

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

**CON REVIEW: HG-CRF-0310-013
BAPTIST MEMORIAL HOSPITAL-GOLDEN TRIANGE, INC.
CONSTRUCTION OF A BEHAVIORAL CENTER REPLACEMENT FACILITY
CAPITAL EXPENDITURE: \$11,564,340
LOCATION: COLUMBUS, LOWNDES COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Baptist Memorial Hospital-Golden Triangle (BMH-Golden Triangle), located in Columbus, Lowndes County, Mississippi, is a non-profit corporation, operating in good standing with the Mississippi Secretary of State. The facility operates as a 328-bed acute care hospital consisting of 285 acute care beds, 22 psychiatric beds, and 21 chemical dependency beds (CDU). The hospital is governed by a nine-member Board of Trustees and is affiliated with Baptist Memorial Health Care Corporation of Memphis, Tennessee. BMH-Golden Triangle is certified for both Medicaid and Medicare participation and accredited by the Joint Commission on Accreditation of Health Care Organizations.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for BMH-Golden Triangle are as follows for the years 2006 through 2008:

**Baptist Memorial Hospital-Golden Triangle
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	38.77	5.35	15.92
2007	38.77	5.09	15.01
2008	36.70	4.80	19.86

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Baptist Memorial Hospital-Golden Triangle is requesting Certificate of Need (CON) authority for the construction of a behavioral center replacement facility.

The applicant states that the current Behavioral Center which houses the psychiatric and chemical dependency beds and therapy areas is located in a building that is approximately 1,000 feet away from the main hospital. The applicant further states that the building was constructed approximately 28 years ago and previously contained other services. Over the years renovations have occurred and other services have been relocated. However, the needed maintenance and mechanical upgrades at the current building would involve extensive cost to keep the infrastructure of the aging facility operating at minimal standards. Furthermore, the applicant believes that the mechanical upgrades will not improve the inefficiencies in the building, nor enhance patient room functionality or relieve the additional costs of supporting a remote location.

The applicant proposes the new construction of a replacement facility that will encompass approximately 26,100 square feet of space attached to the main hospital. The new facility will house 30 patient rooms, 2 seclusion rooms, and space for all necessary support areas. In addition, the new facility will also allocate space to accommodate outpatient psychiatric services. The applicant states that the number of CDU beds will be reduced from 21-beds to 8-beds as a result of the project.

The proposed project will consist of site work of one small parking area, a drive through, adjacent surround sidewalk, landscaping, irrigation, storm drainage, potable water, and sanitary sewer utility connections. The site will adequately connect the new facility to the surrounding facilities. The furniture for the facility includes furnishings for all 30 patient rooms; work and lounge areas for staff; lounge, group and activity rooms for patients, and waiting rooms for public and outpatients. The equipment includes beds, washers and dryers, copiers, faxes, televisions, refrigerators, coffee machines, microwaves, etc.

The proposed capital expenditure for the project is \$11,564,340 and includes funds for the demolition/removal of the existing structure. The applicant states that Baptist Memorial Health Care Corporation, the sole member of BMH-Golden Triangle, Inc., proposed to fund the project with \$10,000,000, at a 5% interest rate for a 5-year period and the remaining obligation of \$1,825,830 will be settled by BMH-Golden Triangle from its accumulated cash reserves. The applicant further states that they do not anticipate any new personnel, as a result of the project.

On March 31, 2010, the site of construction was approved by the Division of Licensure and Certification. The division recognized Baptist Memorial Hospital Golden Triangle as an active Hospital and the Behavioral health Center is an addition to the existing facility; therefore, they found the site to be acceptable for the stated activity. The applicant anticipates that the capital expenditure will be obligated by July 1, 2010, and construction is expected to be complete by January 1, 2012.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the relocation and replacement of health care facilities within 5,280 ft. of the existing facility and requiring a capital expenditure of \$2,000,000 or more in accordance with Section 41-7-191 (1) (j), 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 of 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 7, 2010.

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

A. State Health Plan (SHP)

The *FY 2010 State Health Plan* ("Plan") contains criteria and standards for the construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. The proposed project is in substantial compliance with said criteria and standards.

