

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
NOVEMBER 2004**

**CON REVIEW HG-RC-0804-037
SOUTH CENTRAL REGIONAL MEDICAL CENTER
CONSTRUCTION, RENOVATION AND EXPANSION
OF SURGICAL, CCU AND EMERGENCY ROOM DEPARTMENTS
CAPITAL EXPENDITURE: \$12,600,322
LOCATION: LAUREL, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

South Central Regional Medical Center (SCRMC) is a short-term, acute care, general hospital, publicly owned by Jones County. The hospital is governed by a seven-member Board of Trustees appointed by the Jones County Board of Supervisors.

SCRMC is licensed for 285 acute care beds, including 10 adult chemical dependency beds.

The occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the three most recent fiscal years at SCRMC are as follows (medical/surgical beds only):

**Utilization Data
South Central Regional Medical Center**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2001	50.74	5.42	39.71
2002	52.19	5.42	38.54
2003	53.88	5.11	39.45

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

B. Project Description

South Central Regional Medical Center requests Certificate of Need (CON) authority for construction, renovation, and expansion of the surgical department, emergency department, and critical care unit at South Central Regional Medical Center. The proposed project will encompass a total of 82,164 square feet of space, to include 49,181 square feet of new construction and 32,983 square feet of renovated space. The applicant indicates that the proposed project involves renovation to both the ER and the OR while expanding the areas of both to better serve the patients of the area. New equipment will be provided for the areas as needed. Due to increased ER volumes and the clinical demands of SCRMC's surgical patients, both of these areas will be increased in size. The project will shell in the area above surgery for future expansion of the critical care unit. * SCRMC currently has six surgery suites and three procedure rooms. According to SCRMC, there will be no additional surgery suites or procedure rooms as a result of the proposed project. The applicant states that the ER was renovated about nine years ago, and the surgical area has not had a major renovation in over 20 years.

* **Source:** Application for Renewal of Hospital License for Calendar Year 2004 and FY 2003 Annual Hospital Report.

The following profile the new construction and renovation areas of the proposed project:

Department	New Construction	Renovation
Surgery Department	14,424	16,240
Emergency Department	9,633	16,743
ICU/CCU shell and Helipad Provisions	17,320	-0-
Emergency Canopy and Parking	7,800	-0-
Total Square Footage	49,181 (59.86%)	32,983 (40.04%)

According to the applicant, no new health care services are requested in this proposed project.

According to SCRMC, no material changes are anticipated in the use of ancillary or support services as a result of the proposed project. Any changes attributable to this project can be absorbed in existing operations.

The total proposed capital expenditure is **\$12,600,322** and of that amount, approximately 40 percent is for new construction; 20 percent for renovation; 16 percent for non-fixed equipment; 4 percent for fees (architectural, consultant, etc.); 2 percent for contingency reserve; 15 percent for capitalized interest and 3 percent for other cost (canopy, parking, and helipad). The applicant indicates that \$8,000,000 of the proposed capital expenditure will be financed through a commercial bank loan, and \$2,000,000 will be through a three year capital

lease and the remaining \$2,600,322 of the capital expenditure will be financed through accumulated cash reserve allocated to the proposed project. The application contains a letter from Bancorp South Bank, Laurel, stating its willingness to finance \$8,000,000 with an additional \$2,000,000 available for additional leases for the project.

The applicant indicates that upon Certificate of Need approval, the capital expenditure for the proposed project will be obligated in January, 2005. It is anticipated that the project will be completed by June, 2007.

The application contains a letter from the Division of Health Facilities Licensure and Certification approving the site for the proposed project.

II. TYPE OF REVIEW REQUIRED

Construction/renovation/relocation and expansion projects are reviewed in accordance with Section 41-7-191, subparagraphs (1)(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, 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 December 6 , 2004

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

A. State Health Plan (SHP)

The **Fiscal Year 2005 State Health Plan** addresses policy statements, criteria and standards which an applicant is required to meet before receiving CON authority for construction/renovation/relocation and expansion projects.

