

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
FEBRUARY 2016**

**CON REVIEW: HR-RC-1215-027
MAGNOLIA REGIONAL HEALTH CENTER
RENOVATION OF A BEHAVIORIAL HEALTH UNIT
CAPITAL EXPENDITURE: \$4,502,343
LOCATION: CORINTH, ALCORN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Magnolia Regional Health Center is a short term, general acute care, public hospital owned by the City of Corinth and Alcorn County. The facility is governed by a seven-member Board of Trustees. The facility is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organization (JCAHO).

Magnolia Regional Health Center is licensed for 181 acute care beds and 19 adult psychiatric beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follows for the years 2012 through 2014:

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2012	58.58	4.53	17.16
2013	47.74	4.43	19.82
2014	44.41	4.33	17.20

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Magnolia Regional Health Center requests Certificate of Need (CON) authority to renovate 10,550 square feet of space on the floor below its existing 19-bed MRHC's Behavioral Health Unit and update the HVAC system to better service its geriatric psychiatric population. As a reference MRHC filed the following Determination of Reviewability application on October 16, 2015:

Determination of Reviewability (DR) Application
*Magnolia Regional Health Center
Renovation of Behavioral Health Unit
Capital Expenditure: \$4,195,028*

After review, analysis of the DR application and information provided by Magnolia Regional Health Center, the Department ruled on November 30, 2015 that the capital expenditure for the proposed project crosses the \$2,000,000 threshold (for clinical health services) and determined that the captioned project **required a Certificate of Need (CON)**. Thus, MRHC filed a CON application on December 1, 2015.

Magnolia Regional Health Center states that the purpose of the proposed CON project is to update the décor and mechanical systems on the 3rd floor, which is below the existing 19-bed unit and relocate the 19-bed MRHC Behavioral Unit to that floor. As a note, the applicant indicates that the floor was previously used as an acute care unit that was closed when MRHC was approved in 2009 for the Tower Addition project.

Although Magnolia Regional Health Center's proposed changes relate to the project referenced above, the applicant asserts that the proposed project will not add any beds or new services; however, it will allow MRHC to meet space requirements in the current regulations.

Magnolia Regional Health Center proposes to fund the project with cash reserves. The application includes a capital expenditure summary, audited financial statements and a financial feasibility statement from its CPA asserting that Magnolia Regional Health Center has sufficient capital to fund the project.

The applicant provided a schematic drawing of the renovations to show how the proposed area that will look. A signed cost estimate and details about the renovation from the architect were provided in a signed cost estimate. Also, MRHC submitted a document to verify that 10,550 square feet of space would cost \$402.36 per square foot to renovate. The applicant states that 22.1 FTEs (Full-Time Equivalents) or personnel will increase to 7.3 FTEs and will be required for the proposed project. The annual cost of personnel will be \$470,500.00.

Magnolia Regional Health Center received site approval from the Mississippi State Department of Health, Bureau and Health Facilities, Division of Health Facilities Licensure and Certification. Magnolia Regional Health Center contends that the capital expenditure for the proposed project will be obligated upon CON approval and the anticipated date of completion will be complete will be six (6) months from the project start date.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction, renovation, expansion, or capital expenditure 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 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 March 9, 2016.

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

A. State Health Plan (SHP)

The *FY 2015 Mississippi State Health Plan (MSHP)* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation. This application is in compliance with applicable criteria and standards.

Construction, Renovation, Expansion, Capital Improvements, Replacement of Health Care Facilities, and Addition of Hospital Beds

SHP Criterion 1- Need

As mentioned previously, MRHC asserts that the purpose of the proposed project is to seek CON authority to update the décor and mechanical systems on the 3rd floor of the facility, which is below the existing 19-bed unit and relocate the 19-bed MRHC Behavioral Unit to that floor.

The applicant believes the existing space on the third floor must be modernized to meet additional recreation space requirements in the current regulations and the modification will assist MRHC to better serve its geriatric psychiatric population than the current space where the unit is situated.

