

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
FEBRUARY 2008**

**CON REVIEW HP-CB-1107-029
DIAMOND GROVE CENTER, LLC
d/b/a DIAMOND GROVE CENTER, LOUISVILLE
ADDITION/EXPANSION OF 20 CHILD AND ADOLESCENT
ACUTE PSYCHIATRIC BEDS/SERVICE
CAPITAL EXPENDITURE: \$4,500,000
LOCATION: LOUISVILLE, WINSTON COUNTY MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

Diamond Grove Center, LLC, d/b/a Diamond Grove Center (DGC) is a freestanding, 50-bed acute psychiatric hospital and psychiatric residential treatment facility (PRTF) that is a wholly owned subsidiary of Psychiatric Solutions, Incorporated (PSI). The facility is located in Louisville, Winston County, Mississippi, and is a Delaware Limited Liability Company (LLC) governed by five officers and one member, Psychiatric Solutions Hospitals, LLC. The facility is licensed by the Mississippi State Department of Health, certified to participate in the Medicaid program, and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). On November 21, 2007, DGC received a Certificate from the Secretary of State's Office indicating the facility is in good standing with the State of Mississippi.

The licensed bed complement of DGC's facility consists of 20 child/adolescent psychiatric beds and 30 psychiatric residential treatment beds. Regarding the 20-bed child/adolescent psychiatric unit, the rates for the most recent three years are as follows:

Fiscal Year	Occupancy Rate (%)	ALOS (DAYS)	Medicaid Utilization Rate
2004	68.22	11.19	96.46
2005	59.74	10.52	93.02
2006	69.85	11.31	75.97

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

B. PROJECT DESCRIPTION

The Diamond Grove Center requests CON authority to expand its child/adolescent acute psychiatric services/unit (C/AAPSU) by adding 20 additional child/adolescent psychiatric beds to its existing 20-bed complement.

The applicant indicates that the 50-bed facility is located in Louisville, Winston County, Mississippi, 90 miles north east of Jackson, Mississippi. It is situated on 20 acres of land in a private, secure, and rural setting and offers a range of psychiatric treatment programs to children and adolescents between the ages of 5 and 17 years old. The inpatient residential treatment programs are designed to help children and adolescents overcome emotional, behavioral, and mental health conditions so they can handle life issues in an effective, positive manner. The Diamond Grove Center utilizes a staff of healthcare and mental health professionals to implement therapy guidelines set forth by federal and state agencies. In addition, DGC has an accredited school on campus, a gymnasium, and roomy play areas.

The Diamond Grove Center states that new construction and renovations will be required to add 20 child/adolescent acute psychiatric beds to its existing 20-bed unit. Briefly, the existing campus is comprised of the following buildings and units: an academic/recreational unit, acute care unit, an administration/dining unit, a residential unit, and a maintenance, mechanical & equipment building. The applicant proposes to construct a new, 15,000 square foot, single story, freestanding child/adolescent acute psychiatric building next to the academic /recreational unit to house the additional 20 child/adolescent beds. Also, pending before the department is an application for a CON to construct a 30 psychiatric residential treatment facility next to the administration/dining unit. Therefore, both units will be within close proximity of the existing 50-bed facility and will be located across from each other.

To accommodate and support the demands of the additional 20-bed unit/services, the applicant also proposes to renovate 6,000 square feet of space. The area will be located between the administration/dining unit and academic/recreational unit. Seventy-five percent of the area will be designated for classroom space and the existing dining space will be enlarged by 25%.

Also, the proposed project will entail installing/connecting new and existing drainage and ground work, electrical services, and HVAC (heating, ventilating, and air conditioning) systems for patient rooms and public areas. The applicant states the existing fence will remain as is along with the on-campus parking lot; however, additional landscaping will be completed. A smaller courtyard will be constructed in front of the proposed unit (in the middle of the proposed 20 and 30 bed units) to allow staff and patients easy entry into each building.