SHP Criterion 1 - Need

The need criterion contained in the 2005 State Health Plan states that an "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 consulting firms, and deficiencies cited by accreditation agencies (JCAHCO, CAP, etc.)."

According to the applicant, the long range plan of SCRMC includes providing quality healthcare service to the citizens of the service area. The services include emergency services including active participation in the trauma system, surgical services and critical care services. These are vital services that are included in SCRMC core competencies/services.

According to SCRMC, the age and condition of the facilities necessitate the need for the proposed project.

In order to demonstrate the need for this renovation and expansion, SCRMC offers the following information:

Emergency Department

The emergency room has not been renovated in over nine years and is much in need of a renovation. The floors, ceilings, and walls are much in need of renovation and replacement. The services that SCRMC performs in terms of the number of visits from its patients, have caused excessive usage of the limited space that we have available for emergency services. The applicant asserts that SCRMC is currently experiencing approximately 100 walk-outs a month because the facility does not have bed space in the emergency department in order to see the patients timely. Wait times can be excessive because of limits on the number of emergency room beds available. The expansion will alleviate this problem by adding beds within the emergency department. The ER visits have increased from 35,505 in 1995 to 53,521 in 2003.

Surgical Department

The surgical suite has not had a major renovation in over 20 years. There are many problems relating to the physical condition of the facilities. The walls, floors, and ceilings are much in need of replacement. In the surgery area, SCRMC is experiencing new surgical services that require additional surgery time and surgery starts. The applicant states that SCRMC can do this only with more, larger and more modern surgical suites. Surgeries have increased from 4,584 in 1995 to 6,227 in 2003. SCRMC also has a severe shortage of sterile area in which to store large pieces of equipment that are required for the surgical services that it offers. The expansion will also include the central sterile department that is better suited, being within the surgery area rather than in another part of the building. This will allow for quicker and more sterile access for supplies and sterilized instruments. This will provide better access for the staff and physicians. Due to infection control standards as dictated by the Center for Disease Control, Joint Commission and other professional organizations, SCRMC must correct its patient requirements. The proposed renovation will also include the primary surgery equipment common to all surgical suites: surgical lights, tables, monitors and electro-surgical equipment. Also included in the project is the much-needed enlargement of the pre-and post-operative (recovery) areas to be able to handle the surgical volumes that SCRMC is experiencing. The applicant projects 6,750 surgeries for fiscal year 2006, and 7,100 surgeries for fiscal year 2007 for the proposed project.

Critical Care Unit

According to the applicant, SCRMC plans to shell in the critical care unit for future expansion of that area. This area will be on the second floor directly above the surgery expansion. The applicant believes that SCRMC must get the work done at this time in order to not interrupt surgical services in the future with core drilling, major plumbing and other construction interruptions.

SCRMC projects the following utilization for surgery procedures and emergency visits for the next three years for the proposed project:

Projected Utilization

Number of Surgery Procedures	Number of Emergency Visits	Year
6,750	36,000	2006
7,100	36,500	2007
7,500	37,000	2008

The following table shows the number of surgical procedures, and emergency visits performed for fiscal years 2002 and 2003 at South Central Regional Medical Center:

Number of Surgery Procedures and Emergency Visits

	FY 2002	FY 2003
Surgery Procedures	5,561	6,227
Emergency Visits	55,058	53,521

Source: Applications for Renewal of Hospital License for Calendar Years 2003 and 2004, and Annual Hospital Reports for Fiscal Years 2002 and 2003.

SHP Criterion 3 - Charity/Indigent Care

According to applicant, cost of treating charity care patients exceeded 3.4 percent of gross patient revenue for each of the last three years, and SCRMC offers charity care as a regular function of its patient care services. The applicant asserts that the hospital does not exclude patients based on their ability to pay or payor source.

The applicant projects 3.1 percent for bad debt, and 3.4 percent for charity care patients of the total gross patient revenue after the implementation of the proposed project.

