

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

CON REVIEW: HP-CB-1107-027

Alliance Crossings, LLC dba Alliance Health Center-Meridian

Addition of 30-Bed Psychiatric Residential Treatment Facility

Capital Expenditure: \$6,750,000

Location: Meridian, Lauderdale County, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Alliance Crossings LLC ("The Crossings," "Applicant," or "Alliance"), operates a 60-bed facility composed of adolescent psychiatric residential treatment facility ("PRTF") beds located on the campus of Alliance Health Center, Meridian, Mississippi. The Crossings currently offers three distinct treatment Programs:

- Severely mentally ill and oppositional adolescent males, aged 12-17
- Severely mentally ill and oppositional adolescent females, aged 12-17
- Juvenile sex offenders, age 12-17

Psychiatric Solutions, Inc., the parent corporation of Alliance Crossings LLC, a Delaware Limited Liability Company, has filed the necessary documents with the Office of the Mississippi Secretary of State and has obtained a certificate of registration to do business in Mississippi under the provisions of The Mississippi Registration of Foreign Limited Liability Companies. The Secretary of State shows or states that Alliance is in good standing.

B. Project Description

Alliance Crossings seeks Certificate of Need (CON) authority to expand its existing 60-bed PRTF by an additional 30 beds. The 30 additional beds will be distributed between two distinct patient populations: children between ages 5 and 11, and adolescents between ages 12 and 17. Twenty of the new beds will be dedicated to the treatment of children aged five through eleven years, according to the applicant. The project entails 22,500 square feet of new construction and 2,500 of renovation to the existing facility.

The project requires a capital expenditure of \$6,750,000. Of this proposed expenditure 10 percent (\$675,000) is dedicated to site preparation; 81 percent toward building and renovation; and 9 percent (\$600,000) toward equipment purchase.

The completed projects will require 77.6 full-time-equivalent personnel, at an estimated first-year annual cost of \$1,274,694 for the salary and fringe benefits for the additional personnel.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for the project. The applicant anticipates the obligation of capital expenditure within 30 days of CON approval.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health (“Department”) reviews applications for the expansion of psychiatric residential treatment facilities in accordance with Section 41-7-191 subparagraphs (1)(c), (j) and (3) and Section 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.

The Crossings is a current provider of psychiatric residential treatment services and seeks through this application to add 30 additional PRTF beds.

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 Crossings presently receives referrals from 50 counties in Mississippi with the majority of patients (58 percent) originating from eight counties that includes Hinds, Lauderdale, Washington, Lowndes, Tishomingo, Warren, Forrest, and Hancock counties, according to the applicant.

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 avows to dedicate 20 of the proposed additional beds as a programmatically and physically distinct unit for the proposed children's program (age 5-11) and 10 beds to expand the adolescent program.

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 state certified educational program.

SHP Policy Statement 9 – Medicaid Participation

- a. The applicant attests that the additional PRTF beds will be Medicaid certified.
- b. 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 addition 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 The Crossings presently meets the definition of a PRTF and that the proposed 30-bed expansion will also meet that definition.

SHP Policy Statement 12 – Certified Education Programs

The applicant affirms that the existing amenities of The Crossings will also be available to the expanded facility.

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

The applicant proposed to dedicate 20 of the 30 additional beds for children under the age of 14 years. To ensure programmatic integrity and a therapeutic and social milieu appropriate to the unique needs of children, The Crossings has established the age limits

for its children's program as those individuals between the ages of five to eleven, according to the applicant.

General Criteria and Standards

SHP General CON Criteria and Standards for PRTF 1 – Statistical Need

The *FY 2007 Mississippi State Health Plan (SHP)* indicates a current statewide excess of 76 PRTF beds. The *SHP* states that the Department may approve additional beds for facilities which have maintained an occupancy rate of at least 80 percent for the most recent 12-month licensure reporting period or at least 70 percent for the most recent two years. The applicant has adequately documented an occupancy rate well in excess of 80 percent for the last several years.

