

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

**CON REVIEW HG-RC-0210-009
MONTFORT JONES MEMORIAL HOSPITAL
EXPANSION/RENOVATION OF HOSPITAL
CAPITAL EXPENDITURE: \$15,500,000
LOCATION: KOSCIUSKO, ATTALA COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Montfort Jones Memorial Hospital (“Montfort Jones” or “the “Hospital”) is a county-owned facility and is governed by a board of trustees appointed by the Attala County Board of Supervisors.

The hospital is currently licensed to operate 64 medical/surgical beds and 7 cardiac intensive care beds, for a total licensed bed capacity of 71.

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

**Montfort Jones Memorial Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	38.22	4.71	14.08
2007	37.80	4.62	12.88
2008	35.22	4.65	10.35

Source: Division of Health Facilities Licensure and Certification,
MSDH

B. Project Description

Montfort Jones requests Certificate of Need (CON) authority for the renovation and expansion of the Hospital. The applicant states that the building was originally constructed in 1959 – 1960 with the Hill Burton funds. Since that time several addition/renovation projects have been completed. They are as follows:

- 1980 – Emergency/Outpatient addition/renovations.
- 1991 – Additions to Lab, Dietary and Medical Records Department. There were also alterations made to the Imaging, Lab, Dietary and Medical Records Department.

- 1997 – Addition of Main Entrance and Porte Cochere. Also, alterations were made to the Main Lobby and Coronary Care Unit.
- 2001 - Renovations for LDRP Rooms

The applicant asserts that the proposed project consists of a two-story addition of approximately 53,807 square feet which will provide a new main entrance, porte cochere, public lobby, administration, business office, medical records, outpatient clinic, trauma care center, surgery suite, central sterile processing/supply, intensive/cardiac care unit, and twenty-six (26) new private patient rooms. The applicant further asserts that an unexcavated area below the new wing will allow for approximately 9,452 square feet of basement storage and mechanical space.

Additionally, approximately 16,600 square feet of the proposed project consist of renovations to the emergency department, laboratory, imaging, physical therapy, respiratory therapy, the swing bed unit, and geriatric psychiatric unit. Also, cosmetic upgrades and refurbishments will be made to approximately 17,275 square feet of miscellaneous space including a public corridor and meeting rooms.

The first floor renovations/construction will result in modifications and additions of the hospital and its various departments as follows:

- ❖ A new main entrance to the Hospital with a covered drive-through porte cochere.
- ❖ A new corridor for public circulation.
- ❖ A new comfortably-sized main lobby and waiting area.
- ❖ A new area for business offices and a waiting area for the public.
- ❖ A secure medical records room, an office for the medical records director, and a coding office.
- ❖ A new outpatient clinic will be located next to the business offices. The outpatient clinic will consist of a large public waiting area, 2 exam rooms, 5 pre-op holding rooms with a nurses' station, 2 large procedure rooms, a physician's office, clean and soiled utility rooms, and 7 restrooms with 2 being designated for disabled patients.
- ❖ A new coronary care unit (CCU)/ intensive care unit (ICU) and a new surgery suite.
- ❖ The new state-of-the-art CCU/ICU department consists of 7 large private patient rooms, one dedicated as an isolation room, a centrally located nurse station, a nurse conference room with lockers, a secure medical supply room, and clean and soiled utility rooms.
- ❖ The new surgery suite contains two large general operating rooms, one minor operating room and a two-bay post-anesthesia care unit (PACU).
- ❖ The emergency department on the first floor of the existing facility will be renovated, expanded and modernized to provide for sufficient space for a trauma center and two new entrances. An addition will be constructed and added to the space currently occupied by the 11-bed geriatric psychiatric unit, a 5-bed medical/surgical unit, the emergency room and the lab to provide for a state-of-the-art emergency department and trauma center and a modernized laboratory.
- ❖ The Hospital's renovated and modernized laboratory will remain adjacent to the emergency.
- ❖ The project also involves the renovation and expansion of the imaging department.
- ❖ Space currently used for a 14-medical/surgical-bed unit will be renovated to provide an 11-bed geriatric psychiatric unit.
- ❖ Adjacent to the renovated area that will house the geriatric psychiatric unit are the

