

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

CON REVIEW: HG-RLS 0607-011

ST. DOMINIC-JACKSON MEMORIAL HOSPITAL, INC.

**RELOCATION/CONSTRUCTION OF 75 ACUTE CARE HOSPITAL BEDS AND
A MEDICAL OFFICE BUILDING IN MADISON COUNTY, MISSISSIPPI**

CAPITAL EXPENDITURE: \$93,391,010

LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

St. Dominic-Jackson Memorial Hospital (St. Dominic) is a 535-bed short term, acute care, general referral hospital governed by an 18-member Board of Directors. It is licensed to operate 417 medical/surgical beds, 35 adult chemical dependency beds and 83 adult psychiatric beds. St. Dominic, a not-for-profit Mississippi corporation, is accredited by the Joint Commission on the Accreditation of Healthcare Organizations, and licensed by the Mississippi State Department of Health (MSDH).

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for St. Dominic are as follows for the years 2003 through 2005:

**St. Dominic-Jackson Memorial Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2003	65.24	5.21	9.95
2004	65.70	4.85	11.41
2005	58.80	4.47	12.70

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

B. Project Description

St. Dominic-Jackson Memorial Hospital is requesting Certificate of Need (CON) authority to relocate a portion of its health care facility to include 75 set up and staffed acute care beds from its Jackson facility to a proposed satellite campus in Madison County and to construct a medical office building. Both the St. Dominic-Jackson location and the proposed location in Madison County are located in General Hospital Service Area (GHSA) 3. St. Dominic proposes to locate the satellite facility and the medical office building on property already owned by St.

Dominic Health Services, Inc., located in Madison County east of I-55 between the Madison and Gluckstadt exits. The application contains a letter from St. Dominic Health Services, agreeing to transfer sufficient property to St. Dominic-Jackson Memorial Hospital.

The applicant states that 405 of its 417 Medical/Surgical beds are equipped and available for patient use at St. Dominic's Jackson location. The 75 beds proposed by this application to be relocated to its proposed satellite campus in southern Madison County will be taken out of service at the Jackson campus and physically moved to the proposed location in Madison County. Because the proposed Madison campus will be part of St. Dominic Hospital, this project will not result in a change to the hospital's licensed bed count. Space vacated by the 75 beds will be converted to an observation unit.

In addition, St. Dominic proposes to relocate most of the needed nursing staff and other personnel required to operate the new facility in Madison County. Nurses, Pharmacists, Physical Therapists, Occupational Therapists and Radiographic Technicians who live in the Madison area will be given priority for relocation on an as needed basis. Equipment, which can be relocated and not negatively impact the remaining patients at the Jackson campus, will be relocated on a pro-rated basis. This includes such equipment as ultrasound units, portable x-ray, pharmacy dispensing units, physical therapy equipment, beds, and furniture.

St. Dominic proposes that the satellite campus in Madison County will serve low acuity patients with, among others, the following services:

1. Surgery in four operating suites (to be relocated);
2. Dedicated endoscopy suites (two to be relocated);
3. High-level diagnostic imaging services, including but not limited to:
 - magnetic resonance imaging (MRI);
 - computed tomography (CT);
 - ultrasound; and
 - conventional radiology
4. Nursing care 24 hours per day, seven days a week;
5. Labor and delivery services (5 labor, delivery, recovery, and postpartum beds (LDRP's) to be relocated);
6. Normal newborn nursery and neonatal intensive care services;
7. Rehabilitation and physical therapy (some portion to be relocated);
8. Pharmacy;
9. Clinical laboratories;
10. Level IV emergency services;
11. State of the art medical information systems, fully integrated with the Jackson campus, to include computerized physician order entry (CPOE), electronic medical records (EMR), digital radiology, availability of test results and records to physicians via secure browser, and integrated patient registration and information systems; and

12. Station for ambulance service.

St. Dominic believes that this project will bring a number of important benefits to Madison County and the proposed service area. In general, St. Dominic intends to provide the residents of Madison County with high quality and affordable health care offered to insured and uninsured patients alike from a not-for-profit, faith-based provider.

The applicant projects a total of 177.0 additional FTE personnel at a cost of \$8,758,526 the first year after completion of this project.

