

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

**CON REVIEW HG-RLS-0308-008
VICKSBURG HEALTHCARE, LLC D/B/A RIVER REGION MEDICAL CENTER
CHEMICAL DEPENDENCY BED RELOCATION AND SERVICES
CAPITAL EXPENDITURE: \$953,195
LOCATION: VICKSBURG, WARREN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Vicksburg Healthcare, LLC d/b/a River Region Medical Center (RRMC) is a private, for-profit, short term acute care, 372-bed medical/surgical hospital. It is licensed to operate 236 medical/surgical beds, 28 adult chemical dependency beds, 40 adult psychiatric beds, 12 adolescent chemical dependency beds, and 25 rehabilitation beds. The total 372-beds includes a license for 31 ECF, skilled nursing home beds. River Region Medical Center is owned by Vicksburg Healthcare, LLC, a Delaware Limited Liability Company, authorized to do business in the State of Mississippi. The hospital is governed by a 14-member Board of Trustees and accredited by the Joint Commission on the Accreditation of Healthcare Organizations, the Commission on Accreditation of Rehabilitation Facilities, and licensed by the Mississippi State Department of Health (MSDH).

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for RRMC are as follows for the years 2004 through 2006:

**River Region Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2004	57.85	5.32	26.89
2005	58.57	4.96	24.09
2006	57.93	4.55	25.54

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

B. Project Description

Vicksburg Healthcare, LLC d/b/a River Region Medical Center (RRMC) requests Certificate of Need (CON) authority for chemical dependency bed (CDB) relocation and services. The applicant proposes to relocate its chemical dependency unit from its Marian Hill facility located at 100 McAuley Drive to its River Region - West Campus. Currently RRMC offers CDB services through a 28-bed adult chemical dependency and a 12-bed adolescent chemical dependency unit. This relocation would entail renovation of 22,338 square feet on the fourth floor of River Region Medical Center's - West Campus.

The applicant asserts that acute care and behavioral health services of the River Region Health System are currently located and offered at three of its separate campuses – River Region Medical Center, River Region – West Campus and the Marian Hill Chemical Dependency Center. With the closing of the skilled nursing and acute inpatient rehabilitation unit, the applicant is proposing to relocate its chemical dependency beds to this space on the fourth floor in an effort to consolidate the delivery of health care services.

According to the applicant, the equipment involved in the proposed project consists of the following: closed circuit monitoring system, access control system, furniture and equipment for exam room, nursing station, dining rooms, activity rooms, and certain other moveable equipment required to offer chemical dependency services at the RRMC - West Campus location.

The total proposed capital expenditure is \$953,195 and of that amount, approximately 53.24 percent for renovation; 1.88 percent for non-fixed equipment; 3.29 percent for fixed equipment; 7.05 percent for fees (architectural, consultant, etc.); 26.75 percent for other; and 7.79 percent for contingency reserve. The applicant indicates the proposed capital expenditure will be funded from capital funds from its parent company, Community Health Systems, Inc., Tennessee, will cover 100 percent of the project.

The MSDH Division of Health Facilities Licensure and Certification found the project's site acceptable for the intended use.

According to the applicant, the anticipated date to obligate the capital expenditure proposed for this project is April 1, 2008, with a completion date of August 30, 2008.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the relocation of health facilities, or a portion thereof, and the relocation of health services from one physical facility

or site to another physical facility or site in accordance with Section 41-7-191, subparagraphs (1) (b), and (e), Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code 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 June 5, 2008.

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

A. State Health Plan (SHP)

The *FY 2007 State Health Plan* contains criteria and standards for renovation and expansion that an applicant must meet prior to receiving CON approval. The application submitted by River Region Medical Center is in substantial compliance with applicable criteria and standards contained in the *Plan*.

SHP Criterion 1 – Need

River Region Medical Center is a current provider of adult and adolescent chemical dependency bed/services in Vicksburg, Warren County, Mississippi. Currently the hospital is licensed for a total of 40 chemical dependency beds, with 28 adult beds and 12 adolescent beds currently in operation.

River Region Medical Center has determined that the most cost-effective and efficient approach for the delivery of its chemical dependency services is to relocate the chemical dependency beds to the River Region – West Campus. The applicant believes that this will allow for a more efficient operation by consolidating services at fewer campuses and by providing behavioral health services in conjunction with other related services at the same location.

The following table gives River Region Medical Center’s adult and child/adolescent chemical dependency services utilization data for the past three years:

	Adult CDU 28 Beds	Child/Adolescent CDU 12 Beds
Fiscal Year	Occupancy Rate (%)	Occupancy Rate (%)
2004	51.89	47.38
2005	47.03	41.89
2006	57.47	31.46

Source: Applications for Renewal of Hospital License, Division of Health Facilities

Licensure and Certification, MSDH.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

According to the applicant, RRMCC will meet all regulatory/licensure requirements for chemical dependency beds and services (28 adult chemical dependency beds and 12 adolescent chemical dependency beds unit) to be offered at RRMCC- West Campus.