However, the Mississippi State Legislature has limited the number of PRTF beds that the Department may approve. No more than 334 PRTF beds may be approved unless otherwise specifically authorized by legislation (Miss. Code Ann. § 41-7-191 et. seq.). The 358 licensed and CON approved beds were the results 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 addition of 30 PRTF beds.

SHP General CON Criteria and Standards for PRTF 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 General CON Criteria and Standards for PRTF 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 local hospitals, a community mental health center, physicians, politicians, Hope Village, Boys and Girls Club of East Mississippi, the public school system, etc.

SHP General CON Criteria and Standards for PRTF 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 Criteria and Standards

SHP Service Specific CON Criteria and Standards for PRTF 1 – Statistical Need

The *SHP* states that by using the formula of 0.4 beds per 1,000 population aged 5 to 21 for the year 2010 to calculate need for PRTF beds, the state is over bedded by 76 PRTF beds.

SHP Service Specific CON Criteria and Standards for PRTF 2 – Age Groups to be Served

The applicant affirms that the age distribution at The Crossings PRTF is currently from 12 to 17 years of age. From the additional 30 beds, 20 beds will be dedicated to a new children's program (ages 5 through 11) and 10 beds will be allocated to the adolescent programs (ages 12 through 17) to ensure adequate availability and gender-specific separation, according to the applicant.

SHP Service Specific CON Criteria and Standards for PRTF 3 – Structural Design of the Facility for Provision of Services to Children less than 14 Years of Age

The applicant failed to adequately address this criterion. However, the applicant did state that the 20 additional beds assigned to the children's program will be accommodated in a physically and programmatically distinct unit. The 25 beds required by this criterion to be set aside exclusively for the treatment of children less than 14 years of age could not be identified.

SHP Service Specific CON Criteria and Standards for PRTF 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 Service Specific CON Criteria and Standards for PRTF 5 – Facility Size

This criterion stipulates that a PRTF should provide services in a home-like environment. Ideally, a facility should provide cottage-like living units not exceeding 15 beds. A PRTF should not be larger than 60 beds. The applicant did not adequately document the present or planned bed configuration. The addition of 30 beds would exceed the ideal capacity of a PRTF. The architectural drawings of the facility did not indicate if the proposed or existing facility contained cottage-like living units as required by this criterion.

SHP Service Specific CON Criteria and Standards for PRTF 6 – Staffing

The applicant proposed to employ 77.6 additional full-time equivalent personnel upon the completion of this proposal. The majority of new employees include nurses, aides, and RTC school personnel. The applicant projects that the additional staff will have a first-year cost of \$1,274,694.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, (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 2 - Long Range Plan

The applicant affirms that the proposed 30-bed expansion conforms to its long-term plan.

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 varying bed distribution among the children and adolescent programs;
- Construct fewer than 30 beds; and
- Construct a free-standing 30-bed facility.

According to the applicant, maintaining the status quo was no longer an option for the facility. The Crossings PRTF has operated at an average of 100 percent occupancy for the last 22 consecutive months. As a result of the lack of available beds, the facility maintains a waiting list and, on average, is forced to deny 120 potential admissions annually. The lack of additional capacity impacts staffing efficiency, increases stress on the physical plant, creates delays or denials of admissions, and increases operational challenges to maintaining appropriate gender and program separation. This alternative was rejected.

The applicant also considered varying the number of program-specific beds within the 30 additional beds. This included constructing only adolescent beds or constructing only children's beds. Neither of these approaches is entirely sensitive to the needs of the community or the at-risk population.

The applicant also considered requesting fewer than 30 beds. However, the applicant rejected this alternative approach because of the existing demand for adolescent services and the expected demands for children's services.