Although Magnolia Regional Health Center did not cite any deficiencies by the Mississippi State Department of Health, Division of Health Facilities, Licensure and Certification, the applicant stresses that the hospital is in need of an upgrade to renovate/reconfigure the 3rd floor of the facility. The applicant notes that that MRHC admits 690 behavioral patients annually, asserts that the average length of stay is 6.28 days and provides at least four admission sources in the application.

Magnolia Regional Health Center also confirms that the facility's data shows that the top diagnoses, which relate to the behavioral unit are the following: psychosis, alcohol/drug abuse or dependence without rehabilitation therapy and depressive neurosis. The applicant believes that the approval of the proposed project will result in a significant benefit to the population reference above.

To provide operational efficiency and practical uses, MRHC asserts that other renovations will consist of the HVAC and mechanical systems.

Since the facility currently provides patients with behavioral services, the applicant states that Magnolia Regional Health Center MRHC participates in the statewide trauma system as a Level III.

The applicant states the Magnolia Regional Health Center is not adding additional beds or other services; however, the hospital is only proposing to renovate the facility. Thus, the proposed project will not have an adverse impact on existing facilities with behavioral services; in this case, the applicant states that no other behavioral services exist in Alcorn County, MS.

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 Alcorn County; thus, this criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

The facility 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 2015 MSHP*. The applicant asserts that MRHC provided \$6,000,000 in charity care in FY 2014.

SHP Criterion 4 - Cost of Proposed Project

Staff determined that the *RSMMeans Building Construction Cost Data 2015 Edition* publication lists the following cost ranges per square foot associated with hospital construction: low- \$206; median-\$258; and high-\$335. Using the *Means Construction Cost Data book for 2015*, it does not compare costs for renovation projects; however, the applicant states that the cost to renovate 10,550 square feet of space in the existing hospital will be \$402.36 per square foot. Based on the formulas listed in the *FY 2015 MSHP*, staff determined the renovation costs per square foot and it is captured in Attachment 2 of this document.

The applicant asserts that there is a fixed cost of \$257,414 associated with the proposed project. Magnolia Regional Health Center indicated that the facility is aware of other CON applications, which are similar to the proposed project to determine the median renovation costs. The applicant asserts that the proposed project exceed the median equipment cost for equipment of similar quality by more than 15%.

SHP Criterion 5 - Floor and Area Specifications

Magnolia Regional Health Center proposes to renovate 10,550 square feet of space. The applicant states that Magnolia Regional Health Center is aware of other CON applications, which are similar to the proposed project and the proposed project

compares to other projects with renovation costs. The applicant does notate that the existing facility does not have architectural design restraints that will not allow the applicant to add additional space to the facility nor does Magnolia Regional Health Center list any “special considerations due to local conditions.” The applicant affirms that the proposed project seeks to provide an enhanced area that will be efficient for patient care area.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 revision*, 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

Magnolia Regional Health Center affirms that the proposed project is consistent with the applicant’s long-range plans to improve the area in the behavioral unit for its patients.

GR Criterion 3- Availability of Alternatives

The applicant states what options were discussed concerning renovating the facility. Initially, Magnolia Regional Health Center discussed renovating the unit in its current location; however, MRHC decided that the option would cause a disruption in the area. By renovating a vacant unit of the hospital regarding the project, the applicant states that this option will minimize any disruption to the existing patients.

No new construction is associated with the proposed project; however, MRHC stated the best alternative would be to utilize the existing space by renovating and updating the décor and mechanical systems on the 3rd floor, which is below the existing 19-bed unit and then, relocate the 19-bed MRHC Behavioral Unit to that floor.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement. The total operating revenue over a projected three-year period, any income increases or decreases or net losses are shown in Attachment 1 of this document.

Based on the applicant, projected charges and projected utilization for the proposed project are based on current charges and utilization of other comparable facilities in the service area and the state. The applicant asserts that there will not be a change in charges or utilization as a result of the proposed project. It appears that Magnolia Regional Health Center did analyze and compare these items to other facilities and only compared each category to those facilities. It appears that MRHC considered all of the categories listed as reasonable.

