

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2009**

**CON REVIEW: HG-CO-0210-007
HANCOCK MEDICAL CENTER
COST OVERRUN TO CON # R-0624
(IMAGING SERVICES CENTER EXPANSION PROJECT)
ORIGINAL CAPITAL EXPENDITURE: \$477,000
ADDITIONAL CAPITAL EXPENDITURE: \$2,478,082
TOTAL CAPITAL EXPENDITURE: \$2,955,082
LOCATION: BAY ST. LOUIS, HANCOCK COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Hancock Medical Center (HMC) is a non-profit, short-term acute care hospital owned by Hancock County. The hospital is governed by a seven-member board of trustees, appointed by the Hancock Board of Supervisors.

The facility is licensed for 47 acute care beds.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for HMC are as follows for the years 2006 through 2008:

**Hancock Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	58.49	3.07	17.75
2007	53.10	3.68	N/A
2008	48.20	3.48	16.93

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Background

Hancock Medical Center obtained Certificate of Need No. R-0624, with an effective date of October 30, 2003, and an expiration date of October 30, 2004. The original project involved the leasing of equipment to be installed in a leased facility and relocation/upgrade of existing CT Scanner on the main campus.

According to the applicant, on August 29, 2005, Hurricane Katrina made landfall on the Mississippi Gulf Coast and significantly impacted the Medical Center. The first floor of the facility was partially flooded, and a substantial amount of the Medical Center's equipment was damaged or destroyed. As a direct result of this damage, the Medical Center's licensed beds were reduced from 104 to 47. Due

to the extent of damage to the facility, management applied to the Federal Emergency Management Agency ("FEMA") for financial assistance, and received a significant disaster assistance grant, as well as a long-term loan from the Department of Homeland Security. The applicant states that as a result of expenditures of these grant funds, an OMB A-133 audit has been performed each year for fiscal years 2005 through 2009.

The applicant states that due to the widespread of the storm on the coastal region of Mississippi, the detrimental effects of the storm's aftermath will continue to impact the Medical Center for the foreseeable future. The applicant indicates that it is probable that there will be additional changes to the Medical Center's future business as recovery efforts continue.

A six-month extension was granted on April 6, 2010 which extended the expiration date to October 30, 2010 for the original proposed project.

C. Project Description

Hancock Medical Center now requests Certificate of Need authority for a cost overrun to its CON No. R-0624. Hancock Medical Center asserts that the cost overrun is necessary for the direct purchase of all radiographic and imaging modalities essential to equip the facility, which was not allocated in the original application.

The applicant affirms that at the time of the original CON approval, Hancock Medical Center was planning to place the imaging equipment in a leased facility. Since that time, Hancock Medical Center has had the opportunity to place the imaging equipment in a vacant building currently owned by the applicant, near the original location in Diamondhead. The applicant states that it acquired this building in early 2005 as part of a larger real estate transaction; therefore the cost is not included in the "Cost Overrun" numbers. The applicant states that the main issue is that Hancock Medical Center is able to secure a grant from the MS Department of Human Services to pay for the purchase of the CT, MRI, and X-Ray equipment and the renovations, but one that required the applicant to apply for approval of the department as a "cost overrun" since the original approval was for leasing of the equipment.

The original certificate authorized the applicant to renovate an existing leased, off campus, building to house a proposed expansion of the hospital's diagnostic imaging services.

The applicant affirms that construction for the Imaging Services Center Expansion Project commenced in March 2007. However, the applicant further states that the proposed project has been delayed due to unforeseen conditions experienced following Hurricane Katrina.

The capital expenditure in the original CON was \$477,000 and the additional cost for this cost overrun proposal is \$2,478,082, resulting in a revised capital expenditure of approximately \$2,955,082 for the project. This cost overrun project is a change in scope, but not a change in the overall objective of the project.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, subparagraph (1) (b), (f) and (j) of the Mississippi Code of the 1972 Annotated, as amended.