SHP Criterion 4 - Project Cost

SCRMC projects 49,181 square feet of new construction at an estimated cost of \$134.41 per square foot and 32,943 square feet of renovation at a cost of \$107.76 per square foot. **Means Building Construction Cost Data 2004** shows the low range per square foot cost of new construction to be \$139.

According to SCRMC, the total square footage of the present facility is 289,728 square feet. The cost of the proposed renovation does not exceed 85 percent of the cost of a replacement facility. The replacement option was not a viable one due to the integral nature of the departments and services. Facility's replacement cost would far exceed the proposed project cost.

B. General Review (GR) Criteria

Chapter 8, of the **Mississippi Certificate of Need Review Manual**, 2000 revisions, addresses general criteria by which all CON applications for Certificate of Need are reviewed. This application is in substantial compliance with applicable criteria.

GR Criterion 3 - Availability of Alternatives

According to the applicant, a completely new facility attached to the hospital was considered but was rejected due to monetary and space limitations. The second alternative considered was to renovate the areas without expanding. This was rejected since both service areas were not large enough to handle the volumes and growth that SCRMC has experienced since the last renovation of these clinical areas and anticipates to continue in the future.

GR Criterion 4 - Economic Viability

Three year operating projections reflect a first year net profit of \$39,500, a second year profit of \$27,875, and a third year profit of \$4,569, respectively for the proposed project.

The application contains a financial report which documents the applicant's financial ability to undertake the project.

GR Criterion 5 - Need

According to the applicant, all residents within the hospital service area will have access to the emergency room, operating room and critical care unit services. All residents requiring these services will be served. The proposed project will greatly improve the accessibility and the quality of health service that will be provided by South Central Regional Medical Center.

As previously mentioned, the need for the proposed project is due to increase emergency room volumes and the clinical demands of SCRMC's surgical patients, both of these areas will be increased in size. The project will also allow for future expansion of South Central Regional Medical Center critical care unit. The applicant indicates that the emergency room was renovated nine years ago, the surgical area has not had a major renovation in over 20 years.

The applicant believes that the proposed project's most significant adverse impact would be to SCRMC's patients that are inconvenienced by long wait times in the emergency department due to lack of available beds. If the surgery area is not renovated and expanded, South Central Regional Medical Center's operating room patients would not have the latest and most modern facilities to utilize.

The application contained three (3) letters of support/comments for the project.

GR Criterion 6 - Access to the Facility or Service

According to the applicant, all residents within the hospital service area do, and will, have access to the services of South Central Regional Medical Center, regardless of race, color, creed, religious preference, handicap, age, or ability to pay. SCRMC asserts that the hospital serves all residents and does not discriminate on any basis. SCRMC is a community hospital with a mission to serve all residents of its service area.

According to the applicant, SCRMC will serve Medicare, Medicaid and medically indigent patients as referred. Charity services are a large portion of its commitment to the community the hospital serves. Charity care for SCRMC exceed 3.4 percent for each of the last three years.

GR Criterion 7 - Information Requirement

The applicant affirms that it will record and maintain the requested information and make it available to the Mississippi State Department of Health within 15 days of request.

GR Criterion 8 - Relationship to Existing Health Care System

South Central Regional Medical Center is located in General Hospital Service Area 6 (GHSA 6), which contains 1,194 licensed acute care beds in the service area. This application does not propose new services in General Hospital Service Area 6.

Because no new services will be offered as a result of this project, staff concludes that this project should have no adverse affect on other providers in the referenced service area.

GR Criterion 9 - Availability of Resources

According to the applicant, the proposed project involves an addition of 4.7 full-time equivalent personnel at an estimated annual cost of \$164,000.

SCRMC asserts that the proposed project will be staffed by current employees. The increase in full-time equivalent personnel will be provided through normal recruiting methods.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant states that any additional ancillary services required will be easily absorded into the current structure at SCRMC. SCRMC will be able to support the new service within the current organizational structure for the proposed project.