Finally, in consideration of the Department's recommendation that a PRTF should not exceed 60 licensed beds, the applicant considered constructing a separate 30-bed, freestanding facility. The applicant found the Department's facility size criteria to be invalid in that adherence to the 60 bed limitation would require duplication of the support functions of the existing facility and cannot incorporate the economy of scale or staffing efficiencies inherent in the existing facility.

This alternative is not acceptable by the Department. The intent of the bed capacity limitation is to provide a cottage-style living unit not to exceed 15 beds and not a dormitory-type configuration that may be conducive of warehousing of the residents.

GR Criterion 4 - Economic Viability

The three year operating projections reflect a net income of \$257,625 the first year, \$247,400 the second year, and \$293,630 the third year. The first-year 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.

GR Criterion 5 - Need for the Project

According to the applicant, The Crossings PRTF has operated at 100 percent occupancy for the most recent consecutive 22 months. However, the *FY 2007 Mississippi State Health Plan* indicates that the state is over bedded by 76 beds.

GR Criterion 6- Accessibility

The applicant affirms that The Crossings PRTF is accessible to all age appropriate residents of its service area. These include Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, females, and persons with handicaps. The Crossings currently provides services only to children and adolescents from 12-17 years of age. However, due to the high utilization rates, services may not always be available for all residents in need, according to the applicant.

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

This application is not expected to have a significant impact on other providers of psychiatric residential treatment services in the state. The target population accesses the facility through a referral system that includes hospitals, school systems, the judicial system, physicians, and family. Medicaid covers a majority of the patients.

GR Criterion 9 - Availability of Resources

The applicant affirmed that The Crossings is a wholly owned subsidiary of Psychiatric Solutions, Inc. and therefore, has the full access to the resources of the parent corporation.

GR Criterion 14 – Construction Project

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

GR Criterion 16 - Quality of Care

The Crossings is accredited by the Joint Commission on Accreditation of Healthcare Organizations and is licensed by the Department as a psychiatric residential treatment facility.

IV. FINANCIAL FEASIBILITY

A. Expenditure Summary

The total estimated capital expenditure, cost comparison, and time schedule are as follows:

SITE	Projected Cost	Percentage
1. Land Cost	\$	
2. Site Preparation and/or Improvement	675,000	
3. Other (specify)		
SUBTOTAL	\$ 675,000	10.00
BUILDING		
1. New Construction	2,875,000	
2. Renovation	350,000	
3. Capital Improvement	300,000	
4. Fees (architectural, Consultant, etc.)	800,000	
5. Contingency reserve	900,000	
6. Capitalized interest	250,000	
7. Other (specify)		
SUBTOTAL	\$ 5,475,000	81.11
EQUIPMENT		
1. Fixed equipment	\$ 600,000	
2. Non-fixed equipment		
SUBTOTAL	\$ 600,000	8.89
PROJECT DEVELOPMENT		
1. Legal and accounting fees	\$	
2. Other (specify)		
SUBTOTAL	\$	
TOTAL PROJECT COST	\$ 6,750,000	100.00
COST COMPARISON		
Comparison to Means Construction Cost Data Book	Above Median	
DATES		
Obligation of capital expenditure	Within 30 days of approval	
Anticipated date of completion	As soon as possible after approval	
TOTAL SQUARE FOOTAGE		
1. Construction area (square feet)	22,500	
2. Renovation area (square feet)	2,500	
Total Square Feet	25,000	
CONSTRUCTION COST		
1. Construction cost per square foot	\$ 262.44	
2. Renovation cost per square foot	\$ 216.00	

The proposed capital expenditure includes 2,500 square feet of renovation and 22,500 square feet of new construction to house 30 new psychiatric residential treatment facility beds. (See Attachment 2)

B. Method of Financing

The applicant proposed 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 (Completed Project):

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	100	\$ 4,177,994
Medicare	0	0
Other	0	0
Total	100	\$ 4,177,994

V RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application. The Division of Medicaid took no position on the proposed project.

