

**HEALTH PLANNING
AND RESOURCE DEVELOPMENT**

AUGUST 2003

**CON REVIEW HG-R-0603-017
FORREST GENERAL HOSPITAL
RENOVATION/EXPANSION OF INPATIENT REHABILITATION UNIT
CAPITAL EXPENDITURE: \$279,920
LOCATION: HATTIESBURG, MISSISSIPPI**

Staff Analysis

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

Forrest General Hospital (FGH) is a five hundred thirty-seven (537) bed, general acute-care short term medical and surgical facility located in Hattiesburg, Mississippi. FGH is a not-for-profit, tax exempt institution. The Forrest County Board of Supervisors appoints the Hospital Board of Trustees.

Occupancy rates, average lengths of stay (ALOS) and Medicaid utilization rates for medical/surgical beds for the three most recent fiscal years at Forrest General Hospital are as follows:

**Forrest General Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2000	66.86	4.65	18.8%
2001	72.08	4.57	18.8%
2002	64.70	4.72	12.1%

B. PROJECT DESCRIPTION

Forrest General Hospital proposes to expand the present Level I Inpatient Rehabilitation Unit located on 3E, by adding four beds. The unit consists of approximately 12,755 square feet, with 8,500 square feet proposed for renovation. The renovated space will include: (1) converting an existing classroom and office space into one semi-private and one private patient room; (2) modifications of existing occupational therapy room and adjoining patient room to accommodate two additional bathrooms; (3) expanding the existing dining room; (4) creating new office and storage areas for support and space; and (5) cosmetic upgrades at the existing corridor system and patient rooms to include installation of vinyl wall covering and carpet.

There will be no significant change in range or type of service other than the ability to treat additional patients in the Rehabilitation Unit.

The applicant states that four (4) beds will be converted from the medical/surgical category and added to the Level I Inpatient Rehabilitation Unit.

There will be a total of 26 additional full time employees.

The capital expenditure of this project is \$279,920. The applicant states that the capital expenditure for this project shall be obligated within 30 days of the approval of the Certificate of Need and the project will be completed within approximately six months from the date of approval.

II. TYPE OF REVIEW REQUESTED

Projects which propose the renovation and expansion of Level I inpatient rehabilitation facilities are reviewed in accordance with Section 41-7-191, subparagraph (1) (j), Mississippi Code of 1972 Annotated, 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* contains criteria and standards which an applicant must meet before receiving CON authority to establish/expand comprehensive medical rehabilitation services. This application complies substantially with all applicable criteria and standards.

SHP Criterion - Need

The FY 2003 Mississippi State Health Plan defines need criterion as:

- a. **New/Existing Comprehensive Medical Rehabilitation Beds/Services:** The need for Level I comprehensive medical rehabilitation beds in the state shall be determined using a methodology of 0.08 beds per 1,000 population. The state as a whole shall be considered as a single planning area.

- b. **Projects which do not involve the addition of any CMR beds:** The applicant shall document the need for the proposed project. Documentation may consist of, but is not necessarily limited to, citing of licensure or regulatory code deficiencies, institutional long term plans (duly adopted by the governing board, recommendations made by consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.).

- c. **Projects which involve the addition of beds:** The applicant shall document the need for the proposed project. Exception: Notwithstanding the service specific need requirements as stated in "a" above, the MSDH may approve additional beds for facilities which have maintained an occupancy rate of at least 80 percent for the most recent 12-month licensure reporting period or at least 70 percent for the most recent two (2) years.

The applicant demonstrated that during the two (2) most recent calendar years Forrest General Hospital's comprehensive medical rehabilitation unit maintained an average daily census of almost 80 percent, well within the need criterion outlined in paragraph C above.

Furthermore, the present arrangement of the 20 bed CMR unit has the capacity to only serve the current 20 licensed beds comfortably in the existing 12,755 square feet. In order to serve the anticipated volume of the additional four beds, the best alternative is to expand the therapy and dining/activity space and add two (2) private and one (1) semi private room. Of the existing space, 8,500 square feet would be renovated.

The applicant submits that the current 20 bed CMR unit is also undersized to accommodate the increased number of admissions, the population, and elderly growth in the region.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised 2000*, addresses general review criteria by which all CON applications are reviewed. This application submitted on behalf of Forrest General Hospital complies substantially with applicable general review criteria.

GR Criterion 2 - Long Range Plan

Forrest General Hospital states that it has been a long-standing commitment of the hospital to provide high quality, comprehensive facilities, services and equipment to the citizens of the South Mississippi Region. The applicant further states that the proposed project to add comprehensive medical rehabilitation beds to the existing 20 bed CMR program will significantly enhance the service complement already provided.

GR Criterion 3 - Availability of Alternatives

The applicant states that the proposed project is the result of planning and the identification of long-range goals for the hospital and community. Therefore, the applicant believes this to be the only alternative available to the need of the area.

