

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2008**

CON REVIEW: HP-CB-1107-026

Brentwood Acquisition, Inc. d/b/a Brentwood

Behavior Healthcare of Mississippi

Establishment of a 30-Bed Psychiatric Residential Treatment Facility

Capital Expenditure: \$6,750,000

Location: Jackson, Rankin County, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Brentwood Acquisition, Inc. is a Tennessee business corporation authorized to do business in the state of Mississippi. Brentwood Behavioral Healthcare of Mississippi ("Brentwood") is a private, freestanding behavioral healthcare facility located in Jackson. Brentwood, the largest psychiatric facility in the state, is currently licensed for 107 acute psychiatric beds, specializing in psychiatric and dual diagnosis services for adults, children, and adolescents. The facility's beds are allocated as follows:

- 30 Bed Inpatient Adult Psychiatric/Dual Unit
- 46 Bed Inpatient Adolescent Psychiatric Unit (two 23 bed units)
- 17 Bed Inpatient Child Psychiatric Unit
- 14 Bed Overflow Unit (currently used as Child/Adolescent overflow)

The facility is an affiliate of Psychiatric Solutions, Inc., based in Franklin, Tennessee, and is accredited by the Joint Commission for the Accreditation of Health Care Organizations and governed by five officers and directors.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Brentwood's child/adolescent psychiatric beds are as follows for the most recent fiscal years.

Brentwood Behavioral Healthcare of Mississippi
Utilization Data

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate
2004	69.43	9.79	NA
2005	76.96	9.56	NA
2006	76.16	11.73	NA

Source: Division of Health Facilities Licensure and Certification, MSDH.

B. Project Description

Brentwood Behavior Healthcare of Mississippi seeks certificate of need (CON) authority to expand its existing facility by establishing a 30-bed psychiatric residential treatment

(PRTF) component. The proposed 30-bed PRTF will be separately licensed, located on the 12-acre campus of the existing facility. The PRTF will focus on the treatment of adolescents between 12 and 17 years of age and will serve as an adjunct or alternative setting to acute inpatient psychiatric care. Brentwood estimates that approximately 50 discharges each year from Brentwood are referred to PRTFs.

The proposed facility will share with the existing facility such features as a gymnasium, spacious play areas, and a variety of services to meet the physical, social, cultural and recreational health maintenance and rehabilitation needs of each patient.

The applicant submits that the final objective of this proposal is two-fold: (1) to ensure an adequate number of PRTF beds for adolescents are available in the region to minimize the need to refer patients from Brentwood's acute psychiatric units to facilities outside the region; and (2) provide additional capacity to accommodate the need for adolescent services (ages 12-17) within the Primary and Secondary service areas.

The facility will encompass 11,575 square feet of new construction and 2,500 square feet of renovated space and will require a capital expenditure of \$6,750,000 (See Capital Expenditure Summary, page 9 of this staff analysis). The parent corporation, Psychiatric Solutions, Inc., will provide the majority financing for the project. The applicant proposes to obligate the capital expenditure within 30 days of CON approval, and anticipates that the project will be complete as soon as possible thereafter.

The completed project will require 47.6 full-time equivalent personnel, at an estimated first-year annual cost of \$1,380,000.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for the project.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health ("Department") reviews applications for the establishment of psychiatric residential treatment facilities in accordance with Sections 41-7-173; 41-7-191 subparagraphs (1)(a), (d)(iv) and (3); and 41-7-193 of the Mississippi Code 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Department.

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 on March 6, 2008.

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

A. State Health Plan (SHP)

The *FY 2007 Mississippi State Health Plan (SHP)* contains policy statements and both general and service specific criteria and standards which an applicant is required to meet before receiving CON authority for psychiatric residential treatment facility/services. This application is **not** in substantial compliance with applicable criteria and standards.

SHP Policy Statement 1 – Indigent Care

The applicant affirms that the facility will provide a reasonable amount of charity care consistent with the demands of the community and comparable with levels of similar services and facilities in the area.

SHP Policy Statement 2 – Mental Health Planning Areas

The applicant recognized the statewide application of the need methodology as a reasonable means to control Medicaid expenditures, and states that it often results in the unfortunate consequence of mal-distribution of resources and may, in some areas, inhibit both their availability and geographic accessibility.

SHP Policy Statement 3 – Public Sector Beds

The applicant's calculation of need for additional PRTF beds was focused on the need of patients not being treated in a facility operated by the Mississippi Department of Mental Health.

SHP Policy Statement 4 - Comments from the Department of Mental Health.

The Mississippi Department of Mental Health was provided an opportunity to review and comment on this proposal; however, no comments were received.

