

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
NOVEMBER 2008**

**CON REVIEW HG-C-0808-029
NORTH SUNFLOWER MEDICAL CENTER
ADDITION OF A WELLNESS CENTER AND
REPLACEMENT OF OPERATING ROOM SUITES
LOCATION: RULEVILLE, SUNFLOWER COUNTY, MISSISSIPPI
CAPITAL EXPENDITURE: \$8,291,591**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

North Sunflower Medical Center (NSMC) is a 35- bed, short-term, general acute care, public hospital designated as a critical access facility. The hospital is owned by the Board of Supervisors, Sunflower County, and is presently governed by a five-member Board of Trustees. The facility provides healthcare services and programs ranging from short-term acute care to geriatric psychiatric services. North Sunflower Medical Center is certified to participate in the Medicare and Medicaid programs, and is licensed by the Mississippi State Department of Health (MSDH).

The facility is licensed for 25 acute care beds, and 10 geriatric psychiatric beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follows for the 35 beds:

Fiscal Year	Occupancy Rate (%)	ALOS (DAYS)	Medicaid Utilization Rate
2005	26.25	5.33	38.2
2006	33.29	11.65	2.50
2007	37.44	6.30	0.63

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

B. Project Description

North Sunflower Medical Center (NSMC) requests CON authority to expand/renovate 2,500 square feet of hospital space and construct 33,541 square feet of new space. This will entail renovating/expanding an existing area in the facility to relocate existing staff and services, connecting the new wellness center to the southeast wing of the hospital, relocating existing surgery suites to the new wellness building, and updating the surgery suites.

The administration department, physical and occupational therapy, and surgery services are currently in the existing hospital space and will be relocated to the new wellness center. In turn, the space will be expanded to include respiratory services, an outpatient treatment area for the emergency room, areas for nuclear stress testing and Doppler studies, and storage space.

The expansion process will involve installing new equipment, upgrading its existing surgery suite/service, and completing site work on level hospital ground. The applicant will use its existing parking areas and a circular driveway to gain entrance into the new wellness center.

Also, NSMC provided a letter from the architect to verify the estimated cost to complete the project. The applicant states that the cost of constructing/adding 33,541 square feet of new space in the existing hospital will be \$229.40 per square foot. The cost to renovate 2,500 square feet of space to the existing building will be \$113.41 per square foot. The applicant indicates that the total fixed and non-fixed equipment costs are \$426,925 and \$520,600, respectively.

The applicant includes a capital expenditure summary, a three-year projected operating statement, and an Audited Financial Report. The applicant states that the project will involve hiring 15.8 additional full-time equivalents at a cost of \$988,960. North Sunflower Medical Center will continue to have contractual and transfer/referral/affiliation agreements with six health care providers. The facility received site approval from the Mississippi State Department of Health, Division of Licensure and Certification.

To fund the project, Sunflower County will issue hospital revenue bonds to NSMC to secure a United States Department of Agriculture loan, and use accumulated cash reserves. Upon CON approval, the capital expenditure for the proposed project will be obligated by March 1, 2009, and the applicant anticipates the project to be complete by June 1, 2010.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction and renovation in accordance with Section 41-7-191, subparagraph (1) (j) Mississippi Code 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 of 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 December 8, 2008.

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

A. State Health Plan (SHP)

The *FY 2009 Mississippi State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and the acquisition of major medical equipment. This application is in compliance with applicable criteria and standards.

SHP Criterion 1- Need

The applicant states that North Sunflower Medical Center was constructed in 1949 and opened on September 20, 1950. The applicant feels the existing facility must be upgraded by adding space and renovating/expanding its existing facility to offer better healthcare to Sunflower County residents in General Hospital Service Area (GHSA) 2. Within recent years, NSMC has taken steps to upgrade services by evaluating the needs of the patients to make appropriate changes to the facility.

The applicant is one of 15 grantees of the Small Health Care Provider Quality Improvement Grant Program (SHCPQI). The grantees, the rural healthcare providers, utilize the support from the program to help rural residents gain access to healthcare. Other duties include enhancing the healthcare system, keeping track of data to assess the needs of the rural community, participating in SHCPQ workshops to obtain/share important healthcare data, etc. Sunflower County is located in the Mississippi Delta area. Reports reveal that county residents experience a high number of life threatening illnesses and diseases, high dropout rates in schools, receive low wages, and the county has a poverty rate of 30%. Among other significant obstacles, it is also considered a medically underserved area and is listed as a Health Professional Shortage Area (HPSA) by the Health Resources and Services Administration (HRSA).

