

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
APRIL 8, 2022**

**CON REVIEW NUMBER: HR-FSF-0222-003  
ENCOMPASS HEALTH REHABILITATION HOSPITAL OF FLOWOOD, LLC  
D/B/A ENCOMPASS HEALTH REHABILITATION HOSPITAL OF FLOWOOD  
ESTABLISHMENT OF A FIFTY (50) BED COMPREHENSIVE MEDICAL REHABILITATION  
(CMR) HOSPITAL  
CAPITAL EXPENDITURE: \$47,129,077.00  
LOCATION: FLOWOOD, RANKIN COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Encompass Health Rehabilitation Hospital of Flowood, LLC d/b/a Encompass Health Rehabilitation Hospital of Flowood (“Encompass Flowood” or the “Applicant”) is a limited liability company formed under the laws of the State of Delaware and registered with the State of Mississippi on June 8, 2021. The Registered Agent is C. T. Corporation System, located at 645 Lakeland East Drive, Ste 101, Flowood, MS 39232. Encompass Flowood is owned by Encompass Health Corporation, a Delaware corporation, and has twelve (12) officers.

The application contains a Certificate of Good Standing from the Office of the Secretary of State, Jackson, Mississippi, indicating as of March 23, 2022, Encompass Health Rehabilitation Hospital of Flowood, LLC is in good standing with the State of Mississippi.

**B. Project Description**

Encompass Flowood requests certificate of need (“CON”) authority to establish a new fifty (50) bed freestanding Comprehensive Medical Rehabilitation (“CMR”) hospital in Flowood, Rankin County, Mississippi. The Applicant asserts the proposed project is directly responsive to the Mississippi State Department of Health’s calculated need for seven (7) Level I CMR beds and ninety-four (94) Level II CMR beds in Mississippi as published in the *FY 2022 State Health Plan, Second Edition*. The Applicant states the proposed project will address the Department’s identified need for additional CMR beds in Mississippi by establishing a 50-bed CMR hospital comprised of seven (7) Level I and forty-three (43) Level II CMR beds.

The Applicant states Encompass Flowood will be wholly-owned by Encompass Health Corporation (“Encompass Health”), a national leader in inpatient rehabilitation (“rehab”) services with 146 inpatient rehab hospitals in thirty-five (35) states and Puerto Rico.

Encompass Health currently operates a CMR facility in Gulfport through a partnership with Memorial Hospital at Gulfport (“Encompass Gulfport”), which is accredited by The Joint Commission and the Commission on Accreditation of Rehabilitation Facilities (“CARF”). The Applicant states Encompass also has The Joint Commission’s Gold Seal of Approval for Disease-Specific Care Certification in stroke rehabilitation.

The Applicant states Encompass proposes to bring its proven experience in serving Mississippi residents with high quality, individualized intensive inpatient rehabilitative and restorative services to the Jackson area so central Mississippi residents have access to Encompass’ programs and services close to home. In addition, the Applicant proposes that Encompass Flowood will leverage the strength of Encompass Health to meet the needs of the local community by developing programs, services, facility amenities, and community relationships specific to the local market.

The Applicant states the project consists of a new “greenfield” rehabilitation hospital to be constructed in one phase with the potential for future phases. The initial project consists of 53,600 square feet and will accommodate fifty (50) patients in private rooms. The Applicant states the following program elements will be provided:

- An administrative and public suite containing a lobby, reception area, public restrooms, general offices for administrative staff and support areas;
- A dietary suite;
- An emergency suite;
- An employee suite including lockers, staff showers, and lounge;
- An engineering suite to include maintenance, storage and medical equipment room, and other maintenance functions;
- General stores containing central supply and other storage rooms;
- A laboratory;
- A medical records suite (HIMS) located adjacent to the Administrative Suite;
- A nursing unit providing thirty-six (36) private patient rooms (214 SF each), two (2) private bariatric rooms (346 SF and 410 SF), and two (2) private isolation rooms – one typical and one in the bariatric room (266 SF and 346 SF respectively), each with private patient toilet and shower room;
- Nursing unit support areas;
- A pharmacy suite;
- A rehabilitation therapy suite with occupational therapy area including an Activities of Daily Living Suite;
- Physical therapy gym;
- Speech therapy; and
- Dialysis suite containing four (4) treatment stations (80 SF each) and the required support areas.

Encompass Flowood proposes that the Rehabilitation Hospital will provide state-of-the-art rehabilitative care to patients recovering from a wide array of injuries and illnesses, including stroke, traumatic brain injury, spinal cord injury, amputations, orthopedic surgery or injury, cardiac episodes, and pulmonary conditions. Thus, the Applicant states the proposed project will increase utilization of CMR services for patients who are in need of, and would benefit from, intensive inpatient rehabilitative and restorative care.

Encompass Flowood proposes that the fifty (50) bed inpatient rehab hospital will include:

- All private rooms, including two (2) bariatric rooms;
- A well-equipped therapy gym with specialized equipment and an Activities of Daily Living (“ADL”) suite;
- A dedicated outdoor therapy area;
- A dialysis treatment area for patients to remain on-site when dialysis is needed;
- An activities/day room for patients and families; and
- Sufficiently sized and appropriately-designed support spaces.

The Applicant states Encompass Flowood will comply with relevant state and local building codes, zoning ordinances, and/or appropriate regulatory authority. In addition, Encompass Flowood affirms it will comply with all applicable State statutes and regulations for the protection of the environment, including: 1) approved water supplies; 2) sewage and water disposal; 3) hazardous waste disposal; 4) water pollution control; 5) air pollution control; and 6) radiation control.

Encompass Flowood projects 97.1 full-time equivalent (FTE) staff will be hired, at an annual cost of \$7,854,300.00 for the first year.

