

**DIVISION OF HEALTH PLANNING AND
RESOURCE DEVELOPMENT
MAY 2012**

**CON REVIEW: HP-RLS-0312-003
REHABILITATION CENTERS, INC. D/B/A
MILLCREEK OF MISSISSIPPI BEHAVIORAL HEALTH SERVICES
RELOCATION OF MILLCREEK PSYCHIATRIC
RESIDENTIAL TREATMENT FACILITY AND
INTERMEDIATE CARE FACILITY FOR THE MENTALLY RETARDED
CAPITAL EXPENDITURE: \$26,909,499
LOCATION: MAGEE, SIMPSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Acadia Healthcare Company, Inc. is the parent company for Rehabilitation Centers, Inc. d/b/a Millcreek of Mississippi Behavioral Health Services (“Millcreek” or “Millcreek of Magee”). Millcreek is a Mississippi proprietary corporation, located at 900 First Avenue, N.E., and is governed by a five-member board. The governing board members are as follows: Joey A. Jacobs, Christopher L. Howard, Jack E. Polson, Brent Turner, and Norman K. Carter, III. Millcreek is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). On February 20, 2012, Rehabilitation Centers, Inc. received a Certificate from the Secretary of State’s Office indicating the facility is in good standing with the State of Mississippi.

B. Project Description

The applicant requests Certificate of Need (CON) authority to replace its psychiatric residential treatment facility (“PRTF”) and intermediate care facility for the mentally retarded (“ICF/MR”) by relocating it to McNair Springs Road, Magee, Mississippi, approximately five miles from its existing campus.

The applicant asserts that Millcreek has been providing behavioral health and educational services to emotionally disturbed and developmentally delayed children and adolescents in Mississippi for more than thirty years and is the largest private provider in the state. Millcreek of Magee operates a 182-bed facility consisting of 57 psychiatric residential treatment beds and 125 beds for the intermediate care for the mentally retarded. The PRTF is a structured therapeutic environment for children and adolescents 21 years of age and younger that are in need of intense services for severe emotional, behavioral and/or developmental disturbances. The ICF/MR is a long-term residential program which provides specialized training and developmental programs to children and adolescents, 21 years of age and younger, with developmental disabilities.

Also, Millcreek operates a private school for children with special needs who are residents and non residents of Millcreek. The school provides individualized instructions in a self contained classroom setting, licensed by the Mississippi State Department of Education, and employs certified teachers. In addition, Millcreek offers a Day Program and Therapeutic Group Homes.

Millcreek states that currently they are leasing the facility at 900 First Avenue under a “triple-net” lease agreement and would like to relocate due to a number of reasons. The applicant submits that the current physical plant was constructed in approximately 1977 and is not considered a state-of-the-art facility for the provision of mental health services. According to the applicant, Millcreek is limited to providing care to its patients, in part, in an institutional-style setting, with patient rooms located on wings situated around a nurses’ station like a hospital.

The applicant proposes to construct a new replacement facility consisting of 112,369 square feet of space. The new facility will be located on 23 acres of property on McNair Springs Road, Magee, Mississippi about five miles from its existing facility. The scope of the project is for Millcreek to relocate its entire facility and all services and operations currently provided at 900 First Avenue, Magee, Mississippi. In addition, Millcreek intends to relocate its 12-bed ICF/MR cottage which is located adjacent to its main facility and its educational institution. The applicant indicates that the replacement facility will encompass: 57-bed PRTF, 125-bed ICF/MR, Millcreek’s school, a gymnasium, shared support core area, Day Program, and other services. The Therapeutic Group Homes which are not located at the main campus will not be relocating to the replacement campus, according to the applicant.

The applicant submits that upon completion of the project the replacement campus will contain a total of five structures. They are designated as follows:

Building 1 (20,860 square feet) – Psychiatric Residential Treatment Facility – 57 licensed beds. Four separate and distinct patient units arranged around a central nurse station/support core. Each unit is capable of housing a maximum of 15 patients for a maximum capacity of 60 patients.

Building 2 (36,612 square feet) – Intermediate Care Facility for the Mentally Retarded – 125 licensed beds. Ten separate and distinct resident homes arranged along a linear spine with access to a central nurse station/support core. Four of the units will be designed to accommodate up to 16 patients and six of the units will be able to house up to 11 patients for a maximum capacity of 130 patients.