VI. CONCLUSION AND RECOMMENDATION

This project is **not** in substantial compliance with the criteria and standards for the addition of psychiatric residential treatment facility beds as outlined in the *FY 2007 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, (September 8, 2007, as amended); and all adopted rules, procedures and plans of the Mississippi State Department of Health. Specifically, the *FY 2007 State Health Plan* indicates that the state is currently over bedded by 76 PRTF beds; the Mississippi State Legislature has limited the number of beds that the Department can approve to 334; the proposed 30-bed addition would exceed the PRTF bed capacity specified in the *State Health Plan*; and the applicant did not specifically indicate that the facility would provide cottage-like living units not exceeding 15 beds per unit.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of this application submitted by Alliance Crossings, LLC d/b/a Alliance Health Center for the addition of 30 psychiatric residential treatment facility beds.

Attachment 1

Alliance Crossings, LLC d/b/a Alliance Health Center Addition of 30 Psychiatric Residential Treatment Facility Beds				
	Year 1	Year 2	Year 3	
Revenue				
Inpatient Care Revenue	\$ 4,177,994	\$ 4,439,119	\$ 4,700,244	
Outpatient Care Revenue				
Gross Patient Care Revenue	\$ 4,177,994	\$ 4,439,119	\$ 4,700,244	
Charity Care				
Deduction from Revenue	\$ 1,949,100	\$ 2,070,919	\$ 2,192,738	
Net Patient Care Revenue	2,228,894	2,368,200	2,507,506	
Other Operating Revenue				
Total Operating Revenue	\$ 2,228,894	\$ 2,368,200	\$ 2,507,506	
Operating Expenses				
Salaries	\$ 1,168,390	\$ 1,203,442	\$ 1,239,545	
Benefits	106,304	172,841	178,026	
Supplies	249,163	277,972	309,040	
Services	30,528	33,409	36,436	
Lease	1,212	1,224	1,236	
Depreciation	54,990	60,990	66,990	
Interest	300,000	300,000	300,000	
Other	60,682	70,922	82,603	
Total Operating Expense	\$ 1,971,269	\$ 2,120,800	\$ 2,213,876	
Not Operating Income (Loss)	\$ 257,625	\$ 247,400	\$ 293,630	

Assumptions

Bed Type: PRTF	Current Year	Three Years After Project Completion		
		Year 1	Year 2	Year 3
Licensed Beds	60	90	90	90
Setup Beds	60	90	90	90
Admissions	108	167	170	170
Inpatient Days	21,878	30,684	31,232	31,232
Outpatient Days	0	0	0	0
Discharges	108	167	170	170
Discharge Days	14956	30684	31232	31232
Average Length of Stay	146.35	184	184	184
Average Daily Census	59.94	84	86	86
Occupancy Rate/Percent	100	93	95	95
Charge per Inpatient Day	\$ 946	\$ 930	\$ 930	\$ 930
Cost Per Inpatient Day	\$ 357	\$ 368	\$ 380	\$ 391

Attachment 2

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	\$239,935	
Total Non-Fixed Equipment Cost	\$0	\$0	
Capital Improvement	\$300,000		
Land Cost	\$0	\$0	
Site Preparation Cost	\$675,000	\$675,000	
Fees (Architectural, Consultant, etc.)	\$800,000	\$720,000	\$80,000
Contingency Reserve	\$900,000	\$810,000	\$90,000
Capitalized Interest	\$250,000	\$225,000	\$25,000
Total Proposed Capital Expenditure	\$6,750,000	\$5,544,935	\$545,000

Square Footage	25,000	22,500	2,500
Allocation Percent		90.00%	10.00%

Costs Less Land, Non-Fixed Eqt. & Cap. Improvement	\$6,750,000	\$5,544,935	\$545,000
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Cost Per Square Foot	\$270.00	\$246.44	\$218.00
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