SHP Criterion 1 – Need

Documentation of need for projects which do not involve the addition of any acute care beds 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 the Behavioral Center with the Psychiatric and Chemical Dependency beds and therapy areas is in a 28-year old building that is approximately 1,000 feet away from the main hospital. According to the applicant, renovations have occurred over the years; however, the renovations could not improve the inefficiencies in the building, nor enhance patient room functionality or relieve the additional cost of supporting a remote location.

The applicant believes that the projected costs to keep the service at the current location have become more extensive, and because needed operational improvements cannot be achieved in the present structure, building a replacement facility at the main hospital is a better option for continuing the service in the most effective manner.

The applicant contends that constructing a replacement facility attached to the main hospital will avoid the high cost of replacing the separate building's power plant, will improve the layout for accommodating patients' needs, improve accessibility, and reduce travel time for the patient assistance team members. The proposed project is expected to lower the expenses for transporting supplies and patient care items, such as meals, and will eliminate the need to travel by vehicle from the hospital to the separate facility year round. Furthermore, the applicant believes that the quality of patient care services and the safety and security for staff, patients and families will be positively affected by reducing the travel time from the hospital.

According to the Division of Health Facilities Licensure and Certification, Report on Hospitals, Baptist Memorial Hospital-Golden Triangle's CDU bed utilization has been low for the last few years. The CDU occupancy rate for 2006 was 6.09 percent, 2007 was 15.29 percent, and 2008 was 10.26 percent. As a result, the applicant decided to reduce the CDU bed capacity from 21-beds to 8-beds to address the low utilization of the beds.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

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

SHP Criterion 3 – Charity/Indigent Care

BMH-Golden Triangle certifies that it will provide a reasonable amount of indigent/charity care in its proposed behavioral center replacement facility.

SHP Criterion 4 – Reasonableness of Cost

Based on the formula contained in the Plan, the proposed project will cost \$340.10 per square foot. The Means Construction Cost Data, 2009 Edition, list the high cost of \$315 per square foot; however, the applicant

anticipates the construction cost alone for this project to be \$265 per square foot (see Attachment 1).

The applicant submits that the equipment costs are estimated conservatively high for this project based on the assumption that new patient equipment will be used, although some items will be relocated from the existing facility.

SHP Criterion 5 – Floor Areas and Space Requirements

The applicant specified the floor areas and space requirements of the project. The gross square footage of the proposed behavioral replacement facility is estimated to be 26,100 square feet, which the applicant states the design was completed by a licensed architect in accordance with AIA guidelines and other regulatory requirements.

SHP Criterion 6 – Replacement vs. Renovation

The applicant proposes to replace the behavioral center in lieu of renovation. Therefore, this criterion is not applicable.

SHP Criterion 7 – Service Specific Criteria

The project does not require any new services.

B. General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, Revised December, 2009, addresses general criteria by which all Certificate of Need (CON) applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The project was found to be in substantial compliance with the *2010 State Health Plan*.

GR Criterion 2 – Long Range Plan

The applicant states that the replacement facility will support fulfilling the hospital's mission and long term plan by improving the behavioral center environment for current and future patients. In addition, the applicant states that the project will improve the working environment for physicians and staff and promote stewardship of health care resources in a more efficient, modern facility that can continue to adapt with new technologies.

GR Criterion 3 – Availability of Alternatives

BMH-Golden Triangle states that the option of continuing to invest in the separately located structure was a less effective long-range solution to accomplishing the necessary and desired improvements in the behavioral center setting. The applicant further states that replacing the power plant would have cost in excess of \$2 million by internal estimates and the inefficiencies of supporting the remote services from the main hospital would continue.

The applicant considered the option to build another freestanding facility; however, it was determined that the best alternative for serving the patients using the existing systems and personnel to respond more quickly when urgent patient needs arise, is to replace the remote location with a dedicated space that is attached to the hospital building.

The applicant believes that replacing the facility provides a longer term benefit, improves access for patients and staff and increases the efficiencies and effectiveness of resources and personnel that are in place at the hospital.

GR Criterion 4 – Economic Viability

Based on the applicant's three-year projections, the facility will suffer a net loss of \$331,173 the first year, \$209,946 the second year, and \$82,623 the third year after replacement of the behavioral center. The application contains a feasibility study signed by the Chief Financial Officer at BMH-Golden Triangle, documenting the applicant's financial ability to undertake this project. The project is being funded in part by Baptist Memorial Health Care Corporation, the sole member of BMH-Golden Triangle and the remaining balance will be satisfied with the hospital's accumulated cash reserves (see Attachment 2).

