

**HEALTH PLANNING  
AND RESOURCE DEVELOPMENT**

**AUGUST 2003**

**CON REVIEW HG-LTCH-0503-016  
REGENCY HOSPITAL OF HATTIESBURG  
ESTABLISHMENT OF A LONG TERM ACUTE CARE HOSPITAL  
CAPITAL EXPENDITURE: \$1,012,800  
LOCATION: HATTIESBURG, MISSISSIPPI**

**Staff Analysis**

**I. PROJECT SUMMARY**

**A. APPLICANT INFORMATION**

Regency Hospital of Hattiesburg (RHH) will be a long term acute care hospital located in Hattiesburg, Mississippi. RHH will have a seven (7) member board with two non-healthcare related representatives of the community. These representatives will be selected from the community across all economic lines to include handicapped, members of racial and ethnic minorities, women and the elderly. In addition, RHH will establish a community advising committee with the same broad based representation to provide quarterly input on community needs, programs, and outcomes.

**B. PROJECT DESCRIPTION**

Regency Hospital of Hattiesburg is requesting Certificate of Need (CON) authority to lease 33 general acute care beds from Forrest General Hospital. RHH proposes to convert the 33 beds to long term acute care beds (LTAC) and locate them on the fifth floor of Forrest General Hospital in approximately 17,800 square feet of renovated space. In addition, RHH proposed to renovate approximately 2,500 square feet of administrative space in the adjacent Medical Plaza Building. A copy of the lease was provided in the application.

RHH states it will provide chronic or long-term medical care to patients who do not require more than three (3) hours of rehabilitation or comprehensive rehabilitation per day. The goals of RHH will be to improve clinical outcomes and increase patient satisfaction for patients with medically complex long-term acute care problems, including pulmonary and cardiopulmonary, State III and IV wounds, neurological and musculoskeletal disorders, and central nervous system.

The project involves the transfer of 33 existing acute care beds from Forrest General Hospital to RHH. RHH will develop a separately licensed and operated long term acute care hospital within the leased space.

Applicant projects by the end of the third year of operation, 87.51 full time equivalent personnel will be needed at an estimated cost of \$4,531,623.

The total proposed capital expenditure is \$1,012,800 and of the amount, approximately 24 percent is associated with renovation, 56.5 percent with non-fixed equipment, 1.9 percent for fees, 2.4 percent with contingency reserve and 9.8 percent for other cost. The applicant expects the renovations to begin upon approval of the CON and to be completed within six (6) months.

The application contains a letter from the MSDH, Division of Health Facilities Licensure and Certification approving the site for the project.

**II. TYPE OF REVIEW REQUESTED**

This project is reviewed in accordance with Section 41-7-191, subparagraphs (1) (d) (xiv) 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 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 September 4, 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 for establishment of acute long term care hospital beds. The application submitted by Regency Hospital is in substantial compliance with applicable criteria and standards contained in the *Plan*.

**SHP Criterion 1 - Need**

The FY 2003 State Health Plan requires a minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days and the financial feasibility of the project by the third year of operation. According to the applicant, there were an excess of 450 clinically appropriate long term acute care admissions within the hospital service area with an average length of stay of 25 days.

**SHP Criterion 2 - Documentation of General Acute Care Beds**

The applicant states that the 33 beds to be leased from Forrest General Hospital are currently licensed as general acute care beds.

**SHP Criterion 3 - Transfer/Relocation of Beds**

The applicant states that the 33 acute care beds will be relocated to the fifth floor of FGH and converted into acute long term care beds once the renovation is completed.

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

The applicant indicates that it will provide a "reasonable amount" of indigent/charity care to its patients. Further, the applicant states that it will provide approximately 2.5 percent care to indigent/charity patients.

**SHP Criterion 5 - Cost of Project**

The project has been compared with similar projects. The cost of this project is in line with the cost of projects.

**SHP Criterion 6 - Floor/Areas Space Requirements**

The application states that all requirements relating to renovation for this project shall conform to state and/or other applicable licensing standards.

**SHP Criterion 7 - Transfer Agreement**

The applicant states that RHH will enter into an agreement with a comprehensive medical rehabilitation facility and will provide a copy to the Mississippi Department of Health. The applicant provided a copy of the proposed agreement.

B. General Review (GR) Criteria

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

**GR Criterion 2 - Long Range Plan**

The applicant's long range plan is to ensure high quality health care providing specialty inpatient long term acute care and outpatient rehabilitation services to its patients.

**GR Criterion 3 - Availability Alternative**

This project is the result of planning and the identification of long-range goals for RHH and the community it services. Furthermore, it is the most efficient and cost-effective method of meeting the health care needs of the community.

**GR Criterion 4 - Economic Viability**

GHH projects the following for the first three years of operation: a net loss of \$1,554,851, the first year, a net income of \$770,409, the second year, and a net income of \$882,230 the third year. Therefore, the project appears to be economically viable. The application contained financial statements verifying the feasibility of this project.

**GR Criterion 5 - Need**

The applicant states that the proposed services will be accessible to all residents of the area, including all racial and ethnic minorities, women and handicapped persons.

