

**Division of Health Planning and Resource Development
November 2004**

CON Review HG-CO-1004-044

Delta Regional Medical Center, d/b/a

Delta Regional Outpatient Center, LLC

**Cost Overrun on CON # R-0400 (Relocation and Expansion of an Ambulatory
Surgery Facility/Services)**

Approved Capital Expenditure: \$1,865,000

Additional Capital Expenditure: \$1,994,533

Revised Capital Expenditure: \$3,859,533

Location: Greenville, Mississippi

Staff Analysis

I. Project Summary

A. Applicant Information

Delta Regional Outpatient Center, LLC is a limited liability company owned by Delta Regional Medical Center, a public acute care hospital owned by Washington County. Delta Regional Medical Center is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

The licensed bed capacity of the hospital is made up of 221 medical surgical beds, 15 adult chemical dependency beds, 16 adult psychiatric beds and 16 rehabilitation beds. The applicant was granted CON approval in 2002 to expand its licensed rehabilitation beds to 32.

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

**Delta Regional Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid* Utilization Rate (%)
2002	35.77	4.85	19.01
2003	36.30	4.43	20.85
2004	40.05	4.50	22.21

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

B. Project Background

Delta Regional Outpatient Center, LLC received CON No. R-0400 on August 31, 2000, for construction of a 15,000 square foot ambulatory surgery center to be located on the second floor of the medical office building to be developed by Delta Regional Medical Center. After a delay of construction pending an appeal to the Mississippi Supreme Court, a judicial ruling

upheld the State Health Officer's decision to grant the Certificate of Need and on January 15, 2002, the Certificate of Need was upheld in final judgement.

On May 30, 2003, Delta Regional Medical Center requested CON authority for an amendment to its CON No. R-0400, to relocate the proposed ambulatory surgery facility to South Greenville, Mississippi. The proposed facility will be relocated from 1400 East Union to 1940-1968 Martin Luther King Boulevard, 182 acres located in the west half of Section 35, Township 18 North, Range 8 West, Greenville. As provided in the original application, the ambulatory surgery center will lease space in the new Delta Regional Medical Center Medical Office Building, also proposed to be constructed on the new site, pending CON approval. The applicant states that there have been no physical changes to the approved CON insofar as square footage, construction, changes in facilities, range, or types of services. Both amended applications, for the medical office building and the ambulatory surgery facility, are pending a hearing before the MSDH.

C. Project Description

Delta Regional Outpatient Center, LLC, now requests a cost overrun on CON No. R-0400. The applicant submits that the original application anticipated both the purchase of new equipment and the transfer of some equipment from Delta Regional Medical Center to the ambulatory surgery center. However, during the period for which the project has been delayed, the equipment that was to be transferred has been found to be unsuitable for use in a new facility. The original application provided for the purchase of \$370,000 in additional moveable equipment and \$225,000 in fixed equipment, for a total of \$595,000. The original application did not include a dollar value of the transferred equipment.

The updated total amount of equipment, including moveable and fixed, proposed to be purchased is \$1,492,937. The applicant submits that because there was no dollar value assigned to the equipment to be transferred, the purchase price represents an actual cost overrun of \$897,937.

II. Type of Review Required

The State Health Officer reviews all projects for cost overruns 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 December 6, 2004.

III. Conformance With the *State Health Plan* and Other Adopted Criteria and Standards

A. *State Health Plan (SHP)*

The *Mississippi State Health Plan* addresses criteria and standards which an applicant is required to meet before receiving CON authority for the construction of new ambulatory surgery facilities and for offering of ambulatory surgery services. The original application was in substantial compliance with the applicable criteria and standards stated in the 1999 State Health Plan in effect at the time of the original application. This application for a cost overrun continues to be in compliance with the *State Health Plan*.

B. General Considerations

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 Revisions*, addresses general criteria by which all CON applications are reviewed. The project was in substantial compliance with general review criteria at the time of original submission, and continues to be in substantial compliance with said criteria.

