

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2008**

**CON REVIEW HG-RC-0208-003
NORTH MISSISSIPPI MEDICAL CENTER
NMMC WOMEN'S HOSPITAL
EXPANSION AND RENOVATION
CAPITAL EXPENDITURE: \$24,500,000
LOCATION: TUPELO, LEE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

North Mississippi Medical Center (NMMC) is a 650-bed general acute care, short-term medical/surgical hospital. NMMC is a non-profit, tax-exempt, Delaware corporation licensed in Mississippi. It is licensed to operate 554 medical/surgical beds, 20 adult chemical dependency beds, 33 adult psychiatric beds, 13 adolescent chemical dependency beds, and 30 rehabilitation beds. NMMC offers a broad scope of specialty and sub-specialty services as the major regional medical center of the area, General Hospital Service Area 1 (GHSA 1). North Mississippi Medical Center is governed by a 13-member Board. The hospital is accredited by the Joint Commission on the Accreditation of Healthcare Organizations, the Commission on Accreditation of Rehabilitation Facilities, and licensed by the Mississippi State Department of Health (MSDH).

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for NMMC are as follows for the years 2004 through 2006:

**North Mississippi Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2004	64.72	4.70	27.50
2005	62.66	4.91	29.77
2006	60.65	4.23	29.52

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

B. Project Description

North Mississippi Medical Center requests Certificate of Need (CON) authority for expansion and renovation of the existing Women’s Hospital located on the campus. The applicant indicates that the scope of the proposed project involves **49,562** square feet of new construction to address facility needs in the following space areas:

1. **Expand and renovate the existing labor and delivery** suite to provide 16 LDR rooms (9 currently) and 8 observation beds (5 currently). A southerly **15,374** square foot building expansion will be necessary.
2. **Expand and renovate the current surgery suite** to fully utilize all 3 OR’s and 2 C-section rooms and provide more suitable recovery space. A westerly **3,188** square foot building expansion will be needed.
3. **Expand and renovate the existing nursery** to provide 28 neonatal ICU beds (22 current). A northerly **20,000** square foot building expansion will be necessary.
4. **Upgrade and expand the current admission/discharge and business areas** to improve patient privacy and building security. An **8,000** square foot southerly expansion will be needed as well as **3,000** square feet of mechanical area expansion.
5. **Add approximately 54 parking spaces** and link the existing parking lots.

The applicant asserts that there will be no increase in surgery suites at NMMC Women’s Hospital as a result of the proposed project.

According to the applicant, construction associated with four of the five project categories of need has been completed as described. Expansion of the NICU and well baby service has been reassessed with the outcome being a larger, more costly, NICU and a smaller, less costly, well baby service.

North Mississippi Medical Center asserts that also in conjunction with expansion on three sides of the Women’s Hospital, significant renovation of existing space will be necessary. Approximately ***31,167** square feet of existing space will be affected by the proposed expansion project. Virtually all services, with the exception of the two inpatient acute bed patient wings, will be renovated to varying degrees. The following areas will be renovated:

***Renovation**

Business Services	Surgery
Admissions	Respiratory Therapy
Nurseries	Education
Labor & Delivery	Radiology
Pharmacy	Staff Services

According to the applicant, the current Women's Hospital contains 80 acute beds and 22 neonatal ICU beds for a total of 102 licensed beds. The proposed project will increase the neonatal ICU bed count by twelve (12) to 34 and concurrently decrease acute bed count by twelve (12) to 68. The proposed change will not affect the overall licensed bed capacity, recognizing neonatal ICU and acute beds are categorized as "acute beds" for licensure classification purposes.

The proposed project represents expansion of an existing acute hospital which will consume additional ancillary and support services. The applicant asserts that adequate ancillary and support capacity exists for the proposed expansion. The additional costs for these services, i.e. labor, supplies, etc., have been included in the overall cost impact shown in the three year projected operating statement. See three year projected operating statement, page 11.

The proposed project seeks to achieve facility improvements to virtually all aspects of the existing Women's Hospital with exception to the inpatient adult beds.

The total proposed capital expenditure is \$24,500,000 and of that amount, approximately 74.34 percent is for new construction; 12.26 percent for renovation; 5.69 percent for non-fixed equipment; 5.51 percent for fees (architectural, consultant, etc.); and 2.20 percent for contingency reserve. The applicant indicates the proposed capital expenditure will be funded from the hospital's accumulated cash reserves.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for the expansion/renovation of the Women's Hospital, as proposed.