- surgery follow-up clinic and the wound care center, which will be located in an area that is currently used for the CCU (constructed in the 1997 renovation).
- ❖ In the area of the Hospital currently utilized for medical records, administration and business offices, renovation will result in two large conference/board rooms, two administrative offices, a physicians' dining area and lounge, and a staff's dining area and lounge.
 - ❖ What is currently the main entrance lobby will get a face-lift and will still be used as a lobby; however, it will no longer serve as the main entrance lobby.

The renovation/construction project will result in modifications and additions to the second floor of the Hospital and its various departments as follows:

- ❖ The second story of the Hospital's new addition will consist of 26 private patient rooms, each with its own full bath, including an isolation/bariatric patient room and a handicapped-accessible patient room.
- ❖ A 14-bed swing bed unit.
- ❖ The area currently used as a 12-bed unit for medical/surgical beds, the surgery suite and endoscopy procedure room will be renovated.

The applicant states that the site where the 26-bed wing will be built drops off substantially; thereby, offering a naturally low area that will allow the construction of "bonus" space of approximately 9,500 square feet to be used for basement storage and mechanical equipment.

Incorporated into the Project will be upgrades of existing heating/ventilation/air-conditioning, plumbing and electrical systems, a new medical gas equipment/system, and new wet-pipe sprinkler system in all new construction and as required in renovated areas.

The parking areas will be repaired and expanded resulting in a total of approximately 270 parking spaces.

The applicant intends to fund the capital expenditure for the project from the Hospital's current accumulated cash reserves and investments. The applicant indicates that the anticipated date for obligation of the proposed capital expenditure is July 2010 and the proposed project will be complete by January 2012.

The total proposed capital expenditure is \$15,500,000 and of that amount, approximately 77 percent is for new construction, 8 percent is for renovation; 3 percent for fixed equipment cost, 2 percent for non-fixed equipment cost, 2 percent for site preparation, 6 percent for fees, and 2 percent for other. The applicant proposes to finance this project through accumulated cash reserves and investments.

On November 23, 2009, the MSDH Division of Health Facilities Licensure and Certification asserts that the site meets all applicable requirements. Therefore, since Montfort Jones Memorial Hospital is an active hospital and the renovation and expansion is an addition to the existing facility, the Department finds the site to be acceptable for the stated use.

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 June 7, 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, Montfort Jones' physical plant was originally constructed in 1959-1960 and additions were made in 1980, 1991, 1997, and 2001. The applicant states that the addition to and renovation of the Hospital is evident upon visiting the facility. Furthermore, the project will assist in meeting the current and future healthcare needs of the Attala County community and Montfort Jones' patients and to provide the residents within GHSA 5 with convenient, efficient, and accessible healthcare.

Also, the proposed project will address a deficiency cited by the Division of Licensure and Certification. The deficiency states that the corridor walls located in the physical therapy corridor were found unfinished and not constructed to the roof decking above. The proposed project will address the deficiency because the physical therapy room will be relocated to the second floor.

The applicant states that the current layout of the existing facility is not conducive to easy physical access and the location of the emergency department in close proximity to the CCU/ICU is not the best juxtaposition for those departmental areas. Currently, the

emergency department and the CCU/ICU are too small to provide individuals with the privacy to which they are entitled. While the Hospital abides by the HIPAA laws and its patients are given the privacy required under that law, the privacy available is not optimal in the existing building. Also, because of space constraints, the Hospital cannot provide its patients with an efficient flow in the emergency department, and the patients in the CCU/ICU are better served if the CCU/ICU is physically separated from the emergency department. The emergency department needs expansion and the addition of a trauma center to add efficiency to the Hospital's provision of care to those experiencing healthcare emergencies and to generally meet the need of the Hospital's patients. Also, the Hospital's CCU/ICU needs to be relocated away from the emergency department, to be expanded in size and to be modernized so that new state-of-the-art equipment can be utilized.