The Applicant projects a total capital expenditure of \$47,129,077.00, as itemized in Section IV of this Staff Analysis. The Applicant states Encompass Health Mississippi Real Estate, LLC (“EHMRE”), a wholly-owned subsidiary of Encompass Health Corporation, will develop the project and own the real estate, including the hospital building and site improvements. EHMRE is a Delaware corporation with authorization to transact business in Mississippi. The Applicant affirms Encompass Flowood will be the licensed operator of the proposed project and lease the hospital building, land, and site improvements from EHMRE. Furthermore, the Applicant states Encompass Health, the parent entity to Encompass Flowood and EHMRE, will fund the project from its ample existing cash, cash flow from operations, and funds available under its credit facility.

The application contained an organizational chart and a letter confirming availability of funds for the proposed project. Encompass Flowood expects to obligate the capital expenditure within thirty (30) days of CON approval and anticipates the project will be complete by July 1, 2025.

The application contains a letter dated March 1, 2022, documenting MSDH Division of Health Facilities Licensure and Certification's waiver of site approval for the rehab beds.

The Applicant states the final objectives for the project are: to increase the number of comprehensive medical rehabilitation beds in the state of Mississippi in direct response to the Department's identified need for additional beds; to locate those additional beds in central Mississippi; and to provide CMR services in an all-private, one-story patient-centered facility using specialty-trained physicians and nursing staff to deliver proven, high-quality programs and services to rehabilitate and restore patients who are in need of, and who will benefit from, inpatient rehabilitative care by a company that currently cares for Mississippians along the Gulf Coast.

## **II. TYPE OF REVIEW REQUIRED**

The Mississippi State Department of Health ("MSDH") will review applications for a CON for the establishment, offering, or expansion of comprehensive medical rehabilitation beds and/or services under the statutory requirements of Sections 41-7-173, 41-7-191, and 41-7-193, Mississippi Code of 1972, Annotated, as amended. MSDH will also review applications for Certificate of Need according to the general criteria listed in the *Mississippi Certificate of Need Review Manual*, all adopted rules, procedures, and plans of MSDH, and the specific criteria and standards listed below.

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 ten (10) days of publication of the staff analysis. The opportunity to request a hearing expires on April 18, 2022.

## **III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS**

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

The *FY 2022 Mississippi State Health Plan, Second Edition* ("MSHP") contains policy statements, criteria, and standards which the applicant is required to meet before receiving CON authority for the construction, establishment, offering, or expansion of comprehensive medical rehabilitation ("CMR") beds and/or services. In addition, CMR services are reviewable if the proposed provider has not provided such services on a regular basis within twelve (12) months prior to the time such services would be offered. This application is in substantial compliance with the applicable policy statements, criteria, and standards stated in the *Plan* and discussed below.

## **Policy Statements Regarding Certificate of Need Applications for Comprehensive Medical Rehabilitation Beds/Services**

### **Policy Statement 1 - Definition:**

The Applicant proposes the establishment of a freestanding CMR hospital that will provide CMR services as defined in the State Health Plan.

### **Policy Statement 2 - Planning Areas:**

The Applicant acknowledges the state as a whole shall serve as a single planning area for determining the need for CMR beds/services.

### **Policy Statement 3 - CMR Services:**

**Level I - Level I CMR providers may provide treatment services for all rehabilitation diagnostic categories.**

The Applicant proposes to provide treatment services for all rehabilitation diagnostic categories and requests approval for seven (7) Level I CMR beds.

**Level II - Level II CMR providers may provide treatment services for all rehabilitation diagnostic categories except: (1) spinal cord injuries, (2) congenital deformity, and (3) brain injury.**

Encompass Flowood requests approval for forty-three (43) Level II CMR beds.

### **Policy Statement 4 - CMR Need Determination:**

**MSDH shall determine the need for Level I CMR beds/services based upon a formula of 0.08 beds per 1,000 population for the state as a whole.**

**MSDH shall determine the need for Level II CMR beds/services based upon a formula of 0.0623 beds per 1,000 population for the state as a whole.**

**Table 6-3 shows the current need for CMR beds.**

The Applicant states, according to MSDH's formula, there is a need for seven (7) Level I CMR beds and ninety-four (94) Level II CMR beds in the State.

### **Policy Statement 5 - Present Utilization of Rehabilitation Services:**

The Applicant recognizes this Policy Statement.

**Policy Statement 6 - Minimum Sized Facilities/Units:**

The Applicant proposes to establish fifty (50) CMR beds in a freestanding CMR hospital.

**Policy Statement 7 - Expansion of Existing CMR Beds:**

This policy statement is not applicable to this project.

**Policy Statement 8 - Priority Consideration:**

The Applicant recognizes this Policy Statement.

**Policy Statement 9 - Children's Beds/Services:**

Encompass Flowood does not propose to serve children.

**Policy Statement 10 - Other Requirements:**

The Applicant recognizes this Policy Statement.

**Policy Statement 11 - Enforcement:**

The Applicant acknowledges this Policy Statement.

**Policy Statement 12 - Addition/Conversion of Beds:**

The Applicant recognizes this Policy Statement.

**Policy Statement 13 - Delicensed Beds:**

This Policy Statement is not applicable to the project proposed.

Encompass Flowood submits the proposed fifty (50) bed CMR hospital is directly responsive to the Department's identified need for additional CMR beds; and states, therefore, the project recognizes and is consistent with the Department's standards and goals set forth in the Policy Statements.

**Certificate of Need Criteria and Standards for Comprehensive Medical Rehabilitation Beds/Services**

**Need Criterion 1: Projected Need**

**a. New/Existing CMR Beds/Services:**

The Applicant asserts that its project is in direct response to the Department’s calculated need for seven (7) Level I and ninety-four (94) Level II CMR beds, as shown below:

<b>Table 1 Encompass Flowood’s Project vs Department-Identified Need for CMR Beds</b>					
<b>Level I</b>	<b>Estimated Population 2025</b>	<b>Approved CMR Beds</b>	<b>CMR Beds Needed</b>	<b>Difference</b>	<b>Encompass Flowood Proposed Beds by Level</b>
I	3,095,026	241	248	7	7
II	3,095,026	99	193	94	43

Source: Encompass Health Rehabilitation Hospital of Flowood CON Application for a New Fifty (50) Bed CMR Hospital, February 22, 2022.