The project entails 172,731 square feet of new construction for the hospital and 45,000 square feet for the medical office building. The total proposed capital expenditure of \$93,391,010 will be financed with a commercial loan from Trustmark National Bank over a period of 30 years at a rate of 7% interest.

According to MSDH Division of Health Facilities Licensure and Certification, the site is acceptable for the intended use for the proposed project.

The applicant expects to obligate the capital expenditure by September 2007 and anticipates that the project will be complete by October 2010.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the establishment of health care facilities, construction, relocation, and acquisition of major medical equipment involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (a) and (b), (d)(xii), and (e), 41-7-193, and 41-7-195, Mississippi Code of 1972, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

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 *FY2007 State Health Plan* contains criteria and standards which an applicant is required to meet prior to undertaking projects for the establishment of a general acute care hospital, major construction, renovation, expansion, capital

improvements, replacement of health care facilities, and addition of hospital beds. Although the applicant argues that this is a relocation of acute care beds that will be taken out of service in the Jackson area, in order for the beds to be relocated, there must be construction of a new health care facility in Madison to house these beds. Section 41-7-191 (1)(e) provides for “the relocation of one or more health services from one physical facility or site to another physical facility or site, unless such relocation, which does not involve a capital expenditure by or on behalf of a health care facility, (i) is to a physical facility or site within 5,280 feet from the main entrance of the health care facility where the health care service is located, or (ii) is the result of an order of a court of appropriate jurisdiction or a result of pending litigation in such court, or by order of the State Department of Health, or by order of any other agency or legal entity of the state, the federal government, or any political subdivision of either, whose order is also approved by the State Department of Health.” The application submitted by St. Dominic does not meet either of the criteria stated above, and is therefore deemed a new health care facility. Also, the capital expenditure required to construct a facility to house these beds is comparable to the capital expenditure required to construct a new hospital. In addition, the cost per bed is estimated at approximately \$983,719 (calculated based on 79% of construction cost allocated to the hospital).

In addition, Mississippi Supreme Court Ruling No. 2004-SA-01240-SCT (St. Dominic-Madison County Medical Center, St. Dominic-Jackson Memorial Hospital and Mississippi State Department of Health v Madison County Medical Center, May 4, 2006) upheld the Chancery Court’s decision to reverse the Department’s approval of St. Dominic’s 2002 application to relocate 50 acute care beds to Madison County. The Court found that “St. Dominic’s amended application proposes a completely new building in Madison County ... There is nothing in the record that suggests that St. Dominic-Jackson will not continue to provide the same services. It is therefore logical to conclude that St. Dominic’s amended application does not involve ‘the moving of authority to provide a service from one location to another’.” The Court further found that a much reduced standard of need was used by the Department in approving the application. Further, “the Court held that no lesser showing of need will be required by this Court based on the notion that a ‘relocation’ has taken place.”

Although St. Dominic proposes in this application to physically relocate 75 acute care beds, relocate a portion of its surgery suites (4 operating suites); dedicated endoscopy suites (2 suites); 5 LDRPs; and a portion of rehabilitation and physical therapy, there is nothing in the application that indicates that these services will cease operation at the St. Dominic-Jackson campus.

Consequently, the satellite facility proposed in this project is considered the construction/establishment of a general acute care hospital in Madison County.

Certificate of Need Criteria and Standards for the Establishment of a General Acute Care Hospital

SHP Criterion 1 – Need

The applicant shall document a need for a general acute care hospital using the appropriate need methodology as presented in the Plan. In addition, the applicant must meet the other conditions set forth in the need methodology.

The applicant proposes to construct a 75-bed general acute care hospital in Madison County by relocating 75 existing beds from its Jackson facility. Madison County currently has one 67-bed facility, Madison County Medical Center. Therefore, this project is reviewed under the methodology for counties with existing hospitals.

The formula used to determine the need for an additional hospital in a county with an existing hospital is as follows:

$$ADC + K(\sqrt{ADC})$$

Where: ADC = Average Daily Census
K = Confidence Factor of 2.57

According to the 2006 Report on Hospitals, Madison County Medical Center had an ADC of 16.28 in 2006. Based on the above formula, the need for additional beds in Madison County is 27 beds. The Plan indicates that the MSDH may consider approval of a hospital with a maximum of 100 beds if the number of beds needed is 100 or more. Therefore, the applicant is not in compliance with this criterion.

