

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
JUNE 2016**

**CON REVIEW HG-RB-0416-009
JACKSON HMA, LLC, D/B/A MERIT HEALTH CENTRAL
EXPANSION OF PSYCHIATRIC BEDS
CAPITAL EXPENDITURE: \$1,762,500
LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

Jackson HMA, LLC is a for-profit Mississippi Limited Liability Company that was formed on September 25, 2008 and is owned by Mississippi HMA Holdings, II, LLC, an affiliate of Health Management Associates, Inc. ("HMA") Naples, Florida. The registered office of said Limited Liability Company is located at Mirror Lake Plaza, 2829 Lakeland Drive, Suite 1502, Flowood, Mississippi.

Merit Health Central ("Central") is a short term acute care hospital located in Jackson, Mississippi. The hospital, owned by Hinds County, Mississippi, is operated by Jackson HMA, LLC through a long-term lease agreement with the County. The bed complement of Central consists of 415 medical surgical beds (which include 15 Burn Center Beds) and 47 adult psychiatric beds. The facility is accredited by the Joint Commission and is certified for participation in the Medicaid and Medicare programs. Central is governed by three managers and three officers.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the three most recent fiscal years for Central Mississippi Medical Center (psychiatric beds only) are shown below:

**Merit Health Central
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid* Utilization Rate (%)
2013	51.41	4.73	NA
2014	64.75	4.34	NA
2015*	NA	NA	NA

***NA denotes Not Available**

Source: Division of Health Facilities Licensure and Certification

B. PROJECT DESCRIPTION

Jackson HMA, LLC, d/b/a Merit Health Central (“Central” or “Hospital”), requests Certificate of Need (CON) authority to expand its psychiatric beds. The applicant submits that Central currently operates a Behavioral Health Unit consisting of 47 adult psychiatric beds (“Unit”) on the sixth floor of the Hospital. The applicant proposes, due to the Hospital’s increased psychiatric patient demand, to increase its existing psychiatric bed capacity of 47 by 24 beds, resulting in a total of 71 adult acute psychiatric beds at the Hospital. To accommodate the expansion, the Hospital proposes to renovation 12,000 square feet of vacant space on the fifth floor, in order to not disturb the current patient population. Upon completion of the fifth floor renovations, the 24 additional psychiatric beds will house male patients. The sixth floor will be rearranged with the 30 bed unit on the sixth floor which currently house males, will house females. The remaining 17 beds on the sixth floor unit will be divided by the corridor, including the nurse’s station, for ten (10) females on the north portion with the lower hall used for seven (7) males.

The applicant states that with this configuration, all males and females will have access to at least two day rooms as well as ADA and seclusion rooms. This configuration also allows the Hospital to maintain separation of males and females, with no unit being larger than 30 beds. The applicant states that if approved, the project will more efficiently serve a growing demand for psychiatric services at Central and will improve access to psychiatric services, which will translate into better patient outcomes and help treat those with psychological disorders in a more appropriate setting.

Central projects that the project will require 11 additional FTE personnel at an annual cost of \$847,968 the first year. Additional personnel include five (5) Registered Nurses, one (1) each of Social Service and Administrative personnel, and four (4) Behavioral Health Techs.

The application contains a letter from MSDH Division of Health Facilities Licensure and Certification approving the site and a cost estimate from an architect authorized to do business in the State of Mississippi. The total proposed project cost is \$1,762,500, funded from cash reserves of the Hospital. A complete breakdown of capital expenditure is presented in the Capital Expenditure section of this staff analysis. The applicant expects to obligate the capital expenditure within six months of final CON approval and anticipates that the project will be complete within one year from final CON approval.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the expansion of psychiatric beds under the applicable statutory requirements of Section 41-7-191, subparagraph (1)(c) and (d)(iv) of the Mississippi Code of

1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

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 July 11, 2016.

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

A. State Health Plan (SHP)

The *FY 2015 Mississippi State Health Plan (MSHP)* contains policy statements (PS), general (G) and service specific (SS) criteria and standards for the expansion of psychiatric beds as proposed by this application. The applicant is in substantial compliance with applicable policy statements and criteria and standards as discussed below.

SHP-PS 1 - Indigent/Charity Care: The applicant is a current provider of adult psychiatric services and states it will continue to provide a reasonable amount of charity care.