**b. Projects which do not Involve the Addition of any CMR Beds:**

This criterion is not applicable to this application.

**c. Projects which Involve the Addition of CMR Beds:**

The Applicant states the proposed project is for the establishment of a new freestanding fifty (50) bed CMR hospital. The Applicant further states the proposed new hospital will be located in Rankin County, one of the state’s most populated and “grossly” underserved counties. Therefore, the Applicant asserts, Rankin County is the best location in Mississippi for a new CMR hospital, and Encompass Health and their proven programs and services is the best provider to establish the proposed new hospital.

**Best Location for the Establishment of a New CMR Hospital:**

The Applicant states Rankin County is the best location for the establishment of a new CMR hospital because of its sheer population size (total and Medicare beneficiaries) and the growth and

aging of their population. The Applicant submitted documentation from the U.S. Census Bureau showing Rankin County was the state's 4<sup>th</sup> most populated county in 2020, with 157,031 residents. The U.S. Census data also showed that Rankin County experienced the state's 3<sup>rd</sup> highest population increase between 2010 and 2020, adding 15,414 residents to the county over the 10-year span.

In addition, the Applicant states Rankin County is projected to have the state's 4<sup>th</sup> highest population in 2025, with a projected 159,703 residents, according to the most recent data available from the University of Mississippi Center for Population Studies (as published in the *MSHP*).

The Applicant states Rankin County had the state's 4<sup>th</sup> highest Medicare Fee-for-Service ("FFS") Beneficiary population in 2020, with 19,563 FFS beneficiaries, according to the Centers for Medicare and Medicaid Services ("CMS") Public Use Files. The Applicant further states the size of this population is important because Medicare beneficiaries are the primary users of CMR services; thus, the group's number and growth are important indicators of increasing CMR need. Yet, according to the Applicant, Rankin County has among the state's lowest utilization of CMR services, evidenced by Rankin County's five (5) CMR discharges per 1,000 Medicare FFS beneficiaries compared to the high discharge rates for counties with CMR facilities within their borders.

The Applicant states another indicator of the need for CMR beds in Rankin County is the county's Medicare FFS beneficiaries' "abysmally" low CMR discharge rate as a percentage of total hospital discharges (i.e., a "conversion rate"). The Applicant submitted the following table showing Rankin County's 1.86% CMR conversion rate is the state's lowest conversion rate for counties with 100,000 or more total population.

Ranked by Conversion Rate	MS County	2020 CMR Conversion Rate	2020 Total Population	Ranked by 2020 Population
1	Harrison	9.99%	208,621	2
2	Jackson	6.00%	143,242	5
3	DeSoto	5.46%	185,314	3
4	Madison	2.03	109,145	6
5	Hinds	1.93%	227,742	1
6	Rankin	1.86%	157,031	4

Source: CMS PUF, Medicare FFS beneficiaries; U.S. Census Bureau 2020 Census.

Source: Encompass Health Rehabilitation Hospital of Flowood, LLC, CON Application for a New fifty (50) Bed CMR Hospital, February 22, 2022.

**Encompass Health is the Best Provider.** The Applicant states Encompass Flowood will be wholly-owned by Encompass Health, which brings to the local market its proven high quality, cost-effective programs and services, along with the financial strength to ensure that its patient and specialized staff members have access to an extensive array of rehab-specific clinical equipment and technology.

The Applicant asserts that Gulf Coast residents’ access to CMR services has significantly increased since Encompass partnered with Memorial Hospital at Gulfport in 2018 to provide intensive inpatient rehabilitation services in the greater Gulfport-Biloxi-Pascagoula area.

**d. Level II Trauma Centers:**

This criterion is not applicable to this project as the Applicant proposes the establishment of a new freestanding fifty (50) bed CMR hospital.

**e. Conversion of Level II CMR Beds to Level I CMR Beds:**

This criterion is not applicable to this project.

**Need Criterion 2: Level 1 CMR Services**

The Applicant submits Encompass Flowood will include both Level I and Level II CMR beds, thus the hospital will provide state-of-the-art rehabilitative care to patients recovering from a wide array of injuries and illnesses. The Applicant states

the specific programs and services to be offered at Encompass Flowood address a wide range of diagnoses including, but not limited to, the following:

- Stroke
- Brain Injury
- Spinal cord injury
- Neurological conditions
- Joint replacement
- Orthopedic
- Hip fractures
- Amputee
- Parkinson's Disease
- Multiple sclerosis
- Burns
- Pulmonary/respiratory
- Pain management

### **Need Criterion 3: Staffing and Services**

#### **a. Freestanding Level I Facilities**

i. Encompass Flowood documents it shall have a Director of Rehabilitation who:

- (1) Provides services to the hospital and its inpatient clientele on a full-time basis;
- (2) Is a Doctor of Medicine or Osteopathy licensed under state law to practice medicine or surgery; and
- (3) Has had, after completing a one (1) year hospital internship, at least two (2) years of training in the medical management of inpatients requiring rehabilitation services.

ii. Encompass Flowood certifies the following services shall be provided by full-time designated staff:

- (1) Speech therapy
- (2) Occupational therapy
- (3) Physical therapy
- (4) Social services

iii. Encompass Flowood certifies the facility will comply with the requirement to offer other services that may be required, either by a consultant or on a contractual basis.

**b. Hospital-Based Units**

The Applicant certifies that this criterion is not applicable to this project as the proposed project is for the establishment of a new freestanding 50-bed CMR hospital.

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

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 1, 2019* addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with the general review criteria contained in the manual.

