

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

CON Review LTAC-COB-0903-026

Tri Lakes Medical Center of Batesville

Establishment of a Long Term Acute Care (LTAC) Hospital at Tri-Lakes Medical Center

Capital Expenditure: \$416,000

Location: Batesville, Panola County, Mississippi

Staff Analysis

I. Project Summary

A. Applicant Information

A long-term acute care (LTAC) hospital functions as 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 September 2003, six LTAC hospitals are in operation in Mississippi.

Tri-Lakes Medical Center, a short-term acute care hospital, located in Batesville, Panola County, Mississippi, operates 70 licensed acute care beds, including 16 inpatient geriatric psychiatric beds. Tri-Lakes also owns 60 acute care beds from the old North Panola Hospital and 20 long-term specialty beds for persons with Alzheimer's Disease. Plus, Tri-Lakes leases 13 chemical dependency beds. The City of Batesville and the Panola County Board of Supervisors jointly own Tri-Lakes Medical Center. The Hospital Board of Trustees, jointly appointed by the City of Batesville and the Panola Board of Supervisors, provides governance to the medical complex.

B. Project Description

Applicant (Tri-Lakes Medical Center) requests CON authority to establish a 35-bed LTAC hospital at Tri-Lakes Medical Center through the conversion of 35 beds on the second floor from short-term acute care to long-term acute care hospital beds. Upon successful completion of the CON request, the Board will evaluate all interested free-standing LTAC operation/management firm proposals to determine which of these firms will eventually operate the LTAC hospital as a free-standing entity. The hospital reported the following occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the medical/surgical beds for the three most recent fiscal years:

Tri-Lakes Medical Center
Utilization Data

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2000	26.87	3.68	35.23
2001	20.42	3.13	32.26
2002	23.24	3.52	36.24

Source: Division of Health Facilities Licensure and Certification, MSDH

Applicant plans to renovate some 5,000 square feet on the second floor of Tri-Lakes Medical Center. After renovation, this footage will become a 35-bed "hospital within a hospital" operated administratively, totally separate from Tri-Lakes. The hospital will be governed by its own governing board and administrative personnel.

Total proposed capital expenditure is budgeted at approximately \$416,000, most of which (\$358,000 or 86.1 percent) has been allocated toward renovation cost. The remaining expenditures are allocated toward fixed equipment cost (\$26,000) and fees (\$32,000). The project will be financed through accumulated cash reserves. The applicant expects the free-standing entity to employ 25.43 full-time equivalent staff during the first full year of operation at a personnel cost of \$1,265,897.

Obligation of capital expenditure will occur immediately upon the approval of the CON request with completion of the project 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 October 1, 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 December 4, 2003.

III. Conformance with the *Mississippi State Health Plan* and Other Adopted Criteria and Standards

A. *Mississippi State Health Plan (SHP)*

The 2004 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

Tri-Lakes Medical Center proposes to develop a 35-bed long-term acute care hospital within the present facility. At present, there are no LTAC facilities operating within General Hospital Service Area 1, the service area in which Tri-Lakes Medical Center is located. The applicant reviewed the potential patient referral capability of several regional hospitals. The results of this review are outlined as follows:

Analysis of Regional Hospitals Referral Capability
 to Tri-Lakes Medical Center

Hospital	Location	Distance	Referrals		
			Year 1	Year 2	Year 3
BMH-DeSoto	Southaven	50	11	39	65
Grenada Lake	Grenada	37	44	65	74
Quitman County	Marks	18	16	54	75
North Oaks Regional	Senatobia	25	18	60	65
Baptist-North Miss.	Oxford	23	25	63	71
Tri-Lakes	Batesville	On Site	82	136	156
Total			196	417	506

Source: Attachment to Tri-Lakes LTAC application

Applicant demonstrates confidence that the six area hospitals, 12 nursing homes, two critical access hospitals, and other area referral sources will well provide the patient admissions required to achieve compliance with the *State Health Plan's* need criteria of 450 admissions by the third year of operation.