The applicant includes a capital expenditure summary, a three-year projected operating statement, a financial feasibility study, and PSI's 2006 Annual Report. The applicant states that DGC currently has 121 full-time equivalents (FTEs) and will employ 56.6 additional FTEs to operate the child/adolescent acute psychiatric unit/program at an estimated cost of \$903,239.

The Diamond Grove Center estimates the proposed project will cost a total of \$4,500,000 and will entail constructing approximately 15,000 square feet of space and renovating 6,000 square feet of space at a cost of \$221.71 and \$162.38 per square foot, respectively. The applicant estimates that the total cost for fixed equipment will be \$320,000; however, DGC does not have any costs associated with non-fixed equipment (See Attachment 2).

The applicant indicates that DGC will enter into transfer/referral/affiliation agreements with two hospitals located in Louisville and Jackson, Mississippi: Winston Medical Center and the University of Mississippi Medical Center.

The applicant received site approval for the proposed facility from the Mississippi State Department of Health, Division of Health Facilities Licensure and Certification. To fund the project, DGC will use an equity contribution of \$1,800,000 and related company financing of \$2,700,000, totaling \$4,500,000. The Diamond Grove Center affirms that the capital expenditure for the proposed project will be obligated within 30 days of CON approval and the estimated project completion date will be 18 months.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for establishment of child/adolescent acute psychiatric services in accordance with Section 41-7-191, subparagraphs (1)(c) and (4) (a)(i) Mississippi Code 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 March 6, 2008.

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

A. State Health Plan (SHP)

The *FY 2007 Mississippi State Health Plan* contains policy statements and both general and service specific criteria and standards which the applicant is required to meet before receiving CON authority for the expansion of a child/adolescent psychiatric services unit and addition of beds. This application is in substantial compliance with applicable criteria and standards.

SHP-Policy Statements

SHP-Policy Statements 1-16

The *FY 2007 Mississippi State Health Plan* contains policy statements which the applicant is required to meet. Diamond Grove Center has addressed all applicable statements that apply to the expansion of the child/adolescent psychiatric services unit and the addition of beds.

General Criteria And Standards

SHP Criterion 1- Need

The *FY 2007 State Health Plan* indicates that the state as a whole needs 249 child/adolescent acute psychiatric beds. The Plan further indicates that there are currently 268 licensed child/adolescent psychiatric beds. However, the *State Health Plan* states that notwithstanding the service specific statewide statistical bed need requirement, the Department may only 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 (2) years.

The Diamond Grove Center retrieved their utilization rates for period ending September 30, 2007 and determined that DGC received referrals from 41 Mississippi counties. For FY 2007, the applicant states that DGC had an occupancy rate of more than 80% for 291 days of 364 and experienced an average annual occupancy rate of 98.6% the same period.

According to updated data reported by the Mississippi State Department of Health, Licensure and Certification, DGC's utilization rates for FY 2007 were as follows: 19.72, ADC; 18.36, ALOS; and 98.58% occupancy rate.

On the other hand, the *Hospital Reports for FY 2006 through FY 2004*, indicate that Diamond Grove Center reported occupancy rates of 69.85, 59.74, and 68.22, percent for FY 2006, 2005, 2004, respectively.

Based on the facility's occupancy rate of 98.58% for the past 12 month licensure reporting period, the applicant meets the need criterion for the addition of beds. However, Section 41-7-191- (4)(a)(i) prohibits the addition of child/adolescent psychiatric beds, except that the facility agrees in writing that it will not participate in the Medicaid program. The applicant provided a written agreement stating that DGC's proposed project will not participate in the Medicaid program.

Using 2010 population projections and the applicant's calculations, DGC asserts that the applicant serves 24 counties in North and Central Mississippi and in Mental Health Region (MHR) 7. North Mississippi, Central Mississippi, and MHR 7, will consist of 41,158; and 77,741; and 26,858 adolescents from ages 7 through 17 years of age, respectively. Based on the .55 per thousand ratio listed in the Plan, the applicant believes there will be a child/adolescent acute psychiatric bed need for the following 2010 adolescent populations that DGC currently serves: 23 beds for 41,158, 43 beds for 77,741, and 15 beds for 26,858. Since DGC's FY 2007 occupancy rates were at an all time high, DGC believes the current 20-bed count will not accommodate potential children/adolescents to gain access to DGC's mental health care/services in the near future.

