

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
February 2010**

**CON REVIEW HG-R-1209-035
MISSISSIPPI BAPTIST MEDICAL CENTER, INC
NURSING UNITS RENOVATION PROJECT
CAPITAL EXPENDITURE: \$58,650,000
LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Mississippi Baptist Medical Center, Inc. (MBMC), d/b/a Mississippi Baptist Medical Center (Baptist), is a non-profit corporation located in Jackson, Mississippi. The entity is composed of a 13-member Board of Trustees. Mississippi Baptist Medical Center is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

The hospital is currently licensed to operate 651 short term general acute care beds, that consists of 541 medical/surgical beds, which includes 24 geriatric psychiatric beds, 110 adult chemical dependency beds, and 10 adolescent chemical dependency beds.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Mississippi Baptist Medical Center are as follows for the years 2006 through 2008:

**Mississippi Baptist Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	54.52	5.12	11.87
2007	52.26	5.09	10.84
2008	49.96	5.13	10.47

Source: Division of Health Facilities Licensure and Certification, Mississippi State Department of Health (MSDH).

B. Project Description

Mississippi Baptist Health Systems, Inc. (MBHS) requests Certificate of Need (CON) authority for the renovation of its nursing units at the hospital's main campus. The applicant states that the main hospital of Baptist, which was originally built in 1976, is in need of renovation and reconfiguration to incorporate technology development demands, resulting in every patient room needing to be enlarged to house the necessary equipment to serve patients and to facilitate modern patient care methodologies.

The proposed project consists of renovating all facets of the outlined nursing units:

- ✓ Phase I – Renovation of nursing units 4D, 5D, and 6D;
- ✓ Phase II – Renovation of nursing units 3A, 4A, 5A, and 6A;
- ✓ Phase III – Renovation of nursing units 3B, 4B, 5B, and 6B;
- ✓ Phase IV – Renovation of nursing units 5C and 6C.

According to the applicant, 168,000 square feet of existing nursing unit space will be renovated. Currently, each unit includes approximately 12,000 square feet and houses 31 patient rooms, each averaging approximately 210 square feet. However, upon completion of the renovation, each nursing unit will only house approximately 22 reconfigured patient rooms each averaging approximately 275 square feet. The main hospital, located at 1225 North State Street, will house 311 patient rooms; the Restorative Care Hospital will house 25 patient rooms; and the West Tower will house 187 patient rooms.

The object of the project is to completely retrofit and renovate 14 of the 16 nursing units at MBMC's main campus. The breakdown of the units are: 2 devoted to critical care, 13 comprised of 22 acute care patient rooms per unit, and 1 with 25 single patient rooms housing Mississippi Hospital for Restorative Care's (RCH) 25 long-term care beds.

The applicant indicates that this realignment will be accomplished by renovating all of the nursing units located in a stack in one wing of the hospital at a time and generally converting three (3) existing patient rooms into two (2) new patient rooms. The applicant further indicates that the renovation of each nursing unit will take approximately two years to complete, largely utilizing the facility's maintenance personnel to accomplish the work of gutting and rebuilding the existing patient rooms and bathrooms.

No increase in the number of licensed beds and square footage of the hospital result from this project. Also no site work, grounds work, drainage, parking, or fencing work will be involved in this project.

The applicant believes that in order to meet the Quality and Service vitals of their long range plan, MBHS and MBMC determined that this project is necessary to meet today's technological and human demands for bigger and more technically advanced patient rooms.

The total proposed capital expenditure is \$58,650,000 and the applicant proposes to finance this project through accumulated cash reserves. No new staff is required as a result of this project.

The applicant expects to obligate the capital expenditure by October 1, 2010, and anticipates that the project will be complete by October 31, 2019.

MSDH Division of Health Facilities Licensure and Certification found the site plan for the proposed project to be acceptable for the stated activity.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (j) 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 March 10, 2010.

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

A. State Health Plan (SHP)

The *FY2010 State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000. The application is in substantial compliance with these criteria.

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.

According to the applicant, the main campus of Baptist, built in 1976, is in need of renovation and reconfiguration to incorporate technology development demands resulting in every patient room needing to be enlarged simply to house the equipment needed to serve patients today and to facilitate modern patient care methodologies.

Baptist participates in the statewide trauma system by contributing payments to the Trauma System as a Level II Center.

According to the applicant, renovation and reconfiguration of the nursing units will allow Baptist to incorporate technology development demands. This will be accomplished by simply increasing the size of every patient room to house the equipment needed to serve patients today and to facilitate modern patient care methodologies.

