Montana project moves mountains

'NECESSARY PROVIDER' RELOCATES AND STILL RECEIVES $29.25M FHA LOAN

The $30 million, 25-bed North Valley Hospital in Whitefish, Mont. (shown while under construction last November) was the first Critical Access Hospital (CAH) that was allowed by the Centers for Medicare and Medicaid (CMS) to rebuild in a non-adjacent location. The new 84,000 square foot facility opened in March.

Photo courtesy of North Valley Hospital

By Sonja Pedersen-Green

The new, $30 million North Valley Hospital (NVH) is up and running quite nicely, thank you, in Whitefish, Mont., a growing city in an area rife with outdoor recreational opportunities and ski resorts.

PROJECT CASE STUDY

But the building of the new 25-bed, 84,000 square foot hospital outside of town on U.S. Highway 93 and Montana State Highway 40 was not as easy as 1-2-3. As things turned out, North Valley was the first Critical Access Hospital (CAH) that was allowed by the Centers for Medicare and Medicaid (CMS) to rebuild in a non-adjacent location.

Getting through all of the hurdles was quite a long and arduous process for North Valley, and its FHA mortgage lender, Springfield, Pa.-based InnoVative Capital LLC, an independently-owned mortgage banking and financial advisory firm that focuses on rural and community hospitals, as well as other healthcare real estate projects.

Back in 2002, North Valley administrators faced their first predicament. They'd come to the conclusion that the 30-year-old North Valley facility, which had been remodeled in the early 1970s, needed to be rebuilt or replaced.

Should they remodel and face shutting down parts of the hospital for up to two years, or should they rebuild on a different site and incur greater costs? The hospital's board decided that rebuilding was the better option, even though it did not look like rebuilding – at least at that time – was financially feasible.

It was at about that time, however, when Brentwood, Tenn.-based QHR, NVH's hospital management company, was analyzing the possibility of a rebuilding project. QHR working with InnoVative Capital determined that if the facility were converted to a CAH, which would provide additional Medicare and Medicaid reimbursement funds, relocating and rebuilding would indeed be feasible.

However, because the facility did not initially meet CMS's regulations to qualify as a CAH, North Valley officials turned to the state to obtain a waiver.

Prior to Dec. 31, 2005, hospitals were able to obtain waivers from their respective states in order to be deemed a "necessary provider," which allows them to receive the higher Medicare and Medicaid payments without having to meet all of the CMS requirements.

Obtaining a waiver from the state of Montana was on par with going through a "municipal process," according to Alan P. Richman, the president and CEO of InnoVative Capital.

Typically, in order for a hospital to be

deemed a CAH, it must have 25 beds or fewer and be more than 35 miles from another hospital. However, in areas where only secondary roads are available, a designated CAH must be more than 15 miles from the next closest hospital.

The site that North Valley had chosen for its replacement was just 13 miles from the nearest hospital, the 150-bed Kalispell Regional Medical Center in Kalispell, Mont. Within the last couple of years, Kalispell Regional had completed a major expansion that increased the size of the facility to about 330,000 square feet. North Valley's new site was a mile closer to Kalispell Regional than its former site.

However, because Montana agreed to deem North Valley as a "necessary provider," the hospital was granted CAH status in 2003 and was given greater flexibility in its rebuilding options, according to Mr. Richman. North Valley was also allowed to move its facility from its site in town to a non-adjacent site without losing its CAH designation and without losing the Medicare and Medicaid payments necessary to help fund the rebuilding.

Support from another

In order to obtain U.S. Department of Housing and Urban Development (HUD) approval and FHA Section 242 Mortgage Insurance to secure low-interest financing for the project, at the suggestion of InnoVative Capital, North Valley enlisted the help of none other than Kalispell Regional and its president and CEO, Velinda Stevens.

According to Mr. Richman, Ms. Stevens' support and efforts were crucial in North Valley's quest for the necessary approvals. Ms. Stevens not only wrote a letter recommending the project, she also attended a HUD meeting in support of North Valley.

Mr. Richman notes that the area is growing so much that it needs two quality hospitals to keep up with demand and that Kalispell Regional understood that.

Just as it looked like the project was moving forward in mid-2005 – while North Valley was awaiting HUD's approval of InnoVative Capital's FHA 242 mortgage insurance application – a major complication arose. It was at that time that CMS proposed a new regulation that would revoke the CAH status for any necessary provider hospital that relocated to a non-adjacent site – as North Valley was planning to do. The proposal would, if passed, make North Valley's move financially impossible as the cash-strapped hospital received about $1 million worth of additional annual revenue because of its CAH status.

The proposed regulations, according to Mr. Richman, were CMS's response to some hospitals using their state-granted "necessary provider" waivers to move closer to competing hospitals without suffering reimbursement repercussions.

"I do think there was abuse going on," Mr. Richman says. "But in this case the new hospital was definitely necessary to serve this growing area – even Kalispell Regional agreed and was in favor of the replacement."