SHP Criterion 2 – Reasonable Amount of Indigent/Charity Care

St. Dominic asserts that it will continue to provide a reasonable amount of indigent/charity care, as described in the *Plan*.

Certificate of Need Criteria and Standards for Construction, Renovation, Expansion, Capital Improvements, Replacement of Health Care Facilities, and Addition of Hospital Beds

SHP Criterion 1 – Need

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.

This project involves the construction of a facility in Madison County to accommodate the relocation of 75 acute care beds from St. Dominic's Jackson campus and the construction of a medical office building. St. Dominic certifies that the 75 beds will be taken out of service at the Jackson campus and physically moved, along with necessary equipment and services, to the Madison County location. The application contains a statement that the facility will provide Level IV emergency services.

The applicant asserts that there is no defined methodology to determine need for a project such as this one where no beds will be added to the service area, but actual set-up and staffed beds will instead be relocated from an overbedded county to another county in the same service area. Therefore, St. Dominic utilized a need methodology which it contends is logical, rational, straightforward, and which promotes the general goals of the State Health Plan.

The applicant states that Madison County is one of the fastest growing counties in the state, with a 2006 population of 83,488 and a projected 2011 population of 92,112. A great majority of the existing population and of the continued population growth, according to the applicant, is in South Madison County where St. Dominic proposes to relocate its facility. The applicant submits that Madison County Medical Center, which is owned by the County and operated under a long-term lease by a wholly owned subsidiary of HMA, Inc., is licensed for a maximum of 67 acute care beds, and is located in Canton, in northern Madison County. St. Dominic states that even at the approved relocated site on I-55, near the Nissan Plant immediately south of Canton, Madison County Medical Center will continue to serve the needs primarily of the residents of the northern portion of the County. St. Dominic believes that Madison County Medical Center cannot adequately meet the health service needs of the entire county.

St. Dominic asserts that the low occupancy and limited medical staff of the existing MCMC means that its historic utilization cannot be used as a benchmark for patient migration patterns if modern facilities are built in Madison County with the ability to attract the medical staff and patients. The applicant states that it has consistently maintained a greater market share of Madison County patients than any other area hospital.

St. Dominic states that in determining need for the proposed relocation of beds, it chose to rely on the actual utilization of healthcare services by Madison County residents wherever in Mississippi that utilization occurred. Specifically, St. Dominic calculated the need for beds in Madison County based on the actual, documented utilization of healthcare services by Madison County residents. St. Dominic

concluded that, given the existence of 67 beds at the MCMC, there is an unmet need for more than 100 additional acute care beds in Madison County.

St. Dominic admitted that it did not rely on the need methodology stated in the Plan for this project due to two reasons: (1) It does not apply because St. Dominic is not seeking approval of new beds for Madison County; and (2) the methodology is not reasonably calculated to provide any valid or credible assessment of the actual need for beds in a county. (It should be noted, however, that beds relocated from Hinds County will be new beds in Madison County).

The applicant stated it relied on the Mississippi State Department of Health's patient discharge data for the last two quarters of 2005 and the first two quarters of 2006. According to the eight week sample data collected in those four quarters, 1,647 Madison County residents sought health care services in an acute care setting during the period of time sampled.

To accurately forecast need and utilization, the applicant separated Medical/Surgical inpatient ("Med/Surg") and Obstetric/Birth inpatient ("OB") discharge data to project according to appropriate population and age cohorts. The applicant determined the resulting net bed need amount for Madison County equals 172.1 beds and, after accounting for the 67 licensed beds for MCMC, equates to a net additional bed need for the county of 105 beds.

St. Dominic then calculated its projected utilization at the proposed satellite location. The applicant defined three separate levels of service areas for the Madison County facility and determined its market share from each area. It then applied what the applicant termed conservative growth rates for its market share in each level of its overall service area – 2.0% growth per year at level 1 (the home zip codes of the primary service area), 1.5% growth per year in level 2 (remaining zip codes in the primary service area), and 1.0% growth per year at level 3 (secondary service area). The resulting projected market shares for the first three years operation were applied to population projections for each area, and, according to the applicant, yielded utilization projections of:

- 44.8 occupied beds in year 1;
- 52.5 occupied beds in year 2; and
- 55.0 occupied beds in year 3.