**GR Criterion 1- State Health Plan**

The application was reviewed for consistency with the *FY 2022 Mississippi State Health Plan* in effect at the time of submission. The application substantially complies with the *FY 2022 State Health Plan, Second Edition*. The Plan identifies four (4) General CON Policies:

(1) To improve the health of Mississippi residents: Encompass Flowood submits that the proposed fifty (50) bed CMR hospital will improve the health of Mississippi residents by increasing the accessibility, acceptability, continuity, and quality of health services available to patients who are in need of, and will benefit from, intensive inpatient rehabilitative services.

(2) To increase the accessibility, acceptability, continuity, and quality of health services: The Applicant states Encompass has proven experience in increasing accessibility, acceptability, continuity, and quality of health care services through its Gulfport facility, as demonstrated by its high occupancy rate, high rate of successfully returning patients to home and community (72.64% which is better than the 64.74% national rate), its Joint Commission accreditation, its Disease-Specific Care Certification in Stroke Rehabilitation, and its CARF accreditation.

(3) To prevent unnecessary duplication of health resources: Encompass Flowood states the proposed facility will not unnecessarily duplicate health resources because there is a department-identified need for additional CMR beds in the state.

(4) To provide some cost containment: Finally, the Applicant states the proposed project complies with the State Health Plan's general goals because Encompass Flowood will be a cost-effective provider of CMR services in two primary ways. First, the provision of intensive inpatient rehabilitative care when needed, rather than a lower level of care such as skilled nursing care or home health; and secondly, because Encompass Flowood will implement and use Encompass Health's proven programs and services, which result in efficient and cost-effective care.

## **GR Criterion 2 – Long Range Plan**

The Applicant submits the proposed project is consistent with the Applicant's goals of meeting the current and future needs of Mississippians for CMR services. The Applicant states Encompass Health's management identified the need for additional CMR beds in Mississippi based on low statewide CMR utilization for Medicare FFS beneficiaries compared to the national average.

## **GR Criterion 3 – Availability of Alternatives**

- a. Advantages and Disadvantages:** The Applicant states Encompass considered two alternatives: maintain the status quo (i.e., do nothing), or establish a new CMR hospital in the greater Jackson area to ensure Mississippians have available and accessible CMR beds.

The Applicant states the status quo is unacceptable given the Department-identified need for additional CMR beds in Mississippi and considering the consistently low CMR utilization by Rankin County residents. Encompass Flowood states without the proposed project, patients in need of intensive inpatient rehabilitation will continue going without that necessary care, which is not a viable option and is inconsistent with the goals of the State Health Plan.

- b. New Construction Projects:** The Applicant states too few CMR beds exist in Mississippi, thus Encompass proposes to establish a new fifty (50) bed CMR hospital to increase resident's access to needed CMR services.
- c. Beneficial Effects to the Health Care System:** The Applicant submits the proposed project will add needed CMR beds in a highly populated, growing, and aging county that currently has "abysmally" low CMR utilization rates. The Applicant states the project will benefit patients by making needed services available and accessible, ensuring timely discharge to post-acute care services that provide the patient with the best chance of recovery. In addition, the Applicant states the project will benefit general acute care hospitals by providing an appropriate post-acute care discharge setting for their patients who are in need of, and will benefit from, intensive rehabilitative and restorative care.

**d. Effective and Less Costly Alternatives:**

- i. Unnecessary Duplication of Services:** The Applicant states there is no alternative to the Department's identified need for additional CMR beds.
- ii. Efficient Solution:** The Applicant affirms the project is a more efficient solution to the identified need, given the large Medicaid FFS

population in Rankin County and that same population's low utilization of CMR services.

- e. **Improvements and Innovations:** The Applicant asserts Encompass Flowood will implement Encompass Health's proven high quality, cost-effective programs and services at the proposed fifty (50) bed CMR hospital.
- f. **Relevancy.** The Applicant asserts the proposed Encompass project will be an independent freestanding CMR hospital that will accept and care for patients from all hospitals and health systems equally, without the need to prioritize patients from any one health system. The Applicant further states given the number of hospitals in and around the greater Jackson area and the fact that most patients are admitted to a CMR hospital upon discharge from a general acute care hospital, the acceptance of patients from all health systems equally is important to ensure timely access for all patients, regardless of the hospital from which the patient is being discharged.

#### **GR Criterion 4 - Economic Viability**

- a. **Proposed Charge:** The Applicant states charges are based on Encompass' experience in Mississippi and in consideration of its experience regionally and nationally. In addition, the Applicant states expected profitability was determined by measuring expected reimbursement alongside expected costs, including staffing and supply costs.
- b. **Projected Levels of Utilization:** The Applicant states the projected utilization level is consistent with the need level of the service area, particularly considering that Encompass proposes to establish a new hospital with fewer beds (7 Level I and 43 Level II) than the Department's identified need (7 Level I and 94 Level II).
- c. **Financial Feasibility Study:** The application contains a letter from the Controller of Encompass Health, attesting to the financial feasibility of the project. In addition, the application contains Consolidated Financial Statements of Encompass Health indicating sufficient funds are available to fund the project.
- d. **Financial Forecasts:** The Applicant affirms this criterion is not applicable.
- e. **Means of Covering Expenses in Event of Failure to Meet Projections:** The Applicant asserts Encompass Health has ample existing cash, cash flow from operations, and funds available under its existing credit facility to offer more than adequate funds for the proposed project and to cover expenses incurred by the proposed project in the event that the project fails to meet projected revenues.

- f. **Impact of Proposed Project on Health Care Cost:** The Applicant does not expect any significant impact on the cost of CMR services because of the proposed project. The Applicant states the proposed project will not have a material impact on Medicaid since the primary patient population of CMR services is Medicare.