II. TYPE OF REVIEW REQUIRED

Construction/renovation/relocation and expansion projects are reviewed in accordance with Section 41-7-191, subparagraphs (1) (e), (f) and (j), and Section 41-7-173, (c) (iii) of the Mississippi Code of 1972, Annotated, 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 June 5, 2008.

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 prior to undertaking major construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. This application is in substantial compliance with applicable criteria and standards.

SHP Criterion 1 – Need

North Mississippi Medical Center indicates that justification for the proposed project centers on the following issues:

- Increased volumes of service
- Future outlook for OB/GYN services
- Patient expectations
- Service delivery changes and the need for increased efficiency

According to the applicant, the volume of surgery cases, deliveries, and NICU patients has progressively increased over the last decade as has NMMC's service area. Additionally, in the LDR rooms, surgery space and surgery improvements are needed to meet the increased volume expectations. In addition, population counts and forecasts of potential growth areas have identified Lee County and surrounding areas as growth zones which will translate into the need for additional OB/GYN physician groups in Tupelo.

North Mississippi Medical Center asserts that patient expectations (i.e. patient satisfaction) continue to be an area of great attention at NMMC. Traditionally, NMMC services have enjoyed consistently high levels of patient satisfaction. Increasing the level of patient satisfaction is a NMMC goal and to do so requires responding to patient expectations. The current Women's Hospital labor and delivery suite, consisting of six LDR and three high risk patient rooms, was constructed in 1986. Changes in service delivery and technology over the last 16 years gives cause for replacement of the LDR suite with larger, more attractive rooms and amenities. In addition, the configuration of the suite, as well as the NICU and "well baby" nursery, will add to the efficiency of staff services and response time.

In addition, complete reconfiguration of the five bed OB observation "ward" to become a more private eight bed observation unit with greater space will be undertaken. The observation unit will be situated convenient to the LDR unit, surgery, and physician quarters to allow rapid response with minimal transportation delays.

Improvements to the surgery suite will include renovation of the three OR's and two C-section rooms to improve size, location and finishes. Also, a renovated recovery area with 10-bed stations will be provided. An instrument sterilization area known as a central sterilization and processing area will be provided, eliminating many problems associated with off site instrument sterilization, packaging, delivery and storage. Surgery suite improvements will address increased demand for women's same day surgery procedures as well as inpatient surgery.

According to the applicant, the admission/discharge area and public entries will be expanded and reconfigured to improve ease of entry, processing, patient pick-up/drop-off and privacy during the admitting and discharge activities. Reconfiguration of this primary entrance and the adjacent outpatient service area and radiology will enable significant alterations to public and staff traffic flow throughout the building. In response to the demand for greater personal and property security in all aspects of life, NMMC will, by design, strongly segregate staff and patient areas. This will offer patients and newborns a much higher level of personal security than now exists at the Women's Hospital.

The applicant indicates that improvement to the nursery and NICU are a major part of the proposed project. Expansion and renovation of “well baby” and NICU services are necessary to respond to anticipated increases in patient volume and a continued high use of specialized neonatology services at NMMC as the largest, best equipped, most specialized center for at risk newborns in northeast Mississippi.

The applicant asserts that all area changes resulted in assessment through evidence based planning made possible by multiple site visits to other southeastern premier birthing centers and the need to ensure best practices at NMMC Women’s Hospital.

The following table gives NMMC’s Women’s Hospital *utilization data for the past three years:

	2004	2005	2006
Deliveries	2,415	2,365	2,397
C-Sections	709	773	732

Source: *Applications for Renewal of Hospital License, Division of Health Facilities Licensure and Certification, MSDH.

SHP Criterion 3 – Charity/Indigent Care

The applicant asserts that North Mississippi Medical Center will continue to provide a reasonable amount of indigent/charity care to its patients at the hospital. North Mississippi Medical Center, as a not-for-profit community hospital, provides patient care without regard for the patient’s ability to pay.

SHP Criterion 4 – Reasonable Cost

North Mississippi Medical Center submits that the cost of the proposed project’s new construction will be \$390.68 per square foot (see Attachment 2). *Means Building Construction Cost Data, 2008*, shows the high range per square foot cost of new construction to be \$310. The applicant states that the projected cost of the proposed project is slightly more because NMMC incorporates quality materials and building technology capable of reducing long term operating expenses.

According to the applicant, the cost of equipment for the proposed project is not to exceed the median costs for equipment of similar quality in other NMMC projects.

SHP Criterion 5 – Floor Area Specifics

The applicant states that the proposed project components will meet all state licensing standards and space requirements identified in the Guideline for Construction and Equipment of Hospital and Medical Facilities (AIA document).