The State Health Officer reviews all projects for amendments and cost overrun in accordance with duly adopted procedures 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 on June 7, 2010.

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

A. State Health Plan (SHP)

The original application was in substantial compliance with the overall objectives of the *Plan* in effect at the time of submission. The amendment/cost overrun project continues to be in compliance with the *State Health Plan*.

B. General Review (GR) Criteria

This project was in substantial compliance with general review criteria contained in the CON Review Manual, revised 2000, in effect at the time of original submission, and continues to be in substantial compliance with said criteria.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$ 0	0	\$ 0
2. Construction/Renovation	\$164,000	\$ 801,000	\$ 637,000
3. Land	\$ 0	\$ 0	\$ 0
4. Site Work	\$ 0	\$ 0	\$ 0
5. Fixed Equipment (Includes MRI/CT/RF)	\$260,000	\$2,101,082	\$1,841,082
6. Non-Fixed Equipment	\$ 28,000	\$ 28,000	\$ 0
7. Contingency	\$ 0	\$ 0	\$ 0
8. Fees (Architectural, Consultant, etc)	\$ 25,000	\$ 25,000	\$ 0
9. Capitalized Interest	\$ 0	\$ 0	\$ 0
10. Capital Improvement	\$ 0	\$ 0	\$ 0
Total Capital Expenditure	\$477,000	\$2,955,082	\$2,478,082

As previously mentioned, the capital expenditure in the original CON was \$477,000 and the additional amount for this cost overrun proposal is \$2,478,082, resulting in a revised capital expenditure of approximately \$2,955,082 for the project. This cost overrun project does not change the scope of the project.

B. Method of Financing

The applicant intends to finance the proposed project from accumulated cash reserves.

C. Effect on Operating Cost

The One-Year Projected Operating Statement is presented in Attachment 1 of this staff analysis.

D. Cost to Medicaid/Medicare

According to the applicant, the impact of the project on third party payers is expected to be negligible.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid states that outpatient services are paid based on the facility's cost to charge ratio, as outlined in the *FY 2010 State Health Plan*, and that any services resulting from this expansion project will be reimbursed using that methodology. Consequently, any additional cost to the Division of Medicaid can not be determined at this time. The Division of Medicaid opposes the proposed project.

VI. CONCLUSION AND RECOMMENDATION

The original project was in substantial compliance with the overall criteria and standards of the *FY 2003 State Health Plan* in effect at the time the project was originally submitted; the *Mississippi Certificate of Need Review Manual, revised 2000*, and all adopted rules, procedures and plans of the Mississippi State Department of Health. This project continues to be in substantial compliance with all applicable rules, procedures and plans.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Hancock Medical Center for a cost overrun to CON #R-0624 (Imaging Services Center).

Attachment I

**Hancock Medical Center
One-Year Operating Statement**

	<u>AMOUNT</u>
NUMBER OF OUTPATIENT TESTS	4,200
AVERAGE CHARGE PER UNIT	\$ 500
PATIENT REVENUE	\$2,100,000
REVENUE DEDUCTIONS:	
CONTRACTUAL ADJUSTMENTS	\$1,050,000
CHARITY	50,000
BAD DEBTS	162,000
OTHER	<u>\$ 103,000</u>
TOTAL DEDUCTIONS	\$1,365,000
NET REVENUE	735,000
OPERATING EXPENSES:	
SALARIES	195,000
BENEFITS	56,600
PROFESSIONAL FEES	7,400
SUPPLIES	6,200
UTILITIES	28,200
REPAIRS & MAINTENANCE	1,200
INSURANCE	1,200
OTHER EXPENSE	<u>1,000</u>
TOTAL OPERATING EXPENSES BEFORE DEPRECIATION	296,800
DEPRECIATION	<u>418,000</u>
TOTAL EXPENSES	\$ 714,800
NET OPERATING INCOME	\$ 20,200