- a. **Proposed Charge:** The applicant submits that the replacement facility will continue to offer substantially the same services that it offers in its current facility; therefore, charges will not increase as a result of this project.
- b. **Projected Levels of Utilization:** The applicant submits that this application is for the replacement of the building that houses an existing service and the statistics are conservatively based on historical utilization.
- c. **Project's Financial Feasibility Study:** The application contains a letter signed by the Chief Financial Officer, attesting to the financial feasibility of this project.

GR Criterion 5 – Need for Project

- a. **Access by Population Served:** The applicant submits that the population currently utilizing the behavioral center is not projected to change.
- b. **Relocation of Services:** The applicant proposes to replace its facility on the existing hospital campus and serve the same population as it currently serves.
- c. **Probable Effect on Existing Facilities in the Area:** The applicant submits that the proposed project will have no effect on existing facilities in the area as it is a replacement behavioral facility located on the campus of BMH-Golden Triangle's current facility. No new services are proposed by the project.
- d. **Community Reaction:** The application contains two letters of support for the proposed project.

No letters of opposition for the proposed project were received.

GR Criterion 6 – Access to the Facility or Service

- a. **Medically Underserved Population:** According to the applicant, it provided \$6,867,660 in charity care in 2008 and \$9,494,588 in charity care in 2009. The applicant projects it will provide \$9,969,317 and \$10,467,783 in the next two years upon completion of the project.

The applicant states that all residents of its service area, including Medicaid recipients, charity care and medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly have access to services provided by Baptist Memorial Hospital-Golden Triangle and will continue to have access to services in the replacement facility.

- b. **Performance in Meeting Federal Obligations:** The applicant submits that BMH-Golden Triangle has no obligations under federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The applicant states that BMH-Golden Triangle is proposing a replacement facility to be located on the campus of its existing facility. Therefore, it will be serving the same patient population, including Medicare, Medicaid and medically indigent patients.

GR Criterion 7 – Information Requirement

BMH-Golden Triangle 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

BMH-Golden Triangle does not propose to add new services or beds. The applicant proposes to replace its current behavioral center on the hospital's existing campus and reduce its CDU beds from 21 to 8 beds. The proposed replacement center is not expected to affect existing health services available in the service area.

The applicant contends that if this proposal is not implemented, the health care system will not realize the improvement in an existing service and the long-term improvement in cost efficiency and quality by effectively improving productivity.

GR Criterion 9 – Availability of Resources

BMH-Golden Triangle affirms it has a satisfactory staffing history at its existing facilities and no new personnel are required for the proposed replacement center.

GR Criterion 10 – Relationship to Ancillary or Support Services

According to the applicant, no changes in ancillary services are required, in fact, access from the hospital will improve due to the proximity of the proposed replacement building.

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

GR Criterion 16 – Quality of Care

BMH-Golden Triangle is in substantial compliance with the Minimum Standards for the Operation of Mississippi Hospitals according to the Division of Health Facilities Licensure and Certification, MSDH and is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ 6,916,500	58.49%
Renovation Cost -	-	0.00%
Capital Improvements	-	0.00%
Fixed Equip Cost		0.00%
Non-Fixed Equip Cost	2,000,536	16.92%
Land Cost		0.00%
Site Prep Cost	295,110	2.50%
Fees - architectural, engineering, etc.	601,664	5.09%
Fees - legal and accounting	28,000	0.24%
Contingency Reserve	801,755	6.78%
Other - HUD and banking fees		0.00%
Capitalized Interest	261,490	2.21%
Other Cost	<u>920,775</u>	<u>7.79%</u>
Total Proposed Expenditures	\$ 11,825,830	100%

The project involves construction of a 26,100 sq. ft. behavioral center replacement facility at an estimated total cost of \$340.10 per sq. ft. The cost is above the high range of the projects listed in the Means Construction Cost Data, 2009 (See Attachment 1).

B. Method of Financing

The applicant submits that Baptist Memorial Health Care Corporation (Baptist), the sole member of BMH-Golden Triangle, Inc., has adequate financial reserves to fund the BMH-Golden Triangle Behavioral Center Replacement facility. Baptist will provide funding of \$10,000,000, at a 5% interest rate for a 5-year term.