**GR Criterion 5 - Need for the Project**

- a. **Access by Population Served:** The Applicant states Encompass serves all medically appropriate patients in need of CMR services, including low-income persons, racial and ethnic minorities, women, handicapped persons and other underserved groups, and the elderly. As such, the Applicant states, the project will make CMR services available to all patients, including underserved groups.
- b. **Relocation of Services:** This criterion is not applicable.
- c. **Current and Projected Utilization of Comparable Facilities:** The Applicant submits the justification of the need for the proposed new freestanding CMR hospital is the Department-identified need for more beds. The Applicant further states the need for additional beds is supported by the experience of physicians located in and/or serving patients in Rankin County who have discussed the need for the proposed project in their letters of support.

The projected utilization of CMR services in Mississippi are shown below, as provided in the *FY 2022 State Health Plan*.

**Table 3  
 Hospital-Based Level I CMR Units  
 FY 2020**

Facilities	Licensed Bed Capacity	Average Daily Census	Average Length of Stay	Occupancy Rate (%)
Baptist Memorial Hosp.–DeSoto	30	15.45	11.51	51.51
Delta Reg. Med. Ctr.-W. Campus	24	6.76	11.26	28.16
Encompass Health Rehab. Hosp.	43	32.40	11.70	98.00
Forrest General Hospital	26	18.49	13.75	71.11
Miss. Methodist Rehab. Center	80	53.22	15.52	66.52
North Miss. Medical Center	30	24.65	13.92	82.17
<b>State Total</b>	<b>233</b>	<b>25.16</b>	<b>12.94</b>	<b>66.25</b>

Source: Applications for Renewal of Hospital License, FY 2020 Annual Hospital Report.

**Table 4**  
**Hospital-Based Level II CMR Units**  
**FY 2020**

<b>Facilities</b>	<b>Licensed Bed Capacity</b>	<b>Average Daily Census</b>	<b>Average Length of Stay</b>	<b>Occupancy Rate (%)</b>
Baptist Memorial Hosp. N. MS	13	5.84	10.19	44.95%
Greenwood Leflore Hospital	20	10.50	12.12	52.49%
Merit Health Natchez	20	7.92	11.51	39.60%
Anderson Reg. Med. Center-S	20	13.88	10.78	69.38%
Singing River Hospital	20	15.56	11.64	77.79%
<b>State Total</b>	<b>93</b>	<b>10.74</b>	<b>11.25</b>	<b>56.84%</b>

Source: Applications for Renewal of Hospital License, FY 2020 Annual Hospital Report.

- d. Probable Effect on Existing Facilities in the Area:** The Applicant asserts Encompass has proven success in entering a market that has historically low rates of CMR utilization and increasing residents' appropriate use of needed intensive inpatient rehab care. The Applicant states Encompass' education of area physicians, case managers, caregivers, and patient population benefits not only patients and their families, but existing CMR providers, as well as area SNF providers, by appropriately educating the market on the benefit of CMR services to patients.
- e. Community Reaction:** The application contains thirteen (13) letters of support from physicians, health care providers, and community leaders.

The Department received a letter from Methodist Rehabilitation Center ("Methodist") in opposition to the proposed project. Methodist does not believe the Applicant has demonstrated compliance with the four (4) general CON policies applicable to CON applications. Specifically, Methodist states:

- Methodist provides CMR services less than six (6) miles from the Applicant's proposed location;
- Methodist has capacity to treat additional patients;
- The establishment of additional CMR services in the exact geographic area where existing underutilized services are already available does not meet the purposes of the CON law; and
- The project results in a costly, unnecessary duplication of services that does not improve access to care and will further stretch the availability of healthcare workforce members, significantly impacting existing healthcare providers.

The Department also received a letter from the Mississippi Health Care Association (“MHCA”) opposing the project. The MHCA indicates there are eight (8) skilled nursing facilities (SNFs), in addition to Methodist Specialty Care Center, located in Rankin County, and five (5) SNFs in Madison not including SNFs located in Hinds County. The MHCA states the allowance of additional CMR providers is expected to have a negative impact on the occupancy rates of SNFs providing rehabilitation services in areas that serve the same geographical area and patient population.

**GR Criterion 6 - Access to the Facility or Service**

- a. **Access to Services.** The Applicant certifies that all residents of the health planning service area, hospital service area, or patient service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly will have access to the services proposed.

The following table shows the projected percentage of gross patient revenue and actual dollar amount of health care proposed to be provided to medically indigent patients.

	Medically* Indigent (%)	Medically Indigent (\$)	Charity Care (%)	Charity Care (\$)
Historical Year 2019	N/A	N/A	N/A	N/A
Historical Year 2020	N/A	N/A	N/A	N/A
Projected Year 1	1.00%	\$235,200	0%	\$0.00
Projected Year 2	1.00%	\$313,800	0%	\$0.00

- b. **Existing Obligations:** The Applicant certifies this criterion is not applicable to this project.
- c. **Unmet Needs of Medicare/Medicaid and Medically Indigent Patients:** The Applicant submits though the very nature of CMR services means that the majority of patients are Medicare, Encompass Flowood will treat all patients regardless of payor source.
- d. **Access to Proposed Facility:** The Applicant submits Encompass Flowood accepts all patients in need of CMR services regardless of payor status or financial ability to pay. The Applicant states patients must be referred by a physician and are evaluated for clinical appropriateness before admission to Encompass Flowood.
- e. **Access Issues**

- i. **Transportation and Travel:** The Applicant submits Encompass Flowood is easily accessible because of its proximity to Interstates 55 and 20, State Highway 80, and MS Highway 25 (i.e., Lakeland Drive).
- ii. **Restrictive Admissions Policy:** The application contains a copy of Encompass Flowood's proposed Admissions Policy which does not restrict admissions.
- iii. **Access to Care by Medically Indigent Patients:** The Applicant certifies that Encompass Flowood will treat all appropriate patients in need of CMR services, regardless of ability to pay.
- iv. **Operational Hours of Service:** The Applicant certifies Encompass Flowood will operate twenty-four (24) hours per day, seven (7) days per week.

#### **GR Criterion 7 - Information Requirement**

The Applicant affirms Encompass Flowood will record and maintain the information required by this criterion regarding charity care, care to the medically indigent, and Medicaid populations and will make it available to the Department within fifteen (15) business days of its request.

