

**MISSISSIPPI DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2007**

**CON REVIEW: HG-R-0507-009
UNIVERSITY HOSPITALS AND CLINICS, UNIVERSITY OF
MISSISSIPPI MEDICAL CENTER
RENOVATION & RELOCATION OF
PEDIATRIC OUTPATIENT CLINIC
CAPITAL EXPENDITURE: \$2,881,305
LOCATION: JACKSON, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

The University Hospitals and Clinics of the University of Mississippi Medical Center (UMMC) is a state owned not-for-profit acute care teaching inpatient hospital with full emergency and outpatient services. The facility has a management service agreement with Quorum Health Resources of Nashville, Tennessee. The full authority and ultimate control of the hospital remains with the Board of Trustees of State Institutions of Higher Learning, with administrative authority delegated to the Chancellor and Vice Chancellor for Health Affairs of the University of Mississippi Medical Center. The facility is accredited through the Joint Commission on Accreditation of Healthcare Organizations.

The hospital is currently licensed to operate 664 medical/surgical beds, 21 adult psychiatric beds, 12 pediatric psychiatric beds and 25 rehabilitation beds. The total licensed bed capacity is 722.

The University Hospitals and Clinics' occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the three most recent years are as follows:

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2002	68.51	7.25	50.24
2003	69.15	7.09	49.16
2004	69.32	6.89	50.48

Source: The Division of Health Facility Licensure and Certification, Mississippi State Department of Health.

B. Project Description

The applicant is seeking CON authority to renovate and relocate the pediatric outpatient clinic.

According to the applicant, UMMC's outpatient pediatric clinics see approximately 30,000 pediatric patients per year. Therefore, the applicant requests authority to renovate and relocate the pediatric clinics, which are currently located in the basement of the old University Hospital, to the second floor of the South Wing. This renovation and relocation will allow the hospital to provide efficient service and improve the pediatric patient flow in the outpatient clinics and emergency department. The current waiting rooms in the outpatient clinics are not adequate to handle the increased volume of visits during peak times.

The 15,635 square feet of renovation will include 26 examination rooms, 2 treatment rooms, office space for medical staff, patient waiting rooms with children's play area, and mechanical room.

The applicant proposes to finance this project through private donations.

The Mississippi State Department of Health, Division of Licensure and Certification, issued site approval to UMMC on June 22, 2007.

II. TYPE OR REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (j), and 41-7-193, Mississippi Code of 1972, as amended.

In accordance with Section 41-7-197(2) of the Mississippi Code 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 September 4, 2007.

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

A. State Health Plan (SHP)

The FY 2007 *State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000. The applicant is in substantial compliance with these criteria.

SHP Criterion 1 -- Need Criterion:

Projects which do not involve the addition of any acute care beds:

The 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 consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.). In addition, for projects which involve construction, renovation, or expansion of emergency department facilities, the applicant shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any.

The applicant affirms that each year there are approximately 30,000 pediatric outpatients seen throughout the University Medical Center. The Blaire E. Batson Hospital for Children is the only children's hospital and Pediatric ER in the state of Mississippi. The applicant states that in order to serve the facility's patient population in an efficient and effective manner, UMMC needs to improve patient flow in the outpatient clinics and the ER. The applicant further states that the current waiting rooms in the outpatient clinics are not adequate to handle the current visit volume during peak times of the day; therefore, the applicant believes that the new waiting rooms will have more space for the peak volumes and will improve patient satisfaction and quality of care. Also, relocating the outpatient clinics to the second floor of the south wing will allow for temporary space for the Pediatric ER during its renovation, which coincides with the hospital's long-range plan.

This project will not involve additional beds or the offering of a new institutional health service.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

This project does not involve the transfer/reallocation or relocation of beds.

SHP Criterion 3 – Uncompensated Care

University of Mississippi Medical Center affirms that a reasonable amount of indigent/charity care will be provided, as described in the *State Health Plan*.

