with applicable criteria and standards.

**SHP Criterion 1 – Need**

Vicksburg Specialty Medical Center proposes to develop a 35-bed long-term acute care hospital within River Region-West Campus. At present, there are two LTAC facilities operating within General Hospital Service Area 3, the Mississippi Hospital for Restorative Care, located at Baptist Memorial Hospital, and Select Specialty of Jackson, located within Central Mississippi Medical Center, both in Jackson, Mississippi.

The applicant reviewed the patient utilization statistics of River Region Health System to determine potential long-term acute care admissions for the proposed LTAC. Patients who had a diagnosis that was clinically determined to be a potential admission to a LTAC hospital were considered for this methodology. Based upon an average length of stay of 25 days, this methodology would yield the following projections for the provision of long term acute care services at River Region:

	Total Candidates for Potential LTAC Admissions	Average Daily Census
Year 1*	188	8
Year 2	400	16
Year 3	494	24

\* Year 1 includes 8 months DRG reimbursement.

Applicant is confident that the projected need from the River Region Health System alone will provide the patient admissions required to achieve compliance with the *State Health Plan's* need criteria, and to make this project financially feasible. Even with a modest growth in long term acute care admissions during the first three years of operation of the proposed unit, Vicksburg Specialty Medical Center will meet the criteria requiring 450 restorative care admissions and financial feasibility by the third year of operation as required by the Plan.

Applicant used another determinant to demonstrate the need for additional LTAC beds in the state-the 2001 occupancy statistics for the four operational LTAC hospitals extant at that time. The 2001 occupancy statistics for the existing LTAC programs cumulatively exceed 70 percent, which for general acute care bed additions is the sole determinant of need for additional capacity. Additionally, the only existing provider of LTAC services in the service area indicated an 83.2 percent occupancy with an ALOS of 32.68 days. Given the occupancy percentages currently experienced by the LTAC providers in the state, a LTAC program in Vicksburg would fill the institution-specific needs of the River Region Health System, according to the applicant.

**Mississippi Long-Term Acute Care Hospitals  
 2001 Statistics**

<u>Facility</u>	<u>Beds</u>	<u>Occupancy %</u>	<u>Discharges</u>	<u>ALOS</u>
Miss. Hospital for Restorative Care	25	83.20	257	32.68
Select Specialty Hospital of Biloxi	42	60.90	314	31.26
Select Specialty Hospital of Gulfport	38	72.00	320	30.07
Specialty Hospital of Meridian	<u>49</u>	<u>70.00</u>	<u>481</u>	<u>25.37</u>
<b>TOTAL</b>	<b><u>154</u></b>	<b><u>70.18</u></b>	<b><u>1,372</u></b>	<b><u>29.19</u></b>

**SHP Criterion 3 – Licensure Requirements**

Applicant affirms that the converted beds will meet all state, federal, and local requirements necessary for the facility to be licensed and certified as a long-term acute care facility.

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

Applicant affirms that a reasonable amount of indigent/charity care will be provided through the LTAC facility.

**SHP Criterion 5 – Reasonable Cost of Conversion and Equipment**

Applicant demonstrated that renovation and equipment cost are similar to other similar projects operating within the state. The project will require the renovation of approximately 4,102 square feet at an estimated cost/square feet cost of \$150.48. The cost for the proposed project is reasonable in comparison with the cost of similar projects approved by the Mississippi State Department of Health and is in line with the Means Construction Cost Data guidelines.

**SHP Criterion 6 – Floor Areas and Space Requirements**

Applicant affirms that the project includes appropriate floor areas and space requirements, including favorable gross square footage and architectural design in comparison to state and national norms for similar projects.

**SHP Criterion 7 – Transfer Agreements**

The project application contained signed copies of transfer agreements with an acute care facility: River Region Health System, and a comprehensive medical rehabilitation facility: Delta Regional Medical Center.

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

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000* addresses general criteria by which all CON applications are reviewed. This application, submitted on behalf of Vicksburg Specialty Medical Center to establish a long-term acute care facility in Vicksburg, is in substantial compliance with these general review criteria.

**GR Criterion 3 – Availability of Alternatives**

The proposed project is the result of planning and the identification of long-range goals for the community to be served by the proposed facility. The project, as proposed, is the most efficient and cost-effective method of meeting the needs of the health care community and service area, according to the applicant.

**GR Criterion 4 – Economic Viability**

The proposed project has been determined by Vicksburg Specialty Medical Center, Inc. to be an economically viable project. Applicant affirms that the charges for similar services will be comparable to those charges established by other facilities within the service area and the state. Applicant projects a net loss of \$1,384,151 during the first eight months of operation due to the differential DRG reimbursement pending LTAC certification; a total loss of \$452,601 during the first year; but net gains of \$1,018,615 and \$2,550,506 during the second and third years of operation, respectively.

**GR Criterion 5 – Need**

Applicant has demonstrated a need adequate to satisfy the criteria of the 2003 State Health Plan.

**GR Criterion 6 – Accessibility**

Applicant affirms that Vicksburg Specialty Medical Center will not, nor does River Region have any policies that will allow discrimination against any group of individuals due to their protected class or status.