The applicant concludes that there is a serious mal-distribution of acute care beds within General Hospital Service Area 3. Hinds County is over-bedded and Madison County is under-bedded. Therefore, St. Dominic proposes to relocate beds which are currently in service at its Jackson location, along with certain equipment and staff necessary to operate those beds, closer to patients where they reside in Madison County. The applicant states that those beds will be taken out of service in Jackson and placed in service in Madison County. There will be no increase or decrease in the number of licensed beds in the service area as the result of this

application.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

St. Dominic proposes to relocate 75 acute care beds, four operating suites, 2 dedicated endoscopy suites, 5 LDRP's, and some portion of rehabilitation and physical therapy.

SHP Criterion 3 – Uncompensated Care

St. Dominic affirms that it will provide healthcare to all patients without regard to ability to pay.

SHP Criterion 4 –Cost of Project

- a. **Cost per Square Foot:** The proposed project consists of 217,731 square feet of new construction at an estimated cost of \$379.44 per square foot. Approximately 79% (172,731 sq. ft.) of the construction cost is allocated to the hospital while the remaining 21% (45,000) is allocated to the MOB. Based on these percentages, it is estimated that the cost to construct the hospital portion is \$379.43. The cost per square foot of new hospital construction in this project exceeds the cost level where 75% of projects cost less than (\$300/sq. ft.) for projects surveyed in the *Means Building Construction Cost Data, 2007 Edition*. No similar projects have been approved within the past 12 months to make a cost comparison.
- b. **Equipment Cost:** The applicant proposes to purchase fixed equipment at a cost of \$10,559,709 and non-fixed equipment at a cost of \$6,522,291. The applicant states, however, that much of the existing moveable equipment, furniture, beds, and other equipment items will be relocated from the existing hospital campus and that it has conservatively estimated the equipment cost based on current estimates to acquire the items new in the total project cost of \$93,391,010. The cost of equipment is not expected to exceed the median cost by more than 15%.

SHP Criterion 5 - Floor Areas and Space Requirements

The application contains schematic drawings and site plan of the proposed facility. The facility will consist of 217,731 square feet of space.

SHP Criterion 7 – Need for Specific Service

Magnetic Resonance Imaging Services

St. Dominic proposes to offer MRI services at the Madison County facility. In accordance to Section 41-7-195, CONs are site specific and St. Dominic's CON is for the offering of MRI services at the St. Dominic-Jackson location. A CON is required for the offering of MRI services at the Madison facility. St. Dominic provided the following documentation regarding the offering of MRI services.

- **Need:** The applicant used its current rate of procedures at its Jackson facility and extrapolated projected procedures at the Madison campus. St. Dominic states that it performed 11,936 MRI procedures (both outpatients and inpatients) in the calendar year 2006, utilizing three units. Therefore, each unit performed in excess of 3,900 procedures per year. St. Dominic established the ratio of outpatient to inpatient activity by dividing its average adjusted daily census of 449 (measurement of outpatient and inpatient census combined) by the average inpatient census of 299 patients per day. This resulted in a ratio of 1.5 to 1. The applicant further states that by multiplying the projected 45 inpatients a day at the Madison facility by this ratio yields an average projected adjusted daily census of 67.57 patients. Dividing the total number of St. Dominic MRI procedures of 11,936 by the average adjusted daily census of 449 yields 26.58 procedures. When this number of 26.58 procedures is applied to the projected 60.57 adjusted average daily census at Madison, the projected use of the MRI unit at that location is 1,781 procedures. The applicant, however, did not use the methodology contained in the Plan nor did it submit affidavits from physicians to project the required 1,700 procedures.
- **Documentation of Diagnostic Imaging Modalities:** St. Dominic states that the Madison facility will provide computed tomography (full body), ultrasound and conventional radiology. Angiography and nuclear medicine services can and will be provided to patients of the Madison campus at the Jackson facility.
- **Accessibility:** The applicant affirms that the facility at Madison will not have any policy or procedure which would exclude patients because of race, color, age, sex, ethnicity, or ability to pay.
- **Staffing:** St. Dominic states that its current Medical Director of Radiology at the Jackson campus will provide the same service at the Madison campus. The Medical Director is a full-time Board certified radiologist and has full knowledge of MRI. In addition, the applicant states that at least one full time MRI technologist-radiographer will be on site at the Madison facility and will be experienced in CT or other cross-sectional imaging methods, or will have equivalent training in MRI Spectroscopy.
- **Research Staffing:** The applicant does not anticipate that the proposed MRI service will be used for experimental procedures.
- **Recording of Data:** The applicant affirms that it will keep the required data and make it available to the Department on request. In addition, the applicant states that it will maintain the source of payment for procedures and the total amounts charged during each fiscal year if such data is within the scope of the recording system to be utilized at the Madison campus.