SHP Criterion 4 –Cost of Project

- a. **Cost per Square Foot:** This project involves renovation of the second floor south wing to relocate the outpatient pediatric clinic. The applicant states the proposed renovation and relocation project shall cost approximately \$142.70 per square foot.

Staff's calculation of the renovation and relocation cost per square foot is \$177.28 per square foot to renovate 15,635 square feet of existing space. (See Attachment II)

The 2007 *Means Construction Cost Data* publication does not compare costs of renovation projects.

- b. **Equipment Cost:** This project will not involve the purchase of additional equipment, only furniture.

SHP Criterion 5 – Floor Area and Space Requirements

- a. **Gross Square Footage:** 15,635 square feet
- b. **Architectural Restraints:** Not applicable.
- c. **Special considerations:** No special considerations were stated in the application.

SHP Criterion 6 – Renovation versus Replacement

According to the applicant, this project is for renovation of the second floor south of the existing hospital, and cost does not exceed 85 percent of the cost of a replacement facility.

SHP Criterion 7 – Need for Service

The applicant is not proposing a specific service for which this criteria is established for in the *State Health Plan*.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, November 12, 2006 Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – Consistency with the State Health Plan

According to the applicant, the project substantially complies with all criteria, standards and policies of the *FY 2007 State Health Plan*.

GR Criterion 2 - Long Range Plan

According to the applicant, the proposed project was determined through in-house strategic planning to be the most appropriate in light of recent facility additions and current space utilization. The project is consistent with UMMC's long-range plan.

GR Criterion 3 – Availability of Alternatives

The applicant states that during the planning process the following alternative was considered; however, was too costly:

- a. Replacement and expansion into a new building on campus;
 - o Advantage – This alternative would consolidate all satellite clinics into one location.
 - o Disadvantage – This alternative was cost prohibitive and allowed for excess capacity that would not be used for several years.

GR Criterion 4 - Economic Viability

The applicant affirms that the completion of this project will not affect hospital charges.

The applicant submits that the project has been determined to be financially feasible by the hospital's director of finance. The feasibility study is included in the application.

GR Criterion 5 - Need for the Project

The project will allow UMMC to utilize its space more efficiently and improve access to the clinics from the general public. Therefore, this project will improve the delivery and quality of healthcare for the children in the state of Mississippi. The project does not involve the initiation of new health care services.

- a. **Access by Population Served:** The applicant contends that the hospital provides health care services to any individual who comes to it in need of such services, regardless of age, creed, sex, race, or ability to pay. This project will improve access to the general public by reducing wait times and allow for a more efficiently run clinic.
- b. **Relocation of Services:** This application does not propose the relocation of services. According to the applicant, only its location within UMMC will change. All necessary notification, signage and other means will be used to communicate to the public its new location.
- c. **Current and Projected Utilization of Like Facilities in the Area:** No additional services are being proposed.
- d. **Probable Effect on Existing Facilities in the Area:** The project is for renovation and relocation of the second floor pediatric outpatient clinic. No adverse impact is anticipated on existing facilities in the area.
- e. **Community Reaction:** No adverse comments were received from the community.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** The applicant submits that there are no institutional barriers to medically underserved populations receiving medical care or other clinical services.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that UMMC complies with all applicable federal regulations regarding community service, access by underserved groups, access by handicapped persons, and the provision of uncompensated care.
- c. **Unmet Needs to be Served by Applicant:** University of Mississippi Medical Center states that it serves Medicare, Medicaid, and medically indigent patients and will continue to provide health services to these groups.

- d. **Accessibility:** According to the applicant, the completion of this project will not affect patient accessibility.

GR Criterion 7 - Information Requirement

The University of Mississippi Medical Center affirms that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

According to the applicant, the Batson Hospital is the only children's hospital in the state of Mississippi, thus the current patient population accesses the services via referrals or can schedule visits directly with the clinic.