SHP Criterion 2 -Information Recording/Maintenance

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

SHP Criterion 3 – Memoranda of Understanding

The applicant provided a signed memoranda of understanding from Community Counseling Services indicating that DGC will refer and admit charity and medically indigent patients within their patient service area. The center is located in Starkville, Mississippi, and is listed as a Mississippi Department of Mental Health Comprehensive Community Mental Health/Mental Retardation Center in Region 7.

SHP Criterion 4 - Letters of Support

The applicant provided six letters of support from various members of the healthcare profession and the community stating that the center is in support of DGC adding 20 additional child/adolescent psychiatric beds to its existing 20-bed complement.

SHP Criterion 5 - Scope of Services

Within Diamond Grove Center's scope of available services, the applicant affirms that neither the facility nor its participating staff will have policies that will exclude patients based on race, color, age, sex, ethnicity, or ability to pay.

Service Specific (SS) Criteria and Standards

SHP SS Criterion 1- Statistical Need

The Department bases the statistical need for child/adolescent acute psychiatric beds on a ratio of 0.55 beds per 1,000 population aged 7 to 17 for 2010 in the state as a whole. Table 9-5 of the *Plan* states there is a statewide child/adolescent acute psychiatric bed need of 249 for a 2010 projected population of 452,740 and there are 268 licensed/CON approved beds; thus indicating a difference and excess of 19 child/adolescent acute psychiatric beds.

SHP SS Criterion 2- Size of Facility/Unit

The applicant states the facility is a freestanding, separately licensed, acute psychiatric hospital with 20 existing child/adolescent acute psychiatric beds in the unit. The facility is located on the campus of the Diamond Grove Center and the applicant is requesting to add 20 additional beds to the existing unit.

If CON approved, the bed allocation will be as follows: 10 beds will be designated to the children's unit, ages 5 to 11, and 10 beds will be assigned to the adolescent unit, ages 12 to 17. The applicant described the center as a home-like environment that will continue to maintain age-specific and gender specific accommodations for the child and adolescent population.

SHP SS Criterion 3- Staffing

The applicant affirms that DGC will have a specialized trained staff to address the needs of children and adolescents. The staff will consist of psychiatrists, psychologists, and other healthcare professionals who will provide a multi-disciplinary, comprehensive mental health program to treat the targeted age group. The applicant states that DGC will involve parents and significant others in the treatment program and will provide an after care service program.

SHP SS Criterion 4- Structural Design

The applicant affirms that the structural design of the child/adolescent acute psychiatric bed units and the building will separate the child acute psychiatric patients from the adolescent patients for treatment and living purposes.

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 in substantial compliance with general review criteria.

GR Criterion 2 - Long Range Plan

The long range development plan of the Diamond Grove Center is to provide access to psychiatric/medical services for Winston County residents. The applicant asserts that the project is compatible with DGC's long range goals.

GR Criterion 3- Availability of Alternatives

The applicant states that DGC considered the following alternatives before deciding to request 20 additional child/adolescent acute psychiatric beds: (1) keeping the existing bed complement at 20 and do nothing at all; (2) adding 20 beds; however, splitting the beds unequally between the children and adolescent units; and (3) requesting less than 20 beds.

Regarding the first alternative, the applicant states that DGC's occupancy rates for October 1, 2006, through September 30, 2007, were at 100% 291 days of 364; however, the census dropped below 80% only one day out of 291 days. The applicant asserts that high occupancy rates affected expedited admissions, potential admissions, staff effectiveness, and the daily operation/maintenance of the facility. As a result of the high census rates, the annual occupancy rate for FY 2007 increased to 98.6%.