SHP-PS 2 - Mental Health Planning Areas: The applicant acknowledges that the state as a whole is used as a planning area for acute psychiatric beds/services. The applicant proposes to demonstrate need for the project under Need Criterion 1(c).

SHP-PS 4 - Comments from Department of Mental Health: Central states it currently has and will maintain a cooperative relationship with the Mississippi Department of Mental Health.

SHP-PS 6 - Separation of Males and Females: The applicant states that the Hospital currently separates males and females and will continue to do so.

SHP-PS 7 – Patients with Co-Occurring Disorders: The applicant states that the Hospital does not currently treat patients under this “swing bed” allowance and has no plans to do so; however, should it determine the need in the future it will comply with the Department’s regulations for licensure and certification before providing such services in the adult acute psychiatric beds.

SHP-PS 8 – Comprehensive Program of Treatment: Central states that the Hospital currently provides a comprehensive program of treatment and will continue to do so with the approval of the additional beds.

SHP-PS 9 – Medicaid Participation: Central is currently certified to accept Medicaid patients and receive reimbursement from Medicaid and states that the Hospital will maintain such certification. The applicant

further affirmed that it will provide MSDH with information regarding services to Medicaid patients when requested.

SHP-PS 10 – Licensing and Certification: The Hospital is currently licensed by the Mississippi State Department of Health and states that its psychiatric services meet and will continue to meet all of the applicable licensing and certification regulations of the Division of Health Facilities Licensure and Certification.

SHP General Certificate of Need Criteria and Standards for Acute Psychiatric Beds/Services

G Criterion 1c – Need

With projects involving the addition of beds, the applicant shall document the need for the proposed project by demonstrating that the facility has 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 (2) years. The applicant submitted documentation, which indicates that for the 24-month period beginning April 2014 and ending March 2016, Central maintained an occupancy level of its Adult Psychiatric Department of 70%. In addition, the applicant submits that through Tuesday April 19, 2016, the Unit's average census for the month of April was 45 and should this census remain through the month of April, the applicant projects an average occupancy rate of 71% for the most recent 24 month period prior to submission of the application.

Central submits that given the high volume of utilization experienced at the Hospital and the separation requirements for the male and female patient populations, the Hospital is often unable to admit patients in need of acute psychiatric services. When Central is unable to admit a patient in need of acute psychiatric services, that patient has to be transferred to another facility – if there is an available bed, held in the emergency department or placed in an observation bed until an appropriate bed opens. Therefore, the applicant states the addition of 24 beds will help to increase the delivery of care and ease the overcrowding experienced in the Unit.

In addition, the applicant states that Central traditionally serves a high level of underserved patients and therefore, the approval of this application will benefit the community by increasing access to care for this patient population.

G Criterion 2 Charity Care/Medically Indigent

Central affirmed that it will record and maintain, at a minimum, information regarding charity care and care to the medically indigent as required by this criterion and make such information available to the Mississippi State Department of Health within 15 business days of the request.

G Criterion 3 Memoranda of Understanding

The application contains a signed Memorandum of Understanding between Central Mississippi Medical Center (n/k/a Merit Health Central) and Region IX Mental Health Center.

G Criterion 4 Letters of Comment

The application contains an excess of 15 letters of comment from the Community Mental Health Centers, physicians, political leaders, and other interested groups that may be affected by the adult psychiatric services provided by the applicant.

SHP Service Specific Criteria and Standards

SS Criterion 1 Need

The applicant demonstrated the need for the addition of beds under General Criterion 1c above. According to the applicant Central's utilization of 47 psychiatric beds has been 70% for the past 24-month period (see Attachment 3).

SS Criterion 2 Size of Facility/Unit

Upon completion of the fifth floor renovations, the 24 additional psychiatric beds will house male patients. The sixth floor will be rearranged with the 30 bed unit on the sixth floor which currently house males, will house females. The remaining 17 beds on the sixth floor unit will be divided by the corridor, including the nurse's station, for ten (10) females on the north portion with the lower hall used for seven (7) males. The applicant states that with this configuration, all males and females will have access to at least two day rooms as well as ADA and seclusion rooms. This configuration also allows the Hospital to maintain separation of males and females, with no unit being larger than 30 beds.