GR Criterion 9 - Availability of Resources

The University of Mississippi Medical Center submits that its clinics are staffed appropriately and staff will be relocated with the clinic. The applicant has documented that it has the health management and financial resources necessary to carry out the project.

GR Criterion 10 – Relationship to Ancillary or Support Services

According to the applicant, this project will not affect existent ancillary services or the charge for such services.

GR Criterion 11 – Health Professional Training Program

According to the applicant, health professional schools in the area will have access to the services for training purpose.

GR Criterion 12 – Health Professional School

According to the applicant, this project will have no significant effect on any existing health professional training program.

GR Criterion 13 –Individuals Residing Outside Service Area

According to the applicant, this project will have no significant effect on any individuals residing outside of the service area.

GR Criterion 14 - Construction Projects

The proposed project involves renovation of the second floor of the south wing, pediatric outpatient services, of the existing facility. According to the applicant, no new construction will be involved.

The application contains a cost estimate from the architect firm, Dean and Dean Associates to show a proposed capital expenditure of \$2,881,305. The application also, includes a site approval letter from the Division of Health Facilities Licensure and Certification and a schematic drawing to show how the area will look after the relocation and renovation process has been completed.

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 UMMC will comply with state statutes and regulations for the protection of the environment.

The applicant states that the cost to renovate 15,635 square feet of space in the existing hospital will be \$142.70 per square foot. The estimated renovated cost per square foot using the Department's method of calculation is \$177.28 per square foot.

The *Means Construction Cost Data* for 2007 does not compare costs for renovation projects (see Attachment I).

GR Criterion 16 - Quality of Care

The University Hospitals and Clinics' quality is monitored and reviewed by the Hospital's Performance Improvement and Risk Management Departments. The Hospital is also accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

**University of Mississippi Medical Center
 Two-South Pediatric Renovation
 Capital Expenditure Summary**

	<u>Capital Expenditure</u>	<u>Percent</u>
a. Construction Cost -- New	0	0
b. Construction Cost -- Renovation	\$2,231,152	77.44
c. Capital Improvements	0	0
d. Total Fixed Equipment Cost	0	0
e. Total Non-Fixed Equipment Cost	\$109,555	3.80
f. Land Cost	0	0
g. Site Preparation Cost	0	0
h. Fees (Architectural, Consultant, etc.)	\$200,925	6.97
i. Contingency Reserve	\$334,673	11.62
j. Capitalized Interest	0	0
k. Other Cost	<u>\$5,000</u>	<u>0.17</u>
l. Total Proposed Capital Expenditure	<u>\$2,881,305</u>	<u>100</u>

The above capital expenditure is proposed for the renovation and relocation of the second floor south wing pediatric project.

B. Method of Financing

The applicant proposes to finance this project through private donations.

C. Effect on Operating Cost

The University of Mississippi Medical Center's three-year projected operating statement (entire facility with project) is presented in attachment two. According to the applicant, this project is intended to materially change existing revenues and expenses in the operation of the clinics.

D. Cost to Medicaid/Medicare

Based on the new depreciation cost projected by the applicant, the cost to third party payors is projected as follows:

**University of Mississippi Medical Center
Two-South Renovation and Relocation of Pediatric Clinic
Cost to Third Party Payors**

Patient Mix by Payor Type	Utilization Percentage	Total First Year Expenses
Medicare	19.03	\$198,750,300
Medicaid	34.61	\$361,487,700
Other	46.36	\$484,220,100
Total	100.00	\$1,044,458,100

The University of Mississippi Medical Center projects five percent of gross patient revenue for charity care patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. However, no comments were received from the Division.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement, and addition of hospital beds as contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*; and duly 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 on behalf of the University of Mississippi Medical Center for the renovation and relocation of the pediatric outpatient clinics.

