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DEC 03 2008

STATE HEALTH PLANNING
AND DEVELOPMENT AGENCY



Coffee Health Group

ECM Hospital
Shoals Hospital
ECM East Diagnostic
& Rehab Center

Alva M. Lambert
Executive Director
State Health Planning and Development Agency
P.O. Box 303025
Montgomery, AL 36130-3025

Re: Coffee Health Group and Eliza Coffee Hospital
Emergency Project Modification: AI-2007-018

Dear Mr. Lambert:

Please accept this correspondence as a Notice of Request for an Emergency Project Modification for AI-2007-018 that was approved by the Certificate of Need Review Board on September 17, 2008. The emergency scope of this request is as follows:

- This request will allow for expedited access to psychiatric services for the geriatric population in the service area by making geriatric services available by March 2009 approximately fifteen months sooner than the original plan which included the construction of a new facility. Geriatric patients must now leave the service area for inpatient geriatric service causing great anxiety to patients and family to say nothing of the cost of travel.
- Many of the geriatric patients must go to Birmingham which has recently lost beds with the closure of Carraway Hospital. By granting this emergency request for modification the critical load on other facilities and emergency rooms including those in Birmingham will be eased sooner.
- As reflected in testimony in the November Certificate of Need Review Board hearing, Psychiatrists are hard to recruit and maintain in outlying areas such as our service area. The current Psychiatrists on staff at Coffee Health Group were recruited with the understanding that there would be an effort to serve more patients including geriatric inpatients and outpatients. We began this process eighteen months ago and need to expedite the process so as not to lose the Psychiatrists we have.
- The requested modification will reduce the expenditure associated with this project by \$9,447,000 as reflected on Attachment 2.

GENERAL

The original request was for fifty (50) new inpatient psychiatric beds to complement ECM's thirty-four (34) existing beds for a total capacity of eighty-four (84) beds. The CON Review Board approved sixteen (16) new beds (reduced from the 50 beds requested) and, with the thirty-four (34) existing beds provides a total capacity of fifty (50) beds. The Alabama Certificate of Need Rules and Regulations, found at 410-1-10-.03, require a request for a project modification after issuance of a certificate of need for a proposed change in the bed capacity from one location to another. The reduction by the CON Review Board of thirty-four (34) beds from the fifty (50) beds in the application requested by Coffee Health Group and ECM initiated this request for an emergency project modification. This request will relocate thirty (30) psychiatric beds to Shoals Hospital to be designated as geriatric psychiatric beds.

Background:

On November 3, 2008 the State Health Planning and Development Agency (SHPDA) issued a certificate of need for sixteen (16) additional inpatient psychiatric beds for project AI-2007-018 to Coffee Health Group and ECM Hospital. The project highlights are summarized below:

1. Coffee Health Group consists of Eliza Coffee Memorial Hospital, a facility licensed for 372 beds located in Florence, Alabama in Lauderdale County and Shoals Hospital, a facility licensed for 148 beds located in Muscle Shoals, Alabama in Colbert County. The two facilities are located approximately five (5) miles apart. On April 2, 2007, Coffee Health Group filed a certificate of need application to construct a new fifty (50) bed psychiatric facility on property adjacent to ECM in Florence, Alabama.
2. ECM's licensed capacity is 372 beds which includes 34 existing acute psychiatric beds. ECM has been providing acute psychiatric services to the community since 1970. Shoals Hospital licensed capacity is 148 medical and surgery beds. Both facilities provide emergency care.
3. The total cost associated with the project was \$18,845,291 including \$9,850,000 for construction, \$875,000 for equipment and \$8,120,291 for first year annual operating cost.
4. The inpatient psychiatric services proposed in the application included the provision of a separate unit for geriatric care that could range from 18 to 60 beds.
5. Coffee Health Group's management team includes the joint administration of ECM and Shoals Hospital.
6. The primary service area in the application includes Lauderdale, Colbert and Franklin counties.
7. Both, ECM and Shoals Hospital provide services to the community regardless of the ability to pay.

Proposed Modification:

The proposed modification provides the opportunity for quicker access to services for patients and families as well as at a substantial cost savings over that presented in the original application. The modified cost of the project will be REDUCED by approximately \$9,447,000 and this modification proposal can be implemented by March 15, 2009 expediting access to care for the residents of the area. The modification will maintain all the services and patient accessibility provided in the original application. The proposed modification will meet the required review criteria, community service objectives, allow for all persons to be served regardless of the ability to pay, be completed within a limited time frame, continue to support the emergency services and assist in supporting the acute care services for ECM and Shoals Hospital.