Secondly, the applicant was inclined to distribute more beds to one psychiatric program than the other; however, DGC discovered that there was a demand for more child psychiatric beds than adolescent beds.

Since both target groups need mental health care/service, DGC did not want to jeopardize the entire child/adolescent treatment program by reducing or eliminating beds in the children's unit.

Lastly, DGC contemplated requesting less than 20 beds but after review of their admission records and utilization rates, the applicant determined that this alternative would not counterbalance the quantity of patients seeking to be admitted to obtain mental health services. Thus, their admission denial rate would continue to increase while the admissions department would be left to refer patients to other facilities.

All three alternatives above were rejected and the applicant asserts that the only alternative was to add 20 child/adolescent acute psychiatric beds to DGC's existing 20-bed unit.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement and indicated that total operating revenue over a projected three year period shows an increase from \$1,791,686 to \$2,312,083. In addition, the statement shows a net income loss of \$35,018 for the first year of operation; however, net profits of \$42,102, and \$122,098, the second and third year, respectively (See Attachment 1). Although the operating statement indicates a net income loss the first year of operation, DGC's Chief Financial Officer asserts that DGC will be able to sustain the proposed project based on DGC's solid financial base with PSI. Based on DGC's financial feasibility study, the project appears to be economically viable.

To determine how the proposed project will impact the projected three years, DGC analyzed the projected gross revenues, and the costs and charges of the proposed expansion/service. The applicant determined that each category listed above will increase by the amounts shown in the following table:

	<i>1st Year</i>	<i>2nd Year</i>	<i>3rd Year</i>
Projected Gross Revenues	\$3.1 Million	\$3.4 Million	\$3.7 Million
Cost/Day	\$381	\$392	\$404
Charge/Day	\$687	\$690	\$694

Based on the applicant's review, DGC states that the facility will not seek Medicaid certification for the additional 20-bed child/adolescent psychiatric beds and asserts the proposed project will not have an impact on the Medicaid program.

Since DGC has a 20 bed child/adolescent unit, the applicant affirms the proposed costs and charges associated with the project are comparable to their current operations; however, DGC states that they do not have access to charges established by other facilities for similar services in the state.

The *Report on Hospitals* indicate that DGC's ADC rates FY 2006, 2005, and 2004 were 11.95, 13.97, and 13.64, respectively, and the occupancy rates were 69.85%; 59.74%; and 68.22%, respectively. For the same period, the average occupancy rates for adolescent, psychiatric beds in the state were 92.94%, 88.18%, and 75.84%. Thus, the applicant asserts the levels of utilization will be consistent with those experienced by similar facilities in GHSA 1.

Since the capital expenditure for this project is \$4,500,000 and does exceed \$2,000,000, the applicant provided a feasibility study indicating the proposed project will be financially viable.

GR Criterion 5 - Need for the Project

The applicant indicates that Diamond Grove Center's Primary Service Area (PSA) consists of the following eight counties: Alcorn, Choctaw, Lowndes, Monroe, Montgomery, Oktibbeha, Washington, and Winston. The following counties fall under DGC's Secondary Service Area (SSA): Chickasaw, Clay, Hinds, Lauderdale, Lee, Neshoba, Prentiss, Tishomingo, and Webster. Since the Diamond Grove Center is located in Winston County, it is among the following counties in Mental Health Region 7: Choctaw, Clay, Lowndes, Webster, Winston, Noxubee, and Oktibbeha.

Based on the above listing, some counties are shown twice but in a different service area and/or region. The applicant asserts that about 52.4% of DGC's patients originate from the PSA and the remaining 47.6% come from the SSA and MHR 7.

Using 2010 population projections and the applicant's calculations, DGC anticipates that PSA, SSA, and MHR 7 will consist of 41,158, 77,741, and 26,858 adolescents from ages 7 through 17 years of age, respectively. Based on DGC's annual occupancy rate of 98.6% for FY 2007, DGC predicts that their current bed capacity for child/adolescent psychiatric services will not be enough to handle the influx of new children and teenagers needing mental health care/services in the future.

