

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

**CON REVIEW: HG-R-0307-006
SOUTHWEST MISSISSIPPI REGIONAL MEDICAL CENTER, McCOMB
EXTERIOR RENOVATION PROJECT
CAPITAL EXPENDITURE: \$4,500,000
LOCATION: McCOMB, PIKE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Southwest Mississippi Regional Medical Center (SMRMC) operates as 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. A seven-member Board of Trustees appointed by the mayor of the City of McComb, the McComb Board of Selectmen, and the Boards of Supervisors of their respective counties provides governance to the Medical Center. The licensed bed capacity of SMRMC consists of 150 short-term acute care beds [including 10 adult psychiatric (geriatric) beds] and 20 Level II comprehensive medical rehabilitation beds. The occupancy rates, average length of stay, and Medicaid utilization rates for fiscal years 2003-2005 are as follows:

**Southwest Mississippi Regional Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	Average Length of Stay (Days)	Medicaid Utilization Rate (%)
2003	53.65	3.95	22.18
2004	59.41	4.03	23.71
2005	67.44	4.39	20.52

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

B. Project Description

The applicant proposes an exterior renovation project for the hospital.

According to the applicant, SMRMC has experienced severe water leaks through the brick veneer and around windows and doors over the past several years. These leaks have intensified and resulted in a large amount of maintenance to keep the hospital operational. Water infiltration is causing damage to the interior of the building, and has the potential to become extremely unmanageable and costly if steps are not taken to prevent further problems. These problems have been encountered on the

main original hospital building and all of the additions, with the exception of the cardiac care addition. Additionally, these water infiltration problems have been further advanced due to Hurricane Katrina.

The project architect and the applicant have designed a solution that will change the image of the facility, as well as, providing the necessary relief of the moisture problem. A new exterior insulation finish system with drainage mat over the existing brick veneer has been developed. The project also calls for the replacement of all the windows and exterior doors. Approximately 90 percent of the \$4,500,000 is related to mitigating the water problem with ten percent relative to providing a new image to the facility.

II. TYPE OR 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 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 14, 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:

The applicant affirms that the exterior renovation project is necessary to address water infiltration problems, which are causing damage to the interior of the hospital building, and have the potential to become extremely unmanageable and costly if steps are not taken to mitigate the problems. Additionally, these water infiltration problems were exacerbated by Hurricane Katrina. By proceeding with the proposed project, SMRMC will be able to prevent further physical deterioration of the hospital structure, and avoid potential adverse impact on hospital operations from continued water infiltration.

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

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

SHP Criterion 4 –Cost of Project

- a. **Cost per Square Foot:** This project involves exterior renovation work only.
- b. **Equipment Cost:** This project will not involve the purchase of additional equipment.
- c. **SHP Criterion 5 – Floor Area and Space Requirements**
 - a. **Gross Square Footage:** Not applicable.
 - 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 an existing hospital exterior which cost does not exceed 85 percent of the cost of a replacement facility.

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 has been approved by the hospital's Board of Trustees and is consistent with SMRMC's long-range plan.

GR Criterion 3 – Availability of Alternatives

The applicant affirms:

- a. That no other feasible alternatives exist.
- b. The water infiltration problem can be addressed only through exterior renovation work. The proposed project is the result of planning and the identification of both immediate needs and long-range goals for SMRMC and the community it serves.
- c. The project, as proposed, is the most efficacious method of meeting the needs of the health care community served by SMRMC.
- d. The purpose of this project is to address necessary repair work to the exterior of the facility. The project does not involve the initiation of new health care services.
- e. This project is required so that the SMRMC can continue providing essential hospital services to residents of its service area.

GR Criterion 4 - Economic Viability

Based on the three-year projected operating statement, the applicant projects a net operating income of \$3,000,000 during each of the first, second, and third years of operation. Table I shows income statement summary. 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 management staff. The feasibility study performed by the hospital's chief financial officer is included in the application.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts 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.
- b. **Relocation of Services:** This application does not propose the relocation of services.

- 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 repair of the exterior of the facility. 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:** Southwest Mississippi Regional Medical Center submits that there are no institutional barriers to medically underserved populations receiving medical care or other clinical services. The percentage of the underserved population receiving care at SMRMC reasonably reflects their relative percentage in the service area population, according to the applicant.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that SMRMC 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:** Southwest Mississippi Regional 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

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

GR Criterion 8 - Relationship to Existing Health Care System

The applicant does not expect that the repairs proposed in this application will have an effect on the current services provided in the existing healthcare system.

GR Criterion 9 - Availability of Resources

Southwest Mississippi Regional Medical Center submits that it currently maintains a full complement of professional and support staff for the provision of acute care services. SMRMC 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, this project will have no adverse effect on any existing health professional training program.