Specifically, Coffee Health Group proposes to locate the 16 psychiatric inpatient beds approved by the CON Review Board as well as 14 of the licensed psychiatric beds located at ECM to Shoals Hospital. The 30 bed total located at Shoals Hospital will be dedicated to a geriatric psychiatric care unit while the 20 bed total located at ECM will continue support its current patient population. The number of licensed beds at Shoals Hospital will be 178 and the licensed beds at ECM will be 358.

The quality of care and accessibility of geriatric psychiatric services for the general public and geriatric patients at Shoals Hospital will be fully supported by the three full time psychiatrists currently providing inpatient psychiatric services at ECM. Additionally, CHG is in the process of recruiting a fourth psychiatrist. The admission and charitable health care policies will remain in force.

The financial feasibility of the project will be enhanced through the tremendous reduction in cost through the renovation of existing space and converting existing beds rather than constructing a new facility. The proposed modification will be approximately a 50% savings in cost and completed in a significantly shorter time period. The State Health Plan Planning Policy 410-2-4-.10 (3) (a) recognizes that the conversion of existing hospital beds to psychiatric beds should be given priority over new construction when the conversion is significantly less costly and the existing structure can be adopted economically to meet licensure and certification requirements.

The impact on the northwest Alabama Healthcare System will be favorable by allowing the existing providers to provide a geriatric psychiatric care unit for the community.

The renovation at Shoals Hospital would include 13,808 square feet (GSF). The total cost for the renovation of existing beds at Shoals Hospital will be \$850,000. See Attachment 1: Schematics.

A table showing the approved project cost, together with the estimated cost of the proposed emergency modification is provided in Attachment 2.

The proposed modification project will maintain the consistency with the certificate of need review criteria provided in the original application and mandated in the ruling of the CON Review Board on November 3, 2008 and be more financially responsible in light of the unforeseen reduction in beds.

There will not be any new or additional services provided as a result of this proposed modification. In fact, the overall planning of the services will provide the quality services proposed in the original application. The proposal will provide the benefits of a specific unit for geriatric psychiatric care in the area without a detriment to the overall provision of psychiatric care for all residents regardless of age or income.

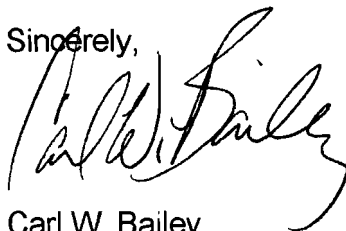
A significant factor is that the emergency modification will allow the much needed care to be provided in an expeditious manner in facilities that are accredited by the Joint Commission. March 15, 2009 is the target day for the services to be initiated. Any disruptions to the existing services will be minimal, if any.

The approval of this project modification will allow Coffee Health Group, both ECM and Shoals Hospitals to continue to provide charitable and uncompensated care to the community, and in these perilous economic times add much needed services at a significant savings. In summary, it is more practical and less expensive.

Based upon the facts presented herein, Coffee Health Group respectfully requests the project modification for CON AL 2007-018 be granted.

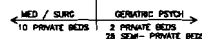
Please contact me if any further information is required.

Sincerely,

A handwritten signature in black ink, appearing to read 'Carl W. Bailey', written over the word 'Sincerely,'.

Carl W. Bailey
Chief Executive Officer

Attachment 1 Schematics



0 10' 20' 40'