This project will not involve additional beds or the offering of a new institutional health service.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

This project does not involve the transfer/reallocation or relocation of beds.

SHP Criterion 3 – Uncompensated Care

The applicant submits that they have traditionally provided and intend to continue providing a reasonable amount of care to the medically indigent. This project will have no adverse affect on the ability of any existing healthcare facility or services to provide indigent care. In addition, the applicant states that this is simply a refurbishment project and its only impact will be on the applicant itself.

The applicant presents the following percentages of historical and projected gross patient revenue provided or to be provided to the medically indigent/charity care patients for the past two years and for the first two years of this project:

Gross Patient Revenue

	Medically Indigent (%)	Medically Indigent (\$)
Historical Year 2008	2.4%	\$21,841,000
Historical Year 2009	3.4%	\$32,577,000
Projected Year 1	3.6%	\$39,443,000
Projected Year 2	3.6%	\$41,607,000

SHP Criterion 4 – Cost of Project

The applicant proposes to renovate 168,000 square feet of existing space. According to the applicant, the cost of the renovation proposed in the project is \$48,250,000 with a cost per square foot of \$287.20 or a total cost per renovated space of \$182,075.47.

- a. Cost per square foot: This project involves renovation and reconfiguration of the nursing units, which entails 168,000 square feet of space to enlarge every patient room to house the equipment needed to serve patients and facilitate modern patient care methodologies.

The proposed renovation project shall cost approximately \$287.20 per square foot.

- b. The proposed project requires the purchase of non-fixed equipment for a total cost of \$10,400,000.

SHP Criterion 5 – Floor Area and Space Requirements

The applicant states that the total project will be 168,000 square feet of renovated space, which is comparable to state and national norms for similar facilities for acute care nursing services. The applicant asserts that the average patient room contains approximately 210 square feet; thus, the average proposed short term acute care patient room will contain approximately 275 square feet of space and the average long term acute care patient room will be approximately 225 square feet.

The applicant contends that this patient room enlargement is a local and national trend necessitated by the increasing technological equipment necessary to provide modern healthcare to its patients.

SHP Criterion 6 –Renovation versus Replacement

According to the *Means Building Construction Cost Data 2009*, the cost to replace a 651-bed facility would range from \$185 to \$315 per square foot. Therefore, the cost of this project does not exceed the 85% of the replacement cost.

SHP Criterion 7 – Need for Service

There are no applicable service specific criteria since this project does not propose any additional services. The proposed project is for the renovation of existing nursing units at the Baptist main campus.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised December 1, 2009* addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 2 – Long Range Plan

According to the applicant, the proposed project is consistent with the long range strategic plan developed by management staff of MBHS and approved by the MBHS Board of Trustees and the Board of Directors of MBMC and the provision of high quality, accessible, cost effective, efficient services to the communities and areas served by MBMC and the Mississippi Hospital for Restorative Care (RCH). The applicant believes that the renovation of the nursing units in MBMC's main facility comports with MBMS/MBMC's goal to provide quality, efficient, modern healthcare to all resident of the Central Mississippi area. This has been an ongoing goal and part of MBHS's/MBMC's strategic plans since 1911.

The applicant states that they engaged the services of Robert Neal, A.I.A. to consult and to facilitate its strategic planning and master facility planning and evaluation. In addition, they also engaged in a financial feasibility study to evaluate and forecast the viability of the proposed project.

GR Criterion 3 – Availability of Alternatives

According to the applicant, there is no better alternative to the project. The applicant believes that renovating these nursing units is the most cost effective and efficient means of implementing modernization of these nursing units and updating the infrastructure element of the 1976 hospital, yet minimizing the disrupting flow of patient care.

As previously mentioned, the applicant asserts that the renovation of the nursing units is consistent with its long range plans and a key component of modernizing the healthcare provided to its patients. The applicant contends that the first component of this upgrade was the West Tower project, which opened in January 2009 and currently houses MBMC's Cardiac and Women's Services. The proposed renovation of the 30 year old nursing units will be the second component of this upgrade. The expansion in the patient room size allows the facility to be consistent with current industry standards for comparable hospitals. The applicant notes that the proposed project has been designed to occur with a minimum disruption in service.

GR Criterion 4 - Economic Viability

The application contains a feasibility study signed by the Vice President of Finance at Mississippi Baptist Health System, documenting the applicant's financial ability to undertake this project. The project is being funded by the hospital's cash reserves.