SS Criterion 3 Staffing

Central submits that the staff at the Hospital has experience and training for the provision of psychiatric services and includes psychiatrists that treat patients on the unit. In addition, the Hospital has psychiatrists and psychologists on active medical staff available to treat patients in the unit.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 Revision*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 - State Health Plan (SHP)

The project is in substantial compliance with the criteria and standards for the addition of adult psychiatric beds/services as contained in the *FY 2015 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant submits that Central has been a long-time provider of quality adult acute psychiatric services and it is the goal of the Hospital to continue providing these services to the community.

GR Criterion 3- Availability of Alternatives

The applicant states that Central considered the alternative of continuing to provide services in the limited number of beds available; however, in light of the high utilization and separation requirements for males and females, maintaining the units in the current size would not help the Hospital reach its long term goals. In addition, the Hospital reviewed various alternatives for renovation of existing space in order to best utilize already constructed space and comply with the *Plan's* cost containment goal. The applicant stated that Central ultimately decided that the most efficient and reasonable location for the expanded Unit within the Hospital is the fifth floor or the east patient wing.

GR Criterion 4 - Economic Viability

Attachment 1 of this document displays the total operating revenue and expenses over a projected three year period.

Central submits that the proposed charges and profitability of the proposed beds are the same as the current beds operated by the Hospital and the projected levels of utilization are consistent with utilization experienced by the Hospital.

The Hospital believes that it will be able to cover its expenses; however, in the event that it will be unable to cover expenses, the Hospital states that its parent corporation has the financial ability to support this project.

GR Criterion 5 - Need for the Project

Central submits that the need for increased access to care at the Hospital is evident by the high occupancy rates and diversion hours, a trend the Hospital anticipates will continue. Patients are either being transferred to another provider, treated in the Emergency Department, held or observation or leaving the Hospital against medical advice. As a result of this expansion of beds, there should be an improvement in accessibility.

Because of the Hospital's actual utilization and demand, Central states the proposed project should not have a negative impact on other facilities.

The application contained an excess of 15 letters of comment for the project.

GR Criterion 6- Accessibility

The applicant certifies that the Hospital currently provides services to traditionally underserved populations and will continue to do so. The applicant projects that it will provide \$79,652 (1%) charity care in Year 1 of the project and \$86,777 (1%) charity care in Year 2.

GR Criterion 7- Information Requirement

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

GR Criterion 8 - Relationship to Existing Health Care System

The applicant submits that given that the State as a whole serves as the planning district for mental health services, there are other hospital-based providers of adult acute psychiatric services; however, as demonstrated by the high utilization number (and diversion time) for Central, the increased access will help the Hospital better serve its patient population by decreasing the need to transfer or divert patients seeking mental health services.

GR Criterion 9 - Availability of Resources

The applicant states that the Hospital currently has the personnel and physicians necessary to provide services to its 47 psychiatric beds. The Hospital proposes to recruit additional staff members through traditional advertising methods.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant submits that the Hospital currently provides adult acute psychiatric service and has all necessary support and ancillary services for that service and will continue to do so.

GR Criterion 16 - Quality of Care

Merit Health Central is licensed by the Mississippi State Department of Health and accredited by the Joint Commission.

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.	Construction Cost -- Renovation	1,300,000	73.75
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	200,000	11.34
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	72,500	4.11
i.	Contingency Reserve	190,000	10.78
j.	Legal and accounting fees	0	0
k.	Other	<u>0</u>	<u>0</u>
	Total Proposed Capital Expenditure	<u>\$1,762,500</u>	<u>100.00</u>

***Note: 99.98% -Total does not compute due to rounding.**

The above capital expenditure represents the cost to renovate 12,000 square feet of space within the Hospital for the addition of 24 adult acute psychiatric beds at a cost of \$130.21 per square foot. The *Means Construction Cost Data* does not compare cost for renovation projects. However the project is within the cost range for other renovation projects approved by the Department.

B. Method of Financing

Central will use cash reserves to fund the project. The audited financial statements contained in the application indicate sufficient funds are available for the project.

C. Effects on Operating Costs

The applicant's projections of gross revenues for the first, second, and third year of operation, expenses, and net income are shown in Attachment 1.