North Sunflower Medical Center believes it is the facility's charge/duty to address the needs of the county and the Ruleville community by preventing illnesses such as diabetes, obesity, cardiovascular disease, and other diseases and illnesses. Since NSMC is a grantee, the facility's mission is to provide quality healthcare and improve the care of patients who suffer from chronic illnesses. Thus, the applicant feels the construction of a wellness center will better equip staff and healthcare professionals to educate the public on current healthcare topics, promote awareness, provide screenings, participate in disease management services, develop diet and exercise programs, monitor the progress of patients, and introduce other health benefits to the community.

To address the healthcare issues listed above, the applicant states that hospital administration, physicians, and staff managers discussed the current layout of the facility to help NSMC produce a master plan. In addition, the applicant employed consultants to provide NSMC with an architectural plan to embrace the hospital's long-term goals and visions. Based on recommendations submitted by NSMC consultants, a strategic plan to renovate/expand existing areas in the hospital and construct a wellness center was developed.

The applicant states the NSMC is not adding additional beds or services. Thus, this project will not have an adverse impact on existing facilities in GHSA 2.

SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation

The applicant asserts that this project does not involve transfer/reallocation/relocation of beds to another facility within GHSA 2; thus, this criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

The hospital has served patients who cannot financially meet their obligation to pay for services rendered; thus, the hospital affirms that it will continue to provide a “reasonable amount” of indigent/charity care as described in Chapter I of the *FY 2007 MSHP*.

SHP Criterion 4 - Cost of Proposed Project

Staff determined that the *2008 Means Construction Cost Data* publication lists the following cost ranges per square foot associated with hospital construction: low- \$172; median-\$212; and high-\$310. Using the *Means Construction Cost Data* book as a cost guide, the applicant states it will cost \$229.40 per square foot to construct 33,541 square feet of space. The *Means Construction Cost Data for 2008* does not compare costs for renovation projects; however, the applicant states that the cost to renovate 2,500 square feet of space in the existing building will be \$113.41 per square foot (See Attachment 2).

The applicant asserts that the total fixed equipment cost is \$426,925 and the non-fixed cost is \$520,600. North Sunflower Medical Center states in the CON application that the project does not exceed the median equipment cost for equipment of similar quality by more than 15%.

SHP Criterion 5 - Floor and Area Specifications

North Sunflower Medical Center proposes to construct 33,541 square feet of space and renovate 2,500 square feet of space. The applicant states that their specifications comply with state and national norms for similar projects regarding new critical access hospitals with 25 to 35 beds. The applicant notes that the existing hospital has architectural design restraints that will not allow the applicant to reconfigure or modernize its existing surgical suites. In this case, the applicant is only left with the option to construct a wellness center as an addition to the facility and relocate their existing operating suites to the new center. North Sunflower Medical Center does not list any “special

considerations due to local conditions.” Thus, the proposed project is comparable to both state and national norms for similar projects.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, February 23, 2008*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 2 - Long Range Plan

The applicant states that NSMC requested its consultant team to evaluate its facility to develop a long-range development plan to enhance the healthcare services at the hospital. All plans were presented to the Board of Trustees and the Board adopted a resolution on April 23, 2008 to apply for a CON to add a wellness center and move the surgery suites to the proposed center.

The long-range development plan of the NSMC is to continue to provide healthcare services in a modernized facility, ensure access, and deliver quality health care to all residents who live in GHSA 2, Sunflower County, and the Mississippi Delta region.

GR Criterion 3- Availability of Alternatives

The applicant considered keeping the facility in its existing state and renovating its existing surgery suites. Both alternatives were rejected because the existing hospital will continue to limit the facility from implementing a state-of-the art wellness program in the community and providing a quality surgery area. For the latter of the two, it would cost more money to complete major renovations to the surgery suites rather than relocating them to a new addition of the hospital. Thus, the applicant submits that renovating/expanding existing space and adding new space to the facility are the only cost effective options available to improve healthcare services and to provide access to healthcare for area residents.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement and indicated that net revenue over a projected three year period will increase from \$3,286,184 to \$4,139,725. The statement shows that the net income will increase from \$592,542 to \$961,218 over the same three year period (*due to rounding, the applicant's total in the CON application is off by \$1.00*). Based on the projections listed in the three-year operating statement and the audited financial report, all financial requirements will be met during the projected three years and thereafter.

Since this project involves constructing a new addition and renovating/expanding existing space, the applicant affirms the proposed costs and charges associated with the project are comparable to similar construction and renovation/expansion projects in the state (see Attachment 1).

The capital expenditure of the proposed project exceeds \$2,000,000; therefore, the applicant provided an audited financial report to verify that the proposed project will be financially viable. Based on the report, the project appears to be economically viable.

GR Criterion 5 - Need for the Project

The NSMC states the facility will serve all patients in GHSA 2 without respect to race, color, age, sex, ethnicity, or ability to pay. NSMC will operate 7 days per week, 24 hours per day.

