

**MISSISSIPPI DEPARTMENT OF HEALTH**  
**Division of Health Planning and Resource Development**  
**May 2007**

**CON Review: HG-RC-0407-007**  
**Southwest Mississippi Regional Medical Center**  
**Expansion of Emergency Department**  
**Capital Expenditure: \$8,597,238**  
**Location: McComb, Pike County, Mississippi**

**Staff Analysis**

**I. PROJECT SUMMARY**

**A. Application Information**

Southwest Mississippi Regional Medical Center (SMRMC) is a not-for-profit, acute care hospital owned jointly by Pike County, the City of McComb, and Supervisor Districts Four and Five of Amite County, Mississippi. The Medical Center is governed by a seven-member Board of Trustees. Members are appointed by the Mayor and Board of Selectmen or by the Board of Supervisors from their respective counties.

The 170-bed facility's licensed bed capacity consists of 150 short-term acute care beds (including 10 adult geriatric psychiatric beds) and 20 Level II rehabilitation beds.

Southwest Mississippi Regional Medical Center's occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for fiscal years 2004, 2005, and 2006 are as follows (medical/surgical beds only):

Southwest Mississippi Regional Medical Center Utilization Data			
Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2004	52.93	4.11	34
2005	56.67	4.20	34
2006	67.44	4.39	31
Source:	The Division of Health Facility Licensure and Certification Application For Renewal of Hospital License		

**B. Project Description**

Southwest Mississippi Regional Medical Center seeks Certificate of Need (CON) authority to expand its Emergency Department in order to adequately meet both current and projected patient needs. The applicant submits that in the aftermath

of Hurricane Katrina, SMRMC is fulfilling a significant role as a major medical referral center for future hurricane evacuees. In order to properly function in that capacity, the applicant states that it must expand its Emergency Department, and redesign that department in order to provide more efficient processing, care, and treatment of patients in need of emergency services.

The proposed project consists of both new construction and renovation. The areas of new construction include approximately 14,563 square feet on the First Floor, and approximately 19,833 square feet on the Second Floor. Additionally, new construction will consist of approximately 107 square feet of porches on the First Floor, and 4,149 square feet of porches and canopies on the Second Floor.

Renovation work will include approximately 1,581 square feet on the Second Floor. The total estimated construction cost, including site work and architect's fees is \$7,997,238. In addition, the project will include \$600,000 in equipment costs. The resulting total capital expenditure associated with the project is \$8,597,238.

The applicant's final and primary objective of the proposed project is to address one of the more urgent needs of the patient population served by SMRMC. The applicant expects that the implementation of this project will increase the operational efficiency and medical capabilities of SMRMC's Emergency Department, thereby greatly elevating the level of patient care to the residents of the service area.

The applicant has received site approval from the MDH-Division of Health Facilities Licensure and Certification, and expects to obligate the capital expenditure by July 2007, with a completion date for the project expected to be April 2008.

## **II. TYPE OF REVIEW REQUIRED**

The Mississippi 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 of 1972 Annotated, as amended, any 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 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**

Southwest Mississippi Regional Medical Center submits that it offers a full array of medical services including one of the state's busiest emergency departments (ED). The applicant further submits that the ED at SMRMC was last expanded in 1993 and is capable of accommodating between 20,000 and 25,000 patient encounters annually. However, with the population growth and impact of Hurricane Katrina, the applicant expects patient encounters to exceed previous projections and surpass 39,000 this fiscal year.

The applicant submits that expansion of the ED at SMRMC is one of the region's most urgent needs, as SMRMC provides many tertiary medical services not available elsewhere in the region. The facility serves patients from a six-county region: Pike, Amite, Lincoln, Franklin, Lawrence, and Walthall. According to the applicant, information obtained from Claritas indicates that Pike County's population has increased by 5,212 since Hurricane Katrina, and the surrounding six-county population has increased by 13,786.

The applicant contends that transplanted residents from the Mississippi Gulf Coast and Southeastern Louisiana, most of whom have limited resources, have complex medical needs, resulting in a significant strain on an already overwhelmed medical infrastructure and emergency department at SMRMC.

The applicant projects approximately 41,000 visits for fiscal year 2007. The following table shows the applicant's ED encounters for fiscal years 2001-2006:

Fiscal Year	SMRMC ED Encounters
2001	32,913
2002	34,175
2003	35,878
2004	37,695
2005	39,015
2006	40,107

Southwest Mississippi Regional Medical Center expects that the ED expansion would increase the department's capacity by over 20%, thus enabling SMRMC to

accommodate future demands. The project entails expanding the ED on the south side of the hospital campus. The current ED will be preserved during the construction process. In addition, SMRMC will open a temporary “Fast Track” emergency clinic in order to maintain service and reduce additional delays during project implementation. Upon completion of the ED expansion, SMRMC expects to be able to accommodate an emergency department with over 50,000 patients annually and be much better prepared to efficiently handle future evacuation and disasters. According to the applicant, the new expansion will also include a “Fast Track” for those patients with urgent but not emergent needs.