The applicant indicates that its projected categories are based on other facilities. The applicant provided audited financial statements to verify that Magnolia Regional Health Center has the financial strength to support the proposed project in case the project fails. Also, the facility asserts that MRHC's financial forecasts do not deviate significantly from those of the three-year historical period.

The proposed project has a capital expenditure that exceeds \$2,000,000 and Magnolia Regional Health Center provided audited consolidated financial statements for Year Ending September 30, 2014 and June 30, 2013. Also, a financial feasibility study was included in the application from the Chief Financial Officer of MRHC. The applicant asserts that MRHC's proposed project will not have an impact on the cost of healthcare. Magnolia Regional Health Center affirms the facility will cover expenses and any shortfalls through working capital and financial resources.

Attachment 1 shows projected figures for three years. The applicant asserts that the proposed project will be feasible. Based on the financial documents, the proposed project appears to be economically viable.

GR Criterion 5 - Need for the Project

The applicant affirms that the population in the service area (including low income persons, racial and ethnic minorities, women, handicapped persons and other underserved groups, and the elderly) will have access to the proposed modernization of 10,550 square feet of hospital space regarding the third floor. The need for the project is discussed under *SHP Criterion 1- Need*.

The applicant asserts that this project does not involve the relocation of a health care facility or service and is not proposing to add any additional facilities or services to Alcorn County.

The application includes several letters of support for the proposed project. The Department received no letters of opposition concerning the proposed project.

GR Criterion 6 –Accessibility

Magnolia Regional Health Center affirms that the proposed facility will be in compliance with federal and state regulations relating to serving all patients in Alcorn County regardless of race, creed, sex, or ability to pay.

For year 1 and 2, the applicant projects that the medically indigent and charity care patients that will be served at Magnolia Regional Health Center will be, 1.2% for each year. The projected gross patient revenues for charity care will be \$6,700,000 and \$6,600,000, respectively.

The applicant indicates that the expected payor mix by type payor is shown under the *Cost to Medicare/Medicaid, D. Financial Feasibility* section of this document.

Magnolia Regional Health Center states that all patients will continue to have access to its hospital services and if the proposed renovation project is approved, all people in service area will also have access to the renovated facility. The application includes Magnolia Regional Health Center's admission policy and it indicates that the Corinth facility is accessible to MS residents, 24 hours per day.

GR Criterion 7- Information Requirement

The applicant affirms that Magnolia Regional Health Center 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

Since the proposed project only involves renovation and does not involve offering new health care services, the applicant believes that the proposed project will not have an adverse impact on existing facilities in any counties adjacent to the existing facility in Alcorn County. Thus, the applicant states that there are no other behavioral health services in the county and the closest services is located at North Mississippi Medical Center in Lee County. The renovated facility will be open to all patients.

If the proposed project is not approved, Magnolia Regional Health Center states that the facility will have to continue to provide inpatient behavioral health services in a dated area.

Magnolia Regional Health Center asserts that there are twelve (12) transfer/referral or affiliation agreements associated with this renovation/upgrade project.

Because no new services will be offered as a result of this project, staff concludes that this project would not have an adverse affect on other providers in the referenced service area.

GR Criterion 9 - Availability of Resources

The applicant contends that 7.3 additional FTEs (personnel) will be needed for the proposed area. Magnolia Regional Health Center states that the hospital will continue to recruit staff through traditional or normal resource methods. Historically, Magnolia Regional Health Center has always had sufficient staffing for its hospital, other facilities, and outpatient health services. The need for any personnel will continue to be met by Magnolia Regional Health Center. The applicant asserts that because the proposed project does not relate to providing new health care services, only four (4.2) registered nurses, two (2.0) aides and one (1.1) contract worker staff will be required for the proposed renovation project.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that Magnolia Regional Health Center has necessary support and ancillary services; however, if additional support is needed, it is available at the facility through existing staff and resources. Thus, the proposed renovation project is not expected to have an adverse effect upon the delivery of ancillary health services nor change the cost and charges of those services.