- a. **Gross Square Footage:** The project includes 49,562 square feet of new construction and 31,167 square feet of renovation.

- b. **Architectural Restraints:** The applicant submits that the architectural design of the existing facility has a significant impact on the proposed design of the expansion. The existing facility was designed with the anticipation of expansion, and consequently, the scope of work is entirely complimentary to the existing building.
- c. **Special Considerations:** North Mississippi Medical Center states that no special considerations due to local conditions are expected concerning the project.

SHP Criterion 6 – Renovation versus Replacement

The applicant states that the cost of expansion and renovation is far less than replacement cost.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2008 Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 3 – Availability of Alternatives

According to the applicant, four alternatives to the expansion of the Women's Hospital were considered as follows:

1. **Convert acute licensed beds to LDR beds and expand nursery.** Rejected due to need for acute licensed beds.
2. **Reduce scale of expansion.** Rejected due to strong justification for additional LDR and nursery beds.
3. **Construct a replacement facility.** Rejected due to high cost and relatively new Women's Hospital facilities (built in 1986).
4. **No changes.** Rejected due to well justified need for improvements to all services mentioned.

GR Criterion 4 - Economic Viability

Financial projections indicate losses of \$609,887 for the first year, \$510,857 for the second year, and \$396,691 for the third year after completion of the project.

The application contained a letter from the hospital's financial analyst attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant indicates that North Mississippi Medical Center 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 proposes only the expansion and renovation of the existing Women’s Hospital located on the campus of North Mississippi Medical Center.
- c. **Current and Projected Utilization of Like Facilities in the Area:** The average occupancy rate of facilities in the state is 47.71 percent for 2006. The applicant’s occupancy rate was 60.65 percent for 2006.
- d. **Probable Effect on Existing Facilities in the Area:** The project proposes expansion and renovation of the existing Women’s Hospital located on the campus of North Mississippi Medical Center. No new services are being proposed by the applicant. Therefore, no significant effect is anticipated on existing facilities in the area.
- e. **Community Reaction:** The application contains nine letters of support for the project.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** North Mississippi Medical Center asserts that it serves all of the population, including low income, racial and ethnic minorities, women, and handicapped persons. 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. **Performance in Meeting Federal Obligations:** The applicant submits that the Hill-Burton obligation was completed in 1988, however, NMMC continues to provide community service and access to minority/handicapped persons, and continues to provide health care services to anyone who presents for treatment regardless of their ability to pay.
- c. **Unmet Needs to be Served by Applicant:** The applicant submits that the percentage of gross patient revenue (GPR) and actual dollar amount of health care provided to medically indigent patients for the last three years are as follows for this project:

	FY Sept. 30	GPR	Charity	%
Actual	2005	\$ 864,803,582	\$58,327,782	6.7
	2006	\$ 932,204,903	\$46,610,788	5.0
	2007	\$ 995,986,906	\$54,982,855	5.5
Projected	2008	\$1,024,958,336	\$54,108,994	5.3

GR Criterion 7 - Information Requirement

The applicant asserts 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

North Mississippi Medical Center is located in General Hospital Service Area 1 (GHSA 1), which contained 2,504 licensed acute care beds in 2005. This application does not propose new services in General Hospital Service Area 1.

Because no new services will be offered as a result of this project, staff concludes that this project would have no adverse affect on other providers in the referenced service area.

The Department received no letters of opposition concerning the proposed project.

GR Criterion 9 - Availability of Resources

The applicant projects 18 additional full-time equivalent personnel at an estimated annual cost of \$299,000 the first year of operation for this proposed project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by The McCarty Company Design Group, PA.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. **New Construction Projects:** This project involves new construction of 49,562 square feet of space.
- e. **Cost per Square Foot:** The project will cost \$390.68 per square foot for new construction and \$119.90 per square foot for renovation (see Attachment 2). The cost of the project is high when compared to hospital construction projects listed in the *Means Construction Cost Data, 2008*.

GR Criterion 16 - Quality of Care

North Mississippi Medical Center 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:

	Item	Cost	Percent of Total
a.	Construction Cost -- New	\$18,210,356	74.34
b.	Construction Cost -- Renovation	3,000,000	12.26
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	1,400,000	5.69
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	1,350,183	5.51
i.	Contingency Reserve	539,461	2.20
j.	Capitalized Interest	0	0
k.	Other	0	0
	Total Proposed Capital Expenditure	\$24,500,000	100.00

The above capital expenditure is proposed to expand and renovate the Women's Hospital on the campus of NMMC. The proposed project involves the addition of approximately 49,562 square feet of new space at an estimated cost of \$390.68 per square foot and 31,167 square feet of renovated space at a cost of approximately \$119.90 per square foot (see Attachment 2). The *Means Construction Cost Data, 2008*, lists the costs for hospital construction to range from \$172 to \$310 per square foot.