Building 3 (21,651 square feet) – Shared Support Core – Central building connected to Building 1 (PRTF) and Building 2 (ICF/MR) containing support services shared by both PRTF and ICF/MF facilities, including the main entrance, admissions, administrative departments, kitchen/dining, and service areas.

Building 4 (23,646 square feet) – Millcreek School – School building with classrooms for PRTF patients, ICF/MR residents and outpatients.

Building 5 (9,600 square feet) Gymnasium – Recreational building including basketball court for PRTF and ICF/MR patients/residents.

The building is designed to consist of light gauge metal wall/roof construction at the PRTF and ICF/MR buildings, and pre-engineered metal building construction at the Shared Support Core, Millcreek School, and Gymnasium Buildings. All buildings will be fully-protected by an approved automatic sprinkler system. Exterior materials for all buildings will contain brick wainscot with an exterior insulation and finish system veneer above. The roof materials for all buildings will be of asphalt shingle roofing at the PRTF and ICF/MR buildings, and standing seam metal roofing at the shared support core, Millcreek School, and gymnasium buildings. Interior partitions within all buildings will consist of metal studs with gypsum wall board. Interior finishes within all buildings will have durable material, with a home-like environment in the patient/resident living areas. The mechanical systems for each building will consist of split systems with gas-fired forced-air heating units and DX-type cooling units. Electrical systems for each will have normal power from an off-site utility source for all power/lighting circuits, and emergency power for select power/lighting circuits from an on-site packaged emergency generator system.

The application includes a capital expenditure summary, a three-year projected operation statement, a financial feasibility study, and a 2010 Consolidated Annual Report. The applicant asserts that the proposed project requires no new personnel.

According to the applicant, the estimated capital expenditure is \$26,909,499 and is allocated as follows: 57 percent for new construction; 21 percent for site preparation; 7 percent for professional fees; 4 percent for fixed equipment cost; 4 percent for other (general conditions); 2 percent for non-fixed equipment; 2 percent for contingency reserve; 2 percent for fees (architectural, consultant, etcetera); and 1 percent for land cost. The applicant intends to finance \$6,727,375 of the proposed project from Millcreek's accumulated cash reserves and \$20,182,124 through related company financing.

MSDH Division of Health Facilities Licensure and Certification finds the site plan for the proposed project to be acceptable for the stated activity.

The applicant anticipates that the capital expenditure will be obligated by July 2012 and that the project will be complete by January 2014.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction, renovation, replacement, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (b),(e), and (j) 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 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 6, 2012.

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

A. State Health Plan (SHP)

The *FY 2012 State Health Plan* (“*Plan*”) contains criteria and standards which an applicant is required to meet prior to receiving CON authority for psychiatric residential treatment facility beds/services and for intermediate care facility for the mentally retarded beds/services. This application is in substantial compliance with these applicable criteria and standards.

SHP Policy Statement (PS) Regarding Psychiatric Residential Treatment Facility beds/services

PS 1 - Indigent/Charity Care: The applicant submits that Millcreek has not historically provided services to self-pay patients and all of its PRTF beds are Medicaid certified. Consequently, Millcreek provides services to patients who are medically indigent and are enrolled as Medicaid beneficiaries. The applicant anticipates this practice will continue at the new location.

PS 2 – Mental Health Planning Area: The applicant states that Millcreek’s relocation is within the planning area. Furthermore, Millcreek is relocating to another location within the same county approximately five miles from its existing facility.

PS 3 – Public Sector Beds: Millcreek is not seeking any additional PRTF beds.

PS 4 – Comments from Department of Mental Health: As previously stated Millcreek is not seeking any additional PRTF beds.

PS 5 – Separation of Adults and Children/Adolescents: The applicant asserts that Millcreek does not provide services to adult patients.

PS 6 – Separation of Males and Females: The applicant affirms that Millcreek will provide for separation of male and female residents aged 13 and older for living purposes within the PRTF by the creation of four distinct and separate patient units.

PS 7 – Patients with Co-Occurring Disorders: The applicant considers this policy statement not to be applicable.

PS 8 – Comprehensive Program of Treatment: This application does not seek to add any new mental health beds.

PS 9 – Medicaid Participation: This application is for the relocation/replacement of Millcreek’s existing facility and not an initial offering of service, establishment or expansion of beds.

PS 10 – Licensing and Certification: The applicant certifies that Millcreek of Magee intends to be in compliance with all applicable regulations and licensure requirements.