GR Criterion 12 – Health Professional School

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

GR Criterion 14 - Construction Projects

The project involves repairs to the exterior of the existing facility. No new construction will be involved, according to the applicant.

GR Criterion 16 - Quality of Care

Southwest Mississippi Regional Medical Center complies with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MDH. The Joint Commission on Accreditation of Health Care Organizations also accredits the hospital.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

**Southwest Mississippi Regional Medical Center
 Capital Expenditure Summary**

	Capital Expenditure	Percent
a. Construction Cost -- New	0	0
b. Construction Cost -- Renovation	0	0
c. Capital Improvements	\$4,500,000	100
d. Total Fixed Equipment Cost	0	0
e. Total Non-Fixed Equipment Cost	0	0
f. Land Cost	0	0
g. Site Preparation Cost	0	0
h. Fees (Architectural, Consultant, etc.)	0	0
i. Contingency Reserve	0	0
j. Capitalized Interest	0	0
k. Other Cost	0	0
l. Total Proposed Capital Expenditure	<u>\$4,500,000</u>	<u>100</u>

The above capital expenditure is proposed for the repair of exterior of Southwest Mississippi Regional Medical Center

B. Method of Financing

The applicant proposes to finance this project through a federal grant.

C. Effect on Operating Cost

Southwest Mississippi Regional Medical Center's three-year projected operating statement (entire facility with project) is presented at Table 1. The statement shows increases in operating cost of \$129,417,000 in year one to \$135,950,000 in year three, and a net income of \$3,000,000 for each the first, second, and third years of operation.

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:

**Southwest Mississippi Regional Medical Center
Exterior Renovation Project
Cost to Third Party Payors**

Patient Mix by Payor Type	Utilization Percentage	First Year Revenue
Medicare	50.28	\$ 156,736,460.00
Medicaid	13.57	\$ 42,310,646.00
Other	36.14	\$ 112,660,895.00
Total	<u>100.00</u>	<u>\$ 311,708,001.00</u>

Southwest Mississippi Regional Medical Center project five percent of gross patient revenue for bad debt patients and two percent 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 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 exterior renovation of the facility.

Table I				
Three Year Operating Statement				
Southwest Mississippi Regional Medical Center				
Exterior Renovation Project				
Revenue	Latest Actual	Year 1	Year 2	Year 3
Gross Inpatient Revenue:	\$ 139,082,460	\$ 142,099,169	\$ 145,596,625	\$ 149,189,813
Outpatient Care Revenue	<u>\$ 166,008,102</u>	<u>\$ 169,608,832</u>	<u>\$ 173,783,375</u>	<u>\$ 178,072,187</u>
Gross Patient Care Revenue	\$ 305,090,562	\$ 311,708,001	\$ 319,380,000	\$ 327,262,000
Deductions From Revenue				
Medicare	\$ 100,363,761	\$ 102,540,863	\$ 105,064,810	\$ 107,657,385
Medicaid	23,059,444	23,559,652	24,139,551	24,735,217
Commercial	20,169,076	20,606,586	21,113,798	21,634,801
Self Pay	21,120,221	21,578,364	22,109,495	22,655,068
Charity Care	2,844,715	2,906,423	2,977,961	3,051,445
Other	<u>9,395,309</u>	<u>9,599,113</u>	<u>9,835,385</u>	<u>10,078,084</u>
Total Deductions from Revenue	\$ 176,952,526	\$ 180,791,001	\$ 185,241,000	\$ 189,812,000
Net Patient Care Revenue	\$ 128,138,036	\$ 130,917,000	\$ 134,139,000	\$ 137,450,000
Other Operating Revenue	<u>1,636,783</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>
Total Operating Revenue	\$ 129,774,819	\$ 132,417,000	\$ 135,639,000	\$ 138,950,000
Operating Expense				
Salaries	\$ 52,723,130	\$ 54,305,000	\$ 55,934,000	\$ 57,612,000
Benefits	14,235,245	14,662,000	15,102,000	15,555,000
Supplies	26,129,218	26,913,000	27,720,000	28,552,000
Services	12,340,437	12,587,000	12,838,000	13,095,000
Lease	4,135,482	4,156,000	4,177,000	4,198,000
Depreciation	4,538,228	4,560,000	4,582,000	4,606,000
Interest	1,277,018	1,075,000	1,016,000	949,000
Other	<u>11,048,317</u>	<u>11,159,000</u>	<u>11,270,000</u>	<u>11,383,000</u>
Total Operating Expense	\$ 126,427,075	\$ 129,417,000	\$ 132,639,000	\$ 135,950,000
Net Operating Income (Loss)	\$ 3,347,744	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000