#### **GR Criterion 8 - Relationship to Existing Health Care System**

- a. **Comparable Services:** The Applicant acknowledges that there are a number of CMR providers throughout Mississippi offering Level I, Level II, or a combination of Level I and Level II CMR services. However, the Applicant states there is a gap in care in terms of CMR services in Mississippi as evidenced by the Department-identified need for additional beds and historically low utilization of Mississippi as well as Rankin County.
- b. **Effect on Existing Health Services**
  - i. **Complement Existing Services:** The Applicant states the proposed project will complement existing services by (1) ensuring the state has enough CMR beds to meet the Department-identified need for additional beds; and (2) by educating the market generally, and medical providers specifically, of the benefits of CMR services.
  - ii. **Provide Alternative or Unique Service:** The Applicant states there is a current and growing need for CMR services in Rankin County.
  - iii. **Provide a service for a specified target population:** The Applicant states Encompass Flowood will admit all patients appropriate for placement in a CMR facility regardless of the source

of admission and without regard to the patient's ability to pay. The Applicant also states all CMR patients admitted to a CMR facility must meet reasonable and necessary criteria and be admitted by a physician. In addition, the Applicant states all CMR patients must be medically stable and be able to tolerate three (3) hours of therapy per day, at a minimum.

**iv. Provide services for which there is an unmet need:** The Applicant submits the project is in direct response to the Department's calculated need for seven (7) Level I and ninety-four (94) Level II CMR beds.

**c. Adverse Impact:** The Applicant asserts that not only will patients and their families be adversely impacted if the project is not approved, but general acute care hospitals will also be impacted because they will have to continue delaying patients' discharge to a CMR facility because too few beds exist, or they will have to discharge patients to a less optimal setting rather than the medically-necessary and appropriate intensive inpatient CMR setting.

Methodist Rehabilitation Center, the only CMR hospital located within the Jackson metro area, submitted a letter opposing the approval of the project.

**d. Transfer/Referral/Affiliation Agreements:** The Applicant submits Encompass Flowood has received letters of support from area physicians who will act as referral sources for the new hospital. In addition, Encompass Flowood will establish formal transfer agreements with general acute care hospitals during construction of the facility.

#### **GR Criterion 9 - Availability of Resources**

**a. New Personnel.** The Applicant anticipates Encompass Flowood will successfully recruit needed staff without impacting any existing providers because it has in place numerous innovative approaches to recruit and retain staff members at their hospital facilities, including affiliations with colleges and universities throughout Mississippi, the southeast, and the nation. The Applicant asserts Encompass has the ability to recruit and retain needed staff because of its competitive compensation and benefits, its national recruitment strategy, and its relationships with local universities and colleges. In addition, the Applicant states Encompass' recruitment team partners with the American Physical Therapy Association Combined Sections Meeting (APTA CSM), Annual APTA events, APTA National Student Conclave, American Occupational Therapy Association (AOTA), and many other national associations.

**b. Contractual Services.** The Applicant certifies this criterion is not applicable as the project is for a new hospital.

- c. **Existing Facilities or Services.** The Applicant asserts that Encompass' ability to staff its CMR hospitals with appropriate personnel in numbers and skill set is evidenced by its hospitals' Joint Commission accreditations.
- d. **Alternative Uses of Resources.** The Applicant states Encompass exclusively provides post-acute care services, including the CMR services for which the Department has identified a quantitative need exceeding the number of beds Encompass Flowood proposes to establish in Rankin County.

#### **GR Criterion 10 – Relationship to Ancillary or Support Services**

- a. **Support and Ancillary Services.** The Applicant states the new hospital will include sufficiently sized and appropriately designed support and ancillary functions such as a nursing unit area, in-house pharmacy, dietary services, medical records, environmental services, and central supply to ensure the specialized needs of rehabilitation patients are met.
- b. **Changes in Costs or Charges.** The Applicant asserts there will be no material change in costs or charges as a result of the proposed project.
- c. **Accommodation of Changes in Cost or Charges.** The Applicant asserts this criterion is not applicable.

#### **GR Criterion 11 – Health Professional Training Programs**

The Applicant states Encompass works with local universities, colleges, and technical schools to establish clinical teaching affiliations to provide physical therapy, occupational therapy students, speech language pathology students, medical and nursing students, and pharmacy students the opportunity to participate in clinical and technical rotations at Encompass hospitals. In addition, the Applicant states Encompass hospitals across the nation continually engage in primary research to determine the best practices and protocols for a variety of diagnoses so that patients will always have the highest level of outcomes and quality of care.

#### **GR Criterion 12 – Access by Health Professional Schools**

The Applicant states Encompass Health's current affiliations include: Mississippi Gulf Coast Community College; William Carey University; Pearl River Community College; Delgado Community College; and Franciscan Missionaries of Our Lady University.

#### **GR Criterion 13 – Access by Individuals Outside Service Area**

The Applicant states Encompass Flowood expects the vast majority of its patients to reside in the service area, which for CMR services is the state of Mississippi.

#### **GR Criterion 14 - Construction Projects**

The Applicant proposes to construct a 53,600 square foot, one-story, fifty (50) bed freestanding CMR hospital in Flowood. See Attachment 2 for computation of construction cost.

#### **GR Criterion 15 – Competing Applications**

The Mississippi State Department of Health received two applications for the establishment of a freestanding CMR hospital in the Jackson metropolitan area – Encompass Health Rehabilitation Hospital of Flowood, LLC, for the establishment of a fifty (50) bed facility to include seven (7) Level I and forty-three (43) Level II CMR beds and Baptist Memorial Rehabilitation Hospital – Madison for the establishment of a forty (40) bed facility to include five (5) Level I and thirty-five (35) Level II CMR beds. The *FY 2022 State Health Plan, Second Edition* has established a need for seven (7) Level I and ninety-four (94) Level II CMR beds. Therefore, the two applications are considered, in part, competing.