Although the *Plan* shows there is not a need for child/adolescent beds in the state, DGC believes there is a need for more beds and services in North Mississippi. The applicant asserts that DGC will continue to serve all patients without respect to race, color, age, sex, ethnicity, or ability to pay.

The utilization table below captures data from the *FY 2006 Hospital Report* and reveals that there is one adolescent facility in each of the GHSA's except for GHSA 5. Staff determined that there are child/adolescent acute psychiatric facilities in GHSA's 2, 3, 6, and 7 and they are located 92 to 235 miles from DGC; however, Alliance Health Center is the only adolescent psychiatric program within 82 miles of Louisville, Mississippi. To meet the ever changing needs of the Winston County community, the applicant believes DGC must expand its existing child/adolescent acute psychiatric program to address the mental health problems among Winston County child/adolescent residents.

FY 2006 Adolescent Psychiatric Care for MS Hospitals				
FACILITY	Lic. Beds	ALOS	ADC	Occ. Rate
TOTAL	195	11.64	181.24	92.94
GHSA 1				
Diamond Grove Center (Winston County)	20	11.31	13.97	69.85
GHSA 2				
Parkwood BHS Olive Br. (DeSoto County)	36	11.19	46.25	125.46
GHSA 3				
University Hosp. & Clinics (Hinds County)	12	7.05	3.5	29.13
Brentwood Behavioral HC of MS (Rankin)	59	11.73	44.94	76.16
GHSA 4				
Alliance Health Center (Lauderdale County)	22	21.77	38.25	173.87
GHSA 6				
Forrest General Hospital (Forrest County)	16	7.66	18.19	113.7
GHSA 7				
Mem. Hosp. at Gulfport (Harrison County)	30	8.82	16.15	53.84
Source: FY 2006 (10/01/05-09/30/06) Hospital Report				

The Diamond Grove Center evaluated their utilization records for hospital reporting period FY 2007 and found that DGC received referrals from 41 Mississippi counties. During that period, the facility experienced an occupancy rate of more than 80% for 291 of 364 days of 2007 and operated at full capacity from April to September of 2007. As a result, the average annual occupancy rate for FY 2007 increased to 98.6% and the facility was forced to deny admission to 211 patients (an average of 30.14 per month) because no beds were available.

As stated earlier, DGC's utilization rates for FY 2007 were as follows: 19.72, ADC; 18.36, ALOS; and 98.58% occupancy rate. The Diamond Grove Center projects the following Average Daily Census (ADC) and occupancy rates for 2008, 2009, and 2010: 34.7, 35.7, and 36.7, and 87%; 89%; and 92%, respectively.

Thus, the applicant asserts the addition of 20 child/adolescent acute psychiatric beds to the existing 20-bed capacity will not have an adverse impact on other child/adolescent acute psychiatric beds programs. Since Diamond Grove Center is the only child/adolescent acute psychiatric facility in Winston County, the expansion of the program would complement C/AAPUs located in neighboring counties.

Six endorsement letters from hospital administrators, physicians, and community officials were included in the CON application stating that DGC complies with all federal regulations regarding community service and supports DGC's efforts to service all patients in North Mississippi and in the state.

GR Criterion 6- Accessibility

The Diamond Grove Center affirms the facility is in compliance with federal and state regulations in regard to serving all patients regardless of race, creed, sex, or ability to pay. Since the facility currently provides child/adolescent psychiatric services, DGC will continue to provide service to the target population listed above.

For years 2005 through 2006, the percentage of gross patient revenue and the actual dollar amount of health care DGC provided to medically indigent patients were as follows: 0.0%, (\$0) for both years. Since the proposed project will not seek to participate in the Medicaid program, the applicant asserts that DGC will provide the following percentages and amounts to medically indigent patients for projected years one and two: 6% (\$186,714) and 2% (\$65,600). The amounts are based on the fact that DGC anticipates that current and potential patients will be insured by commercial insurance or pay for care/service through Blue Cross and Blue Shield, and self pay. To adhere to DGC's admissions policy, the applicant states DGC will provide care/services to potential patients who do not have any source of insurance.

