

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JUNE 17, 2024**

**CON REVIEW: HP-CO-0524-005
OCEANS BEHAVIORAL HOSPITAL OF BILOXI, LLC
COST OVERRUN TO CON REVIEW HP-AB-0222-002; CON NUMBER R-0983
PROVISION OF POST-TRAUMATIC STRESS DISORDER (PTSD) SERVICES AND
ADDITION OF TEN (10) PTSD PSYCHIATRIC BEDS
ORIGINAL CAPITAL EXPENDITURE: \$1,525,250.00
ADDITIONAL CAPITAL EXPENDITURE: \$14,022.00
REVISED CAPITAL EXPENDITURE: \$1,539,272.00
LOCATION: BILOXI, HARRISON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Oceans Behavioral Hospital of Biloxi, LLC (“Oceans” or the “Hospital”), a Delaware Corporation, is a Limited Liability Company located at 180 Debuys Road, Biloxi, Harrison County, Mississippi 39531. Oceans is a hospital-based facility consisting of thirty-five (35) adult psychiatric beds and ten (10) adolescent psychiatric beds

According to the Applicant, Oceans’ Management/Operating Entity is Oceans Acquisition, Inc., located at 5360 Legacy Drive, Building 2, Suite 101, Plano, Collin County, Texas 75024. Oceans consists of six (6) officers, four (4) administrators, six (6) board of trustees, and nine (9) directors.

The original application contained a Certificate of Good Standing, dated January 24, 2022, from the Office of the Secretary of State certifying Oceans Behavioral of Biloxi, LLC is in good standing to do business in the state of Mississippi.

B. Project Background

Oceans Behavioral Hospital of Biloxi was granted Certificate of Need (“CON”) No. R-0983 for the provision of Post-Traumatic Stress Disorder (PTSD) services and the addition of PTSD psychiatric beds pursuant to its original CON application and in accordance with the CON policies, criteria and standards set forth in the *FY 2020 Mississippi State Health Plan* (the “FY 2020 MSHP”). In its original application, the Applicant proposed minor capital improvements will be made to the PTSD Unit in order to adapt the space for its new use. The improvements include, but are not limited to, replacing all mirrors with stainless steel safety mirrors, installing suicide-

resistant and ligature-safe hardware accessories, securing the nurses' station with a door and Plexiglas window, installing cameras in each patient room and the hallways, securing the doors into the PTSD Unit, painting each patient room, installing hard ceilings in each patient room, and securing the roof access door. The Applicant states such capital improvements are necessary to ensure the safety of PTSD patients and Hospital staff.

The original application contained a letter of support from the Department of Mental Health ("DMH") stating "this program is needed in Mississippi to serve those suffering from PTSD who often must leave the State to receive this level of treatment." DMH further states Oceans' proposed project will serve as a "wonderful complement" to the work being done in the State.

The original application included a site approval letter from the Mississippi Department of Health Division of Health Facilities and Licensure, dated March 1, 2022.

In its original CON application, the Applicant projected a capital expenditure of \$1,525,250.00 and proposed the capital expenditure would be obligated within thirty (30) days of receipt of CON approval. The Applicant expected the project to be completed within seven (7) months following CON approval. Besides exceeding the approved capital expenditure, the Applicant submits the project is 100% complete.

The Applicant's Cost Overrun Application contains a copy of CON No. R-0983, which has an effective date of May 12, 2022, and an expiration date of May 12, 2023. A six-month extension, approved November 9, 2023, extended the expiration date for CON No. R-0983 to May 12, 2024. The Department denied the Applicant's six-month extension final report request on May 2, 2024, due to the additional spending of \$14,022.00 over the original authorized capital expenditure.

C. Project Description

Oceans now requests CON authority for a cost overrun to CON No. R-0983, Provision of Post-Traumatic Stress Disorder (PTSD) Services and Addition of Ten (10) PTSD Beds. The Applicant's Cost Overrun Application requests authority to increase the original approved capital expenditure from \$1,525,250.00 to \$1,539,272.00. According to the Applicant, the cost overrun is attributable to inflation in construction labor and materials costs.

1. Provide a photocopy of the original Certificate of Need.

The Applicant provided a copy of the original Certificate of Need.

- 2. Describe all proposed changes not approved in the original CON application (e.g. changes in square footage, construction, or renovation; changes in range, facilities served, or types of services, bed changes; equipment changes; etc.)**

Oceans affirms there have been no changes to the proposed project since the original CON approval.

- a. Transfer of CON:**

The Applicant's cost overrun request does not involve the transfer of a CON.

- b. Change of Site:**

The Applicant's cost overrun request does not involve a site change.

- 3. If the project is related in whole or in part to compliance with requirements of the Licensure and Certification Division of the MSDH, or any other certification or licensing authority, provide documentation.**

The Applicant states this item is not applicable to their cost overrun request.