B. Method of Financing

The applicant proposes to finance the proposed capital expenditure from accumulated cash reserves.

The applicant provided financial statements documenting the ability to fund the project.

C. Effect on Operating Cost

North Mississippi Medical Center's three-year projected operating statement is presented at Attachment 1.

D. Cost to Medicaid/Medicare

Based on the applicant's projections, the cost to third party payors the first year of operation is as follows:

Patient Mix	Utilization Percentage	First Year Revenue
Medicaid	62	\$1,391,272
Medicare	0	0
Other	38	<u>852,715</u>
Total	<u>100</u>	<u>\$2,243,987</u>

North Mississippi Medical Center projects 3.0 percent care to charity/medically indigent and 5.0 percent care to bad debt patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid states that effective October 1, 2005, it changed the methodology by which the Division reimburses inpatient hospital services so that cost incurred subsequent to that date no longer affects per diem rates, and that any portion of the cost which may relate to outpatient service will be paid as outlined in the *Medicaid State Plan*. The Division takes no position on the proposed project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds as contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised 2008*; 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 the application submitted by North Mississippi Medical Center for NMMC Women's Hospital expansion and renovation.

Attachment 1

North Mississippi Medical Center Three-Year Operating Statement (Project Only)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 2,243,987	\$ 2,544,682	\$ 2,885,669
Outpatient	<u>0</u>	<u>0</u>	<u>0</u>
Gross Patient Revenue	\$ 2,243,987	\$ 2,544,682	\$ 2,885,669
Charity Care	0	0	0
Deductions from Revenue	<u>(1,214,670)</u>	<u>(1,377,436)</u>	<u>(1,562,013)</u>
Net Patient Revenue	<u>\$1,029,317</u>	<u>\$ 1,167,246</u>	<u>\$ 1,323,656</u>
Expenses			
Operating Expenses:			
Salaries	\$ 299,000	\$309,485	\$ 320,296
Benefits	113,620	117,597	121,713
Supplies	40,392	45,804	51,942
Services	113,993	117,983	122,113
Lease	0	0	0
Depreciation	960,000	960,000	960,000
Interest	0	0	0
Other	112,199	127,234	144,283
Total Expenses	<u>\$ 1,639,204</u>	<u>\$ 1,678,103</u>	<u>\$ 1,720,347</u>
Net Income (Loss)	<u>\$ (609,887)</u>	<u>\$ (510,857)</u>	<u>\$ (396,691)</u>
Assumptions			
Inpatient days	0	0	0
Outpatient days	0	0	0
Procedures	0	0	0
Charge per outpatient day	0	0	0
Charge per inpatient day	0	0	0
Charge per procedure	0	0	0
Cost per inpatient day	0	0	0
Cost per outpatient day	0	0	0
Cost per procedure	0	0	0

North Mississippi Medical asserts that there are no acute days, OP visits or surgical procedures associated with this project (all NICU), and other expense is bad debt expense for the proposed project.

Attachment 2			
Computation of Construction and Renovation Cost			
Cost Component	Total	New Construction	Renovation
New Construction Cost	\$18,210,356	\$18,210,356	
Renovation Cost	\$3,000,000		\$3,000,000
Total Fixed Equipment Cost	\$0	\$0	\$0
Total Non-Fixed Equipment Cost	\$1,400,000	\$1,200,000	
Land Cost	\$0	\$0	\$0
Site Preparation Cost	\$0	\$0	\$0
Fees (Architectural, Consultant, etc.)	\$1,350,183	\$823,613	\$526,571
Contingency Reserve	\$539,461	\$329,071	\$210,390
Capitalized Interest	\$0	\$0	\$0
Other (Furnishings, minor equipment)	\$0	\$0	\$0
Total Proposed Capital Expenditure	\$24,500,000	\$20,763,040	\$3,736,961

Square Footage	80,729	49,562	31,167
<i>Allocation Percent</i>		61.00%	39.00%

Costs Less Land, Non-Fixed Eqt. & Other	\$23,300,000	\$19,363,040	\$3,736,961
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Cost Per Square Foot	\$288.61	\$390.68	\$119.90
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*Source: FY 2007 State Health Plan