The applicant states that there is a great need for extended care for patients who are not ready to be discharged to a skilled nursing facility or other facility of the type. This project would allow RHH to provide its patients with the extended acute care needed and provide well rounded care for its patients.

**GR Criterion 6 - Accessibility**

Applicant asserts that RHH does not discriminate against the poor, the handicapped, women, the elderly and members of racial and ethnic minorities. GHH further states that it historically has served, and will continue to serve, a significant percentage of the medically under served populations.

**GR Criterion 7- Information Requirement**

RHH 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**

There will be no adverse impact on any of the existing facilities.

**GR Criterion 9- Availability of Resources**

RHH has documented its ability to provide all necessary resources to carry forward with this project.

**GR Criterion 16- Quality of Care**

Regency Hospital of Hattiesburg will become a Medicare certified provider, and will obtain certification by JCAHO.

**IV. FINANCIAL FEASIBILITY**

A. Capital Expenditure

|   |                           |
|---|---------------------------|
| Construction Cost/Renovation              | \$ 245,000                |
| Total Non-Fixed Equipment                 | 572,800                   |
| Fees                                      | 20,000                    |
| Contingency Reserve                       | 75,000                    |
| Other Cost                                | <u>100,000</u>            |
| <b>Total Proposed Capital Expenditure</b> | <b><u>\$1,012,800</u></b> |

The applicant states that 17,800 square feet will be renovated on the fifth floor and 2,500 square feet in the Medical Plaza of the existing Forrest General Hospital of Hattiesburg, Mississippi. The estimated cost/square foot is \$14 before fees and contingencies.

B. Method of Financing

The applicant states that RHH will finance this project through an inter-company loan. A letter from Waud Capital Partners, L.P. was included in the application documenting the ability and willingness to finance this project with an inter-company loan.

C. Effect on Operating Cost

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

| Category                   | Year 1              | Year 2              | Year 3              |
|----------------------------|---------------------|---------------------|---------------------|
| Revenues                   |                     |                     |                     |
| Gross Inpatient Rev.       | \$11,616,000        | \$25,920,000        | \$28,080,000        |
| <b>Gross Pat. Rev.</b>     | <b>\$11,616,000</b> | <b>\$25,920,000</b> | <b>\$28,080,000</b> |
| Contractual -Inpatient     | \$6,631,373         | \$14,544,900        | \$16,066,350        |
| <b>Net Patient Revenue</b> | <b>\$4,984,627</b>  | <b>\$11,375,100</b> | <b>\$12,013,650</b> |

| <b>Expenses</b>                |                      |                  |                  |
|--------------------------------|----------------------|------------------|------------------|
| Operating Expenses             | \$5,220,241          | \$8,994,384      | \$9,300,944      |
| Capital Expenses               | \$869,238            | \$1,010,307      | \$990,477        |
| Total Hospital Direct Expenses | \$6,089,479          | \$10,004,691     | \$10,291,421     |
| Hospital PTPMF Profit          | (\$1,104,852)        | \$1,370,409      | \$1,722,229      |
| Corporate O/H Allocation       | \$450,000            | \$600,000        | 840,000          |
| Hospital Pre-Tax Profit        | (\$1,554,852)        | \$770,409        | \$882,229        |
| <b>Hospital Income/Loss</b>    | <b>(\$1,554,851)</b> | <b>\$770,409</b> | <b>\$882,229</b> |
| <u>Assumptions</u>             |                      |                  |                  |
| No. Of Licensed Beds           | <b>33</b>            | 33               | 33               |
| Occupancy Rate                 | *44%                 | 90%              | 90%              |
| Patient Days                   | 5,280                | 10,800           | 10,800           |
| Average Length of Stay         | 30.52                | 30               | 30               |
| Cost Per Patient Day           | \$1,153              | \$926            | \$953            |
| Charge Per Patient Day         | \$2,200              | \$2,400          | \$2,600          |

\*Staff calculations based on patient days  
 Some figures may not calculate due to rounding.

D. Cost to Medicaid/Medicare

The impact of the project on third party payors:

| <b>Payors</b> | <b>Utilization Percentage*</b> | <b>Increased Annual Operating Expense for the First Full Year</b> |
|---------------|--------------------------------|---|
| Medicare      | 81%                            | \$4,932,478   |
| Medicaid      | 10%                            | \$608,948   |
| Other Payors  | 9%                             | \$548,053   |
| <b>Total</b>  | <b>100%</b>                    | <b>\$6,089,479</b>  |

\*Percentages calculated by MSDH based on Increased Annual Operating Expense for the First Full Year of operation provided by applicant.

V. **Recommendations of Other Affected Agencies**

The Division of Medicaid was provided a copy of this proposal for review and comment. The Department received a letter from the Division of Medicaid stating that they expect an estimated increased annual cost to Medicaid of \$608,948 for inpatient hospital services.

VI. **Conclusion and Recommendation**

This project is in substantial compliance with criteria and standards for establishment of an acute care long term care hospital as contained in the *FY 2003 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.

The Division of health Planning and Resource Development recommends approval of this application submitted by Regency Hospital of Hattiesburg.