Since DGC is currently a Medicaid certified facility, the applicant asserts that 88% of the facility's admissions for FY 2007 were Medicaid recipients. Thus, a "reasonable amount/percentage" of patients served at the center were medically indigent patients. Although the proposed project will not participate in the Medicaid program, the applicant affirms that DGC will continue to provide care to the underserved population. The applicant indicates the expected payor mix by type payor for the proposed project will be as follows: Commercial Pay, 50%, and Other-Blue Cross and Blue Shield, and self pay, 50%.

The applicant asserts that the inpatient child/adolescent acute psychiatric beds and emergency medical services will be operated by required staff seven days per week, 24 hours per day.

GR Criterion 7- Information Requirement

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

GR Criterion 8 - Relationship to Existing Health Care System

The child/adolescent acute psychiatric beds will be located on the Diamond Grove Center's campus to deliver care/treatment to the Winston County child and adolescent population as well as those in other

Mississippi counties who suffer from mental health problems. The Diamond Grove Center has transfer agreements with two health care providers and entities, Winston Medical Center and the University of Mississippi Medical Center.

Since the closest child/adolescent acute psychiatric facility is located about 70 to 82 miles from DGC, the applicant asserts that the additional 20-bed child/adolescent acute psychiatric unit/program should not have a significant impact on the health care systems in the state.

GR Criterion 9 - Availability of Resources

The applicant states that DGC currently has 121 full-time equivalents (FTEs) personnel and will employ 56.6 additional FTEs personnel to operate the child/adolescent acute psychiatric unit/program at an estimated cost of \$903,239. The applicant lists the following required staff that will be hired: 1 dietary/food service employee; 2 maintenance/supply/laundry personnel; 3 social service employees; 1.5 activity therapist; 1.3 staff for admissions; and 3 employees for the RTC school. The applicant asserts that DGC will recruit staff through the newspaper, advertisement, job fairs, internet, and word of mouth.

The applicant contends that historically, the facility has demonstrated a successful staffing history and currently employs proper personnel to operate its existing child/adolescent acute psychiatric unit. If the proposed project is approved, DGC asserts that sufficient personnel will be available to ensure proper implementation of this project.

The Diamond Grove Center did not identify nor consider other alternative uses of resources for the provision of other health services.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts DGC currently provides ancillary and support services; however, there will be an increase in the utilization of ancillary and support services as a result of this project. Increase in charges and costs will be offset by revenues generated by patient volume at the facility.

GR Criterion 11- Health Professional Training Programs

The applicant affirms that DGC will continue to participate and provide clinical training for health care professionals in GHSA 1.

GR Criterion 12- Access by Health Professional Schools

In order to comply with this criterion, the applicant affirms that students enrolled in health professional schools will continue to have access to the child/adolescent acute psychiatric services at DGC for clinical training purposes.

GR Criterion 14 - Construction Projects

The applicant contends that the administrators of DGC and key staff members took appropriate action to apply for a CON in the amount of \$4,500,000 to add/construct a new child/adolescent acute psychiatric unit to an existing unit in Winston County. The architect submitted a cost estimate to show the proposed capital expenditures. The applicant includes schematic drawings to show how the campus presently looks and provides a description of how the campus will look after the construction and renovation process has been completed. The application includes an approval letter from the Division of Health Facilities Licensure and Certification.

In addition, the applicant states that the project complies with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant has provided written assurance that DGC will comply with state statutes and regulations for the protection of the environment.

According to the *2007 Means Construction Cost Data* publication, the median to high construction cost range for a hospital of this size is \$203 to \$300 per square foot; however, the book does not list costs for renovation projects.

Since DGC and PSI opted to add an additional 20-bed unit by proposing to construct a 15,000 square foot facility and renovate 6,000 square feet of existing space, the applicant used the formula listed in this criterion and asserts it will cost \$221.71 and \$162.38 per square foot, respectively.