The applicant further submits that the remaining financial obligation of \$1,825,830 will be undertaken by BMH-Golden Triangle from accumulated cash reserves.

C. Effect on Operating Cost

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

The applicant's projection of cost to third party payors is as follows:

Patient Mix by Type Payer	Utilization Percentage (%)	First Year Revenue (\$)
Medicaid	17%	\$1,380,774
Medicare	26%	2,073,426
Commercial	25%	1,966,390
Self Pay	31%	2,469,949
Total	100%	\$7,890,538

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 opposes this project.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvement, replacement of health care facilities, etc. as contained in the *FY 2010 State Health Plan*; the *Mississippi Certificate of Need Review Manual, revised December, 2009*; and all 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 Baptist Memorial Hospital-Golden Triangle for the construction of a behavioral center replacement facility.

Attachment 1

Computation of Construction and Renovation Cost

	Cost Component	Total	New Construction	Renovation
A	New Construction Cost	\$6,916,500	\$6,916,500	
B	Renovation Cost			\$0
C	Total Fixed Equipment Cost		\$0	\$0
	Total Non-Fixed Equipment Cost	\$2,000,536	\$0	
	Land Cost	\$0	\$0	
D	Site Preparation Cost	\$295,110	\$295,110	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$601,664	<i>\$601,664</i>	<i>\$0</i>
F	<i>Contingency Reserve</i>	\$801,755	<i>\$801,755</i>	<i>\$0</i>
G	<i>Capitalized Interest</i>	\$261,490	<i>\$261,490</i>	<i>\$0</i>
	<i>Other</i>			
	Total Proposed Capital Expenditure	\$10,877,055	\$8,876,519	\$0
	Square Footage	26,100	26,100	0
	<i>Allocation Percent</i>		<i>100.00%</i>	<i>0.00%</i>
	Costs Less Land, Non-Fixed Eqt., Other	\$8,876,519	\$8,876,519	\$0
	Cost Per Square Foot	\$340.10	\$340.10	#DIV/0!
	Cost per Bed (n=60)	\$147,942		

Attachment 2
 Baptist Memorial Hospital – Golden Triangle
 Construction of a Behavioral Center Replacement Facility
 Three-Year Projected Operating Statement (With Project)

	Year 1	Year 2	Year 3
Patient Revenue			
Inpatient Revenue	\$6,625,608	\$6,956,889	\$7,304,733
Outpatient Revenue	1,264,930	1,328,176	1,394,585
Total Patient Revenue	\$7,890,538	\$ 8,285,065	\$8,699,318
Deductions from Revenue			
Charity Care	\$	\$	\$
Deductions from Revenue	<u>\$4,903,118</u>	<u>\$ 5,189,558</u>	<u>\$ 5,491,558</u>
Total Deductions	\$4,903,118	\$ 5,189,558	\$ 5,491,558
Net Patient Revenue	<u>\$2,987,419</u>	<u>\$ 3,095,507</u>	<u>\$ 3,207,760</u>
Other Operating Revenue			
Net Revenue	<u>\$ 2,987,419</u>	<u>\$ 3,095,507</u>	<u>\$ 3,207,760</u>
Operating Expenses			
Salaries & Wages	\$1,503,855	\$1,556,490	\$ 1,610,967
Benefits	433,566	448,740	464,446
Supplies	149,379	153,860	158,476
Services	79,397	83,367	87,535
Lease			
Depreciation	594,247	594,247	594,247
Interest	458,996	366,620	269,518
Other	99,154	102,129	105,192
Total Operating Expenses	<u>\$3,318,594</u>	<u>\$3,305,453</u>	<u>\$ 3,290,381</u>
Income (Loss) from Operations	\$ (331,175)	\$ (209,946)	\$ (82,621)
Assumptions			
Inpatient Days	4,397	4,397	4,397
Outpatient Days/Visits	6,614	6,614	6,614
Charge per inpatient day	\$1,507	\$1,582	\$1,661
Charge per outpatient day	\$191	\$201	\$211
Cost per inpatient day	\$755	\$752	\$748
Cost per outpatient day	\$502	\$500	\$497