IV. Financial Feasibility

A. Capital Expenditure Summary

	Original Approval	Revised Capital Expenditure	Increase/ (Decrease)
New Construction	\$1,145,000	\$1,425,000	\$280,000
Fixed Equipment Cost*	\$225,000	\$-0-	(\$225,000)
Non-Fixed Equipment	\$370,000	\$1,492,937	\$1,122,937
Contingency	-0-	\$142,500	\$142,500
Fees	\$125,000	\$799,096	\$674,096
Total Capital Expenditure	\$1,865,000	\$3,859,533	\$1,994,533

The original capital expenditure was proposed for the construction of 15,000 square feet of space to be located on the second floor of a medical office building, to be constructed by Delta Regional Medical Center. This cost overrun includes increases in construction due to inflation; contingency reserve of 10 percent of construction cost, not included in the original application; an increase in fees underestimated in the original application; and the purchase of equipment not listed in the original application.

* Additional cost for fixed equipment is included in the non-fixed equipment amount.

B. Method of Financing

The applicant states that Delta Regional Medical Center has sufficient cash reserves to fund both the medical office building and ambulatory surgery center projects. However, the application contained a letter from Trustmark Bank attesting their willingness to finance the project.

The application contained a statement from Delta Regional Medical Center's chief financial officer attesting to the financial feasibility of the project.

C. Effect on Operating Cost

The applicant projects the following expenses, revenues, utilization and net income during the first year of operation for the entire facility (amended):

Expenses	Year One	Year Two	Year Three
Salary & Benefits	\$757,207	\$ 787,495	\$818,995
Ins. & Taxes	128,938	137,448	142,946
Supplies	62,125	61,258	63,708
Office Supplies	387	402	419
Mainte. & Repair	115,500	120,120	124,925
Building/Lease	201,000	209,040	217,402
Telephone	7,800	8,112	8,436
Depreciation	<u>272,442</u>	<u>272,442</u>	<u>272,442</u>
Total Expenses	<u>\$1,545,399</u>	<u>\$1,596,317</u>	<u>\$1,649,273</u>
Surgical Cases	4,200	4,221	4,242
Cost/Per Case	\$ 368	\$ 378	\$ 389
Charge/Per Case	\$ 1,391	\$ 1,439	\$ 1,490
Revenue			
Surgical	\$5,842,368	\$6,076,063	\$6,319,105
GI/Bronchoscopy	362,880	377,395	392,491
Deductions (-)	(3,164,676)	(3,291,264)	(3,422,914)
Net Revenue	<u>\$3,040,572</u>	<u>\$3,162,194</u>	<u>\$3,288,682</u>
Net Income	\$ 1,495,173	\$ 1,565,877	\$ 1,639,409

D. Cost to Third Party Payors

The impact of the project on third party payors is as follows:

Payor Mix	Utilization Percentage	First Year Cost
Medicaid	15.00%	\$231,810
Medicare	50.00%	\$ 772,700
Other Payors	35.00%	\$ 540,889
Total	100.00%	\$ 1,545,399

The applicant projects 10 percent care to medically indigent patients.

V. Recommendation of Other Affected Agencies

The Division of Medicaid did not oppose the original project nor does it oppose this cost overrun. The Division states that outpatient services will be paid as outlined in the Medicaid State Plan.

VI. Conclusion and Recommendation

The project was in substantial compliance with the criteria and standards for the establishment/relocation of ambulatory surgery services as contained in the *FY 1999 State Health Plan*, in effect at the time of the original application; Chapter 8 of the *Certificate of Need Review Manual, 2000 Revision*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health. The project is a change in scope from the original project, but does not change the overall objectives of the project.

Therefore, the Division of Health Planning and Resource Development recommends approval of this cost overrun application submitted by Delta Regional Outpatient Center, LLC.