GR Criterion 16 - Quality of Care

South Central Regional Medical Center is in compliance with the **Minimum Standards of Operation for Mississippi Hospitals**, according to the Division of Health Facilities Licensure and Certification.

The hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Construction - New	\$ 4,984,380
Renovation	\$ 2,466,180
Non-Fixed Equipment	\$ 2,000,000
Fees (Architectural, Consultant, etc.)	\$ 473,842
Contingency Reserve	\$ 394,520
Capitalized Interest	\$ 1,841,400
Other Cost (canopy, parking and helipad)	\$ 440,000
Total Capital Expenditure	\$ 12,600,322

The above estimated capital expenditure is proposed for construction, renovation, and expansion of the surgical department, critical care unit, and emergency department areas at SCRMC. The proposed project will add approximately 49,181 square feet of new space at an estimated cost of \$134.41 per square foot and 32,983 square feet of renovated space at a cost of \$107.76 per square foot. **Means Building Construction Cost Data 2004** shows the low range per square foot cost of new construction to be \$139. The proposal also includes the purchase of non-fixed equipment.

B. Method of Financing

The applicant proposes to finance \$8,000,000 of the proposed capital expenditure through a commercial bank loan, \$2,000,000 will be through a three years capital lease, and the remaining \$2,600,322 of the capital expenditure will be financed through accumulated cash reserve. The application contains a letter from Bancorp South Bank, Laurel, stating its willingness to finance \$8,000,000 with an additional \$2,000,000 available for additional leases for the project.

The audited financial statements contained in the application indicate that SCRMC has sufficient funds for the project.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization and results from operation for the first three years following completion of this proposed project:

Item	First Year	Second Year	Third Year
Salaries, Wages & Benefits	\$ 6,135,000	\$ 6,325,000	\$ 6,514,750
Professional Expenses	\$ 80,000	\$ 82,400	\$ 84,000
Supplies and Other	\$ 6,200,000	\$ 6,386,000	\$ 6,577,580
Depreciation & Amortization	\$ 1,110,000	\$ 1,143,300	\$ 1,175,000
Interest	\$ 445,000	\$ 458,350	\$ 472,101
General and Admin.	\$ 152,500	\$ 157,075	\$ 162,000
Total Expenses	\$14,122,500	\$14,552,125	\$14,985,431

Revenues

Gross Rev.	\$ 25,200,000	\$ 25,950,000	\$ 26,700,000
Deductions	\$(11,500,000)	\$(11,845,000)	\$(12,200,000)
Net Patient Rev.	\$ 13,700,000	\$ 14,105,000	\$ 14,500,000
Other Rev.	\$ 462,000	\$ 475,000	\$ 490,000
Total Rev.	\$14,162,000	\$ 14,580,000	\$ 14,990,000
Net Income	\$ 39,500	\$ 27,875	\$ 4,569

According to the applicant, the projected patient days, cost per day and charge per patient are not included due to the proposed project being primarily outpatient or specialized services.

D. Cost to Medicaid/Medicare

Payor Mix	Utilization Percentage	First Year Cost
Medicaid	16.23	\$ 2,292,082
Medicare	62.59	\$ 8,839,273
Other Payor*	21.18	\$ 3,078,705
Total	100.00	\$14,122,500

*The applicant projects 3.4 percent of gross patient revenues to be provided to charity, and 3.1percent to bad debt patients for the first years of operation.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid is not opposed to the approval of this application. According to the Division of Medicaid, the proposed project is expected to increase annual cost to Medicaid for the capital expenditure by \$301,057 for inpatient hospital services. Outpatient services are paid as outlined in the **Plan**.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the criteria and standards for construction, renovation, relocation and expansion of services as contained in the FY 2005 State Health Plan, the **Certificate of Need Review Manual**, revised 2000; and all 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 South Central Regional Medical Center.

(11/2004)

SCRMC

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