- 4. If the project is related to a construction/expansion project, enclose a copy of the revised cost estimate signed by a licensed architect or licensed Mississippi building contractor.**

The Applicant states no work has been done by existing contractor and no additional bids have been obtained.

- 5. If actual construction has not begun, give date it will begin and the reasons for the delay.**

The Applicant affirms the proposed project is 100% complete.

- 6. Provide evidence that the Division of Radiological Health has approved the plans for provision of radiation therapy services, if applicable.**

The Applicant states the proposed project does not involve the provision of radiation therapy services; therefore, this element is not applicable.

7. If the project involves the purchase/lease/change in vendor or manufacturer of major medical equipment, not included in the originally approved certificate of need project, provide the following:

- a. **Type of equipment, capacity, and manufacturer;**
- b. **Purchase price of equipment;**
- c. **Purchase and installation date(s) of equipment; and**
- d. **Explanation of cost variance from original quotes.**

The Applicant states these items are not applicable.

8. Will the amendment require any change in facility staffing? If so, identify changes in terms of personnel skills, number of personnel and indicate your recruitment plan which will obtain the services of these personnel.

The Applicant states this is not applicable as its cost overrun request does not involve changes in facility staffing.

9. List all transfer/referral/affiliation agreements between your facility and other providers of health care within your service area, which have changed since the original application was submitted or will change as a result of this amendment.

The Applicant states this is not applicable to the project.

10. Provide the estimated date this project will be implemented/completed if the amendment/cost overrun is granted.

The Applicant states the proposed project was completed as of March 2024.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project pursuant to Sections 41-7-191(1) and 41-7-193 of the Mississippi Code of 1972 Annotated, as amended, and the duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health. The State Health Officer reviews all projects for

cost overrun in accordance with the 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 ten (10) days of publication of the staff analysis. The opportunity to request a hearing expires June 27, 2024.

III. FINANCIAL ANALYSIS

A. Capital Expenditure Summary

1. Complete the Capital Expenditure Summary.

Revised Capital Expenditure Summary Table

	Original Approved Amount	Revised Amount	Increase or (Decrease)
New Construction	\$ 0.00	\$ 0.00	\$ 0.00
Construction/ Renovation	1,350,000.00	1,364,022.00	14,022.00
Land	0.00	0.00	0.00
Site Work	0.00	0.00	0.00
Fixed Equipment	0.00	0.00	0.00
Non-Fixed Equipment	0.00	0.00	0.00
Contingency	33,250.00	0.00	(33,250.00)
Fees (Architectural, Consultant, etc.)	0.00	33,250.00	33,250.00
Capitalized Interest	0.00	0.00	0.00
Capital Improvement	142,000.00	142,000.00	0.00
Other (Additional Software Cost and Inflation)	0.00	0.00	0.00
Total Capital Expenditure	\$1,525,250.00	\$1,539,272.00	\$14,022.00

2. Line-Item Justification for increase (or decrease).

The Applicant states the increased capital expenditure is attributable to inflation in construction labor and material costs.

a. Capital Expenditure made to date and percentage of completion:

According to the Applicant, the expenditure made to date totals \$1,539,272.00, which represents a \$14,022.00 or 0.9% increase

over the original approved capital expenditure. The Applicant states the project is 100% complete.

3. Revised Operating Statement:

The Applicant's application included a revised operating statement.

4. Sources of Financing.

- a. **Loan/Lease amount, interest rate, term of loan, and payment/lease amount:** The Applicant asserts the financing details associated with the project have not changed. Oceans states financing the proposed project will be through its existing reserves.
- b. **Loan amortization schedule:** The Applicant affirms this item is not applicable.

5. Audited or un-audited financial statements.

The Applicant's application included an un-audited financial statement.

6. Depreciation Schedule.

The Applicant's application included their depreciation schedule.

7. Effect on Medicaid patients; Medicare patients and other payers.

The Applicant states there is no anticipated impact on Medicare, Medicaid, or other payors.

B. Method of Financing

In its original CON application, the Applicant proposed to finance the project with existing reserves. According to the Applicant, there are no financing changes associated with the cost overrun.

C. Effect on Operating Cost

See Attachment 1 for Proposed Year 1 Projected Operating Statement.

D. Cost to Medicaid/Medicare

The Applicant submits the minor cost overrun will not impact Medicare or Medicaid patients or other payors. The cost to Medicaid/Medicare and other payors as presented in the original application is listed below.

