

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2008**

**CON REVIEW: HG-PAP-0608-020
MAGEE BENEVOLENT ASSOCIATION D/B/A MAGEE GENERAL HOSPITAL
MODERNIZATION/REPLACEMENT/EXPANSION OF SURGERY,
LABORATORY, RADIOLOGY, LABOR AND DELIVERY
CAPITAL EXPENDITURE: \$10,339,892
LOCATION: MAGEE, SIMPSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Magee Benevolent Association is a non-profit corporation, authorized to conduct business in Mississippi. Magee General Hospital (MGH) is a 64-bed general acute care hospital with 8 geriatric psychiatric beds. The hospital is owned by Magee Benevolent Association and governed by an eight-member Board of Trustees.

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

**Magee General Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2004	41.68	4.38	16.13
2005	40.62	4.04	12.03
2006	45.01	4.22	12.83

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Background

Certificate of Need No. R-0685, effective October 6, 2005, authorized Magee General Hospital, Magee, for the modernization, replacement, and expansion of its surgery, laboratory, radiology, and labor and delivery departments. The project involved 36,500 square feet of complete demolition of existing hospital space which housed the hospital's administration, surgery, laboratory, radiology, outpatient clinics, and labor and delivery. The project encompasses a total of 40,000 square feet of new construction to replace and expand surgery, laboratory, radiology, and labor and delivery at MGH. The project comprises two phases.

Phase I of the project consists of the complete demolition of 14,500 square feet of the existing hospital. The affected departments include administration, laboratory, and outpatient clinics. These departments will be housed in temporary space within the remaining hospital buildings during the construction of a new surgical suite and laboratory suite. Upon completion of this phase of construction, laboratory and surgery will be relocated to their new

space. The surgery department will contain four operating rooms, an increase of two operating rooms. After the relocation of the surgery departments is complete, the abandoned surgical suite will be completely demolished, and in its place a new radiology department will be constructed. The radiology department will be permanently relocated into its newly constructed suite upon completion of this phase.

Phase II will involve the administrative department, which will be relocated into existing, freestanding on-campus facilities, allowing the complete demolition of the administrative area and the construction of a new four-bed labor/delivery and recovery suite in its place. This phase requires the demolition of approximately 22,000 square feet of existing building.

MGH states that the project also involves extensive site development, landscaping, repair of parking spaces damaged during construction, and the addition of 40 to 50 new parking spaces to the existing 165 parking space capacity.

MGH has contracted with Fouse Architecture and Interiors, P.C., (FAI) and Garrard Construction Group for all architectural and construction work.

The applicant states that all site work and the relocation of the ambulance ramp and related site utility is complete. Additionally, the applicant submits that \$1,710,458.62 of the authorized capital expenditure has been expended and 16.5% of the work is complete.

The initial application included a letter from the Division of Health Facilities Licensure and Certification, MSDH, stating that the site is acceptable for the stated use.

MGH was granted a six-month extension through April 6, 2008, to continue or complete the project. However, if the project was not completed by April 6, 2008, the applicant had to request for a six-month extension otherwise the CON would no longer be valid.

The department did not receive a request for a six-month extension by April 6, 2008, and the project has not been deemed completed. As a result, the applicant requests authority under a prior approved project to keep the CON valid in order to complete the project.

C. Project Description

Magee General Hospital is requesting Certificate of Need (CON) authority for a prior approved project to complete the modernization, replacement, and expansion of surgery, laboratory, radiology, labor and delivery departments at the hospital. MGH states the project will encompass a total of 40,000 square feet of new construction to replace and expand surgery, laboratory, radiology, and labor and delivery at MGH.

The applicant states that some of the order of service has been changed in order to accommodate the immediate need to recruit two new OB/GYNs. As a result, the surgery suite construction will be constructed in Phase II.

The application includes a letter from the Division of Health Facilities Licensure and Certification, MSDH, stating the project is approved for commencement of construction, dated June 30, 2008.

The applicant anticipates the completion of Phase I by December 1, 2008, and estimates that the project will be complete by January 1, 2009.

II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all prior approved projects in accordance with duly adopted procedures and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2), of the Mississippi Code 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, 2008.

III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The original project was in substantial compliance with the *FY 2005 State Health Plan*, in effect at the time of submission. This prior approved project continues to be in substantial compliance with the *State Health Plan*.

B. General Review (GR) Criteria

The original project was in substantial compliance with the *Mississippi Certificate of Need Review Manual, 2000 Revision*, in effect at the time of submission. This application continues to be in compliance with applicable criteria and standards.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	Percent
New Construction	\$ 6,435,710	62%
Demolition	\$ 269,186	2.60%
Non-Fixed Equipment	\$ 350,000	3.38%
Fixed Equipment	\$1, 175,099	11.37%
Site Preparation	\$ 650,000	6.29%
Fees (Architectural, Consultant, etc.)	\$ 655,000	6.34%
Contingency Reserve	\$ 575,000	5.56%
Capitalized Interest	\$ 229,897	2.22%
Total Capital Expenditure	\$10,339,892	*100%

* Percent off due to rounding

The applicant submits that the cost of the project has not changed, principally because the bond proceeds committed for use in this project will not change and MGH will operate within its budget. The applicant does not request an increase or decrease in approved capital expenditure.

B. Method of Financing

The applicant indicates that the project is funded by the bond proceeds described in the original application and financing has not changed for the project.

C. Effect on Operating Cost

The applicant does not project any changes in the original operating statement. MGH projected the following expenses, revenues, and utilization for the first year of operation for the project:

	Year 1
Revenue	
Inpatient Revenue	\$12,724,013
Outpatient Revenue	19,202,043
Total Patient Revenue	<u>31,926,056</u>
Gross Patient Revenue	31,926,056
Deductions	(15,586,710)
Net Patient Service Revenue	16,339,346
Other Revenue	333,981
Net Operating Revenue	<u>\$16,673,327</u>
Expenses	
Salaries	\$6,322,788
Benefits	1,177,350
Supplies and Other Expense	7,199,507
Depreciation/Amortization	845,780
Interest Expense	40,000
Total Operating Expense	<u>\$15,585,425</u>
Net Income (Loss)	\$1,087,902
Assumptions	
Inpatient Days	12,608
Cost Per Inpatient Day	\$ 1,236
Charge Per Inpatient Day	\$ 1,009

D. Cost to Medicaid/Medicare

According to the applicant, this CON prior approved project will have no impact on the cost to Medicaid/Medicare patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. No written comments had been received as of this writing.

VI. CONCLUSION AND RECOMMENDATION

The original application was found to be in substantial compliance with criteria and standards for modernization/replacement/expansion of surgery, laboratory, radiology, labor and delivery services found in the *FY 2005 Mississippi State Health Plan*; the *Certificate of Need Review Manual, Revised 2000*, and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval. This request for a prior approved project does not change the overall objective of the project.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Magee General Hospital, prior approved CON No. R-0685, for the modernization, replacement/expansion of surgery, laboratory, radiology, and labor and delivery.