Labor/Delivery and Neonatal Intensive Care Services

St. Dominic also proposes to offer labor/delivery and neonatal intensive care services at the Madison facility. The applicant states that it is only proposing to provide a low acute level of neonatal service coverage in case of unexpected complications related to its proposed maternity and newborn services unit.

According to the applicant, this low acute level of service is necessary from a quality of care perspective because all deliveries are not planned or free of complications. The application is not proposing any licensed neonatal intensive care beds; rather, it proposes to create isolated holding areas off of the newborn nursery to serve as a staging area for babies that require a low acute level of services during the mother's delivery and hospital stay. While the application proposes these services which may require a CON, the Department was unable to evaluate the need to establish these services based upon the information submitted.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The project is not consistent with the goals contained in the *FY 2007 State Health Plan*. St. Dominic proposes to relocate 75 acute care beds already in service at its Jackson campus to a satellite hospital to be constructed in Madison County. The statute allows the relocation of one or more health services from one physical facility or site to another physical facility or site. However, St. Dominic proposes to construct a 217,731 square foot facility at a cost of \$93,391,010. The square footage includes 172,731 square feet allocated to the acute care hospital portion of the facility. The Mississippi Supreme Court Ruling No. 2004-SA-01240-SCT (St. Dominic-Madison County Medical Center, St. Dominic-Jackson Memorial Hospital and Mississippi State Department of Health v Madison County Medical Center, May 4, 2006) held that "no lesser showing of need will be required based on the notion that a 'relocation' has taken place." The applicable criterion for this project, according to the Court, is the criterion for the establishment of a general acute care hospital. The applicant is not in compliance with the need criterion in the *FY 2007 State Health Plan* for the establishment of a general acute care hospital. The Plan states that the MSDH may consider approval of a hospital with a maximum of 100 beds if the number of beds need is 100 or more. Calculation of methodology contained in the Plan indicates a need in Madison County of 27 beds. Therefore, the application does not meet the need criterion in the Plan,

GR Criterion 2 - Long Range Plan

The applicant states that St. Dominic has a vision of providing high quality care through effective utilization of leading technologies, including information technologies such as computerized physician order entry. According to the applicant, a low acuity hospital with Level IV trauma services available in southern Madison County, which is experiencing explosive growth, is an essential part of this vision and has been in St. Dominic's long-term plans for many years.

GR Criterion 3 – Availability of Alternatives

St. Dominic states that it considered and rejected many alternatives to relocating operational beds from its Jackson campus to Madison County. Among these alternatives and the reasons for rejection are:

- Relocation of licensed but not operational beds. This alternative was rejected because the Court's previously ruled that relocation with no reduction in operations (operated beds, current staff, equipment, etc) was the creation of a new hospital with new acute care beds.
- Maintain the status quo. This alternative was rejected, according to the applicant, for obvious reasons as it ignores the need already identified—both in terms of calculated bed need; the need expressed as a comparison with other rapidly growing Mississippi counties; and need expressed by support from residents of Madison County and elected officials.
- Construction of new beds at its current Jackson location to accommodate the needs of residents of south Madison County. This alternative was rejected because it does not appropriately address the needs of the patient base from Madison County. The applicant submits that the need for hospital care close to home is strong and there is a large volume of unmet need in Madison County.
- Finally, St. Dominic states that it considered other options for the provision of health care services in Madison County through outpatient services only. This alternative was rejected in favor of the relocation of actual hospital beds so that Madison County residents can receive more comprehensive health care services, including the most pressing and serious need for emergency services.