SHP Policy Statement 5 – Separation of Adults and Children/Adolescents

The applicant proposes the establishment of a 30-bed PRTF dedicated to the residential treatment of adolescents from 12 to 17 years of age. No children under the age of 12 years will be admitted to the facility and there will be no adults 18 years of age or older admitted or treated in the facility, according to the applicant. The applicant proposes that the PRTF will be a free-standing unit on Brentwood's current campus.

SHP Policy Statement 6 – Separation of Males and Females

The applicant avows to provide separate gender-specific accommodations in the adolescent programs.

SHP Policy Statement 7 – Dually Diagnosed Patients

The applicant will not require swing-bed services.

SHP Policy Statement 8 – Comprehensive Program of Treatment

The applicant avows to provide a comprehensive, family-centered program of treatment for children and adolescents that includes, but is not limited to, acute inpatient, inpatient residential treatment, outpatient, follow-up services, and a state certified educational program.

SHP Policy Statement 9 – Medicaid Participation

Brentwood attests that it will seek Medicaid certification for the proposed PRTF beds.

The applicant affirms that information pertaining to the volume and scope of Medicaid services will be provided to the Mississippi State Department of Health upon request.

SHP Policy Statement 10 – Licensure and Certification

The applicant affirms that the proposed 30-bed PRTF will meet all applicable licensing and certification regulations promulgated by the Division of Health Facilities Licensure and Certification.

SHP Policy Statement 11 – Psychiatric Residential Treatment Facility

The applicant affirms that Brentwood's proposed 30-bed PRTF will be operated in a manner consistent with the required definition of a psychiatric residential treatment facility.

SHP Policy Statement 12 – Certified Education Programs

The applicant affirms that Brentwood's proposed PRTF will include an educational program accredited by the Department of Education. It will have access to the existing gymnasium and spacious play areas located on the 12-acre campus, and will provide a variety of services to meet the physical, social, cultural, and recreational health maintenance and rehabilitation needs of each patient.

SHP Policy Statement 14 – Dedicated Beds for Children's Service

The applicant does not propose to serve children less than 12 years of age.

General (G) Criteria and Standards for Psychiatric, Chemical Dependency and Psychiatric Residential Treatment Facilities

SHP G Criterion 1 – Need

The *FY 2007 Mississippi State Health Plan (SHP)* states that: "The applicant shall document a need for ... psychiatric residential treatment facility beds using the appropriate bed need methodology as presented in this section under the service specific criteria and standards". The Plan indicates a current statewide excess of 76 PRTF beds.

Brentwood maintains, however, that application of a statewide methodology does not take into account the regional nature of PRTF facilities or the utilization of existing resources. The applicant states that its existing acute psychiatric facility obtains referrals from 71 counties in Mississippi. However, the majority of patients (51%) originate from Hinds and Rankin counties. The applicant further states that Hinds and Rankin counties, designated as the Primary Service Area, are expected, by 2010, to be comprised of 97,033 inhabitants between 5 and 21 years of age (Mississippi Institutes for Higher Learning, August 2005, using Sprague Multiplier for prescribed cohort calculation). The Secondary Service Area (defined as Simpson, Copiah, Jones, Adams, Pike, Washington, Madison, and Warren counties) is expected, by 2010, to be comprised of 91,209 inhabitants between 5 and 21 years of age. The applicant further states that at the

prescribed bed ratio of 0.4 per thousand, there is a need for 75 PRTF beds to serve only the affected residents of the Primary and Secondary Service Areas. (

Further, the applicant submits that the proposed facility will be located in Mental Health Region 8, which is comprised of Madison, Rankin, Copiah, and Simpson counties. Region 8 is expected to have 63,801 inhabitants between 5 and 21 years of age by 2010, according to the applicant. Based on this expected population and the prescribed bed ratio of 0.4 per thousand, the applicant states there is a need for 26 PRTF beds to serve only the affected residents of Mental Health Region 8, from which only 22.5% of the applicant's total patient base is expected to originate.

However, Policy Statement No. 2 states that: "The Department shall use the state as a whole to determine the need for acute psychiatric beds/service, chemical dependency beds/services, and psychiatric residential treatment beds/services." In addition, Section 41-7-191 subparagraph 3 provides that the total number of beds which may be authorized by certificates of need shall not exceed 334 beds for the entire state. The 358 licensed and CON approved beds were the result of both CON approval and legislative action.

The application did not contain evidence of enabling legislation that would allow the Department to approve this proposal for establishment of a 30-bed PRTF facility.