PS 11 – Psychiatric Residential Treatment Facility: The applicant submits that Millcreek’s PRTF beds/services qualify with all aspects of this policy statement.

PS 12 – Certified Educational Programs: The applicant states that Millcreek operates a private school which is licensed as a special school by the Mississippi State Department of Education. Additionally, at the new proposed campus, Millcreek will provide a 9,600 square foot gymnasium that will include a full-sized basketball court (with bleachers), a kitchenette, and an A/V system. Furthermore, the new campus will provide ample space for all needed outdoor (baseball and soccer fields) recreational space for all patients.

PS 13 – Preference in CON Decisions: The proposed project is for the relocation/replacement of Millcreek’s existing facility.

PS 14 – Dedicated Beds for Children’s Services: The proposed project is for the relocation/replacement of Millcreek’s existing facility and the bed capacity will not change.

General Certificate or Need Criteria and Standards for Acute Psychiatric, Chemical Dependency, and/or Psychiatric Residential Treatment Facility Beds/Services

SHP Criterion 1b. – Need

Projects which do not involve the addition of acute psychiatric, chemical dependency, and/or psychiatric residential treatment facility beds: The applicant shall document the need for the proposed project. Documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans duly adopted by the governing board, recommendations made by consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.).

Millcreek of Magee submits the following facts to justify the need for the relocation of its 57-bed PRTF.

1. The current facility needs to be updated or renovated.
2. The impending and drastic increase in its lease cost of its existing location.
3. The overall concern with the economic status of the facility and maintaining cost containment with the State's healthcare system.
4. The desire to have the safest campus possible for its patients.

The applicant indicates that the *2012 State Health Plan* states that a PRTF should provide services in a homelike environment; ideally, cottage-style living units. According to the applicant, Millcreek leases the facility that they currently operate in and the facility is approximately 35 years old. Also, they are limited to providing care to their patients in an institutional-style setting, with patient rooms located on wings situated around a nurses' station, much like a hospital. The applicant states that Millcreek has done all within reason to provide a home-like environment at its current setting; however, the structure itself imposes limits on Millcreek's potential. Millcreek submits that making a homelike environment at its current location is not feasible or even possible. In addition, due to the age of the facilities numerous other updates and major renovations are needed, according to the applicant. They are as follows:

- Replacement of the roof (that has a current leak);
- Replacement or major upgrades to bathrooms and plumbing;
- Replacement of all kitchen appliances and equipment (to commercial grade);
- Major renovation to the structure containing the dining area, in order to add space to the dining area;
- Replacement of windows;
- Replacement or major renovations to one 12-bed ICF/MR cottage;
- Replacement of all modular buildings (where school is conducted) with new modular buildings or permanently constructed structure;
- Correction of drainage issues and associated building repairs to address damage to structure caused by water seeping into concrete walls due to drainage issues on property;
- Door replacement throughout the facility in order to continue to comply with requirements of Life Safety Code.

The applicant states that because Millcreek leases its current premises; however, making major renovations such as what is outlined above is not economically feasible. Additionally, the applicant states that virtually all costs of renovations and improvement would be Millcreek's responsibility, under its "triple-net" lease.

The applicant documents that its lessor has notified Millcreek that the lease rate on the facility is expected to increase by approximately 300 percent in the summer of 2012. Consequently, the increase would take Millcreek's lease rate from \$500,000 to \$1.5 million dollars, according to the applicant.

SHP Criterion 2 – Information Requirement

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

SHP Criterion 3 – Memorandums of Understanding

The proposed project is for the relocation of Millcreek's existing facility and does not seek to expand the services currently provided.

SHP Criterion 4 – Letters of Comments

The application contains eleven letters of support in favor of the proposed relocation/replacement project from citizens, healthcare providers, physicians, and business owners of Simpson County.

One letter of opposition was submitted to the Department regarding the proposed project.

SHP Criterion 5 – Policy of Exclusion

The applicant affirms that it has no policy or procedures which exclude patients who meet admission criteria on any basis of race, color, age, sex, ethnicity, or ability to pay, except for the age-related limits imposed by the nature of the care provided by Millcreek.