The applicant believes that the application represents the most effective option, as it best meets the need of patients in south Madison County by bringing hospital services close to where patients live. The applicant believes that this option is also more effective in terms of cost containment, which is a major objective of the project. Efforts to control cost have been focused in three areas: effective facility design, efficient operation assumptions, and ensuring future cost control through patient/consumer choice and competition for hospital services. In addition, this option provides the most effective benefits to the health care system as it links the hospital services. Finally, this option provides the most effective benefits to the health service needs of Madison County. St. Dominic asserts that this project meets the needs of "low acuity" patients residing in south Madison County and the specified service area. It also allows St. Dominic's main campus to develop more as a critical care facility meeting the needs of all patients.

GR Criterion 4 - Economic Viability

Based on the three-year projected operating statement contained in the application, the applicant will realize net losses of \$5,986,798 the first year and \$1,620,391 the

second year, with net income of \$1,084,369 the third year of operation of the Madison County location.

- a. **Proposed Charges:** According to the applicant, the forecasted gross and net revenues and profitability in total and on a per patient day basis are reasonable.
- b. **Projected Levels of Utilization:** The applicant affirms that projected levels of utilization are comparable to like facilities.
- c. **Project's Financial Feasibility Study:** The application contained a letter signed by the hospital's vice president of finance attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant states that with the relocation of these beds, St. Dominic will be able to provide an efficient, highly competent continuum of care to the residents of central Mississippi. St. Dominic proposes to meet the need for more beds in Madison County by taking beds out of service at its Jackson location and relocating those beds to the proposed Madison County location.
- b. **Relocation of Services:** The application seeks to relocate a portion of beds, services, equipment, and staff from the St. Dominic-Jackson Campus to the proposed Madison location. However, the applicant does not propose to cease to provide these services at the Jackson facility.
- c. **Probable Effect on Existing Facilities in the Area:** The proposed project will likely have an adverse effect on the existing hospital facility in the area. Currently, Madison County Medical Center is the only acute care facility located in Madison County. The facility has recently received approval to replace its outdated and obsolete facility to better meet the needs of Madison County. During FY 2006, approximately 14% of St. Dominic's patients came from Madison County, while approximately 76% of Madison County Medical Center's (MCMC) patients were from the county. It is expected that St. Dominic's establishment of a new facility in the more affluent southern portion of Madison County and the relocation of 75 beds to this facility may affect the existing facility's ability to provide Medicaid/indigent care.

Likewise, the proposal to offer MRI services at the proposed location will likely have an adverse affect on existing and CON authorized MRI providers in the county.

- d. **Community Reaction:** The application contains numerous letters of

support for the project from physicians, citizens, and businesses.

Letters of opposition were received from Mississippi Baptist Medical Center, Jackson, and Madison County Medical Center, Canton.

GR Criterion 6 - Access to the Facility or Service

- a. Medically Underserved Population:** St. Dominic submits that it will treat all medically indigent patients who seek or present for service at the Madison facility.
- b. Performance in Meeting Federal Obligations:** The applicant submits that St. Dominic has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. Unmet Needs to be Served by Applicant:** St. Dominic is a Medicare and Medicaid provider. The applicant reports that in 2005, 1.9%, and in 2006 1.86% of its gross patient charges resulted in uncompensated care. The applicant further projects that 2.0% of its services will be utilized by medically indigent patients the first year and 2.4% the second year.

GR Criterion 7 - Information Requirement

St. Dominic affirmed 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

St. Dominic submits that patients will be able to freely transfer between its Jackson location and the proposed Madison County location. In addition, St. Dominic states it will continue to have all existing transfer agreements in place.

St. Dominic does not anticipate that the approval of this application will have an adverse impact on other providers in GHSA 3.

However, the Department received two letters of opposition concerning the proposed project from Madison County Medical Center and Mississippi Baptist Medical Center.

Staff expects that this project will possibly have an adverse impact on Madison County Medical Center, the only facility currently located in Madison County.

According to Map Quest, the proposed location is approximately 6-7 miles from the approved new location of MCMC.

GR Criterion 9 - Availability of Resources

As previously mentioned, St. Dominic indicates that 177 FTE personnel will be required to staff the proposed project at an estimated annual cost of \$8,757,526 the first year.