SHP G-Criterion 2 – Information Requirement

The applicant affirms that it will record and maintain information required by this criterion and make it available to the Department within 15 days of such request.

SHP G Criteria 3 and 4 – Memorandums of Understanding

The application contained copies of several signed letters/memorandums of understanding from local entities pertaining to the referral and admission of charity and medically indigent patients. Such letters were from Region 9 Hinds Behavioral Health, Mental Health Association of the Capital Area, Region 8 Mental Health-Mental Retardation Commission, Warren-Yazoo Mental Health/Mental Retardation, juvenile justice centers, and physicians.

SHP General Criterion 5 – Policy of Exclusion

The applicant affirms that within the scope of its available services, neither the facility nor its participating staff will have a policy or procedures which would exclude patients because of race, color, age, sex, ethnicity, or ability to pay.

Service Specific (SS) Criteria and Standards for Psychiatric Residential Treatment Facility Beds/Services

SHP SS Criterion 1 – Need

The *SHP* states that the Department shall base statistical need for PRTF beds on a ratio of **0.4 beds per 1,000 population aged 5 to 21 for the year 2010** in the state as a whole. This calculation yields a statewide need of 282 beds statewide. The state currently has 358 licensed and CON approved beds, reflecting that the state is overbedded by 76 PRTF beds.

Therefore, the applicant is not in compliance with this criterion.

SHP SS Criterion 2 – Age Groups to be Served

The applicant affirms that Brentwood's proposed PRTF will be dedicated exclusively to the treatment of adolescents from 12 to 17 years of age.

SHP SS Criterion 3 – Structural Design

The applicant states that the new construction will involve approximately 11,575 square feet which will include 16 patient rooms (14 semi-private and 2 private rooms).

SHP SS Criterion 4 – Legislation Limitations

Legislation (Miss. Code Ann. § 41-7-191 et. seq.) limits the maximum number of PRTF beds that the Department can approve to 334. Therefore, this application cannot be approved without further enabling legislation.

SHP SS Criterion 5 – Facility Size

The applicant proposes to construct a 30-bed PRTF facility, consisting of 11,575 square feet of space and 16 patient rooms.

SHP SS Criterion 6 – Staffing

The applicant proposes to employ 47.6 additional full-time equivalent personnel upon the completion of this proposal. The applicant projects that the additional staff will have a first-year cost of \$1,380,000.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 8, 2007*, addresses general criteria by which all CON applications are reviewed. This application is **not** in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

The application is not in substantial compliance with the *FY 2007 State Health Plan*. Specifically, beds requested exceed the bed need projected in the Plan as well as Legislative limitation of 334 beds.

GR Criterion 2 - Long Range Plan

The applicant affirms that the key stakeholders determined that the establishment of a 30-bed PRTF was consistent with the overall mission of the organization and supportive of its long-range plans.

GR Criterion 3- Availability of Alternatives

The applicant considered the following options in the development of this proposal:

- Maintain the status quo;
- Construct the 30 beds but with different bed distribution between child and adolescent programs;
- Construct more than 30 beds; and
- Construct fewer than 30 beds.

According to the applicant, maintaining the status quo was no longer an option for the facility since Brentwood's 46-bed acute psychiatric unit for adolescents refers, on average, about 50 patients for PRTF treatment annually. Many more patients are discharged home due to the lack of appropriate, available residential beds. Frequently, as a result of the lack of available beds in the region, referrals are made outside of the region, admissions are delayed, or admissions are completely denied, according to the applicant.

The applicant stated it also considered splitting the number of program-specific beds within the 30 additional beds. This included constructing a 10 to 15-bed unit for children (ages 5 to 11 years of age) with the remainder dedicated to adolescents (ages 12 to 17 years). However, the applicant states that the 17-bed acute psychiatric unit at Brentwood does not, at present, develop a sufficient number of PRTF referrals to support a dedicated PRTF unit for children. Therefore each of these alternatives was rejected.

The applicant also considered requesting more than 30 PRTF beds; however, the applicant believes that the referrals from Brentwood's acute psychiatric program for adolescents are, at this time, sufficient to support only a 30-bed facility.

The applicant also rejected the alternative of constructing fewer than 30 beds because of the number of patients comprising the existing PRTF referral base for adolescent services within Brentwood's acute psychiatric program for adolescents.

Brentwood believes that there is no more effective or less costly alternative to the proposed project. It states that the ability to provide timely discharge of patients in an acute psychiatric inpatient setting to a PRTF in close proximity improves the continuity of care and increases the likelihood of a successful outcome, because family participation in the treatment of children and adolescents is recognized as an important component of care.