GERIATRIC PSYCH - 30 BEDS
BEDS - 2 PRIVATE
BEDS - 28 SEMI-PRIVATE

MED / SURG - 10 BEDS
BEDS - 10 PRIVATE
BEDS - 0 SEMI-PRIVATE
BEDS - 0 ISOLATION

TOTAL - 40 BEDS

DEXT TITLE
THIRD
FLOOR PLAN

SHEET NUMBER
4
OF
5

Attachment 2 Project Cost

IV. COST

A. Construction (includes modernization, expansion)	Approved AL-2007-18	Modification	Increase Decrease
1. Predevelopment	\$		
2. Site Acquisition	600,000	0	<600,000>
3. Site Development	500,000	0	<500,000>
4. Construction	8,000,000	0	<8,000,000>
5. Architect and Engineering Fees	500,000	75,000	<425,000>
6. Renovation		775,000	775,000
7. Interest during time period of construction			
8. Attorney and Consultant Fees	250,000	0	<250,000>
9. Bond issuance Costs			
10. Other surveys			
11. Other _____			
TOTAL COST OF CONSTRUCTION	\$ 9,850,000	\$ 850,000	\$ <9,000,000>
B. Purchase*			
1. Facility	\$		
2. Major Medical Equipment	600,000	0	<600,000>
3. Other Equipment	275,000	125,000	<150,000>
TOTAL COST OF PURCHASE	\$ 875,000	\$ 125,000	\$ <750,000>
C. Lease			
1. Facility Cost Per year ____ x ____ Years =	\$		
2. Equipment Cost Per Month ____ x ____ Months =			
3. Land-only Lease Cost Per year ____ x ____ Years =			
TOTAL COST OF LEASE(S)	\$ -0-		
(Compute according to generally accepted accounting principles)			
Cost if Purchased	\$ N/A		
D. Services			
1. <u> X </u> New Service			
2. <u> </u> Expansion			
3. <u> </u> Reduction or Termination			
4. <u> </u> Other			
FIRST YEAR ANNUAL OPERATING COST	\$ 8,120,291	\$ 8,422,658	\$ 302,367
E. Total Cost of this Project (Total A. through D.)	\$ 18,845,291	\$ 9,397,658	\$ <9,447,633>

IV. COST (continued)

A.	Proposed Finance Charges	
1.	Total Amount to Be Financed	\$ _____
2.	Anticipated Interest Rates	_____
3.	Term of Loan	_____
4.	Method of Calculating Interest on Principal Payment	_____

V. ANTICIPATED SOURCE OF FUNDING

A.	Federal	Amount	Source
1.	Grants	\$ _____	_____
2.	Loans	_____	_____
B.	Non-Federal		
1.	Commercial Loan	_____	_____
2.	Tax-exempt Revenue Bonds	_____	_____
3.	General Obligation Bonds	_____	_____
4.	New Earning and Revenues	_____	_____
5.	Charitable Fund Raising	_____	_____
6.	Cash on Hand	\$ 9,397,658	_____
7.	Other	_____	_____
C.	TOTAL (should equal IV-E on page A-3)	\$ 9,397,658	

VI. TIMETABLE

A.	Projected Start/Purchase Date	<u>7 Days after Modification approval</u>
B.	Projected Completion Date	<u>March 15, 2009</u>

PART THREE: CONSTRUCTION OR RENOVATION ACTIVITIES

Complete the following if construction/renovation is involved in this project. Indicate N/A for any questions not applicable.

I. ARCHITECT J. Stanley Tomblin

Firm SKT Architects, PC

Address 417 East Mobile Street

City/State/Zip Florence, Alabama 35630

Contact Person J. Stanley Tomblin

Telephone (256) 764-8861

Architect's Project Number 08F601

II. ATTACH SCHEMATICS AND THE FOLLOWING INFORMATION

A. Describe the proposed construction/renovation

Minor alternations and renovations to existing medical/surgical nursing floor at Shoals Hospital to accommodate Geriatric Psychiatric Unit: Ceilings, Painting, Bathroom Modification, Removing walls to create Dining/Recreation Space.