The applicant has been awarded a \$5,000,000 Social Services Block Grant in recognition of the community need for the proposed project. The funds have been designated for the expansion of SMRMC’s Emergency Department.

**SHP Criterion 2 – Bed Services Transfer/Reallocation/Relocation**

This project does not require the addition of beds or a change in the scope of services delivered at SMRMC.

**SHP Criterion 3 – Charity/Indigent Care**

The applicant avows to provide a reasonable amount of indigent/charity care as described in the *FY 2007 State Health Plan*.

**SHP Criterion 4 – Reasonable Cost**

The applicant affirms that the cost per square foot does not exceed the median construction costs for similar projects in the state. The application contains a cost estimate from Landry and Lewis Architects outlining the cost of construction as follows:

<b>Area</b>	<b>Square Feet</b>	<b>Cost Per Square Foot</b>
New Construction		
First Floor	14,563	\$160
First Floor Porches	107	80
Second Floor	19,833	215
Second Floor Porches	4,149	80
Renovation		
Second Floor	1,581	\$95

**SHP Criterion 5 – Floor Area Specifics**

The applicant contends that the gross square footage of both new construction and renovation associated with the proposed project is consistent with state and national norms for similar projects. According to the applicant, the architectural firm of Landry & Lewis Architects, P.A. developed the architectural plans for this project and has designed an expansion in order to promote the operationally efficient and cost-effective offering of emergency care.

**B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, revised November 2006, addresses general criteria by which all CON applications are reviewed. The applicable criteria are as follows:

**GR Criterion 1 – State Health Plan**

The application conforms to Chapter XI of the *FY 2007 State Health Plan* pertaining to the construction, renovation, expansion, and capital improvement of a hospital.

**GR Criterion 2 – Long Range Plan**

The applicant submits that the proposed project will significantly enhance the delivery of health care services to the patients of SMRMC and is consistent with the applicant's long-range plans.

**GR Criterion 3 – Availability of Alternatives**

The applicant determined that expansion of the ED was the only viable alternative to meet the patient needs, based on documented current and future patient demands for ER services. SMRMC states that Landry & Lewis Architects, P.A. considered various designs, and arrived at a layout for the addition to the ED consisting of both new construction and renovation work. This design was selected as the most operationally efficient and cost-effective approach to the expansion of SMRMC's Emergency Department.

**GR Criterion 4 -- Economic Viability**

Based on the three-year projected operating statement contained in the application, the applicant will break even the first year of operation, while realizing net operating income of \$38,000 and \$74,000 the second and third year, respectively.

The application contained a statement from the chief financial officer of SMRMC attesting to the economic viability of this project. The chief financial officer stated his belief that SMRMC has the financial ability to undertake this proposed project and that the probable effects of the proposed capital expenditure on present and future operating costs, as set forth in the financial documents submitted with the CON application, are reasonably stated.

In addition, the applicant has received a \$5,000,000 Social Services Block Grant that has been specifically designated for use in the expansion of the Emergency Department.

### **GR Criteria 5 – Need for the Project**

As previously discussed, the applicant has experienced a significant increase in demand for emergency services over the past five years, which applicant stated has been compounded by even greater demand since Hurricane Katrina. The applicant has projected a continued increase in ED patient encounters over the next five years and states that the current space configuration of the ED at SMRMC will not be sufficient to meet this demand.

The application contains 11 letters of endorsement for the project.

### **GR Criteria 6 – Access to the Facility**

The applicant affirms that all residents of the health planning service area, hospital service area, and patient service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly have access to the services of the existing facility and will continue to have access to the proposed services. The applicant submits that it provided 2.2% of its gross patient revenue in charity care in FY 2006 and 2.1% in FY 2005. It projects that it will provide approximately 2% charity care in years 1 and 2 of the project.

### **GR Criteria 7 – Information Requirement**

The applicant states that it will record and maintain the requested information stated in the above criterion and make it available to the Mississippi Department of Health within 15 working days of request.

### **GR Criteria 8 – Relationship to Existing Health Care System**

The applicant submits that if the proposed project is not implemented, SMRMC will not have sufficient capacity and resources to adequately serve the current and future needs of the residents of the service area for ED services. Moreover, the applicant states that SMRMC will not be able to fulfill its role and responsibility as a referral center for residents of the Gulf Coast region in need of emergency care following hurricanes or other natural disasters.

### **GR Criteria 9 – Availability of Resources**

The proposed project does not involve a personnel increase.

### **GR Criteria 14 – Construction Project**

The application contains cost estimates, schematic drawings, and assurances that the construction of the project will conform to accepted norms. The estimated cost of new construction (using the Department's method of calculating square foot cost) is \$212 per square foot. The estimated renovation cost is approximately \$110 per square foot (see Attachment 1).