**GR Criterion 7 – Information Requirement**

Applicant affirms that Vicksburg Specialty Medical Center personnel will record, maintain, and provide to the Mississippi State Department of Health the required information within 15 days of request.

**GR Criterion 8 – Relationship to Existing Health Care System**

Applicant states that this proposal will enhance the health care services provided in the local community by complementing the services offered by River Region Health Systems, which strongly endorses the project.

Staff realize that the recently approved 40-bed LTAC, Select Specialty of Jackson, has been licensed and is now in operation, and might appear to be in competition with this proposed application. However, the goals of the applicant seems to be to serve primarily those patients generated though River Region and not compete for patients that would be admitted to Select Specialty of Jackson.

**IV Financial Feasibility**

**A. Capital Expenditure Summary**

Construction Cost – New	\$ 0
Construction Cost – Renovation	567,260
Capital Improvement	0
Total Fixed Equipment	0
Total Non-Fixed Equipment	13,750
Land Cost	0
Site Preparation Cost	0
Fees, (Architecture, etc..)	50,000
Contingency Reserve	0
Capitalized Interest	0
Other Cost	<u>0</u>
<b>TOTAL Proposed Capital Expenditure</b>	<b><u>\$ 631,010</u></b>

Vicksburg Specialty Medical Center, Inc. proposes to renovate the second floor of the River Region-West Campus and convert 35 acute care beds into long-term acute care beds. Total square feet renovated will be 4,102 at a cost of \$153.83 per square foot for a total capital expenditure of \$631,010.

**B. Method of Financing**

The \$631,010 will be financed through an accumulated cash reserve.

**C. Effect on Operating Cost**

Three year expenditure, revenue, cost and charges projections are outlined in Attachment 1 of this Staff Analysis.

**D. Cost to Medicaid/Medicare**

**Vicksburg Specialty Medical Center  
 Long-term Acute Care Facility**

	Percent Utilization	Increased Annual Operating Expense for First Full Year
Medicaid	0	\$ 0
Medicare	82	\$ 2,870,000
Insurance	<u>18</u>	\$ <u>540,515</u>
<b>Total</b>	<b><u>100</u></b>	<b>\$ <u>3,410,515</u></b>

**V. Recommendations of Other Affected Agencies**

The Division of Medicaid takes no position on this project.

**VI. Conclusion and Recommendation**

Vicksburg Specialty Medical Center, Inc. seeks CON authority to lease 35 acute care hospital beds from River Region-West Campus, to renovate these 35 beds, and to operate the new facility as a long-term acute care facility. Vicksburg Specialty Medical Center, Inc. will be a separate legal entity, performing a separate function, and operating under a separate provider number from River Region.

The *2003 Mississippi State Health Plan, Acute Care Chapter*, covers the establishment of a new health care facility. Vicksburg Specialty Medical Center's application, however, is requesting the establishment of a new health care facility to be operated within the confines of an existing hospital, to be operated as a "hospital within a hospital". Although the beds will be reallocated under a different provider, the number of licensed beds in General Hospital Service Area 3 will not increase nor decrease as a result of this application.

The formula in the *2003 Mississippi State Health Plan, Acute Care Chapter*, governs the need analysis only when the number of licensed beds in the planning area increase as a result of a new facility. Since the number of licensed beds in the area will not increase as a result of this project, the need formula is not applicable.

The project is in compliance with the criteria and standards outlined in the *2003 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2000*; and all 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 Vicksburg Specialty Medical Center, Inc. for the lease of 35 acute care beds from River Region-West Campus and the operation of such beds as a free-standing long-term acute care hospital.

Attachment I

Vicksburg Specialty Medical Center  
 35-bed Long-Term Acute Care Hospital  
 Three Year Profit and Loss Statement

CATEGORY	Year 1	Year 2	Year 3
Revenue– Gross Inpatient	\$ 8,188,510	\$ 11,045,980	\$ 11,748,055
Contractual–Net Inpatient Revenue	<u>(213,894)</u>	<u>(288,509)</u>	<u>(306,846)</u>
<b>Net Revenue</b>	<b><u>7,974,616</u></b>	<b><u>10,757,471</u></b>	<b><u>11,441,209</u></b>
Expense–Operating	6,629,066	8,345,819	8,752,697
Capital Expense	<u>414,000</u>	<u>414,000</u>	<u>414,000</u>
<b>Total Hospital Direct Expense</b>	<b><u>7,043,066</u></b>	<b><u>8,759,819</u></b>	<b><u>9,166,697</u></b>
Excess Revenue Over Expense	931,550	1,997,652	2,274,512
Provision for Taxes	<u>-</u>	<u>526,601</u>	<u>742,621</u>
Retained Earnings Beginning of Period	<u>(1,384,151)</u>	<u>(452,601)</u>	<u>1,018,615</u>
<b>Retained Earnings End of Period</b>	<b><u>\$ (452,601)</u></b>	<b><u>\$ 1,018,450</u></b>	<b><u>\$ 2,550,341</u></b>
Statistics			
Patient Days	4,983	10,859	11,625
ALOS (days)	26.77	26.95	27.00
%Occupancy	39.00	85.00	91.00
Cost Patient Day	\$ 725.85		
Charge Patient Day	\$ 1,500.00		