

**Mississippi State Department of Health
Division of Health Planning & Resource Development
August 2009**

**CON Review HG-R-0509-012
Jefferson County Hospital
Emergency Room/Laboratory/Acute Care Addition
Capital Expenditure: \$5,500,000
Location: Fayette, Jefferson County, Mississippi**

Staff Analysis

I. PROJECT SUMMARY

A. Applicant Information

Jefferson County Hospital is a county-owned hospital located in Fayette, Mississippi. The hospital is governed by a six-member Board of Trustees, appointed by the Jefferson County Board of Supervisors. The facility is licensed for 30 acute care beds, including 18 geriatric psychiatric beds and 12 medical surgical beds.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Jefferson County Hospital's medical/surgical beds are as follows for fiscal years 2006 through 2008:

**Jefferson County Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	42.56	3.71	7.0
2007	27.79	3.01	5.0
2008	39.44	3.50	11.0

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

B. Project Description

Jefferson County Hospital requests certificate of need (CON) authority to expand and enhance its hospital health services by increasing the delivery of health care. The project involves 15,422 square feet of new construction which includes 14,530 square feet for indoor space and an additional 892 square feet of space required for covered decks and porches. In addition, 700 square feet of space currently used for service/meeting room will be renovated in-house and used to house Admissions.

The project will include a new patient care wing with nurses' station, office, waiting, toilets and storage; 12 new private patient rooms and new semi-private rooms for a total of 20 new beds; a new Emergency Suite to include waiting, office triage, two treatment rooms, and a canopy for emergency vehicles; a Diagnostic Suite with space for a new x-ray room and a new Lab; a new kitchen, dining/meeting room; and a new fitness center. Admitting and Lobby will be provided in existing facility space remodeled for that purpose.

In addition, the existing employee parking lot will be extended and a new emergency vehicle drive will be provided. The applicant proposes to employ four additional FTE personnel at an estimated annual cost of \$140,223.

The applicant anticipates that the capital expenditure will be obligated upon approval or issuance of a CON and that the project will be complete by July 2012.

The applicant states that the final objectives for the project are to increase access of health care, improve the delivery of healthcare, and update and modernize the facility.

The application contained Resolutions by the Board of Trustees endorsing the project.

The total proposed capital expenditure of \$5,500,000 will be financed by cash reserves.

According to the MSDH Division of Health Facilities Licensure and Certification, the site is acceptable for the proposed addition and renovation.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (j), 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 8, 2009.

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

A. State Health Plan (SHP)

The *FY 2009 State Health Plan* contains criteria and standards which an applicant is required to meet prior to undertaking projects for construction,

renovation, expansion, capital improvements, replacement, and addition of hospital beds when the capital expenditure exceeds \$2,000,000.

SHP Criterion 1 – Need

When projects do not involve the addition of any acute care beds, the applicant's documentation of need for the project 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.

The applicant submits that Jefferson County Hospital has been in its present location since 1965 and no renovations or remodeling have been done since that time. The facility is said to be aging and needs modernization to bring it up to the current level of care. The applicant indicates that it recently completed installation of a sprinkler system and a new roof for the facility.

Jefferson County Hospital is currently licensed for 30 acute care beds, which include 12 medical/surgical beds and 18 geriatric psychiatric beds. Although the application does not specifically address the addition of beds, the applicant states that the licensed bed capacity will be 38 beds upon completion of this project. According to the Division of Health Facilities Licensure and Certification, Jefferson County Hospital has been licensed for 30 beds since 1980. The FY 2009 State Health Plan indicates that projects which involve the addition of beds shall document that the facility in question has maintained an occupancy rate of at least 70 percent for the most recent two (2) years. Jefferson County Hospital reported an occupancy rate of 27.79 percent for FY 2007 and 39.44 percent for FY 2008. The applicant submitted a statement that it does not intend to increase its bed capacity and agrees to continue as a 30-bed hospital.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

No beds are proposed to be transferred or reallocated.

SHP Criterion 3 – Charity/Indigent Care

The applicant affirmed that it will continue to provide a reasonable amount of indigent/charity care as described in Chapter I of the Plan.

SHP Criterion 4 – Reasonableness of Cost

Using the computation of the cost per square foot taken from the CON Review Manual, the applicant calculated the proposed project's cost to be approximately \$229 per square foot to renovate and expand the facility.

In addition, the applicant submits that the project costs for fixed and non-fixed equipment are \$1,419,500 which equates to approximately 25% of the total

capital expenditure for the project. These costs compare favorably to similar projects reviewed by the Department.

SHP Criterion 5 – Floor Areas and Space Requirements

Jefferson County Hospital submits that the project will involve 15,422 square feet of new construction to include 14,530 square feet of indoor space and 892 square feet of space for covered decks and porches. Approximately 700 square feet of the existing building will be converted for service/meeting rooms and to house Admissions. No capital expenditure will be required for the renovation of the 700 square feet of space.