SERVICE SPECIFIC CERTIFICATE OF NEED CRITERIA AND STANDARDS FOR PSYCHIATRIC RESIDENTIAL TREATMENT FACILITY BEDS/SERVICES

SHP Criterion 1 – Statistical Need

The *FY 2012 Mississippi State Health Plan* states that by using the formula of 0.4 beds per 1,000 population ages 5 to 21 for the year 2015 to calculate need for PRTF beds. According to the *Plan* the state is over bedded by 15 PRTF beds. However, the applicant asserts this criterion is not applicable because this project does not propose to add any additional PRTF bed/services.

SHP Criterion 2 – Age Group to be Served

The applicant affirms that Millcreek will continue to serve the same patient population as it has served in the past. Millcreek will provide services to different age groups through the creation of four distinct and separate patient units, according to the applicant. Each patient unit will have a capacity to house fifteen patients per unit. One unit will be designated for children aged 6-10 years of age. Another unit will be designated for pre-adolescent males aged 10-12. The other unit will be designated

for adolescent males aged 13 and up and there will be a designated unit for females, with age groups appropriately separated within the unit. However, this application does not seek to add any additional beds, but merely the relocation/replacement of its existing 57-bed PRTF.

SHP Criterion 3 – Structural Design of the Facility for Provision of Services to Children less than 14 years of age

The applicant contends that the physical design and staffing ratio will provide for separation of those patients who are less than 14 and those 14 or older.

SHP Criterion 4 – Legislation Limitations

This application does not seek to add any additional beds, but the relocation/replacement of its existing 57-bed PRTF. Therefore, the applicant considers this criterion not to be applicable.

SHP Criterion 5 – Facility Size

The applicant asserts that Millcreek will construct a replacement facility which will house its existing 57-bed PRTF and all related services. According to the applicant, the PRTF component of the project will be state-of-the-art and will be based on the Department's preferred cottage-style living arrangements with four separate patient units, each housing no more than 15 beds. The size of the facility is within the requirement of the criterion as well as other applicable State regulations, according to the applicant.

SHP Criterion 6 – Staffing

According to the applicant, staffing needs will remain unchanged and consist of a psychiatrists and psychologists. Additionally, Millcreek states that its treatment program meets all other requirements imposed by this criterion. The applicant states that Millcreek currently has 707.5 full-time equivalents (FTEs) and the proposed project requires no additional personnel.

SHP Policy Statement (PS) Regarding Certificate of Need Criteria and Standards for Nursing Home Care Services for Mentally Retarded and Other Developmentally Disabled Individuals

SHP – Policy Statements 1-6

The *FY 2012 Mississippi State Health Plan* contains policy statements which every applicant must meet or address, if applicable. Due to the fact that this project is for the replacement of an existing facility and does not propose to increase the number of beds or to change the type of beds/services offered, we find that Policy Statements 1-6 are not applicable to this project. We find that this project for a

replacement facility does not violate the moratorium in Miss. Code Section 41-7-191(2) and the project is consistent with the official opinion of the Mississippi Attorney General to F.E. Thompson, Jr., MD, MPH, State Health Officer dated June 13, 2008.

Certificate of Need Criteria and Standards for Construction, Renovation, Expansion, Capital Improvements, Replacement of Health Care Facilities, and Addition of Hospital Beds

The *FY2012 State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, capital improvement involving a capital expenditure in excess of \$2,000,000, and replacement of health care facilities. The application is in substantial compliance with these criteria.

SHP Criterion 1 – Need

Projects which do not involve the addition of any acute care beds: The applicant shall document the need for the proposed project. Documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans (duly adopted by the governing board), recommendations made by consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.). In addition, for projects which involve construction, renovation, or expansion of emergency department facilities, the applicant shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any.

According to the applicant, Millcreek operates in a space that it leases and the physical plant was constructed approximately 35 years ago in 1977. The applicant documents that the facility is in need of a number of renovations/upgrades due to its age and normal depreciation of the facility. However, because Millcreek leases the facility making the necessary renovations/upgrades would be a significant financial burden on Millcreek. Furthermore, all of the improvements would be owned by the landlord and not by Millcreek.

According to the applicant, Millcreek attempted to negotiate some reasonable alternative regarding the renovations with the landlord, but its attempts were unsuccessful. Additionally, the applicant indicates that the landlord has notified Millcreek of their intentions to increase Millcreek's lease rate by approximately 300 percent in the summer of 2012, which the rent would increase from \$500,000 to \$1.5 million.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

The applicant affirms that it will meet all regulatory and licensure requirements for both its ICF/MR and PRTF beds that are proposed to be relocated as part of this

project. According to the applicant, Millcreek has met all such requirements in the past and asserts that the relocation will not have any adverse impact on its compliance.