Encompass Flowood believes it is best positioned to meet the Department-identified need for seven (7) Level I beds and ninety-four (94) Level II beds with its proposed seven (7) Level I and forty-three (43) Level II bed facility for the following reasons:

- (1) Encompass Health ensures access to CMR services, as evidenced by the increasing occupancy of Encompass Gulfport following its establishment of a joint venture CMR hospital in Gulfport in 2018. The Applicant states Encompass Gulfport's increasing and high utilization of its CMR services contrasts with Baptist Memorial's consistent under-utilization of its CMR services.
- (2) Encompass Health provides high quality CMR services to its patient population, as evidenced by the Medicare Compare quality indicators. The Applicant states Encompass Gulfport's quality and outcome measures shown in the table below are higher/better than comparable indicators for Baptist Memorial's two CMR facilities.

<b>Table 5 Medicare Compare</b>				
<b>Quality Measure</b>	<b>Encompass Gulfport</b>	<b>Baptist Hospital DeSoto</b>	<b>Baptist Memorial Hospital North MS</b>	<b>National Average</b>
Change in patient's ability to care for themselves (higher is better)	16.5	11.7	10.3	N/A
Changes in patient's ability to move around (higher is better)	37.9	30.0	23.9	N/A
Percentage of patients who are at or above an expected ability to care for themselves at discharge (higher is better)	86.7%	52.2%	42.6%	57.5%
Percentage of patients who are at or above an expected ability to move around at discharge (higher is better)	76.7%	57%	36.1%	51.7%
Rate of successful return to home and community (higher is better)	72.64%	70.58%	60.68%	64.74%
Source: CMS Medicare Compare Website, <a href="https://www.medicare.gov/care-compare/compare?providerType=InpatientRehabilitatio&amp;providerIds=25T141,25T034,253027&amp;state=MS">https://www.medicare.gov/care-compare/compare?providerType=InpatientRehabilitatio&amp;providerIds=25T141,25T034,253027&amp;state=MS</a> .				

Source: Encompass Health Rehabilitation Hospital of Flowood, LLC, CON Application for a New fifty (50) Bed CMR Hospital, February 22, 2022.

Staff determined both applications submitted by Encompass Flowood and Baptist Memorial Rehabilitation Hospital – Madison were in substantial compliance with the *FY 2022 Mississippi State Health Plan, Second Edition*.

Section 41-7-195(5), Mississippi Code of 1972, Annotated, as amended, states the Department may approve or disapprove a proposal for a CON as originally presented in final form, or it may approve a CON by a modification, by reduction only, of such proposal provided the proponent agrees to such modification. Accordingly, Encompass Flowood agreed in writing to a CON approval by

modification including a reduction to four (4) Level I CMR beds.

**GR Criterion 16 - Quality of Care**

- a. **Past Quality of Care.** The Applicant asserts this criterion is not applicable.
- b. **Improvement of Quality of Care.** The Applicant asserts the proposed project will ensure that patients who are in need of, and would benefit from, CMR services receive those services in a timely manner.
- c. **Accreditations and/or Certifications.** The Applicant submits Encompass Gulfport, a sister facility to the proposed Encompass Flowood, is Joint Commission accredited, has The Joint Commission’s Seal of Approval for Disease-Specific Care Certification in stroke rehabilitation, and is CARF accredited.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

Cost Item	Projected Cost	Percentage of Cost (%)
Construction – New	\$ 29,155,225.00	61.86%
Construction (Renovation)	0.00	0.00%
Capital Improvement	0.00	0.00%
Fixed Equipment	0.00	0.00%
Non-fixed Equipment	5,662,805.00	12.02%
Land Cost	2,333,074.00	4.95%
Site Preparation	2,947,500.00	6.25%
Fees (Architectural)	1,802,736.00	3.83%
Capitalized Interest	1,071,060.00	2.27%
Contingency Reserve	1,605,136.00	3.41%
Other (Permits, Local & State Fees)	581,541.00	1.23%
Other Costs (Pre-opening Expenses)	1,970,000.00	4.18%
<b>Total Capital Expenditure</b>	<b>\$ 47,129,077.00</b>	<b>100.00%</b>

**B. Method of Financing**

The Applicant proposes to finance the project with related company financing. In addition, the Applicant proposes to lease the building at an annual cost of \$2,120,000.00 for thirty-five (35) years.

The application contained a Purchase and Sale Agreement entered into on February 16, 2022, by and between Flowood Farms, LLC, a Mississippi limited liability company (“Seller”) and Encompass Health Mississippi Real Estate, LLC, a Delaware limited liability company (“Purchaser”). In addition, the application contains a draft

Lease Agreement expected to be entered into by and between Encompass Health Mississippi Real Estate, LLC, a Delaware limited liability company, having its principal office at 9001 Liberty Parkway, Birmingham, Alabama (“Lessor”), and Encompass Health Rehabilitation Hospital of Flowood, LLC, a Delaware limited liability company, having its principal office at 9001 Liberty Parkway, Birmingham, Alabama (“Lessee”).

The application also contains Consolidated Financial Statements of Encompass Health Corporation and its Subsidiaries indicating sufficient funds were on hand at the end of 2020 to fund the project.

**C. Effect on Operating Cost**

The three-year projected operating statement for Encompass Flowood is presented at Attachment 1.

**D. Cost to Medicaid/Medicare**

Encompass-Flowood projects gross patient revenue cost (Project Only) to third party payors as follows:

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	70.00%	\$ 17,350,100.00
Medicaid	3.00%	766,300.00
Commercial	25.00%	6,214,300.00
Self Pay	1.00%	172,100.00
Charity Care	1.00%	235,200.00
Other	1.00%	172,100.00
<b>Total</b>	<b>*100.00%</b>	<b>\$ 24,910,100.00</b>

\*Totals do not compute due to rounding.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. A letter dated March 3, 2022, states the Division of Medicaid has no comment on this application.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for the construction, establishment, offering, or expansion of comprehensive medical rehabilitation (“CMR”) beds/services as contained in the *FY 2022 Mississippi State Health Plan, Second Edition*; the *Mississippi Certificate of Need Review Manual, September 1, 2019, Revision*; and duly adopted rules, procedures, and plans of the Mississippi State Department of Health.