GR Criterion 5 - Need for the Project

The applicant states that the provision and delivery of a comprehensive healthcare system throughout the Jackson Metropolitan Area is a strategic priority of MBMC. The applicant further states that Baptist has been serving the Jackson Metropolitan Area and Central Mississippi's acute care inpatient medical needs for 100 years. The applicant believes that the main hospital of Baptist, originally built in 1976, is in need of renovation and reconfiguration to incorporate technology development demands. The current patient room size and design are inadequate to accommodate the equipment needed to serve today's patients and to facilitate modern patient care methodologies.

The applicant contends that MBMC will continue to provide a full range of high quality primary, secondary, and tertiary inpatient and outpatient services at the North State Street campus. No additional services are being proposed.

The Department received five (5) letters of support and no letters of opposition regarding the proposed project.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** Baptist asserts that it serves all residents of the health planning service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly.
- b. **Performance in Meeting Federal Obligations:** The applicant asserts that the hospital has no existing obligations under any federal regulation requiring provision of uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The applicant contends that medically indigent patients currently have access to MBMC and take advantage of the access. Additionally, the medically indigent patients will continue to have similar and/or improved access to healthcare services at MBMC during the course of the renovation project and upon completion.

GR Criterion 7 - Information Requirement

The applicant affirms 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 states that MBMC, St. Dominic, River Oaks Hospital, Methodist Rehabilitation Center, Central Mississippi Medical Center, Rankin General Hospital n/k/a Crossgates River Oaks, and University of Mississippi Medical Center (UMMC) all currently provide comparable services in the GHSA 5. UMMC, the only teaching hospital in Mississippi, provides some specialized services not available at MBMC. The applicant further states that MBMC will continue to offer general medical/surgical short term acute care nursing services without any notable distinguishing service characteristics.

The applicant believes that failure to implement the proposed project will result in a more acute need for the modernization and renovation of the nursing facilities at MBMC. According to the applicant, in the future the need might present itself as a physical facility crisis instead of an orderly planned renovation project.

Staff concludes that this project would have no adverse affect on other providers in GHSA 5, because no new services or beds will be offered as a result of this project.

GR Criterion 9 - Availability of Resources

The applicant contends that this is a renovation of nursing units project and does not involve the expansion of services, and no additional personnel is expected to be recruited nor required as a result of the project. The hospital has sufficient staff to ensure proper implementation of the services currently offered and the continuation of those services.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a signed cost estimate prepared by Robert E. Neal, AIA, Director of Architectural Services.
- 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. **Modernization for new construction projects:** No new construction involved.
- e. **Cost per Square Foot:** The proposed project involves approximately 168,000 square feet of renovated space at an estimated cost of \$287.20 per square foot (see Attachment 1). The *Means Building Construction Cost Data, 2009*, does not compare cost for renovation projects, but the cost per square foot for new construction would range from \$185 to \$315.

GR Criterion 16 - Quality of Care

The Mississippi Baptist 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 and quality of care is monitored and reviewed by the hospital's Quality Improvement Program.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

Cost Item	Projected Cost	% of Total
Construction Cost - New		0.00%
Construction Cost - Renovation	\$45,500,000	77.58%
Capital Improvements		0.00%
Total Fixed Equipment Cost		0.00%
Total Non-Fixed Equipment Cost	10,400,000	17.73%
Land Cost		0.00%
Site Prep Cost		0.00%
Fees - architectural, engineering, etc.	250,000	0.43%
Fees - legal and accounting		0.00%
Contingency Reserve	1,000,000	1.71%
Capitalized Interest	1,500,000	2.56%
Other Cost	-	0.00%
Total Proposed Capital Expenditures	\$58,650,000	100%

The above capital expenditure is proposed for renovation of the Baptist nursing units. The proposed project involves approximately 168,000 square feet of renovated space at an estimated cost of \$287.20 per square foot (see Attachment 1). The *Means Building Construction Cost Data, 2009*, does not compare costs of renovation projects.

B. Method of Financing

The applicant proposes to finance this project through Mississippi Baptist Medical Center's cash reserves.

C. Effect on Operating Cost

The applicant states that the proposed project is not anticipated to have a significant change in revenues or expenses. It is purely an internal renovation/retrofitting of 168,000 square feet of existing nursing space on the Baptist main campus. The applicant asserts that the only effect on operating cost will be depreciation expenses of \$188,000 per year for each nursing unit renovated.

The applicant's three-year projections of revenues and expenses for the first three years of

operation are provided in Attachment 2.