GR Criterion 11- Health Professional Training Programs

The applicant asserts that Magnolia Regional Health Center participates in health professional training programs and will continue to do so. The applicant states that the renovation project will not have an effect upon the health professional training programs in the area.

GR Criterion 12- Access by Health Professional Schools

Regarding access by health professional schools, the applicant lists the same information for Criterion 12 as Criterion 11 and asserts that the proposed project will have no effect on the school agreements.

GR Criterion 13- Provision of Service in Service Areas

As stated previously, Magnolia Regional Health Center affirms that all patients will continue to have access to its behavioral services in Alcorn County as well as the facility service area. The applicant did not list any special needs or circumstances that should be considered relating to this criterion.

GR Criterion 14 - Construction Projects

Magnolia Regional Health Center took appropriate action to apply for a CON in the amount of \$4,502,343. The architect and designers hired by the hospital submitted a cost estimate to show a proposed capital expenditure of \$4,193,160. The application includes a site approval letter from the Bureau of Health Facilities, Division of Health Facilities Licensure and Certification. The applicant includes a schematic drawing to show how the hospital will look after the renovation is completed.

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 Magnolia Regional Health Center will comply with state statutes and regulations for the protection of the environment.

Since hospital officials opted to modernize the existing hospital, a formula calculation was used by the hospital to show how much the proposed project will cost per square foot. As a cost guide, the *RSMeans Building Construction Cost Data 2015 Edition* lists construction costs from low to high range per square foot. For hospitals of this size, the construction costs range from are \$206, 258, and \$355 per square foot.

The *Means Construction Cost Data 2015* publication does not compare costs for renovation projects; however, the renovation formula in the *Plan* was used by Magnolia Regional Health Center to show how much the proposed project will cost per square foot. The applicant shows in the application that the cost to renovate 10,550 square feet of the existing building will be \$402.36 per square foot. Staff calculated the same cost per square foot; thus, the renovation cost of \$402.36 per square foot is closer to the high range construction cost of \$355 per square foot.

Based on the specifics presented in the application and the construction/ renovation formula listed in the *FY 2015 MSHP*, costs per square foot are shown in Attachment 2 of this analysis.

GR Criterion 15 – Competing Applications

Since there are no competing applications, no additional information is required to adhere to this criterion.

GR Criterion 16 - Quality of Care

For years, the applicant states that Magnolia Regional Health Center has a history of providing high quality healthcare care services to patients it serves in Mississippi. Magnolia Regional Health Center states it is accredited by the Joint Commission and is certified to participate in the Medicare and Medicaid programs.

By renovating the third floor of the existing facility, the applicant believes this will improve/enhance the delivery of health care services.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Estimated Cost	% of the Total
Construction Cost -New	\$0	0.00%
Construction Cost-Renovation	\$3,437,432	76.35%
Capital Improvements, i.e. (minor painting and repairs, refurbishing)	0	0.00%
Total Fixed Equipment Cost	257,414	5.72%
Total Non-Fixed Equipment Cost	0	0.00%
Land Cost	0	0.00%
Site Preparation Cost	0	0.00%
Fees (Architectural and Consultant Fees)	603,098	13.40%
Fees (Legal and Accounting)	0	0.00%
Contingency Reserve	204,399	4.54%
Capitalized Interest	0	0.00%
Other Cost (Consulting)	0	0.00%
Other Cost	-	0.00%
TOTAL PROPOSED CAPITAL EXPENDITURE	\$4,502,343	100%

B. Method of Financing

As previously mentioned, Magnolia Regional Health Center proposes to finance the project with cash reserves. The application contained a financial feasibility statement from the hospital's CPA stating that Magnolia Regional Health Center has sufficient capital to fund the project.

C. Effects on Operating Costs

The applicant's projections of gross revenues for the first, second, and third year of operation, expenses, and net income are shown in Attachment 1. Utilization, cost, and charges are also included in the applicant's Three-Year Projected Operating Statement (See Attachment 1).

The applicant asserts that the proposed project will be feasible.