The applicant contends that NSMC was designated as a Hill Burton facility and was constructed by federal government specifications, and at a later date, the hospital was updated. To be abreast of healthcare issues and healthcare trends, NSMC indicates there is a need to modernize the hospital so that patients can feel comfortable in taking part in preventing illnesses/diseases. North Sunflower Medical Center wants to close the disparities gap by providing access to healthcare, serve as a nerve center in the community to minimize or eliminate preventable illnesses, and allow the community as a whole to take positive steps to live healthier lives.

North Sunflower Medical Center believes the facility must be upgraded and additional space must be added to accommodate the residents of GHSA 2.

The applicant asserts this project does not involve relocating the facility or service; thus, current and projected utilization of like facilities or services within GHSA 2 is not applicable to this criterion.

Since NSMC is not adding additional beds or services; the applicant affirms this project will not have an adverse impact on existing facilities in GHSA 2.

Several endorsement letters from various community officials were included in the CON application dated August 29, 2008; however, the Department received one letter of comment from Bolivar Medical Center opposing the proposed project. According to the applicant, the community officials recognize that the NSMC complies with all federal regulations regarding community service and supports NSMC's efforts to serve all patients in GHSA 2 regardless of race, creed, sex, or ability to pay.

GR Criterion 6 -Accessibility

As previously stated, NSMC states the facility will serve all patients in GHSA 2 without respect to race, color, age, sex, ethnicity, or ability to pay. NSMC will operate 7 days per week, 24 hours per day.

GR Criterion 7- Information Requirement

North Sunflower Medical Center affirms that they will record and maintain the information required by this criterion and shall make the data available to the Mississippi State Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant states that NSMC is only enhancing their facility and will continue to provide services to the community. Thus, this project will not have an adverse impact on existing facilities in GHSA 2.

GR Criterion 9 - Availability of Resources

The applicant states that NSMC will maintain a full complement of professional and support staff for the provision of healthcare services within the facility. As a result of this project, the applicant indicates that 15.8 additional full-time equivalents will be required to operate the center. The estimated cost of additional personnel will be \$988,960.

North Sunflower Medical Center states that the hospital has demonstrated a successful staffing history and asserts that sufficient physicians, nursing, allied health, and support services are available to ensure proper implementation of this project.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that the project is not expected to have an adverse effect upon the delivery of ancillary health services.

GR Criterion 14 - Construction Projects

The Board of Trustees held a meeting on April 23, 2008, and took appropriate actions to apply for a CON in the amount of \$8,643,516. The architects and planners hired by the hospital submitted a cost estimate to show a proposed capital expenditure of \$8,643,516. The application includes a site approval letter from the Division of Health Facilities Licensure and Certification. The applicant includes a schematic drawing to show how the hospital will look after the expansion and renovation process is complete.

In addition, the applicant states that the project complies with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant has provided written assurance that NSMC will comply with state statutes and regulations for the protection of the environment.

Since hospital officials and consultants opted to add to the existing hospital and relocate their surgical suites to the new addition, a formula calculation was used by the hospital to show how much the proposed project will cost per square foot. The applicant states that the cost of constructing 33,541 square feet of new space to the existing building will be \$229.40 per square foot.

The cost per bed is below the low range for hospitals of this size as listed in the book titled *Building Construction Cost Data FY 2008*. According to the *Means Construction Cost Data*, the median cost for hospitals of this size is \$275,000 per bed and \$212 per square foot. Based on the numbers provided by the applicant and the construction cost formula listed in the *Plan*, staff determined it will cost \$233.87 per square foot to complete the new construction portion of the proposed project. The cost is closer to the medium range for construction costs.

The *Means Construction Cost Data for 2008* does not compare costs for renovation projects (see Attachment 3); however, a renovation formula was used by NSMC to show how much the proposed project will cost per square foot. The applicant states that the cost to renovate 2,500 square feet of space will be \$113.41 per square foot; however, staff determined it will cost \$111.42 per square based on the renovation formula listed in the *Plan* (see Attachment 2).

GR Criterion 16 - Quality of Care

The facility is certified to participate in the Medicare and Medicaid programs and is licensed by MSDH. The applicant states that NSMC has provided quality care to area residents for more than 50 years. To continue its efforts to serve area residents and patients, the applicant believes the proposed project will allow persons to take part in preventive healthcare methods to increase their quality of life.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ 5,687,000.00	65.80%
Construction Cost - Renovation	170,000.00	1.97%
Capital Improvements	0.00	0.00%
Total Fixed Equip Cost	426,925	4.94%
Total Non-Fixed Equip Cost	520,600	6.02%
Land Cost	0.00	0.00%
Site Prep Cost	275,000.00	3.18%
Fees (architectural, consultant, legal, CON filing fees)	\$726,286.00	8.40%
Contingency Reserve	596,200.00	6.90%
Capitalized Interest	241,505.00	2.79%
Other Cost	0.00	0.00%
Total Proposed Expenditures	\$ 8,643,516.00	100.00%

B. Method of Financing

To fund the project, Sunflower County will issue General Obligation (GO) Bonds to NSMC and in turn, the hospital will secure a United States Department of Agriculture loan and use accumulated cash reserves. An audited financial report demonstrates that NSMC has sufficient cash reserves to fund the project.