St. Dominic states that it plans to relocate many of the personnel needed to operate the proposed Madison County facility. St. Dominic also states that because it is eliminating beds and services from its Jackson campus to relocate those beds and services to Madison County, it will likewise be able to relocate the majority of the needed personnel. If necessary, St. Dominic proposes to hire additional personnel from the central Mississippi region.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that St. Dominic will have all necessary ancillary and support services available for the proposed Madison County location. Specifically, St. Dominic states that rehabilitation and physical therapy, pharmacy, clinical laboratories, and Level IV emergency services will be available. St. Dominic proposes to relocate existing staff and equipment from the Jackson campus to the extent practical. The applicant states that many services will also be shared between campuses, eliminating the need for duplication of space or staff. The applicant does anticipate a slight increase in ancillary services and support personnel in such areas as cafeteria services and other similar areas where the mere reduction in beds at the Jackson campus will not reduce the needed number of personnel at that location.

GR Criterion 14 - Construction Projects

The application contains a cost estimate prepared by Barlow, Eddy, Jenkins, P.A. and a schematic drawing of the proposed construction project.

The total project will cost \$379.44 per square foot for new construction of the hospital and MOB combined (see Attachment 2). Because construction costs for the hospital and MOB are not stated separately, a comparison of the proposed construction costs with national survey data is not possible. The *Means Building Construction Cost Data, 2007 Edition*, lists new construction costs for hospitals ranging from \$164 (where 25% of projects cost less) to \$300 (where 25% of projects cost more) per square foot. This project exceeds the high range for construction listed in this publication.

The Means Data, 2007, lists construction costs for medical offices at a median of \$123, and a range of \$100 (where 25% of projects cost less) and \$151 (where 25% of projects cost more).

GR Criterion 16 - Quality of Care

St. Dominic-Jackson Memorial Hospital is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. The facility is 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:

Cost Item	Projected Cost	Percent
Construction Cost – New	\$58,546,316	63%
Fixed Equipment	10,559,709	11%
Non-Fixed Equipment	6,522,291	7%
Land Cost	4,251,784	5%
Site Preparation	3,263,866	3%
Fees (Architectural, Consultant, etc.)	3,570,064	4%
Capitalized Interest	6,676,980	7%
Total Proposed Capital Expenditure	\$93,391,010	100%

The above capital expenditure is proposed for a 75-bed satellite campus of St. Dominic to be constructed in Madison County. The facility will consist of 217,731 square feet of new construction at a cost of \$379.44 per square foot. Approximately 172,731 square feet (79%) will be allocated to the hospital and the remaining 45,000 square feet (21%) will be allocated for a medical office building.

B. Method of Financing

St. Dominic proposes to finance the capital expenditure through a 7% loan over a 30-year period. The loan will be secured by the assets of St. Dominic-Jackson Memorial Hospital.

C. Effect on Operating Cost

The Three-Year Projected Operating Statement is presented in Attachment 1 of this staff analysis.

D. Cost to Medicaid/Medicare

Based on revenue source projections presented in the application, the effect of the project on third party payers is as follows:

Payer Mix	Utilization Percentage	First Year Revenue
Medicaid	11	\$ 15,077,869
Medicare	50	70,489,262
Other	39	54,595,005
Total	100-	\$140,162,136

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division of Medicaid takes no position on this project.

VI. CONCLUSION AND RECOMMENDATION

This project is not in substantial compliance with the criteria and standards for the construction of a general acute care hospital 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.

St. Dominic proposes to relocate 75 acute care beds already in service at its Jackson campus to a satellite hospital to be constructed in Madison County. The statute allows the relocation of one or more health services from one physical facility or site to another physical facility or site. However, St. Dominic proposes to construct a 217,731 square foot facility at a cost of \$93,391,010. The square footage includes 172,731 square feet allocated to the acute care hospital portion of the facility. The Mississippi Supreme Court has held that "no lesser showing of need will be required based on the notion that a 'relocation' has taken place." The applicable criterion for this project, according to the Court, is the criterion for the establishment of a general acute care hospital. The applicant is not in compliance with the need criterion in the *FY 2007 State Health Plan* for the establishment of a general acute care hospital. The Plan indicates a new hospital may be considered if the number of beds need is 100 or more. The methodology indicates that Madison County has a need of only 27 beds.