SHP Criterion 6 – Renovation vs. Replacement Facility

The applicant submits that the cost of this project is approximately \$5,500,000, far less than 85% of the cost of a replacement facility this size.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

This project has been reviewed for consistency with the State Health Plan and was found to be in substantial compliance therewith.

GR Criterion 2 - Long Range Plan

The applicant submits that the Long Range Plan is developed by administration with the input from the medical staff, hospital staff, and community. All plans are presented by the administrator to the Board of Trustees and in turn the Board of Trustees approves or disapproves all plans. The Board unanimously adopted the resolution to apply for a CON in order to renovate and expand the hospital.

GR Criterion 3 – Availability of Alternatives

Jefferson County Hospital indicates that the proposed project is the result of planning and identification of long range facility improvement. The applicant believes that no other alternative, other than to modernize the facility, will enable it to keep up with the changes in society.

GR Criterion 4 - Economic Viability

Based on the three-year projected operating statement contained in the application, the applicant will realize net income of \$1,238,936 the first year, \$1,328,148 the second year, and \$1,322,106 the third year of operation for the entire facility after the completion of this project.

Proposed Charges: The applicant submits that the proposed charges for the service and the profitability of the proposed service are comparable to those of the service area.

Projected Levels of Utilization: The applicant's levels of utilization and projected levels of utilization are consistent with those experienced by similar facilities in the service area.

Project's Financial Feasibility Study: The application contained a letter signed by the Administrator and Chief Financial Officer, attesting to the feasibility of this project.

GR Criterion 5 - Need for the Project

Access by Population Served: The applicant submits that the proposed project will provide increased access to adequate health care. Currently patients are being referred to Natchez, Vicksburg, or Jackson. The applicant believes that modernizing its facility to include CT Scan, Ultrasound capabilities, and a more modern ER will provide for more effective delivery of health care and increase the possibility of survival for its patients. The applicant states that it will continue to provide services for all residents of the service area regardless of their income, racial and ethnicity, handicapped persons and other underserved groups.

Relocation of Services: The applicant does not propose the relocation of services.

Current and Projected Utilization of Like Facilities: The average occupancy rate for General Acute Care Hospitals statewide for FY 2008 was 46.4%, with an average length of stay of 4.90 days. Jefferson County Hospital's FY 2008 occupancy rate was 39.44% with an average length of stay of 3.50 days.

Probable Effect on Existing Facilities in the Area: Jefferson County Hospital is a small rural facility; therefore, this project is not expected to have an adverse impact on other healthcare providers in the area.

GR Criterion 6 - Access to the Facility or Service

Medically Underserved Population: The applicant submits that all residents of the health planning service area have access to the services of the existing facility and will continue to have access. The applicant submits that it provided approximately three percent care to medically indigent patients for the past two years and two percent to charity care.

Performance in Meeting Federal Obligations: The applicant submits that Jefferson County Hospital has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.

GR Criterion 7 - Information Requirement

Jefferson County Hospital 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

The applicant submits that the proposed project will complement the existing health care system by upgrading the services it provides. The population currently accessing the services will not change.

GR Criterion 9 - Availability of Resources

The applicant submits that the facility has the ability to hire any new personnel it needs and states that it will have sufficient physicians to ensure proper implementation of the project.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that there will be no change in costs or charges as a result of this project.

GR Criterion 14 - Construction Projects

The application contains schematic drawings of the project. In addition, the application contains a cost estimate signed by Waycaster & Associates Architect.

GR Criterion 16 - Quality of Care

Jefferson County 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 capital expenditure is proposed for various lab and ER equipment and for 15,422 square feet of new construction at a cost of \$278.50 per square foot (See Attachment 2). The new construction cost falls within the median to high range for hospital construction projects listed in the Means Construction Cost Data, 2009 Edition, which range from a low of \$185 per square foot to a high of \$315 per square foot for new construction.

The total estimated capital expenditure is allocated as follows:

Cost Item	Cost	Percent
Construction Cost – New	\$3,276,000	59.0%
Renovation		
Fixed & Equipment	219,500	3.0%
Non-Fixed Equipment	1,200,000	21.0%
Land Cost	0	0.0%
Site Preparation	19,500	0%
Fees (Architectural, Consultant, etc.)	280,000	5.0%
Contingency Reserve	500,000	9.0%
Capitalized Interest	0	
Total	\$ 5,500,000	100.0%

B. Method of Financing

Jefferson County Hospital proposes to finance the project with cash reserves.

C. Effect on Operating Cost

The Three-Year Projected Operating Statements are presented in Attachments 1 and 1a of this staff analysis.