SHP Criterion 3 – Charity/Indigent Care

The applicant asserts that River Region Medical Center will continue to provide a reasonable amount of indigent/charity care to its patients as required by this criterion. See pages 6 and 9.

SHP Criterion 4 – Reasonable Cost

River Region Medical Center submits that the cost of the proposed project's renovation is reasonable in comparison with the cost of similar projects previously approved by the MSDH. The project will cost \$30.45 per square foot for renovation. According to the applicant, the cost of equipment for the proposed project will not exceed by more than 15 percent the median costs for similar projects approved by the MSDH in the recent past.

SHP Criterion 5 – Floor Area Specifics

- a. **Gross Square Footage:** The project includes 22,338 square feet of renovation.
- b. **Architectural Restraints:** According to the applicant, the project compares favorably in comparison to state and national norms for similar projects. The cost of the proposed renovation project will not exceed 85 percent of the cost of a replacement facility.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2008 Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with applicable general review criteria.

GR Criterion 3 – Availability of Alternatives

According to the applicant, it could have chosen to continue to offer chemical dependency services at the Marian Hill location. However, the applicant believes that the space on the fourth floor of the River Region – West Campus is the appropriate size to accommodate the chemical dependency services of RRMCC. The applicant further believes that consolidation of health care services offered by RRMCC in fewer locations is the most efficient and cost-effective method of meeting

the behavioral health needs of the hospital system and the patients it serves.

GR Criterion 4 - Economic Viability

Financial projections indicate that the project is economically viable. River Region Medical Center will realize a first year net profit of \$254,875, a second year profit of \$261,248, and a third year profit of \$267,778S after completion of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant indicates that all residents of RRMC's service area have access to the hospital's facilities and resources. This includes Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly.
- b. **Relocation of Services:** This application proposes to relocate River Region Medical Center's chemical dependency unit from its Marian Hill facility located at 100 McAuley Drive to its River Region - West Campus. Currently RRMC offers CDB services through a 28-bed adult chemical dependency and a 12-bed adolescent chemical dependency unit.
- c. **Current and Projected Utilization of Like Facilities in the Area:** The average occupancy rate of adult chemical dependency facilities in the state was 31.47 percent for 2006. The applicant's occupancy rate of adult chemical dependency services was 57.47 percent for 2006. The average occupancy rate of adolescent chemical dependency facilities in the state was 47.18 percent. River Region Medical Center's occupancy rate of adolescent chemical dependency services was 31.46 percent for 2006.
- d. **Probable Effect on Existing Facilities in the Area:** As previously mentioned, this application proposes to relocate River Region Medical Center's chemical dependency unit from its Marian Hill facility located at 100 McAuley Drive to its River Region west campus. Currently RRMC offers CDB services through a 28-bed adult chemical dependency and a 12-bed adolescent chemical dependency unit. No new services or expansion of existing services are being proposed by the applicant. Therefore, no significant effect is anticipated on existing facilities in the health planning area.
- e. **Community Reaction:** The application contains nine letters of support for the project.

The Department received no letters of opposition concerning the proposed project.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** River Region Medical Center asserts that all residents of its service area have access to the hospital's facilities and resources. This includes Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that River Region Medical Center is under no federal obligations to provide uncompensated care.
- c. **Unmet Needs to be Served by Applicant:** The applicant submits the percentage of gross patient revenue (GPR) and actual dollar amount of health care provided to medically indigent patients for the last three years are as follows for this project:

	GPR Percentage (%)	GPR (Dollar Amount)
FY 2007	6	\$12,722,900
Projected Year 1	6	\$18,165,973
Projected Year 2	6	\$18,620,122

GR Criterion 7 - Information Requirement

The applicant asserts that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The relocation of adult and adolescent chemical dependency beds/services from River Region Medical Center's Marian Hill facility located at 100 McAuley Drive to its River Region - West Campus is not expected to have any adverse effect on any existing health care facility within the service area. There will be no increase in bed complement or new health care service as a result of this project. The applicant asserts that the proposed project will seek to benefit the patient population requiring chemical dependency services by the consolidation of services at River Region – West Campus. The applicant believes that the consolidation and relocation of services will result in a significant cost savings in rent and utility expenses for the operations of the health system.

Because no new services or increase in beds will be offered as a result of this project, staff concludes that this project would have no adverse affect on other providers in the referenced service area.

GR Criterion 9 - Availability of Resources

The applicant does not propose the addition of staff as a direct result of the project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Dean and Dean/Associates Architects.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. **Renovation Project:** This project involves renovation of 22,338 square feet of existing space on the fourth floor of the River Region- West campus facility.
- e. **Cost per Square Foot:** The project will cost \$30.45 per square foot for renovation (see Attachment 2).