According to the applicant, after recognizing the facility's physical limitations, Montfort Jones employed Jones Lang LaSalle (Jones Lang) to provide a study of the Hospital's service area, to provide facility planning and conceptual design services necessary to evaluate the existing physical plant and hospital operations, and to recommend options for the long-term development of the Hospital. As a result, Jones Lang provided Montfort Jones with a Market Study and Facility Condition Assessment (Market Study), which recommended extensive renovation of the facility and new construction of less than 10,000 square feet.

The applicant states that subsequent to receipt and analysis of the Market Study, Montfort Jones contacted Dean and Dean Associates (Dean and Dean) to review the Market Study for additional evaluation of the facility and to make a recommendation. Dean and Dean recommended utilization of the existing building, by renovating where necessary and constructing a new two-story addition, thus allowing for new construction in the future if needed.

According to the applicant, the Dean and Dean recommendation was accepted because the design concept allows the Hospital to renovate key areas of the Hospital making the facility more "user friendly," to construct an addition that will provide new space, a state-of-the-art facility, and to allow the Hospital to expand the facility as appropriate by constructing an addition that will accommodate new future construction.

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 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 upon completion of this project:

**Gross Patient Revenue
Amount**

	Medically Indigent (%)	Charity Care (%)
Historical Year 2008	7.2	0.5
Historical Year 2009	7.5	0.6
Projected Year 1	7.7	0.7
Projected Year 2	7.9	0.8

SHP Criterion 4- Cost of Project

The calculation for the construction of the addition consisting of 64,720 square feet of space is \$207.40 per square foot. *The Means Building Construction Cost Data, 2009 Edition* lists the cost for hospital construction ranging from \$185 to \$315 per square foot. Therefore, the proposed project cost is reasonable when compared to other similar projects in the state.

The applicant states that the equipment costs for the proposed project do not exceed the median costs for equipment of similar quality by more than 15 percent.

SHP Criterion 5 – Floor Area and Space Requirements

The applicant indicates that the gross square footage of new construction is 63,259 square feet of space with 9,452 square feet of space designated for basement storage and mechanical space.

SHP Criterion 6 –Renovation versus Replacement

According to the applicant, as evidenced by the fact that the Hospital will be able to extend the useful life of the existing facility by providing renovation and refurbishment to 33,875 square feet of the building for a cost of \$1,200,000, the cost of the proposed renovation and addition does not exceed 85 percent of the cost of the replacement of the entire facility. According to the Means Building Construction Cost Data, 2009 Edition, the median range for a replacement facility is \$20,980,500 and the ¾ range is \$24,175,500 which exceeds the capital expenditure for this project.

SHP Criterion 7 – Need for Service

The proposed project is for the renovation and expansion of the Montfort Jones Memorial

Hospital. The applicant is not proposing to expand any 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 CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 2 - Long Range Plan

The applicant contends that the proposed expansion/renovation project comports with the Hospital's goal to provide quality, efficient health care to all residents of the Attala County community and is compatible with its long-range plans.

GR Criterion 3 – Availability of Alternatives

According to the applicant, several alternatives were considered and rejected.

One option the hospital considered was to do nothing and continue operating in the building in its existing condition. However, this alternative was rejected because it was not in the best interest of the Hospital's patients or the Attala County community. The applicant states that the layout of the existing building housing the Hospital is currently outdated and inefficient.

Another option that was considered was to conduct major renovation to the existing facility. This option was rejected because for approximately the same cost, Montfort Jones can add a 63,259 square foot addition to its existing physical plant and extend the useful life of the existing building with the renovation/refurbishment of 33,875 square feet of space for a cost of \$1,200,000.