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	(232%)	(\$263,418.00)
Medicaid	233%	\$264,173.00
Commercial	74.00%	\$83,663.00
Self Pay	26%	\$29,128.00
Charity Care	0%	\$0
Other	0%	\$0
Total	100.00%	\$113,546.00

*Totals may differ due to rounding

IV. COMPLIANCE WITH THE STATE HEALTH PLAN, POLICIES AND PROCEDURES

A. State Health Plan (SHP)

The FY 2020 Mississippi State Health Plan (the “FY 2020 MSHP”) was in effect at the time the original CON application was submitted. The original application was found to be in substantial compliance with the FY 2020 MSHP, and the cost overrun project continues to be in substantial compliance with the FY 2022 MSHP.

B. General Review (GR) Criteria

The Mississippi Certificate of Need Review Manual, September 1, 2019, Revision (the “CON Review Manual”) was in effect at the time the original CON application was submitted to the Department, and the original proposed project was found to be in compliance with the CON Review Manual. In addition, the cost overrun proposed project is also in substantial compliance with the the Certificate of Need Review Manual, November 11, 2023, Revision.

Chapter 6, Section 6.6, of the *CON Review Manual* contains guidelines by which cost overrun projects are reviewed. The Applicant’s Cost Overrun Application is in substantial compliance with Chapter 6, Section 6.6, of the *CON Review Manual* as explained below.

1. Construction Projects:

- a. **Revised Estimate**: The Applicant states the project does not require renovation. The Applicant confirms the project is 100% complete.
 - b. **Method Used to Determine Cost Estimate**: The Applicant states it expended \$1,539,272.00, which exceeds the \$1,525,250.00 approved capital expenditure by approximately 0.9% or \$14,022.00. According to the Applicant, the increased capital expenditure is attributable to inflation in construction labor and materials costs.
 - c. **Revised Expenditure Summary**: See the Revised Capital Expenditure Summary Table in the Financial Analysis section of this Staff Analysis.
2. **Purchase of Equipment**: The Applicant confirms the cost overrun does not involve the purchase of additional equipment.
 3. **Construction Cost**: The Applicant affirms the cost overrun application does include construction cost and architect fees as well as project labor and materials, due to inflation.
 4. **Licensure and Certification Requirements**: The Applicant affirms there are no additional licensure and certification requirements associated with its cost overrun request.
 5. **Fee Calculation**: The Applicant's Cost Overrun Application included the appropriate fee amount.

Chapter 8 of the *Mississippi Certificate of Need Review Manual (November 11, 2023, Revision)* addresses general criteria by which all CON applications are reviewed. The Applicant's Cost Overrun Application is in substantial compliance with the general review criteria contained in Chapter 8 of the *CON Review Manual*.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided with a copy of this application for review and comment. As of June 17, 2024, the Division has not commented on this project.

VI. CONCLUSION AND RECOMMENDATION

The Applicant's original project was found to be in substantial compliance with the criteria and standards for the provision of Post-Traumatic Stress Disorder (PTSD) Services and the Addition of Ten (10) PTSD Psychiatric Beds as contained in the *FY 2020 MSHP*, in effect at the time of submission. The cost overrun project continues to be in compliance with the *FY 2020 MSHP* and is also in compliance with the *FY 2022 MSHP*. The cost overrun project also continues to be in compliance with the *Mississippi Certificate of Need*

Review Manual, November 11, 2023, Revision and the duly adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Oceans Behavioral Hospital of Biloxi, LLC for a Cost Overrun to CON No. R-0983, for the Provision of Post- Traumatic Disorder Services and Addition of Ten (10) Psych. Beds. The Cost Overrun will increase the original approved capital expenditure from \$1,525,250.000 to \$1,539,272.00, an increase of \$14,022.00.

Attachment 1

**Oceans Behavioral Hospital of Biloxi, LLC
Provision of Post-Traumatic Stress Disorder (PTSD) Services and
Addition of Ten (10) PTSD Psychiatric Beds**

One-Year Projected Operating Statement Service Only

	Year 1
Revenue	
Inpatient Care Revenue	\$ 1,566,567
Outpatient Care Revenue	
Gross Patient Care Rev.	
Charity Care	-
Deductions for Revenue	\$ 115,049
Net Patient Care Revenue	<u>\$ (115,049)</u>
Other Operating Revenue	627,961
Total Operating Revenue	<u>\$ 512,912</u>
Operating Expenses	
Salaries	\$ 609,422
Benefits	67,714
Supplies	71,712
Services	78,131
Lease	-
Depreciation	-
Interest	-
Other	477,186
Total Operating Expenses	<u>\$ 1,304,164</u>
Net Operating Income (Loss)	<u>\$ (791,253)</u>
Inpatient Days	1,945
Outpatient Days	-
Procedures	-
Charge per outpatient day	0
Charge per inpatient day	\$ 1,069
Charge per procedure	0
Cost per inpatient day	\$ 671
Cost per outpatient day	0
Cost per procedure	0