The *2008 Means Construction Cost Data* does not compare costs for renovation projects.

GR Criterion 16 - Quality of Care

River Region Medical Center is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. The facility is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost	Percent of Total
a.	Construction Cost -- New	\$-0-	0
b.	Renovation Cost	507,555	53.24
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	31,400	3.29
e.	Total Non-Fixed Equipment Cost	17,984	1.88
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	67,000	7.05
i.	Contingency Reserve	74,256	7.79
j.	Capitalized Interest	0	0
k.	Other	255,000	26.75
	Total Proposed Capital Expenditure	\$953,195	100.00

The above capital expenditure is proposed to renovate 22,338 square feet of existing space on the fourth floor of the River Region- West campus facility to provide space for the chemical dependency bed/services relocation. The cost per square foot is \$30.45 for the renovation (see Attachment 2).

B. Method of Financing

The applicant indicates that the proposed capital expenditure will be funded from capital funds from its parent company, Community Health Systems, Inc., Tennessee, will cover 100 percent of the project from accumulated cash reserves.

The applicant provided financial statements documenting the ability to fund the project.

C. Effect on Operating Cost

River Region Medical Center's three-year projected operating statement is presented at Attachment 1.

D. Cost to Medicaid/Medicare

Based on the applicant's projections, the cost to third party payors the first year of operation is as follows:

Patient Mix	Utilization Percentage	First Year Revenue
Medicaid	22	\$3,662,285
Medicare	49	8,156,907
Other	29	<u>4,827,557</u>
Total	<u>100</u>	<u>\$16,646,749</u>

The applicant projects 6 percent care to medically indigent patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid states that effective October 1, 2005, it changed the methodology by which the Division reimburses inpatient hospital services so that cost incurred subsequent to that date no longer affects per diem rates; and that any portion of the cost which may relate to outpatient service will be paid as outlined in the *Medicaid State Plan*. The Division takes no position on the proposed project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for renovation and expansion as contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised 2008*; and duly adopted rules, procedures and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Vicksburg Healthcare, LLC d/b/a River Region Medical Center for chemical dependency bed relocation and services.

Attachment 1

River Region Medical Center Three-Year Operating Statement (Project Only)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 16,876,368	\$ 17,298,277	\$ 17,730,734
Outpatient	0	0	0
Gross Patient Revenue	\$ 16,876,368	\$ 17,298,277	\$ 17,730,734
Charity Care	(195,888)	(200,785)	(205,805)
Deductions from Revenue	<u>(11,839,941)</u>	<u>(12,135,940)</u>	<u>(12,439,338)</u>
Net Patient Revenue	<u>\$4,840,538</u>	<u>\$4,961,552</u>	<u>\$ 5,085,591</u>
Expenses			
Operating Expenses:			
Salaries and Benefits	\$ 1,467,272	\$1,503,954	\$ 1,541,553
Supplies	54,223	55,578	56,968
Professional Fees	0	0	0
Contract Services	116,598	119,513	122,501
Other	<u>2,947,570</u>	<u>3,021,259</u>	<u>3,096,791</u>
Total Expenses	<u>\$ 4,585,663</u>	<u>\$ 4,700,304</u>	<u>\$ 4,817,813</u>
Net Income (Loss)	<u>\$ 254,875</u>	<u>\$ 261,248</u>	<u>\$ 267,778</u>
Assumptions			
Inpatient days	7,785	7,979	8,179
Outpatient days	0	0	0
Procedures	0	0	0
Charge per outpatient day	0	0	0
Charge per inpatient day	\$2,168	\$2,168	\$2,168
Charge per procedure	0	0	0
Cost per inpatient day	\$589	\$589	\$589
Cost per outpatient day	0	0	0
Cost per procedure	0	0	0

Attachment 2			
Computation of Renovation Cost			
Cost Component	Total	New Construction	Renovation
New Construction Cost	\$0	\$0	
Renovation Cost	\$507,555		\$507,555
Total Fixed Equipment Cost	\$31,400	\$0	\$31,400
Total Non-Fixed Equipment Cost	\$17,984	\$0	\$0
Land Cost	\$0	\$0	\$0
Site Preparation Cost	\$0	\$0	\$0
Fees (Architectural, Consultant, etc.)	\$67,000	\$0	\$67,000
Contingency Reserve	\$74,256	\$0	\$74,256
Capitalized Interest	\$0	\$0	\$0
Other	\$255,000	\$0	\$0
Total Proposed Capital Expenditure	\$953,195	\$0	\$680,211

Square Footage	22,338	22,338
<i>Allocation Percent</i>		0.00% 100.00%

Costs Less Land, Non-Fixed Eqt. & Other	\$680,211	\$0	\$680,211
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Cost Per Square Foot	\$30.45
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*Source: FY 2007 State Health Plan