SHP Criterion 3 – Uncompensated Care

The applicant affirms that it will provide a reasonable amount of indigent/charity care at the replacement facility.

SHP Criterion 4- Reasonableness of Cost

The calculation for new construction of a replacement facility consisting of 112,369 square feet of space is \$206.51 per square foot. The *Means Construction Cost Data, 2012 Edition* does not compare costs for the replacement of a PRTF and ICF/MR facility. On the other hand, the *Means Building Construction Cost Data, 2012 Edition* lists the cost for new hospital construction ranging from \$192 to \$325 per square foot and the range to construct a new nursing home is \$114 to \$181 per square foot. Therefore, the proposed project's cost is reasonable when compared to other similar projects listed in the *Means Building Construction Cost Data* to construct a new hospital, but when compared to cost per square foot to construct a new nursing facility the cost per square foot falls above the $\frac{3}{4}$ range.

The applicant believes that none of the components for this project exceeds the Means Construction cost by more than 15%.

SHP Criterion 5 – Floor Area and Space Requirements

The applicant specified the floor areas and space requirements of the project. The gross square footage of the proposed replacement facility is estimated to be 112,369 square feet. The application includes a schematic design prepared by Stengel Hill Architecture who states that the proposed project areas are consistent with State and National norms for similar projects.

SHP Criterion 6 – Renovation vs. Replacement

The applicant proposes to replace the facility in lieu of renovation.

SHP Criterion 7 – Need for Specific Services

The proposed project is for the construction/replacement/relocation of Millcreek of Magee PRTF and ICF/MR facility. The applicant is not proposing to expand any services.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, September 1, 2011,*

Revision, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – Consistency with the *State Health Plan*

The application submitted by Rehabilitation Centers, Inc., d/b/a Millcreek of Mississippi Behavioral Health Services for the relocation of its Psychiatric Residential Treatment Facility and ICF/MR is consistent with the *FY 2012 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant affirms that the proposed project as stated is consistent with its long range plans to provide high quality behavioral healthcare services to children and adolescent Medicaid patients in the City of Magee and surrounding areas. Additionally, the applicant states that this relocation/replacement project will enable Millcreek to meet the stated goal through the provision of services in a modernized, efficient, and environmentally friendly facility.

GR Criterion 3 – Availability of Alternatives

The applicant considered and rejected the following options as other alternatives:

Maintain the Status Quo: The applicant submits that this alternative was rejected due to the financial impact it would have on Millcreek Centers and the negative impact to the principle of cost containment in the State.

Maintain the Status Quo, with needed renovation to the existing facility: According to the applicant, this alternative was rejected because for Millcreek to remain in its current location significant renovations would have to take place in order to provide future services in a state-of-the-art environment. Millcreek determined that this alternative posed significant obstacles to successful completion, due to the age and condition of the current building, which was constructed around 1977. Additionally, the applicant states that the expense associated with this alternative would be prohibitive because Millcreek would be responsible for financing the vast majority of the renovations, but would not own any of the improvements once completed.

Relocate to other leasable space in Simpson County: The applicant states that Millcreek Centers conducted a search for appropriate space within Simpson County where it could relocate. However, they were unable to locate space that would not require significant renovation and/or construction. Therefore, they concluded that a new construction project would be more cost effective and allow for a facility that will easily meet all of the patients' needs.

Relocate and construct a new physical plant in another location in Simpson County: The applicant concluded after considering all of the previously stated

options that relocating to another facility constructed from the ground up in Simpson County will best serve the interests of its patients, Simpson County, the surrounding community, and the state.

The applicant submits that modernization of the existing facility was rejected because Millcreek does not own the existing facility and all costs associated with renovation of the facility would fall to Millcreek under its lease agreement. Consequently, Millcreek determined that relocating to a new campus that they will construct and; thus, own will be the most cost effective alternative in the long term. Additionally, the option selected is the most efficient method of continuing to meet the behavioral health needs of the service area and the patients it serves. The applicant proposes to offer the same services just at a different location with state-of-the-art equipment in a modern facility.