D. Cost to Medicaid/Medicare

In the application, Magnolia Regional Health Center provides the following revenue source projections for each payor category listed below:

Magnolia Regional Health Center		
Payor	Utilization Percentage	First Year Revenue
Medicaid	13.00%	\$1,546,932.53
Medicare	54.00%	\$6,425,719.74
Self Pay	24.00%	\$2,855,875.44
Commercial	8.00%	\$951,958.48
Charity	0.00%	\$0.00
Other	0.00%	\$0.00
Total	100%	\$11,899,481.00

NOTE: MRHC's figures may be off by a small percentage due to rounding.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project. Based on their analysis, the Division states that effective September 1, 2012, the Division changed the methodology by which it reimburse outpatient services so that the cost incurred, subsequent to that date will no longer affect outpatients payments.

Effective October 1, 2012, the Division changed then the methodology by which it reimburse inpatient services so that the cost incurred subsequent to that date will only affect cost outlier payments. The estimated increase in cost outlier payments resulting from this project cannot be determined at this time. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives of the *FY 2015 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised 2011*; 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 the application submitted by Magnolia Regional Health Center (MRHC) to renovate 10,550 square feet of space on the 3rd floor of the its existing facility, which is below the existing unit and relocate the 19-bed MRHC's Behavioral Health Unit to the same floor and update the HVAC system.

ATTACHMENT 1

**Magnolia Regional Health Center
 Renovation of Behavioral Health Unit
 Three-Year Operating Statement (With Project)**

Revenue	Proposed Year 2	Proposed Year 2	Proposed Year 3
Inpatient Care Revenue	\$11,899,481	\$12,103,486	\$12,311,233
Outpatient Care Revenue	\$ -	\$ -	\$ -
Gross Patient Care Revenue	\$11,899,481	\$12,103,486	\$12,311,233
Charity Care	\$ -	\$ -	\$ -
Deductions from Revenue	8,219,300	8,364,321	8,512,048
Net Patient Care Revenue	\$3,680,180	\$3,739,166	\$3,799,184
Other Operating Revenue	\$ -	\$ -	\$ -
Total Operating Revenue	\$3,680,180	\$3,739,166	\$3,799,184
Operating Expense			
Salaries	\$997,657	\$1,017,610	\$1,037,962
Benefits	399,063	407,044	415,185
Supplies	49,817	50,687	51,573
Services	1,288,146	1,311,414	1,335,122
Lease	796	812	828
Depreciation	263,729	263,729	263,729
Interest			
Other	229,476	233,666	237,935
Total Operating Expense	\$3,228,684	\$3,284,962	\$3,342,335
Net Operating Income (Loss)	\$451,496	\$454,203	\$456,849
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	6,301	6,409	6,518
Outpatient visits	0	0	0
Procedures	0	0	0
Charge per outpatient day	0	0	0
Charge per inpatient day	1,889	1,889	1,889
Charge per procedure	0	0	0
Cost per inpatient day	512	513	513
Cost per outpatient day	0	0	0
Cost per procedure	0	0	0

NOTE: Totals are off by \$1 due to rounding.

ATTACHMENT 2

**Magnolia Regional Health Center
 Renovation of Behavioral Health Unit**

Computation of Construction and Renovation Cost

	<u>Cost Component</u>	<u>Total</u>	<u>Renovation</u>
A	New Construction Cost	\$0	
B	Renovation Cost	\$3,437,432	\$3,437,432
C	Total Fixed Equipment Cost	\$257,414	
	Total Non-Fixed Equipment Cost	\$0	
	Capital Improvement	\$0	
	Land Cost	\$0	
D	Site Preparation Cost	\$0	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$603,098	\$603,098
F	<i>Contingency Reserve</i>	\$204,399	\$204,399
G	<i>Capitalized Interest</i>	\$0	\$0
	Total Proposed Capital Expenditure	\$4,502,343	\$4,244,929

Square Footage	10,550	10,550
Allocation Percent		100.00%

Costs Less Land, Non-Fixed Eqt.& Cap. Improvement	\$4,502,343	\$4,244,929
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Cost Per Square Foot	\$426.76	\$402.36
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Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2015 MSHP.