The Mississippi Certificate of Need Review Manual, Revised November 12, 2006, states that no CON shall be issued unless the action proposed in the application for such certificate has been reviewed for consistency with the specifications and criteria established by the Department and substantially complies with the projection of need as reported in the State Health Plan which is in effect at the time the application is received by the Department. As stated above, the results of the methodology contained in the Plan for the calculation of need for a general acute care hospital in a county with a hospital indicate that Madison County has a need for only 27 beds. Since the calculated need is not 100 or more, then no addition hospital can be approved for Madison County at this time.

Likewise, justification of need for the establishment of MRI services at the proposed location

was not supported.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of this application submitted by St. Dominic-Jackson Memorial Hospital for relocation/construction of 75 acute care beds and a medical office building.

Attachment 1

St. Dominic-Jackson Memorial Hospital-Madison Campus
 Three-Year Operating Statement

	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 94,144,104	\$112,333,440	\$123,127,181
Outpatient	<u>46,018,032</u>	<u>54,909,056</u>	<u>60,185,082</u>
Gross Patient Care Revenue	<u>\$140,162,136</u>	<u>\$167,242,496</u>	<u>183,312,263</u>
Charity Care	2,943,405	3,512,092	3,849,558
Deductions from Revenue	84,097,282	100,345,498	109,987,358
Net Patient Care Revenue	\$ 53,121,449	\$63,384,906	\$69,475,347
Other Operating Revenue	1,454,539	1,498,174	1,543,119
Total Operating Revenue	\$ 54,575,988	\$ 64,883,080	\$ 71,018,466
Operating Expenses			
Salaries	\$ 19,322,064	\$ 21,833,932	\$ 23,471,477
Benefits	4,830,516	5,458,483	5,867,869
Supplies	10,246,476	11,495,202	11,851,287
Services	5,214,111	5,392,030	5,534,046
Lease			
Depreciation	3,645,625	3,645,625	3,645,625
Interest	6,507,318	6,438,438	6,365,200
Other	<u>10,796,676</u>	<u>12,239,761</u>	<u>13,198,593</u>
Total Operating Expenses	<u>\$ 60,562,786</u>	<u>\$ 66,503,471</u>	<u>\$ 69,934,097</u>
Net Operating Income (Loss)	<u>\$ (5,986,798)</u>	<u>\$ (1,620,391)</u>	<u>\$ 1,084,369</u>
Assumptions			
Inpatient Days	16,338	19,145	20,071
Outpatient Days	954	1,002	1,052
Procedures	19,302	19,430	19,567
Charge per outpatient day	\$ 48,237	\$ 54,799	\$ 57,210
Charge per inpatient day	\$,762	\$5,868	\$6,135
Charge per procedure	\$ 7,262	\$8,607	\$9,368
Cost per inpatient day	\$ 3,707	\$ 3,474	\$ 3,484
Cost per outpatient day	\$ 63,483	\$ 66,371	\$ 66,477
Cost per procedure	\$ 3,138	\$ 3,423	\$ 3,574

Attachment 2
St. Dominic-Jackson Memorial-Madison Campus
Computation of Construction Cost
Combined Project

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$58,546,316	\$58,546,316	
Renovation Cost			
Total Fixed Equipment Cost	\$10,559,709	\$10,559,709	
Total Non-Fixed Equipment Cost	\$6,522,291	6,522,291	
Land Cost	\$4,251,784	\$4,251,784	
Site Preparation Cost	\$3,263,866	\$3,263,866	
Fees (Architectural, Consultant, etc.)	\$3,570,064	\$3,570,064	\$0
Contingency Reserve		\$0	\$0
Capitalized Interest	\$6,676,980	\$6,676,980	\$0
Total Proposed Capital Expenditure	\$93,391,010	\$93,391,010	\$0

Square Footage (Combined Project)	217,731	217,731
<i>Allocation Percent</i>		100.00%

Costs Less Land, Non-Fixed Eqt.	\$82,616,935	\$82,616,935	\$0
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Cost Per Square Foot	\$379.44	\$379.44	
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