GR Criterion 4 - Economic Viability

Millcreek's three year operating projections reflects a net income of \$3,637,741 the first year, \$4,093,503 the second year, and \$4,509,603 the third year (see Attachment 1). According to the applicant the proposed charges will be similar to those charged by other providers statewide and no new fees will be required. Furthermore, Millcreek has received a "frozen" Medicaid reimbursement rate for the last two years and has not been notified that the reimbursement rate will change, according to the applicant.

The applicant states that Millcreek does not anticipate any change to its profitability, other than the elimination of its lease from the current facility and the addition of the depreciation expense for the new construction.

The applicant documents that Millcreek projects a utilization rate of 99 percent for years one through three of operation for the relocation/replace facility. The applicant submits that its projected level of utilization is based on Millcreek's current and historical trend of utilization for its PRTF and ICF/MR. Moreover, the facility does not anticipate a decrease in its census. According to the *FY2012 SHP* there are six (6) PRTF in the state with an average occupancy rate of 92.66 percent, with only one facility experiencing an occupancy rate below 94 percent. As a result, Millcreek believes its PRTF projections are consistent with those experienced by other similar facilities in the state.

The application contains a letter signed by the chief financial officer of Millcreek of Mississippi Behavioral Health Services, attesting to the financial feasibility of this project.

The applicant indicates that should Millcreek require financial assistance to meet its obligations for the proposed project, its parent company Acadia Healthcare would provide that assistance through existing company reserves and/or other existing revenue streams. The application contains correspondence from Acadia Healthcare Pioneer Behavioral Health committing to pursuing and providing financial support for

the proposed project.

Millcreek states that the overall project will not have any appreciable impact on the cost of healthcare and should have no significant, if any, impact on the cost to Medicaid.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant affirms that the services will be available to all residents of the service area, including low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups. However, the applicant submits that Millcreek does not provide services for adults; therefore, the elderly will not have access.
- b. **Relocation of Services:** The applicant affirms that the population presently served will continue to have access to the services provided by Millcreek. The applicant further affirms that Millcreek will be able to continue to meet all of the needs it has been meeting. Additionally, there will not be an adverse impact on any income, racial, ethnic minorities, or women as a result of this relocation. As previously stated, the current facility is leased and the disposition is not part of the proposed project.
- c. **Current and Projected Utilization of Like Facilities in the Area:** The applicant is not proposing any new services, only to relocate/replace its existing facility and services.

According to the *FY 2012 SHP* there are six (6) PRTF in the state with an average occupancy rate of 92.66 percent, with only one facility experiencing an occupancy rate below 94 percent.

- d. **Probable Effect on Existing Facilities in the Area:** The applicant documents that no existing service provider should experience any adverse effect do to the relocation project. Additionally, the new property is less than five miles away for the current location and there will be no change in new facility's proximity to other service providers or in Millcreek's primary service area. The applicant states that there will not be any change in capacity to provide services i.e., no increase or decrease in approved number of beds, or in the patients being served by the facility. As previously stated there are six (6) PRTF in the state with an average occupancy rate of 92.66 percent, with only one facility experiencing an occupancy rate below 94 percent. The closest PRTF to the current, 900 First Avenue location and the proposed McNair Springs Road location is Cares Center. Cares Center is located in Hinds County and approximately 48.66 to 50.51 miles from Millcreek's proposed location.

The project proposes to relocate Millcreek from its current location to a new

property less than five miles away from the existing facility which is right outside the city limits of Magee. The applicant documents that there will be no change in Millcreek facility's proximity to other service providers, capacity to provide services, patients being served, and primary service area.

The proposed project will not have an adverse impact on the existing facilities.

- e. **Community Reaction:** The application contains eleven (11) letters of support for the project from residents, healthcare professionals, and a city official of Simpson County. The favorable letters express how the proposed project will serve to enhance the healthcare service provided to the local citizens of GHSA V and the statewide patient population. Additionally the endorsements letters supports the fact that the new facility is going to be state-of-the-art and going to provide more services efficiently.

One letters of opposition was submitted to the Department regarding the proposed project.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** The applicant affirms that the medically underserved populations have access to the services at Millcreek and will continue to have access. According to the applicant all of Millcreek's beds are Medicaid certified and for the last several years, Millcreek's patient population has been virtually exclusively Medicaid patients. Consequently, because of the legal limitations placed on the number of beds Millcreek has to offer, it simply has not had space to take additional charity care or indigent patients because its beds have been filled with Medicaid patients, according to the applicant. Millcreek projects that this utilization trend will continue upon completion of the proposed project.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that Millcreek has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The applicant states that Millcreek serves the needs of Medicaid patients at 99 percent occupancy and with 100 percent of its census being Medicaid patient and will continue upon completion of the project.
- d. The applicant submits that Millcreek operates 24 hours per day and 7 days per week. The facility does not have an emergency department and does not offer emergency room services.