GR Criterion 4 - Economic Viability

The applicant has determined that this project is financially feasible. The three year operating projections reflect a first year net profit of \$2,162,217, \$2,343,384 the second year, and \$2,393,087 the third year.

GR Criterion 5 - Need

The applicant states that the current CMR program and the expanded CMR program will continue to be accessible to all residents of the region, including all racial and ethnic minorities, low income persons, the elderly, women, handicapped persons, and any other under-served groups.

Since the applicant is an existing Level 1 Comprehensive Medical Rehabilitation Service Provider seeking expansion of its existing bed capacity, paragraph C of the Need Criterion listed in the State Health Plan and outlined in SHP Criterion 1 - Need on page 2 of this analysis becomes apropos. Applicant has demonstrated that during the last two years an 80 percent occupancy rate, therefore, complying with this need criterion.

GR Criterion 6 - Accessibility

Forrest General Hospital maintains no institutional barriers to medically underserved populations. The percentage of underserved populations receiving care at Forrest General Hospital reasonably reflects their percentages in the service area populations. All demographic groups in the service area will benefit from the expansion/renovation of inpatient rehabilitation unit space and ease of access that will be available.

GR Criterion 7 - Information Requirement

Applicant affirms that Forrest General Hospital personnel will record, maintain, and provide to the Mississippi State Department of Health any required information within 15 days of the request.

GR Criterion 8 - Relationship to Existing Health Care System

This project does not involve the offering of new health care services but rather the expanding of an existing service, which would complement the existing health care system. Therefore, the applicant states that this project will have no adverse effect on existing facilities.

GR Criterion 9 - Availability of Resources

Forrest General Hospital currently maintains a full complement of professional and support staff for the provision of comprehensive medical rehabilitation services. Forrest General has documented its health, management and financial resources to carry forward with this project.

IV. Financial Feasibility

A. Capital Expenditure Summary

Construction Cost-Renovation	\$248,940
Total Non-Fixed Equipment Cost	8,550
Fees	17,430
Contingency Reserve	<u>5,000</u>
Total Proposed Capital Expenditure	<u>\$279,920</u>

Of the existing 12,755 square feet of the current Inpatient Rehabilitation Unit, 8,500 square feet is proposed for renovation at a cost of \$32.93 per square foot.

B. Method of Financing

The applicant states that this project will be financed through accumulated cash reserves. The applicant provided financial statements to support the ability to finance with the cash reserves.

C. Effect on Operating Cost

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

Expenses	Year 1	Year 2	Year 3
Direct Dept. Expenses	\$2,878,302	\$3,033,586	\$3,120,146
Depart. Ancillary Cost	\$549,790	\$589,351	\$606,998
Variable Overhead	\$406,261	\$435,442	\$448,473
Depreciation/Amort.	\$12,529	\$12,529	\$12,529
Total Expenses	\$3,846,882	\$4,070,908	\$4,188,145
Bed Capacity	24	24	24
Aver. Daily Census	19.55	20.40	20.40
Net Patient Revenue	\$6,009,099	\$6,414,292	\$6,581,232
Net Income	\$2,162,217	\$2,343,384	\$2,393,087

The applicant projects that of the expenses stated above, \$676,266 will be directly related to the instant project. It is estimated that approximately 1,592 patient days will be added as a result of the project, with a cost per day of \$424.79. The applicant further projects that the facility (24 beds) will have an occupancy rate of 70 percent. Based on the projected revenue above, this will yield a total charge per day of \$979.96.

D. Cost to Medicare and Medicaid

The impact of the project on third party payors:

Payors	Utilization Percentage*	First Full Year
Medicare	80.2%	\$542,365
Medicaid	3.1%	\$ 20,964
Other Payors	16.7%	\$112,937
Total	100%	\$676,266

*Percentages calculated by the MSDH staff based on applicant's projected increase in cost related to this project.

The applicant projects that the project will actually have a minor impact on those payors that reimburse the hospital based on the cost of services. The hospital currently receives cost-based reimbursement for Medicaid inpatient services through retroactive settlement of accounts paid on an interim per diem basis. All other payors reimburse the facility on a CMG or per diem payment methodology, which should have minimal impact other than an increase in volumes.

V. Recommendations of other Affected Agencies

The Division of Medicaid was provided a copy of this proposal for review and comment. A letter was received from the Division of Medicaid estimating an increased annual cost to Medicaid for the capital expenditure to be \$84,826 for inpatient hospital services.

VI. Conclusion and Recommendation

Forrest General Hospital seeks CON authority to expand its comprehensive medical rehabilitation unit by four beds, from the present 20 beds to 24 beds. The expansion project will not increase the licensed bed capacity of the hospital; four of the hospital's medical/surgery beds will be converted to medical rehabilitation beds.

The project complies with the criteria and standards outlined in the *FY 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 on behalf of Forrest General Hospital for the expansion and renovation of its licensed Level I comprehensive medical rehabilitation bed capacity by four; increasing the Level 1 comprehensive medical rehabilitation bed capacity from the present 20 to 24 beds.