**GR Criteria 16 – Quality of Care**

The applicant is in compliance with the Minimum Standards for the Operation of Mississippi Hospitals, according to the Division of Health Facilities Licensure and Certification.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure of \$8,597,238 is allocated as follows:

	<b>Item</b>	<b>Cost</b>	<b>Percentage</b>
a.	Construction Cost -- New	\$6,934,655	81%
b.	Construction Cost -- Renovation	150,195	2%
c.	Capital Improvements	0	.
d.	Total Fixed Equipment Cost	375,000	4%
e.	Total Non-Fixed Equipment Cost	225,000	2%
f.	Land Cost	0	
g.	Site Preparation Cost	320,000	4%
h.	Fees (Architectural, Consultant, etc.)	592,388	7%
i.	Contingency Reserve	0	
j.	Capitalized Interest	0	
k.	Other Cost	0	
<b>I.</b>	<b>Total Proposed Capital Expenditure</b>	<b>\$8,597,238</b>	<b>100%</b>

The project entails 38,653 square feet of new construction at a cost of \$212.12 per square foot and 1,581 square feet of renovation at a cost of \$109.72 per square foot. New construction projects listed in the *Means' Building Construction Cost Data 65th Annual Edition* range from a low of \$164 per square foot to a high of \$300 per square foot. Therefore, this project falls within the median to high range for new construction. The *Means Building Construction Cost Data* does not compare renovation costs.

**B. Method of Financing**

The project will be financed through a \$5,000,000 Social Services Block Grant, a \$2,997,000 loan from Trustmark National Bank, and the remaining balance will be financed through cash reserves.

**C. Effects on Operating Cost**

The application projects the following expense and revenue results from operation for the first three years following completion of the project:

<b>Southwest Mississippi Regional Medical Center Expansion of Emergency Department Three Year Projected Operation Statement</b>			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<b>Patient Revenue</b>			
Inpatient Revenue			
Outpatient Revenue	\$2,415,000	\$2,463,000	\$2,512,000
<b>Total Patient Revenue</b>	2,415,000	2,463,000	2,512,000
Charity Care	50,000	50,000	50,000
Other Deductions	1,416,000	1,445,000	1,475,000
<b>Net Patient Revenue</b>	<b><u>\$ 949,000</u></b>	<b><u>\$ 968,000</u></b>	<b><u>\$ 987,000</u></b>
<b>Expense</b>			
Salaries	\$ 192,000	\$ 196,000	\$ 200,000
Benefits	21,000	21,000	22,000
Supplies	15,000	15,000	16,000
Services	96,000	98,000	100,000
Lease			
Depreciation	500,000	500,000	500,000
Interest	125,000	100,000	75,000
Other			
<b>Total Operating Expense</b>	<b><u>\$ 949,000</u></b>	<b><u>\$ 930,000</u></b>	<b><u>\$ 913,000</u></b>
<b>Net Income (Loss)</b>	<b><u>\$ 0</u></b>	<b><u>\$ 38,000</u></b>	<b><u>\$ 74,000</u></b>

**D. Cost to Medicaid**

The cost of the proposed project to the various payors is listed below:

<b>Southwest Mississippi Regional Medical Center Expansion of Emergency Department Cost Impact to Various Payors</b>		
	<b>Percent Utilization</b>	<b>Cost First Year</b>
Medicaid	38	\$363,000
Medicare	9	84,000
Commercial/Other	50	473,000
Self Pay	<u>3</u>	<u>29,000</u>
<b>Total</b>	<b><u>100</u></b>	<b><u>\$949,000</u></b>

**V. RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid states that any portion of the capital expenditure which may relate to outpatient services will be paid as outlined in the Medicaid State Plan. The Division takes no position on this 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 FY 2007 Mississippi State Health Plan; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised November 12, 2006; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of Southwest Mississippi Regional Medical Center for the expansion of its Emergency Department.

**Attachment 1**

**Computation of Construction and Renovation Cost**

<u>Cost Component</u>	<u>Total</u>	<u>New Constructon</u>	<u>Renovation</u>
New Construction Cost	\$6,934,655	\$6,934,655	
Renovation Cost	\$150,195		\$150,195
Total Fixed Equipment Cost	\$375,000	\$375,000	
Total Non-Fixed Equipment Cost	\$225,000	\$0	
Capital Improvement	\$0		
Land Cost	\$0	\$0	
Site Preparation Cost	\$320,000	\$320,000	
Fees (Architectural, Consultant, etc.)	\$592,388	\$569,107	\$23,281
Contingency Reserve	\$0	\$0	\$0
Capitalized Interest	\$0	\$0	\$0
<b>Total Proposed Capital Expenditure</b>	<b>\$8,597,238</b>	<b>\$8,198,762</b>	<b>\$173,476</b>

Square Footage	<b>40,233</b>	38,652	1,581
Allocation Percent		96.07%	3.93%

<b>Costs Less Land, Non-Fixed Eqt. &amp; Cap. Improvement</b>	<b>\$8,372,238</b>	<b>\$8,198,762</b>	<b>\$173,476</b>
---	--------------------	--------------------	------------------

<b>Cost Per Square Foot</b>	<b>\$208.09</b>	<b>\$212.12</b>	<b>\$109.73</b>
-----------------------------	-----------------	-----------------	-----------------