B. Total gross square footage to be constructed/renovated 13,808

C. Net useable square footage (not including stairs, elevators, corridors, toilets) 10,039

D. Acres of land to be purchased or leased N/A

E. Acres of land owned on site N/A

F. Anticipated amount of time for construction or renovations 3 (months)

G. Cost per square foot \$ 60.70

H. Cost per bed (if applicable) \$ 28,333.00

Attachment 3
Financial Information

V. A. ORGANIZATION FINANCIAL INFORMATION

STATEMENT OF INCOME AND EXPENSE	HISTORICAL DATA			PROJECTED DATA	
	FY2004	FY2005	FY2006	FY2009	FY2010
Revenue from Services to Patients					
Inpatient Services					
Routine (nursing service areas)	330,103,292	349,168,998	355,330,048	364,913,005	367,796,505
Other				4,626,179	6,155,529
Outpatient Services	126,660,955	162,839,572	200,248,173	212,154,370	212,154,370
Emergency Services				-	-
Gross Patient Revenue	456,764,247	512,008,570	555,578,221	581,693,554	586,106,404
Deductions from Revenue					
Contractual Adjustments	292,277,744	338,011,775	375,067,201	394,541,730	396,372,195
Discount/Miscellaneous Allowances					
Total Deductions	292,277,744	338,011,775	375,067,201	394,541,730	396,372,195
NET PATIENT REVENUE (Gross patient revenue less deductions)	164,486,503	173,996,795	180,511,020	187,151,824	189,734,209
Other Operating Revenue	2,545,919	1,808,388	1,866,348	1,913,779	1,913,779
NET OPERATING REVENUE	167,032,422	175,805,183	182,377,368	189,065,603	191,647,988
OPERATING EXPENSES					
Salaries, Wages and Benefits	54,705,859	53,175,417	57,078,453	61,768,397	62,343,740
Physician Salaries and Fees				926,485	940,382
Supplies and other	28,067,875	30,169,789	33,789,110	31,136,956	31,156,119
Uncompensated Care (less recoveries) per State Health Plan 410-2-2-.06(d)	41,802,406	46,029,743	47,653,921	53,899,145	53,899,145
Other Expenses	34,770,760	34,713,737	36,185,094	35,531,679	35,580,133
Total Operating Expenses	159,346,900	164,088,687	174,706,578	183,262,662	183,919,519
NON-OPERATING EXPENSES					
Taxes				-	-
Depreciation	6,849,542	6,883,632	7,253,355	7,812,509	7,812,509
Interest (other than mortgage)				-	-
Existing Capital Expenditures - Amortization	347,512	206,233	204,662	203,063	203,063
Interest				-	-
Lease Payments				-	-
Total Non-Operating Expenses	7,197,054	7,089,865	7,458,017	8,015,572	8,015,572
TOTAL EXPENSES (Operating & Capital)	166,543,954	171,178,552	182,164,595	191,278,234	191,935,091
Operating Income (Loss)	488,468	4,626,631	212,773	(2,212,631)	(287,103)
Other Revenue (Expense) - Net	499,102	1,044,248	1,894,783	2,451,740	2,451,740
NET INCOME (Loss)	987,570	5,670,879	2,107,556	239,110	2,164,638
Projected Capital Expenditure					
Interest					

V. B. PROJECTED SPECIFIC FINANCIAL INFORMATION

STATEMENT OF INCOME AND EXPENSE	HISTORICAL DATA			PROJECTED DATA	
	FY2004	FY2005	FY2006	FY2009	FY2010
Revenue from Services to Patients					
Inpatient Services					
Routine (nursing service areas)				8,722,390	11,605,890
Other				4,626,179	6,155,529
Outpatient Services				-	-
Emergency Services				-	-
Gross Patient Revenue	-	-	-	13,348,569	17,761,419
Deductions from Revenue					
Contractual Adjustments				3,359,400	5,189,865
Discount/Miscellaneous Allowances					
Total Deductions	-	-	-	3,359,400	5,189,865
NET PATIENT REVENUE					
(Gross patient revenue less deductions)	-	-	-	9,989,169	12,571,554
Other Operating Revenue					
NET OPERATING REVENUE	-	-	-	9,989,169	12,571,554
OPERATING EXPENSES					
Salaries, Wages and Benefits				3,662,121	4,237,464
Physician Salaries and Fees				926,485	940,382
Supplies and other				194,372	213,535
Uncompensated Care (less recoveries) per State Health Plan 410-2-2-.06(d)				2,813,640	2,813,640
Other Expenses				791,040	839,494
Total Operating Expenses	-	-	-	8,387,658	9,044,515
NON-OPERATING EXPENSES					
Taxes				-	-
Depreciation				35,000	35,000
Interest (other than mortgage)				-	-
Existing Capital Expenditures				-	-
Interest				-	-
Lease Payments				-	-
Total Non-Operating Expenses	-	-	-	35,000	35,000
TOTAL EXPENSES (Operating & Capital)	-	-	-	8,422,658	9,079,515
Operating Income (Loss)	-	-	-	1,566,512	3,492,040
Other Revenue (Expense) - Net				-	-
NET INCOME (Loss)	-	-	-	1,566,512	3,492,040
Projected Capital Expenditure					
Interest					