C. Effects on Operating Costs

The applicant projects gross patient revenue of \$4,497,191, \$5,171,769, and \$5,688,946 the first, second, and third year of operation, respectively, and expenses of \$3,193,642, \$3,260,369, and \$3,328,507 for the first three years of operation (*due to rounding, the applicant's total in the CON application is off by \$1.00*). Utilization, cost, and charges are included in the applicant's Three-Year Projected Operating Statement (See Attachment 1).

D. Cost to Medicaid/Medicare

Patient Mix	Utilization Percentage	First Year Gross Revenue
Medicare	95.0%	\$ 4,272,331.40
Medicaid	1.0%	44,971.91
Other Payors	<u>4.0%</u>	<u>179,887.61</u>
Total	100.0%	\$ 4,497,190.90

NSMC projects that 5.32% bad debt, medically indigent, and charity care are approximately of gross patient revenues.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, reimbursement for inpatient hospital services has changed and no longer affects per diem rates. Outpatient services are paid as outlined in the Medicaid State Plan. Thus, the Division does not oppose the application.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, and expansion projects as contained in the *2009 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, February 23, 2008*; 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 the North Sunflower Medical Center (NSMC).

ATTACHMENT 1

**North Sunflower Medical Center-Community Health, Wellness, and Surgery Center
 Three-Year Projected Operating Statement
 (Project Only)**

	First Year	Second Year	Third Year
Revenue			
Inpatient Care Revenue	\$ 453,76	\$ 521,82	\$ 574,01
Outpatient Care Revenue	4,043,42	4,649,94	5,114,93
Gross Patient Care Revenue	\$4,497,19	\$5,171,76	\$5,688,94
Charity Care			
Deductions from Revenue	1,211,00	1,381,22	1,549,22
Net Patient Care Revenue	\$3,286,18	\$3,790,54	\$4,139,72
Other Operating Revenue	500,00	250,00	150,00
Total Operating Revenue	\$3,786,18	\$4,040,54	\$4,289,72
Operating Expense			
Salaries	\$988,96	\$1,018,62	\$1,049,18
Benefits	187,90	193,54	199,34
Supplies	210,84	217,17	223,68
Services	90,36	93,07	95,86
Lease	50,00	50,00	50,00
Depreciation	504,98	504,98	504,98
Interest	301,00	298,00	295,00
Other	859,58	884,97	910,43
Total Operating Expense	\$3,193,64	\$3,260,37	\$3,328,50
Net Operating Income (Loss)	\$592,54	\$780,17	\$961,21
Inpatient days	55	63	70
Procedures	1,09	1,25	1,38
Charge per outpatient day	\$7,30	\$7,30	\$7,30
Charge per inpatient day	\$82	\$82	\$82
Charge per procedure	\$4,11	\$4,11	\$4,11
Cost per inpatient day	\$5,77	\$5,12	\$4,75
Cost per outpatient day	\$1	\$1	\$1
Cost per procedure	\$2,92	\$2,59	\$2,40

Note: Due to rounding, the applicant's total in the CON application is off by \$1.00

ATTACHMENT 2

NORTH SUNFLOWER MEDICAL CENTER

Computation of Construction and Renovation Cost			
	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
<u>Cost Component</u>			
A	New Construction Cost	\$5,687,000	\$5,687,000
B	Renovation Cost	\$170,000	\$170,000
C	Total Fixed Equipment Cost	\$426,925	\$426,925
	Total Non-Fixed Equipment Cost	\$520,600	\$0
	Capital Improvement	\$0	
	Land Cost	\$0	\$0
D	Site Preparation Cost	\$275,000	\$275,000
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$726,286	\$675,882
F	<i>Contingency Reserve</i>	\$596,200	\$554,824
G	<i>Capitalized Interest</i>	\$241,505	\$224,745
	Total Proposed Capital Expenditure	\$8,643,516	\$7,844,375
	Square Footage	36,041	33,541
	<i>Allocation Percent</i>		93.06%
			6.94%
	Costs Less Land, Non-Fixed Eq. & Cap. Improvement	\$8,122,916	\$7,844,375
	Cost Per Square Foot	\$225.38	\$233.87
	Cost per Bed (n=60)	\$135,382	