D. Cost to Medicaid/Medicare

Based on revenue source projections presented in Attachment 1a, the effect of the project on third party payers is as follows:

Payer Mix	Utilization Percentage	First Year Revenue
Medicaid	11.0	21,025
Medicare	78.0	147,205
Other	11.0	20,628
Total	100.0	\$188,858

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 in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, and replacement as contained in the *FY 2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised February 23, 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 this application submitted by Jefferson County Hospital for Emergency Room, Laboratory, and Acute Care Addition.

**Attachment 1
 Jefferson County Hospital
 ER/Lab/Acute Care Addition
 Project Only**

	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue			
Inpatient Care Revenue	\$103,115	\$ 309,346	\$ 618,692
Outpatient Care Revenue	85,743	257,227	514,455
Gross Patient Revenue	\$ 188,858	\$ 566,573	\$1,133,147
Charity Care			
Deductions from Revenue	\$ 97,844	\$ 293,531	\$ 587,063
Net Patient Revenue	\$ 91,014	\$273,042	\$546,084
Other Operating Revenue			
Total Operating Revenue	\$ 91,024	\$273,042	\$546,084
Operating Expenses			
Salaries	\$140,000	\$162,000	\$296,000
Benefits	56,000	64,800	118,400
Supplies	50,000	25,000	25,000
Services			
Lease			
Depreciation	300,000	300,000	300,000
Interest			
Other			
Total Operating Expenses	\$ 546,000	\$ 551,800	\$ 739,400
Net Operating Income (Loss)	\$ (454,986)	\$ (278,758)	\$ (193,316)
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	69	207	414
Outpatient days	117	352	705
Procedures	789	2,366	4,732
Charge per outpatient day	\$ 733	\$ 731	\$730
Charge per inpatient day	\$1,495	\$1,495	\$1,495
Charge per procedure	\$ 239	\$ 239	\$ 239
Cost per inpatient day	\$7,916	\$2,667	\$1,049
Cost per outpatient day	\$4,648	\$1,566!	\$1,049
Cost per procedure	\$692	\$233	\$156

**Attachment 1A
 Jefferson County Hospital
 Three Year Projected Operating Statement
 With Project**

	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue			
Inpatient Care Revenue	\$10,620,885	\$11,037,471	\$11,561,380
Outpatient Care Revenue	8,831,471	9,177,871	9,613,511
	<u>\$19,452,356</u>	<u>\$ 20,215,342</u>	<u>\$21,174,891</u>
Charity Care			
Deductions from Revenue	10,077,912	10,473,201	10,970,326
	<u>\$9,374,444</u>	<u>\$ 9,742,141</u>	<u>\$10,204,565</u>
Other Operating Revenue	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
	<u>\$10,874,444</u>	<u>\$11,242,141</u>	<u>\$11,704,565</u>
Salaries	\$ 3,117,618	\$3,228,946	\$3,454,955
Benefits	936,594	971,812	1,052,623
Supplies	702,698	697,279	717,447
Services	1,497,588	1,542,516	1,588,791
Lease			
Depreciation	351,532	353,078	354,670
Interest			
Other	<u>3,029,478</u>	<u>3,120,363</u>	<u>3,213,973</u>
	<u>\$ 9,635,508</u>	<u>\$ 9,913,994</u>	<u>\$10,382,459</u>
	\$1,238,936	\$1,328,147	\$1,322,106
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	6,569	6,707	6,914
Outpatient visits	11,617	11,852	12,205
Procedures	78,789	80,366	82,732
Charge per outpatient day	\$760	\$774	\$788
Charge per inpatient day	\$ 1,617	\$ 1,646	\$ 1,672
Charge per procedure	\$247	\$252	\$256
Cost per inpatient day	\$ 1,467	\$ 1,478	\$ 1,502
Cost per outpatient day	\$ 829	\$836	\$851
Cost per procedure	\$122	\$123	\$125

**Jefferson County Hospital
 ER/Lab/ Acute Care Addition
 Computation of Construction Cost**

Cost Component	Total	New Construction
New Construction Cost	\$3,276,000	\$3,276,000
Renovation Cost	\$0	
Total Fixed Equipment Cost	\$219,500	\$219,500
<i>Total Non-Fixed Equipment Cost</i>	<i>\$1,200,000</i>	<i>\$0</i>
<i>Land Cost</i>	<i>\$0</i>	<i>\$0</i>
Site Preparation Cost	\$19,500	\$19,500
<i>Fees (Architectural, Consultant, etc.)</i>	<i>\$280,000</i>	<i>\$280,000</i>
<i>Contingency Reserve</i>	<i>\$500,000</i>	<i>\$500,000</i>
<i>Capitalized Interest</i>	<i>\$0</i>	<i>\$0</i>
<i>Other</i>	<i>\$5,000</i>	
Total Proposed Capital Expenditure	\$5,500,000	\$4,295,000
Square Footage		15,422
<i>Allocation Percent</i>		<i>100.00%</i>
Costs Less Land, Non-Fixed Equipt., Other	\$4,295,000	\$4,295,000
Cost Per Square Foot		\$278.50