GR Criterion 4 - Economic Viability

The three year operating projections reflect a net loss of \$97,255 the first year, and net income of \$241,282 the second year and \$247,182 the third year. The proposed inpatient charges are comparable to those charges proposed by other facilities for similar services. The projected levels of utilization are also comparable, according to the applicant.

The application contains a feasibility letter signed by the Chief Financial Officer attesting to the viability of the project. The project will be funded by Psychiatric Solutions, Inc. (PSI), the parent company of Brentwood Acquisitions, LLC.

GR Criterion 6- Accessibility

The applicant affirms that Brentwood's services are accessible to all age appropriate residents of its service area and the proposed PRTF services will also be accessible. These include Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, females, and persons with handicaps. The applicant state that the proposed project will ensure the availability of needed services in the foreseeable future.

GR Criterion 7- Information Requirement

The applicant affirmed that it will record and maintain the information required by this criterion and shall make the data available to the Department within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

There are currently six licensed PRTF facilities in the state: Parkwood Behavioral Health System, DeSoto Co. (40 beds); CARES Center, Hinds Co. (44 beds); The Crossings, Lauderdale Co. (60 beds); Millcreek of Pontotoc, Pontotoc Co. (51 beds); Millcreek Psychiatric Residential/Treatment Facility, Simpson Co. (57 beds); and Diamond Grove Center, Winston Co. (30 beds). In addition, CARES Center is authorized for 16 additional PRTF beds not yet in operation. One additional CON, authorizing 60 PRTF beds in Warren County, has been revoked by the Department. The total number of PRTF beds authorized by CON and/or legislation is 358.

The applicant does not expect that the proposed facility will have an adverse affect on other existing health services in the state since facilities within the region appear to be operating at or near capacity. According to the Report of Institutions for the Aged or Infirm, 2006, the average occupancy rate of existing PRTF facilities statewide is 84.40 percent.

The applicant expects that the target population will access the proposed facility through a referral system that, in addition to the 46-bed adolescent psychiatric unit at Brentwood, include other hospitals, school systems, the judicial system, physicians, and families. The applicant believes most, if not all, of the admissions to the proposed 30-bed PRTF will originate from Brentwood's acute psychiatric unit for adolescents.

Millcreek submitted a letter of opposition to the proposed project. Millcreek believes that the approval of this project would compromise the stability of current providers.

GR Criterion 9 - Availability of Resources

The applicant affirmed that Brentwood presently has a professional staff from the disciplines of psychiatry, psychology, pediatric medicine, social work, nursing, recreational therapy, occupational therapy and education, and it has not experienced any significant problems in hiring and/or retaining qualified staff.

GR Criterion 10 – Relationship to Ancillary or Support Services

Brentwood states that ancillary and support services will be increased where applicable and appropriate to accommodate the addition and increase in patient volume. Cost

increases will be related to increased fixed costs associated with facility depreciation and variable costs associated with volume related to staffing, supplies and other operational factors, according to the applicant.

GR Criterion 14 – Construction Project

The application contained site drawing and cost estimations signed by an architect licensed to do business in Mississippi.

See Attachment 2 for calculation of per foot cost.

GR Criterion 16 - Quality of Care

Brentwood is accredited by the Joint Commission on Accreditation of Healthcare Organizations and certified by Medicare, Medicaid and CHAMPUS. The facility is licensed by the MSDH Division of Health Facilities Licensure and Certification as a psychiatric facility.

IV. FINANCIAL FEASIBILITY

A. Expenditure Summary

The total estimated capital expenditure is allocated as follows:

Cost Item	Projected Cost	Percent
Construction Cost -- New	\$ 2,875,000	43.00%
Renovation Costs	350,000	5.00%
Capital Improvements	300,000	4.00%
Fixed Equipment	600,000	9.00%
Non-Fixed Equipment t	0	0.00%
Land Cost	0	0.00%
Site Preparation	675,000	10.00%
Fees (Architectural, Consultant, etc.)	800,000	12.00%
Contingency Reserve	900,000	13.00%
Capitalized Interest	250,000	4.00%
Total Proposed Capital Expenditure	\$ 6,750,000	100.00%

The proposed capital expenditure includes 2,500 square feet of renovation at an estimated cost of \$279 per square foot and 11,575 square feet of new construction at an estimated cost of \$497 per square foot, to house 30 new psychiatric residential treatment facility beds. Hospital projects listed in the Means Building Construction Cost Data, 2007 Edition, range from \$164 to \$300 per square foot for new construction. The Means Building Cost Data does not compare cost of renovation projects.

B. Method of Financing

The applicant proposes to finance the project through related company financing (\$4,050,000) and equity contributions (\$2,700,000).