**ATTACHMENT I
 UNIVERSITY HOSPITALS AND CLINICS
 RENOVATION & RELOCATION OF PEDIATRIC OUTPATIENT CLINIC
 COMPUTATION OF CONSTRUCTION AND RENOVATION COST**

	<u>Cost Component</u>	<u>Total</u>	<u>New Constructon</u>	<u>Renovation</u>
A	New Construction Cost	\$0	\$0	
B	Renovation Cost	\$2,231,152		\$2,231,152
C	Total Fixed Equipment Cost	\$0		\$0
	Total Non-Fixed Equipment Cost	\$109,555	\$0	\$109,555
	Capital Improvement			
	Land Cost	\$0		
D	Site Preparation Cost	\$0	\$0	
E	Fees (Architectural, Consultant, etc.)	\$200,925	\$0	\$200,925
F	Contingency Reserve	\$334,673	\$0	\$334,673
G	Capitalized Interest	\$5,000	\$0	\$5,000
	Total Proposed Capital Expenditure	\$2,881,305	\$0	\$2,881,305

Square Footage	15,635		15,635
Allocation Percent		0.00%	100.00%

Costs Less Land, Non-Fixed Eqt.& Cap. Improvement	\$2,771,750	\$0	\$2,771,750
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Cost Per Square Foot	\$177.28		\$177.28
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ATTACHMENT II				
University of Mississippi Medical Center				
Renovation and Relocation of Pediatric Clinic				
Revenue	Latest Actual	Year 1	Year 2	Year 3
Gross Inpatient Revenue:	\$ 596,893,000	\$ 626,737,650	\$ 658,074,533	\$ 690,978,259
Outpatient Care Revenue	<u>\$ 397,829,000</u>	<u>\$ 417,720,450</u>	<u>\$ 438,606,473</u>	<u>\$ 460,536,796</u>
Gross Patient Care Revenue	\$ 994,722,000	\$ 1,044,458,100	\$ 1,096,681,006	\$ 1,151,515,055
Deductions From Revenue				
Medicare	\$ 100,323,000	\$ 105,339,150	\$ 110,606,108	\$ 116,136,413
Medicaid	160,116,000	168,121,800	176,527,890	185,354,285
Commercial	77,076,000	80,929,800	84,976,290	89,225,105
Self Pay	130,240,000	136,752,000	143,589,600	150,769,080
Charity Care	-	-	-	-
Other	<u>82,368,000</u>	<u>86,486,400</u>	<u>90,810,720</u>	<u>95,351,256</u>
Total Deductions from Revenue	\$ 550,123,000	\$ 577,629,150	\$ 606,510,608	\$ 636,836,139
Net Patient Care Revenue	\$ 444,599,000	\$ 466,828,950	\$ 490,170,398	\$ 514,678,916
Other Operating Revenue	<u>20,416,000</u>	<u>21,436,800</u>	<u>22,508,640</u>	<u>23,634,072</u>
Total Operating Revenue	\$ 465,015,000	\$ 488,265,750	\$ 512,679,038	\$ 538,312,988
Operating Expense				
Salaries	\$ 175,164,000	\$ 183,922,200	\$ 193,118,310	\$ 202,774,226
Benefits	49,542,000	52,019,100	54,620,055	57,351,058
Supplies	107,565,000	112,943,250	118,590,413	124,519,933
Services	111,873,000	117,466,650	123,339,983	129,506,982
Lease	0	0	0	0
Depreciation	19,000,000	19,950,000	20,947,500	21,994,875
Interest	4,363,000	4,581,150	4,585,000	4,585,000
Other	<u>145,000</u>	<u>152,250</u>	<u>159,863</u>	<u>167,856</u>
Total Operating Expense	\$ 467,652,000	\$ 491,034,600	\$ 515,361,124	\$ 540,899,930
Net Operating Income (Loss)	\$ (2,637,000)	\$ (2,768,850)	\$ (2,682,086)	\$ (2,586,942)