Based on the numbers provided by the applicant and the new construction/renovation formula listed in the CON Manual, staff contends it will cost \$216.38 per square foot to construct a facility and \$162.38 per square foot to renovate space (see Attachment 2). Using the *Means Construction Cost Data* book as a cost guide, construction and renovation costs referenced by the applicant and staff are slightly above the median cost range for a hospital of this size.

GR Criterion 16 - Quality of Care

For several years, the applicant states DGC has been providing a quality healthcare and treatment program to children and adolescents of Winston County and statewide. The Diamond Grove Center is accredited and licensed by JCAHO and the Mississippi State Department of Health. DGC will continue to comply with their standards and requirements in order to continue its commitment to the delivery of quality healthcare and mental health services.

By adding 20 child/adolescent acute psychiatric beds to DGC's existing 20 bed unit, the applicant believes this will improve/enhance the delivery of mental health care/services and increase accessibility to children/adolescents in the area.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Estimated Cost	% of the Total
Construction Cost -New	\$ 1,620,000	36.00%
Construction Cost-Renovation	600,000	13.33%
Capital Improvements, i.e. (minor painting and repairs, refurbishing)	200,000	04.44%
Total Fixed Equipment Cost	320,000	07.11%
Total Non-Fixed Equipment Cost	-----	
Land Cost	-----	
Site Preparation Cost	450,000	10.00%
Fees (Legal and Accounting)	540,000	12.00%
Contingency Reserve	600,000	13.33%
Capitalized Interest	170,000	03.77%
Other Cost	-----	
TOTAL PROPOSED CAPITAL EXPENDITURE	\$ 4,500,000	100%

The Diamond Grove Center will construct a 15,000 square foot, 20-bed child/adolescent psychiatric unit/facility, and renovate 6,000 square feet of space. For the proposed construction and renovation project, DGC states it will cost \$221.71 and \$162.38 per square foot, respectively. Staff contends it will cost \$216.38 per square foot to construct a unit/facility and \$162.38 per square foot to renovate space (see Attachment 2). According to the *2007 Means Construction Cost Data* book, the median to high cost for a hospital of this size is \$203 to \$300 per square foot; however, the book does not list costs for renovation projects.

B. Method of Financing

Psychiatric Solutions, Inc (PSI) is a publicly traded, investor-owned corporation who owns and leases 91 freestanding psychiatric inpatient treatment facilities. Also, the company manages the same type of facilities and units for government agencies and other hospitals.

Since the Diamond Grove Center is an affiliate of PSI, DGC will use an equity contribution of \$1,800,000 and related company financing of \$2,700,000, totaling \$4,500,000 to fund the project.

C. Effects on Operating Costs

The applicant projects gross revenues of \$3,153,929, \$3,469,321, and \$3,784,714, the first, second, and third year of operation, respectively; and expenses of \$1,826,704, \$2,003,029, and \$2,189,985. Also, DGC indicates the first year of operation will produce a net loss of \$35,018; however, net income will increase to \$42,102 and \$122,098 the second and third years of operation, respectively. Utilization, cost, and charges are included in the applicant's Three-Year Projected Operating Statement (See Attachment 1).

D. Cost to Medicaid/Medicare

Payor	Utilization Percentage	First Year Revenue
Medicaid	00.00%	-----
Medicare	00.00%	-----
Commercial Insurance	50.00%	\$1,576,964.50
Other	50.00%	\$1,576,964.50
Total	100.00%	\$3,153,929.00
DGC projects that bad debt, 2%, and medically indigent/charity care, 6% are approximately 8%% of gross patient revenues.*		

Note: For the proposed project, DGC will not participate in the Medicaid program and anticipates that potential patients will be insured by commercial insurance or pay for care/service through other means: private and self pay.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application; however, no written comments were received from the Division. In addition, the Mississippi Department of Mental Health was provided an opportunity to comment on this project. No comments were received from the Department of Mental Health.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the addition of child/adolescent acute psychiatric beds as contained 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 Department of Health.