C. Effect on Operating Cost

The applicant's three year projected operating statement is included as attachment 1.

D. Cost to Medicaid/Medicare

The cost of the project to third party payors is as follows:

Payer Mix	Utilization Percentage	First Year Revenues
Medicaid	100.0%	\$3,878,125
Medicare		
Other		
Total	100.0%	\$3,878,125

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application. No comments had been received from the Division of Medicaid as of publication of this staff analysis.

The Mississippi Department of Mental Health was also provided an opportunity to comment on this project. No comments had been received from the Department of Mental Health as of publication of this staff analysis.

VI. CONCLUSION AND RECOMMENDATION

This project is **not** in substantial compliance with the criteria and standards for the establishment of a psychiatric residential treatment facility as outlined in the *FY 2007 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 8, 2007*; and all adopted rules, procedures and plans of the Mississippi State Department of Health.

Specifically, the project is not in compliance with the Need Criterion as stated in the *State Health Plan*. The *Plan* states that the State is currently over-bedded by 76 PRTF beds. Furthermore, Section 41-7-191 (3) of the Mississippi Code of 1972 Annotated as amended, stipulates that no more than 334 PRTF beds may be authorized by certificates of need. The state currently has 358 licensed/CON approved beds which include beds authorized by CONs as well as legislation. The proposed 30-bed PRTF exceeds the need as stated in the *State Health Plan* as well as the limit imposed by the Mississippi Legislature.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of this application submitted by Brentwood Acquisition, Inc. d/b/a Brentwood Behavioral Healthcare of Mississippi for the establishment of a 30-bed psychiatric residential treatment facility.

Attachment 1

Brentwood Behavioral Healthcare of Mississippi Establishment of a 30-Bed PRTF Three-Year Operating Statement			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$3,878,125	\$5,038,625	\$5,116,188
Outpatient	-	-	-
Gross Patient Care Revenue	<u>\$ 3,878,125</u>	<u>\$ 5,038,625</u>	<u>\$5,116,188</u>
Deductions from Revenue	(1,242,086)	(1,676,711)	(1,669,312)
Net Patient Care Revenue	<u>\$2,636,039</u>	<u>\$ 3,361,914</u>	<u>\$ 3,446,876</u>
Total Operating Revenue	<u>\$ 2,636,039</u>	<u>\$ 3,361,914</u>	<u>\$ 3,446,876</u>
Operating Expenses			
Salaries	\$1,200,000	\$1,440,720	\$1,480,900
Benefits	180,000	185,000	191,000
Supplies	210,000	281,432	293,957
Services	241,300	277,000	287,000
Lease	-	-	-
Depreciation	165,000	165,000	165,000
Interest	350,000	350,000	350,000
Other	386,994	421,480	431,837
Total Operating Expenses	<u>\$ 2,733,294</u>	<u>\$ 3,120,632</u>	<u>\$ 3,199,694</u>
Net Operating Income (Loss)	<u>\$(97,255)</u>	<u>\$ 241,282</u>	<u>\$ 247,182</u>
Assumptions			
Inpatient Days	9,125	10,585	10,768
Outpatient Days			
Procedures			
Charge per outpatient day			
Charge per inpatient day	\$ 425	\$ 476	\$ 475
Charge per procedure			
Cost per inpatient day	\$300	\$295	\$297
Cost per outpatient day			
Cost per procedure			

Attachment 2

**Brentwood Behavioral Healthcare of Mississippi
 Establishment of a 30-Bed Psychiatric Residential Treatment Facility**

Computation of Construction and Renovation Cost

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$2,875,000	\$2,875,000	
Renovation Cost	\$350,000		\$350,000
Total Fixed Equipment Cost	\$600,000	\$600,000	
Total Non-Fixed Equipment Cost	\$0	\$0	
Capital Improvement	\$300,000		
Land Cost	\$0	\$0	
Site Preparation Cost	\$675,000	\$675,000	
<i>Fees (Architectural, Consultant, etc.)</i>	\$800,000	\$657,920	\$142,080
<i>Contingency Reserve</i>	\$900,000	\$740,160	\$159,840
<i>Capitalized Interest</i>	\$250,000	\$205,600	\$44,400
Total Proposed Capital Expenditure	\$6,750,000	\$5,753,680	\$696,320

Square Footage	14,075	11,575	2,500
<i>Allocation Percent</i>		82.24%	17.76%

Costs Less Land, Non-Fixed Eqt. & Cap. Improvement	\$6,450,000	\$5,753,680	\$696,320
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Cost Per Square Foot	\$458.26	\$497.08	\$278.53
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