The applicant further considered the option to replace the existing building with a new facility. This alternative was rejected because the Hospital has determined that the existing building has several more years of useful service and that the capital expenditure necessary to it would be out of line with the benefit gained. The applicant states that Montfort Jones, licensed as a 71-bed facility, offers many different types of services and the replacement of the entire facility is not necessary at this time. The existing building is essentially adequate; however, the areas that will undergo renovation require attention.

GR Criterion 4 - Economic Viability

The application contains a statement signed by the Chief Accounting Officer of Montfort Jones Memorial Hospital attesting to the viability of this project. The project is being funded by accumulated cash reserves and investments. The applicant states that this project will have no adverse impact on gross revenues per patient day and any impact on gross revenues will be a beneficial impact. The applicant further states that there will be a slight increase in expenses due primarily to depreciation expenses. However, it is the applicants' belief that the increase in expenses will be offset by an anticipated increase in utilization. According to the applicant, Medicaid should not be impacted, as a result of the project.

GR Criterion 5 - Need for the Project

The applicant asserts that all residents of the area, including low income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups, and the elderly, have access to the services provided at Montfort Jones and will continue to have access to its services in the expanded, renovated facility.

This application does not propose the relocation or addition of services and/or the addition of any new beds. According to Montfort Jones, the proposed project involves the expansion and renovation of its 71-bed acute care facility.

The application contains nine (9) letters of support for the proposed project.

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

GR Criterion 6 - Access to the Facility or Service

Montfort Jones Memorial Hospital 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.

The applicant states that the hospital has no existing obligations under any federal regulation requiring provision of uncompensated care, community service, or access by minority/handicapped persons.

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

According to the applicant, Montfort Jones is the only acute care hospital in Attala County.

The project is for the renovation and expansion of the Hospital and does not contemplate the offering of any new service or the expansion of any existing services, only the facility size will be expanded.

The applicant believes that failure to implement the proposed project would result in denying the people living in Montfort Jones' service area the ability to access a modern, state-of-the-art hospital without having to travel outside of the service area and in some cases as far as Jackson, Mississippi. Furthermore, the aged building housing the Hospital would remain unchanged and out-of-date. As a result, the recruitment and retention of physicians would be strained and the entire Attala County community would suffer.

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

GR Criterion 9 - Availability of Resources

According to the applicant, the proposed project will result in an additional 7.0 FTE personnel. The new staff will consist of 6.0 FTE custodial employees and 1.0 FTE maintenance/supply/laundry employee.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Dean and Dean Associates Architects.
- 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. The project involves upgrade and modernization of the existing facility.
- e. **Cost per Square Foot:** The proposed project involves approximately 64,720 square feet of new construction at an estimated cost of \$207.41 per square foot and approximately 23,800 square feet of renovation at an estimated cost of \$66.24 per square foot (See Attachment 1). The *Means Construction Cost Data, 2009* does not compare costs for renovation; however list the new construction range from \$185 per square foot to \$315 per square foot.

GR Criterion 16 - Quality of Care

Montfort Jones is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. Montfort Jones is certified to participate in the Medicare and Medicaid programs.

The applicant states that the hospital has in place a quality improvement program for the purpose of ensuring that the delivery of care to its patients is the highest quality of care and is delivered in the most efficient and effective manner.

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	12,000,000	77.42%
b.	Construction Cost -- Renovation	\$1,200,000	7.74%
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	500,000	3.23%
e.	Total Non-Fixed Equipment Cost	250,000	1.61%
f.	Land Cost	0	0
g.	Site Preparation Cost	400,000	2.58%
h.	Fees (Architectural, Consultant, etc.)	900,000	5.81%
i.	Contingency Reserve	0	0
j.	Capitalized Interest	0	0
k.	Other	250,000	1.61%
	Total Proposed Capital Expenditure	\$15,500,000	100%

The above capital expenditure is proposed for the expansion and renovation of Montfort Jones Memorial Hospital. The proposed project involves approximately 64,720 square feet of new construction at an estimated cost of \$207.41 per square foot and approximately 23,800 square feet of renovated space at an estimated cost of \$66.24 per square foot (see Attachment 1). The *Means Construction Cost Data, 2009*, does not compare costs of renovation projects; however, new construction range from \$185 per square foot to \$315 per square foot.