A leap of faith

As winter approached and the status of the project was still up in the air, the people involved with the North Valley replacement project took a leap of faith and began preliminary construction on the site. Hospital officials and advisors – the construction contractor on the job was Kalispell-based Swank Enterprises – knew that work needed to be done before the ground froze and about eight months of construction time were lost. The architectural firm on the project was Nashville, Tenn.-based Johnson Johnson Crabtree Architects (JJCA).

In order to begin construction early, InnoVative Capital procured HUD's approval for North Valley to commence pre-FHA commitment site development, which North Valley funded with a $7 million loan from a local institution, Whitefish Credit Union.

The thinking was that if the project received the FHA mortgage insurance commitment, North Valley would not suffer financial losses due to lost time. The gamble, of course, lay in the fact that if the FHA commitment was never issued the hospital would lose the money spent on preliminary

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North Valley Hospital
WHITEFISH, Mont.

STATS
- Size: 25-bed, 84,000 square foot facility
- Cost: $30 million

PLAYERS
- Owner: North Valley Hospital, Whitefish, Mont.
- FHA 242 Mortgage Lender/Financial Advisor: InnoVative Capital LLC.
- Lenders: Whitefish Credit Union, Whitefish, Mont. ($7 million). The hospital also obtained a $29.25 million FHA Section 242-backed low-interest loan.
- Architect: Johnson Johnson Crabtree Architects, Nashville, Tenn.
- General Contractor: Swank Enterprises, Kalispell, Mont.

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construction. North Valley had paid $1.4 million for the 45-acre greenfield site where the replacement hospital was to be built.

In order to speed up the HUD approval process, North Valley administrators and InnoVative Capital lobbied U.S. Sen. Max Baucus (D-Mont.). In addition, the hospital started a grassroots campaign to drum up support – 4,000 letters were sent to CMS.

As things turned out, CMS enacted regulations in September 2005 that permitted necessary providers to relocate only if they met certain requirements – namely requirements that they'd met at their previous site in terms of patient treatment and maintenance of operations.

Because of North Valley's efforts and the support from Sen. Baucus, North Valley was the first CAH in the queue to begin construction when the new regulations passed, recalls Mr. Richman.

With the approval from CMS, InnoVative Capital underwrote North Valley's FHA Section 242 loan: a $29.25 million, 25-year direct loan. North Valley has since paid off the $7 million loan from Whitefish Credit Union and as of recent months was closing in on meeting the goal of a $6.3 million fundraising campaign.

As things turned out, North Valley became the first CMS-approved, necessary provider CAH relocation project. The approval was, in effect, a waiver for North Valley to build closer to the next nearest hospital.

As noted, Mr. Richman believes North Valley's move has not been an infringement on Kalispell Regional. Instead, he believes the new hospital brings added "vibrancy" to the area and is attracting more residents to the region, increasing the size of the communities served by Kalispell Regional and North Valley.

As noted in an article written by Mr. Richman and North Valley CEO Craig E. Aasved for the December 2006 issue of "Rural Roads", which is published by the National Rural Health Association, the area's newfound vibrancy is reflected in the price – $ 7 million – that the hospital received for the sale of its old, in-town facility. The price tag of $7 million was 700 percent higher than the hospital originally believed it could fetch. ❑

CAH program helps small hospitals to stay solvent

Critical access hospitals (CAH) are defined by the U.S. Center for Medicare and Medicaid Services (CMS) as small hospitals, limited to 25 beds, that primarily operate in rural areas. To qualify for the CAH program, a hospital must be more than 35 miles by primary road and 15 miles by secondary road from the nearest hospital or be declared a "necessary provider" by the state. CAHs must also have an annual average length of stay less than 96 hours per patient.

There are about 1,300 hospitals currently in the CAH program. Because of the ability of states to waive the distance requirement, entering the CAH program became an option for almost all small rural hospitals. However, the ability of states to waive the distance requirement was eliminated by the Medicare Prescription Drug Improvement and Modernization act of 2003, which took effect in January 2006.

Approximately 65 percent of those hospitals are between 15 and 35 miles from the nearest hospital. Some are less than 5 miles, and about 20 percent are more than 35 miles from an alternative source of care.

Becoming a CAH is attractive because of the different Medicare payment rate. Although Medicare pays for the same services at CAHs as at other acute care facilities, payments are not based on the type of services provided or the number provided. Instead, payments are based on each CAH's costs. Medicare pays each critical access hospital 101 percent of its allowable costs for most services.

This overall increase in payments reduces the number of rural hospital closings, as many hospitals are now able to remain financially solvent, while characterized as a normal acute care hospital, many hospitals struggled financially.

– By Sonja Pedersen-Green, with information obtained from the Medicare Payment Advisory Commission (MedPAC) and its Web site: www.medpac.gov.