GR Criterion 7 - Information Requirement

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

GR Criterion 8 - Relationship to Existing Health Care System

The applicant asserts that no other service providers (PRTF and ICF/MR) will be impacted by the proposed project. The applicant is simply requesting to replicate its current PRTF and ICF/MR facility to a new location less than five miles from the existing facility. The target population and access to the services will not be disrupted as a result of the relocation, according to the applicant. In addition, no new services or expansion of services is proposed.

GR Criterion 9 - Availability of Resources

The applicant states that no additional personnel are required, the number of beds will not increase, and the patient census is expected to remain stable after relocation. Millcreek contends that the proposed relocation/replacement will not require any change to Millcreek's vendors, service, or contracts, other than the release of some contracts i.e. elevator service contract which will not be required in a single story building.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that all necessary support and ancillary services are currently available and in place at Millcreek. Additionally, the applicant does not anticipate any changes in cost or charges as a result of the proposed project.

GR Criterion 11 – Health Professional Training Programs

The applicant asserts that this criterion is not applicable.

GR Criterion 12 – Access by Health Professional Schools

The applicant asserts that this criterion is not applicable.

GR Criterion 13 – Special Needs and Circumstances

The applicant asserts that this criterion is not applicable.

GR Criterion 14 - Construction Projects

The application contains site drawings and a cost estimate signed by an architect licensed to do business in Mississippi. The applicant submits that space will conform to applicable local and state or minimum licensing standards. The project will cost \$206.51 per square foot to construct approximately 112,369 square feet of space (see Attachment 2). The *Means Construction Cost Data, 2012*, does not compare costs for the replacement of a PRTF and ICF/MR facility. However, the *Means Construction Cost Data, 2012 Edition* indicates the new construction cost range from \$192 per square foot to \$325 per square foot to construct a hospital and the range to construct a new nursing home is \$114 to \$181 per square foot. Therefore, the proposed project's cost is reasonable when compared to other similar projects listed in the *Means Building Construction Cost Data* to construct a new hospital, but when compared to cost per square foot to construct a new nursing facility the cost falls above the $\frac{3}{4}$ range.

GR Criterion 15 - Competing Application

This application is for a relocation/replacement of an existing facility; therefore, there are no competing applications.

GR Criterion 16 - Quality of Care

The applicant states that Millcreek takes pride in providing high quality of care and has standardized assessments in place to evaluate patient/resident progress and the success of its programs and school. Millcreek is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and participates in the Medicaid program.

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	\$15,234,975	57%
b.	Renovation Cost	0	0
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	1,058,800	4%
e.	Total Non-Fixed Equipment Cost	449,540	2%
f.	Land Cost	150,000	1%
g.	Site Preparation Cost	5,697,518	21%
h.	Fees (Architectural, Consultant, etc.)	669,892	2%
i.	Contingency Reserve	544,627	2%
j.	Capitalized Interest	0	0
k.	Other (General Conditions)	1,120,568	4%
l.	Legal and Accounting fees	20,000	0
m.	Other (Professional fees)	1,963,579	7%
	Total Proposed Capital Expenditure	<u>\$26,909,499</u>	<u>100%</u>

To construct an 112,369 square foot replacement facility, Millcreek, states it will cost \$206.51 per square foot. The *Means Construction Cost Data*, 2012 Edition does not have specific data for a PRTF and ICF/MR replacement facility. However, the *Means Construction Cost Data, 2012 Edition* indicates the new construction costs range from \$192 per square foot to \$325 per square foot to construct a hospital and ranges from \$114 to \$181 per square foot to construct a new nursing home. Based on the numbers provided by the applicant and the new construction formula listed in the *CON Review Manual*, staff also concludes it will cost \$206.51 per square foot to complete the project (see Attachment 2). Additionally, when compared to the *Means Construction Cost Data, 2012 Edition* to construct a new hospital the cost per square foot falls above the median range and when compared to the cost per square foot for the construction of a new nursing facility the cost per square foot falls above the $\frac{3}{4}$ range.