B. Method of Financing

The applicant proposes to finance this project through 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	11%	\$3,874,313
Medicare	57%	19,499,109
Commercial	21%	7,153,304
Self Pay	10%	3,475,597
Total	100%	\$34,002,323

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment. The Division of Medicaid opposes this 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 2010 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised December, 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 the applicant for the renovation/expansion of Montfort Jones Memorial Hospital.

**Montfort Jones Memorial Hospital
 HG-RC-0210-009
 Computation of Renovation Cost***

Attachment 1

Computation of Construction and Renovation Cost

	Cost Component	Total	New Construction	Renovation
A	New Construction Cost	\$12,000,000	\$12,000,000	
B	Renovation Cost	\$1,200,000		\$1,200,000
C	Total Fixed Equipment Cost	\$500,000	\$365,550	\$134,450
	Total Non-Fixed Equipment Cost	\$250,000	\$0	
	Land Cost	\$0	\$0	
D	Site Preparation Cost	\$400,000	\$400,000	
E	Fees (Architectural, Consultant, etc.)	\$900,000	\$657,990	\$242,010
F	Contingency Reserve		\$0	\$0
G	Capitalized Interest		\$0	\$0
	Other			
	Total Proposed Capital Expenditure	\$15,250,000	\$13,423,540	\$1,576,460
	Square Footage	88,520	64,720	23,800
	Allocation Percent		73.11%	26.89%
	Costs Less Land, Non-Fixed Eqt., Other	\$15,000,000	\$13,423,540	\$1,576,460
	Cost Per Square Foot	\$169.45	\$207.41	\$66.24
	Cost per Bed (n=60)	\$250,000		

*Source: Mississippi Certificate of Need Review Manual, Revised December, 2009

Attachment 2
Montfort Jones Memorial Hospital
Expansion/Renovation of a Hospital
Three-Year Projected Operating Statement (With Project)

	Year 1	Year 2	Year 3
Patient Revenue			
Inpatient Revenue	\$17,842,396	\$18,199,244	\$18,563,229
Outpatient Revenue	16,159,927	16,483,125	16,812,788
Total Patient Revenue	\$34,002,323	\$ 34,682,369	\$35,376,017
Deductions from Revenue			
Charity Care	\$238,016	\$ 277,459	\$312,141
Deductions from Revenue	<u>\$15,155,694</u>	<u>\$ 15,458,808</u>	<u>\$ 15,767,985</u>
Total Deductions	\$15,393,710	\$ 15,736,267	\$ 16,080,126
Net Patient Revenue	<u>\$18,608,612</u>	<u>\$ 18,946,102</u>	<u>\$ 19,295,891</u>
Other Operating Revenue	124,150	126,633	129,166
Net Revenue	<u>\$ 18,732,763</u>	<u>\$ 19,072,735</u>	<u>\$ 19,425,057</u>
Operating Expenses			
Salaries & Wages	\$6,331,242	\$6,457,867	\$ 6,587,024
Benefits	2,950,081	3,009,083	3,069,264
Supplies	2,202,807	2,334,976	2,475,074
Services			
Lease			
Depreciation	1,182,716	1,195,170	1,207,873
Interest			
Other	3,946,907	4,025,845	4,106,362
Total Operating Expenses	<u>\$16,613,753</u>	<u>\$17,022,941</u>	<u>\$17,445,597</u>
Income (Loss) from Operations	\$ 2,119,009	\$ 2,049,795	\$ 1,979,459
Assumptions			
Inpatient Days	10,119	10,322	10,528
Outpatient Days/Visits	19,514	19,904	20,302
Charge per inpatient day	1,763	1,763	1,763
Charge per outpatient day	828	828	828
Cost per inpatient day	1,642	1,649	1,657
Cost per outpatient day	851	855	859