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 comparable to other similar projects operating within the state. The project will require the renovation of approximately 5,000 square feet with an estimated renovation per square foot cost of \$78.00. 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: Tri-Lakes Medical Center 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 Tri-Lakes Medical Center to establish a long-term acute care facility in Batesville, 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 Hospital Board of Trustees 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 net gains of \$87,603, \$1,750,732, and \$2,281,621 during the first three years of operation, respectively.

GR Criterion 5 – Need

Applicant has demonstrated a need adequate to satisfy the criteria of the 2004 *State Health Plan*.

GR Criterion 6 – Accessibility

Applicant affirms that Tri-Lakes Medical Center will not, nor will the management company chosen to operate the free standing LTAC, 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 Tri-Lakes LTAC 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 Tri-Lakes Medical Center, which strongly endorses the project.

IV Financial Feasibility

A. Capital Expenditure Summary

Construction Cost – New	\$ 0
Construction Cost – Renovation	358,000
Capital Improvement	0
Total Fixed Equipment	0
Total Non-Fixed Equipment	26,000
Land Cost	0
Site Preparation Cost	0
Fees, (Architecture, etc..)	32,000
Contingency Reserve	0
Capitalized Interest	0
Other Cost	<u>0</u>
TOTAL Proposed Capital Expenditure	<u>\$ 416,000</u>

Applicant proposes to renovate the second floor of the Tri-Lakes Medical Center and convert 35 acute care beds into long-term acute care beds. Total square feet renovated will be 5,000 at a cost of \$78.00 per square foot for a total capital expenditure of \$416,000.

B. Method of Financing

The \$416,000 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

**Tri-Lakes Medical Center
 Long-term Acute Care Facility**

	Percent Utilization	Increased Annual Operating Expense for First Full Year
Medicaid	0	\$ 0
Medicare	89	\$ 2,707,920*
Insurance	<u>11</u>	\$ <u>334,611</u> *
Total	<u>100</u>	\$ <u>3,041,920</u>*

*Note: Figures amended following discussion with applicant

V. Recommendations of Other Affected Agencies

The Division of Medicaid takes no position on this project.

VI. Conclusion and Recommendation

Tri-Lakes Medical Center seeks CON authority to convert 35 beds from short-term acute care beds to long-term acute care beds. Following the completion of the CON approval, the Hospital Board of Trustees will select a free standing independent entity to operate the facility as a separate "hospital within a hospital".

The *2004 Mississippi State Health Plan, Acute Care Chapter*, covers the establishment of a new health care facility. Tri-Lakes 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 number, the number of licensed beds in General Hospital Service Area 1 will not increase nor decrease as a result of this application.

The formula in the *2004 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 *2004 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 Tri-Lakes Medical Center for the conversion of 35 acute care beds from short-term acute care to long-term acute care and to select a free-standing entity to operate such beds as a free-standing long-term acute care hospital.

Attachment I

Tri-Lakes 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	\$ 3,136,000	\$ 6,656,000	\$ 8,096,000
Contractual–Net Inpatient Revenue	<u>(94,080)</u>	<u>(189,076)</u>	<u>(207,096)</u>
Net Revenue	<u>3,041,920</u>	<u>6,466,924</u>	<u>7,888,904</u>
Total Hospital Direct Cost	2,405,920	5,532,924	6,754,337
Excess Revenue over Expense	636,000	934,000	1,134,567
Provision for Taxes	(126,031)	(231,800)	(282,832)
Retained Earnings Beginning Period	<u>(422,366)</u>	<u>816,000</u>	<u>1,147,054</u>
Hospital Income/(Loss)	<u>\$ 87,603</u>	<u>\$ 1,518,200</u>	<u>\$ 1,998,789</u>
Assumptions			
Patient Days	6,403	12,510	15,508
ALOS (days)	32.67	30.00	29.76
%Occupancy	50.00	85.00	90.00
Cost Patient Day *	\$ 375.91	\$ 442.28	\$ 435.54
Charge Patient Day *	\$ 489.77	\$ 532.05	\$ 522.05

* NOTE: Numbers differ from application following discussion with applicant .