B. Method of Financing

The applicant proposes to finance \$6,727,375 through its accumulated cash reserves and \$20,182,124 through other related company financing.

C. Effect on Operating Cost

The applicant's three-year projections of revenues and expenses for the first three years of operation are provided in 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 by Type Payer	Utilization Percentage	First Year Revenue
Medicaid	68%	\$ 29,721,474
Medicare	%	
Commercial	%	
Self Pay	%	
Charity Care	%	
Other	32%	13,986,576
Total	100%	\$43,708,050

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application; however, the Department received no response, as of the date of this staff analysis.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds as contained in *the FY 2012 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised September 1, 2011*; 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 this application submitted by Rehabilitation Centers, Inc. d/b/a Millcreek of Mississippi Behavioral Health Services for the relocation/replacement of Millcreek's Psychiatric Residential Treatment Facility and Intermediate Care Facility for the Mentally Retarded.

Attachment 1

Millcreek of Mississippi Behavioral Health Services Three-Year Operating Statement (With Project)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 24,947,750	\$ 24,947,750	\$ 24,947,750
Outpatient	18,760,300	19,399,604	20,061,146
Total Gross Patient Revenue	<u>\$43,708,050</u>	<u>\$44,347,354</u>	<u>\$45,008,896</u>
Charity Care			
Deductions from Revenue	4,955,553	4,679,923	4,289,396
Net Patient Care Revenue	<u>\$ 38,752,497</u>	<u>\$ 39,667,431</u>	<u>\$ 40,719,500</u>
Other Operating Revenue	\$46,680	\$47,000	\$47,000
Total Operating Revenue	<u>\$ 38,799,177</u>	<u>\$ 39,714,431</u>	<u>\$ 40,766,500</u>
Expenses			
Operating Expenses:			
Salaries	\$ 17,865,407	\$ 18,222,715	\$ 18,587,169
Benefits	4,182,113	4,100,111	4,182,113
Supplies	1,547,578	1,594,005	1,641,826
Services	4,259,762	4,390,855	4,525,881
Lease	250,719	250,719	250,719
Depreciation	1,735,933	1,742,599	1,749,265
Interest	0	0	0
Other	5,319,924	5,319,924	5,319,924
Total Expenses	<u>\$ 35,161,436</u>	<u>\$ 35,620,928</u>	<u>\$ 36,256,897</u>
Net Income (Loss)	<u>\$ 3,637,741</u>	<u>\$ 4,093,503</u>	<u>\$ 4,509,603</u>
Assumptions			
Inpatient Days	74,825	74,825	74,825
Outpatient Visits	72,750	74,205	75,689
Procedures	486,225	510,536	536,063
Charge per outpatient day	\$ 258	\$ 261	\$ 265
Charge per inpatient day	\$ 333	\$ 333	\$ 333
Charge per procedure	\$ 90	\$ 87	\$ 84
Cost per inpatient day	\$ 470	\$ 476	\$ 485
Cost per outpatient day	\$ 483	\$ 480	\$ 479
Cost per procedure	\$ 72	\$ 70	\$ 68

Attachment 2

Computation of Construction and Renovation Cost*

	Cost Component	Total	New Construction	Renovation
A	New Construction Cost	\$15,234,975	\$15,234,975	
B	Renovation Cost	\$0		\$0
C	Total Fixed Equipment Cost	\$1,058,800	\$1,058,800	\$0
	Total Non-Fixed Equipment Cost	\$449,540		
	Land Cost	\$150,000	\$150,000	
D	Site Preparation Cost	\$5,697,518	\$5,697,518	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$669,892	<i>\$669,892</i>	<i>\$0</i>
F	<i>Contingency Reserve</i>	\$544,627	<i>\$544,627</i>	<i>\$0</i>
G	<i>Capitalized Interest</i>	\$0	<i>\$0</i>	<i>\$0</i>
	<i>Other</i>	\$1,120,568	<i>\$0</i>	
	Total Proposed Capital Expenditure	\$24,925,920	\$23,355,812	\$0
	Square Footage	112,369	112,369	0
	<i>Allocation Percent</i>		100.00%	0.00%
	Costs Less Land, Non-Fixed Eqt., Other	\$24,326,380	\$23,205,812	\$0
	Cost Per Square Foot		\$206.51	
	Cost per Bed (n=60)			

*Source: Mississippi Certificate of Need Review Manual, Revised September 1, 2011.