D. Cost to Medicaid/Medicare

As previously stated, the proposed project is not expected to have a significant change in revenues or expenses. It is merely a renovation of the hospital's nursing units at the Baptist main campus. Baptist intends to fund the project by means of its cash reserves.

The application contains a letter signed by the vice president of finance at Mississippi Baptist Health Systems, attesting to the financial feasibility for this proposed project.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment; however, the department received no response as of the date of this staff analysis.

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 2010 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised December 1, 2009*; 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 Mississippi Baptist Medical Center for the renovation of nursing units on the hospital's main campus.

**Mississippi Baptist Medical Center
Nursing Units Renovation Project
Attachment 1
Computation of Renovation Cost**

	<u>Total</u>	<u>Renovation</u>	
Cost Component			
A	New Construction Cost	\$0	
B	Renovation Cost	\$45,500,000	\$45,500,000
C	Total Fixed Equipment Cost	\$0	
	Total Non-Fixed Equipment Cost	\$10,400,000	\$10,400,000
	Capital Improvement	\$0	
	Land Cost	\$0	
D	Site Preparation Cost	\$0	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$250,000	\$250,000
F	<i>Contingency Reserve</i>	\$1,000,000	\$1,000,000
G	<i>Capitalized Interest</i>	\$1,500,000	\$1,500,000
	Total Proposed Capital Expenditure	\$58,650,000	\$58,650,000
	Square Footage	168,000	168,000
	<i>Allocation Percent</i>		100.00%
	Costs Less Land, Non-Fixed Eqt.& Cap. Improvement	\$48,250,000	\$48,250,000
	Cost Per Square Foot	\$287.20	\$287.20

Attachment 2
Mississippi Baptist Medical Center
Three Year Operating Statement (with Project)

	Current	Year 1	Year 2	Year 3
Patient Revenue				
Inpatient Revenue	538,038,086	652,317,000	684,933,000	719,180,000
Outpatient Revenue	415,237,803	503,433,000	528,605,000	555,036,000
Total Patient Revenue	\$ 953,275,889	\$ 1,155,750,000	\$ 1,213,538,000	\$ 1,274,216,000
Deductions from Revenue				
Charity Care	32,576,633	39,475,000	41,450,000	43,523,000
Deductions from Revenue	588,505,024	713,135,000	748,791,000	786,231,000
Total Deductions	\$ 621,081,657	\$ 752,610,000	\$ 790,241,000	\$ 829,754,000
Net Patient Revenue	<u>\$ 332,194,232</u>	<u>\$ 403,140,000</u>	<u>\$ 423,297,000</u>	<u>\$ 444,462,000</u>
Other Operating Revenue	7,305,499	7,194,000	7,266,000	7,339,000
Net Revenue	<u>\$ 339,499,731</u>	<u>\$ 410,334,000</u>	<u>\$ 430,563,000</u>	<u>\$ 451,801,000</u>
Operating Expenses				
Salaries & Wages	\$ 138,119,149	\$ 158,474,000	\$ 163,228,000	\$ 168,125,000
Benefits	25,616,278	29,391,000	30,273,000	31,181,000
Supplies	83,129,781	101,877,000	104,933,000	108,081,000
Services	56,080,721	68,728,000	70,790,000	72,914,000
Lease	-	0	0	0
Depreciation	20,176,796	21,903,000	22,307,000	22,414,000
Interest	9,037,143	8,080,000	8,161,000	8,242,000
Other	14,420,942	18,540,000	19,096,000	19,669,000
Total Operating Expenses	<u>\$ 346,580,810</u>	<u>\$ 406,993,000</u>	<u>\$ 418,788,000</u>	<u>\$ 430,626,000</u>
Income (Loss) from Operations	\$ (7,081,079)	\$ 3,341,000	\$ 11,775,000	\$ 21,175,000
Inpatient Days	104,998	127,000	133,000	139,500
Outpatient Days	9727	10,311	10,826	11,259
Total Patient Days	114,725	137,311	143,826	150,759
Charge per inpatient day	\$ 5,124	\$ 5,136	\$ 5,407	\$ 5,155
Charge per outpatient day	\$ 42,689	\$ 48,825	\$ 51,269	\$ 49,297
Net revenue per Day	\$ 2,959	\$ 2,988	\$ 2,994	\$ 2,997
Cost per inpatient day	\$ 2,448	\$ 3,176	\$ 3,146	\$ 3,600
Cost per outpatient day	\$ 319	\$ 312	\$ 326	\$ 326