The State Health Plan requires that the applicant documents that the facility has maintained at least an occupancy rate of 70 percent for the most recent two (2) years or 80 percent for the most recent 12-month licensure reporting period.

Although the Diamond Grove Center may have failed to meet the statistical need for child/adolescent acute psychiatric beds in the state as a whole, updated occupancy rates from the applicant and the Department shows that the applicant maintained at least an occupancy rate of 80 percent for the most recent 12-month licensure reporting period. In addition, the applicant has agreed in writing that it will not seek Medicaid reimbursement or admit or keep any patients who are participating in the Medicaid program, for the 20-bed unit sought by this application.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Diamond Grove Center (DGC) for the addition of 20 child/adolescent acute psychiatric beds with the condition that these beds shall not participate in the Medicaid program.

Attachment 1

**Diamond Grove Center
 Three-Year Projected Operating Statement
 (Project Only)**

	First Year	Second Year	Third Year
Revenue			
Inpatient Care Revenue	\$ 3,153,929	\$ 3,469,321	\$ 3,784,714
Outpatient Care Revenue	\$ -	\$ -	\$ -
Gross Patient Care Revenue	\$ 3,153,929	\$ 3,469,321	\$ 3,784,714
Deductions from Revenue			
Charity Care	\$ 252,314	\$ 277,546	\$ 302,777
Deductions from Revenue	\$ 1,109,929	\$ 1,146,644	\$ 1,169,854
Net Patient Care Revenue	\$ 1,791,686	\$ 2045131*	\$ 2,312,083
Other Operating Revenue			
Total Operating Revenue	<u>\$ 1,791,686</u>	<u>\$ 2045131*</u>	<u>\$ 2,312,083</u>
Operating Expense			
Salaries	\$ 787,342	\$ 892,053	\$ 1,002,319
Benefits	\$ 115,897	\$ 131,310	\$ 147,541
Supplies	\$ 97,638	\$ 112,781	\$ 129,210
Services	\$ 66,065	\$ 76,285	\$ 87,425
Lease	\$ 6,824	\$ 7,165	\$ 7,523
Depreciation	\$ 200,000	\$ 200,000	\$ 200,000
Interest	\$ 360,000	\$ 360,000	\$ 360,000
Other	\$ 192,939	\$ 223,435	\$ 255,967
Total Operating Expense	\$ 1,826,704	\$ 2,003,029	\$ 2,189,985*
Net Operating Income (Loss)	<u>\$ (35,018)</u>	<u>\$ 42,102*</u>	<u>\$ 122,098*</u>
Inpatient days	3,650	4,015	4,380
Charge per inpatient day	\$ 864	\$ 864	\$ 864
Cost per inpatient day	\$ 500	\$ 499	\$ 500

Note: * Applicant's totals are off by \$1 due to rounding.

Attachment 2			
Computation of Construction and Renovation Cost			
	Total	New Constructon	Renovation
Cost Component			
A New Construction Cost	\$1,620,000	\$1,620,000	
B Renovation Cost	\$600,000		\$600,000
C Total Fixed Equipment Cost	\$320,000	\$239,935	
Total Non-Fixed Equipment Cost	\$0	\$0	
Capital Improvement	\$200,000		
Land Cost	\$0	\$0	
D Site Preparation Cost	\$450,000	\$450,000	
E Fees (Architectural, Consultant, etc.)	\$540,000	\$385,722	\$154,278
F Contingency Reserve	\$600,000	\$428,580	\$171,420
G Capitalized Interest	\$170,000	\$121,431	\$48,569
Total Proposed Capital Expenditure	\$4,500,000	\$3,245,668	\$974,267
Square Footage	21,000	15,000	6,000
Allocation Percent		71.43%	28.57%
Costs Less Land, Non-Fixed Eqt. & Cap. Improvement	\$4,500,000	\$3,245,668	\$974,267
Cost Per Square Foot	\$214.29	\$216.38	\$162.38