D. Cost to Medicaid/Medicare

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

Jackson HMA, LLC d/b/a Merit Health Central		
Payor	Utilization Percentage	First Year Revenue
Medicaid	36%	\$ 5,508,199
Medicare	27%	\$ 4,187,134
Self Pay	25%	\$ 3,902,935
Commercial	81%	\$ 1,227,571
Charity Care	1%	\$ 79,652
Other	3%	<u>\$ 512,110</u>
Total	100.00%	<u>\$ 15,417,600</u>

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. Effective September 1, 2012, the Division of Medicaid changed the methodology by which outpatient services are reimbursed so that the cost incurred subsequent to that date will no longer affect outpatient payments. Also, effective October 1, 2012, the Division changed the methodology by which it reimburses inpatient services so that the cost incurred subsequent to that date will only affect cost outlier payments.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the expansion of adult acute psychiatric beds/services contained in the *FY 2015 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 Revision*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Jackson HMA, LLC, d/b/a Merit Health Central for the expansion of adult acute psychiatric beds.

Attachment 1

**Jackson HMA, LLC, d/b/a Merit Health Central
 Expansion of Acute Adult Psychiatric Beds
 Three-Year Projected Operating Statement (Project Only)**

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care	\$15,417,600	\$16,959,360	\$18,655,297
Outpatient Care			
Gross Patient Care Rev.	\$15,417,600	\$16,959,360	\$18,655,297
Charity Care	79,652	86,777	96,379
Deductions for Revenue	<u>13,025,308</u>	<u>14,328,679</u>	<u>15,760,623</u>
Net Patient Care Revenue	<u>\$ 2,312,640</u>	<u>\$ 2,543,904</u>	<u>\$ 2,798,294</u>
Total Operating Revenue	<u>\$2,312,640</u>	<u>\$ 2,543,904</u>	<u>\$ 2,798,294</u>
Operating Expenses			
Salaries	\$ 847,968	\$ 932,765	\$ 1,026,041
Benefits	186,553	205,208	225,729
Supplies	92,506	101,756	111,932
Services	18,900	19,845	20,837
Lease			
Depreciation	285,714	285,714	285,714
Interest			
Other	<u>210,420</u>	<u>226,197</u>	<u>228,951</u>
Total Operating Expenses	<u>\$ 1,642,061</u>	<u>\$ 1,771,485</u>	<u>\$ 1,899,204</u>
Net Operating Income (Loss)	<u>\$ 670,579</u>	<u>\$ 772,419</u>	<u>\$ 889,090</u>
Inpatient Days	4,818	5,300	5,830
Outpatient Days	0	0	0
Procedures	0	0	0
Charge per outpatient day	0	0	0
Charge per inpatient day	\$ 3,200	\$ 3,200	\$ 3,200
Charge per procedure	0	0	0
Cost per inpatient day	\$ 341	\$ 334	\$ 326
Cost per outpatient day	0	0	0
Cost per procedure	0	0	0

Attachment 2

Jackson HMA, LLC d/b/a Merit Health Central
 Expansion of Acute Adult Psychiatric Beds
 Computation of Construction and Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$0	\$0	
Renovation Cost	\$1,300,000		\$1,300,000
Total Fixed Equipment Cost	\$0	\$0	\$0
Total Non-Fixed Equipment Cost	\$200,000		
Land Cost	\$0	\$0	
Site Preparation Cost	\$0	\$0	
<i>Fees (Architectural, Consultant, etc.)</i>	\$72,500	\$0	\$72,500
<i>Contingency Reserve</i>	\$190,000	\$0	\$190,000
<i>Capitalized Interest</i>	\$0	\$0	\$0
<i>Other</i>	\$0	\$0	
Total Proposed Capital Expenditure	\$1,762,500	\$0	\$1,562,500
Square Footage	12,000	0	12,000
<i>Allocation Percent</i>		0.00%	100.00%
Costs Less Land, Non-Fixed Eqt., Other	\$1,562,500	\$0	\$1,562,500
Cost Per Square Foot	\$130.21	#DIV/0!	\$130.21

Attachment 3

**Merit Health Central Monthly Utilization for 24 Months (April 2014 – March 2016)
Adult Psychiatric Department**

Year	January	February	March	April	May	June	July	August	September	October	November	December
2016	44	41	40									
2015	27	25	32	24	25	14	19	39	40	43	43	43
2014				30	35	30	35	36	36	28	31	30

47 Beds ADC = 790 $790/24 = 32.92$

$32.92/47 = 70\%$ Occupancy Rate for Most Recent 24 Month period.