The State Health Plan identified a need for seven (7) Level I CMR beds and ninety-four (94) Level II CMR beds in the state as a whole. The Department received two (2) applications for CMR beds from: (1) Encompass Flowood requesting seven (7) Level I and forty-three (43) Level II CMR beds; and (2) Baptist Memorial Rehabilitation Hospital – Madison requesting five (5) Level I and thirty-five (35) Level II CMR beds. These applications were entered into review, in part, as competing applications. Staff determined each application is in substantial compliance with the *FY 2022 Mississippi State Health Plan, Second Edition*.

The CON statute provides that the Department may approve or disapprove a proposal for a CON as originally presented in final form, or it may approve a CON by modification, by reduction only, provided the proponent agrees to such modification. Encompass Flowood agreed in writing to a modified CON approval by reduction to include four (4) Level I CMR beds.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application submitted by Encompass Health Rehabilitation Hospital of Flowood, LLC d/b/a Encompass Health Rehabilitation Hospital of Flowood for the establishment of a fifty (50) bed comprehensive medical rehabilitation hospital to include four (4) Level I and forty-six (46) Level II CMR beds.

**Attachment 1**

<b>Encompass Rehabilitation Hospital of Flowood, LLC Establishment of a Fifty (50) Bed Comprehensive Medical Rehabilitation Hospital Three-Year Operating Statement (Project Only)</b>			
	Year 1	Year 2	Year 3
<b>Revenue</b>			
Patient Revenue:			
Inpatient	\$ 24,910,100.00	\$ 33,226,400.00	\$ 42,363,600.00
Outpatient	0.00	0.00	0.00
<b>Gross Patient Revenue</b>	<b>24,910,100.00</b>	<b>33,226,400.00</b>	<b>42,363,600.00</b>
Charity Care	235,200.00	313,800.00	399,800.00
Deductions from Rev.	9,668,800.00	\$ 12,955,600.00	\$ 16,593,500.00
<b>Net Patient Revenue</b>	<b>\$ 15,006,100.00</b>	<b>\$ 19,957,000.00</b>	<b>\$ 25,370,300.00</b>
Other Operating Revenue	0.00	0.00	0.00
<b>Total Operating Revenue</b>	<b>\$ 15,006,100.00</b>	<b>\$ 19,957,000.00</b>	<b>\$ 25,370,300.00</b>
<b>Expenses</b>			
Operating Expenses:			
Salaries	\$ 7,854,300.00	\$ 9,449,700.00	\$11,090,200.00
Benefits	1,809,900.00	2,177,500.00	2,555,500.00
Supplies	659,400.00	879,600.00	1,121,500.00
Service	3,085,700.00	3,336,500.00	3,614,100.00
Lease	2,120,000.00	2,162,400.00	2,205,600.00
Depreciation	849,800.00	856,100.00	868,600.00
Interest	0.00	0.00	0.00
Other	750,300.00	997,800.00	1,268,500.00
<b>Total Expenses</b>	<b>\$ 17,129,400.00</b>	<b>\$ 19,859,600.00</b>	<b>\$ 22,724,000.00</b>
<b>Net Income (Loss)</b>	<b>\$ (2,123,300.00)</b>	<b>\$ 97,400.00</b>	<b>\$ 2,646,300.00</b>
<b>Assumptions</b>			
Inpatient days	9,490	12,410	15,513
Outpatient days			
Procedures			
Charge/inpatient day	\$ 2,625.00	\$ 2,677.00	\$ 2,731.00
Charge per outpatient			
Charge per procedure			
Cost per inpatient day	\$ 1,805.00	\$ 1,600.00	\$ 1,465.00
Cost per outpatient day			
Cost per procedure			

**Attachment 2**  
**Encompass Health Rehabilitation Hospital of Flowood**  
**Establishment of a Fifty (50) Bed Comprehensive Medical Rehabilitation Hospital**

**Construction Cost Calculation**

<b><u>Cost Component</u></b>	<b><u>Total</u></b>	<b><u>New Construction</u></b>	<b><u>Renovation</u></b>
New Construction Cost	\$29,155,225	\$29,155,225	
Renovation Cost	\$0		\$0
Total Fixed Equipment Cost	\$0	\$0	
Total Non-Fixed Equipment Cost	\$5,662,805	\$0	
Capital Improvement	\$0		
Land Cost	\$2,333,974	\$2,333,974	
Site Preparation Cost	\$2,947,500	\$2,947,500	
Fees ( <i>Architectural, Consultant, etc.</i> )	\$1,802,736	\$1,802,736	\$0
Contingency Reserve	\$1,605,136	\$1,605,136	\$0
Capitalized Interest	\$1,071,060	\$1,071,060	\$0
<b>Total Proposed Capital Expenditure*</b>	<b>\$44,578,436</b>	<b>\$38,915,631</b>	<b>\$0</b>
Square Footage	<b>53,600</b>	53,600	0
<i>Allocation Percent</i>		100.00%	0.00%
<b>Costs Less Land, Non-Fixed Equip. &amp; Cap. Improvement</b>	<b>\$36,581,657</b>	<b>\$36,581,657</b>	<b>\$0</b>
<b>Cost Per Square Foot</b>	<b>\$682.49</b>	<b>\$682.49</b>	<b>\$0.00</b>
<b>Cost per Bed (n=50)</b>	<b>\$609,694</b>		

**\*Note: Formula excludes "Other Fees" such as Permits & Local/State Fees of \$581,541 and Pre-Opening Expenses & CON fees of \$1,970,000. These items are not considered a part of construction cost.**